


**CITY OF LOS ANGELES  
INTER-DEPARTMENTAL CORRESPONDENCE**

**DATE:** September 4, 2009

**TO:** Honorable Antonio R. Villaraigosa, Mayor  
Honorable Members of Los Angeles City Council

**FROM:** Wendy Greuel, City Controller 

**SUBJECT: BUDGETARY CASH FLOW**

In keeping with my commitment to inform you of the City's cash flow issues as we progress through this particularly challenging year, I wanted to update you on salaries. As you know, salaries are the largest component of the City's budget and therefore are the largest area of concern. The 09-10 Budget appropriated \$2,737,613,125 for salaries. Based upon expenditures from the first four pay periods, if similar expenditures were to continue throughout the year, the City could expend \$3.03 billion on salaries which could be \$300 million above budget.

The attached salary projection is based upon the existing budgetary salary assumptions. Assumptions include:

- Future salary expenditures will average between \$114.5 and \$116.5 million over the remainder of the year;
- No changes to the salary budget;
- No projection on the sustainability of Fire Department and furlough reductions;
- No analysis on cost savings or cost increases from implementing a retirement incentive or layoff program; and,
- No change to Police, Fire or the Coalitions of Unions' current salaries.

The assumptions will most assuredly change by year-end, but, the information attached can shed light on the financial realities facing the City now and be instrumental in making necessary budget related decisions.

Attachment 1 is a view of all of the salary accounts based upon the adopted budget. To end the year within the adopted salary budget (\$2.737 billion) our bi-weekly salary expenditure should average \$103.9 million throughout the year. (Note: We have adjusted the schedule for the timing of certain one time payments, such as sick leave buy back in January, which we are obligated to pay. The one time obligations reduce the amount available for ongoing payroll.) Actual payments for Pay Periods 2, 3 and 4 were \$114.5, \$115.1 and \$111.9 million, on average \$10 million per pay period above where we should be based upon the budget.

While furloughs are occurring for EAA units (Attachment 2) and no salary increases are in place for the Coalition of Unions – both of which result in reduced expenditures - no

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September 4, 2009  
Page 2

other large scale reductions in salary costs such as an early retirement program (ERIP) have been approved or implemented. It is unclear if the proposed ERIP will generate substantial savings, given no decision has been reached and, even if approved in the next month, can not be in place before October 2009 at the earliest. Every day that goes by without reaching a decision on ERIP reduces the savings available to the City in the current fiscal year. Further, rejection of the ERIP may result in salary increases for the Coalition, all of which affect the City's bottom line this fiscal year.

These are unprecedented economic times. The potential difference in salaries is large; the long term overall budgetary shortfall is larger. As described above, some actions have been taken and other action is in process, but, more needs to be done. Additionally, Council and Mayor have approved, through August, additional salary appropriations of \$33 million. If additional appropriations replace existing General Fund appropriations, the deficit is reduced. If it reflects additional appropriations for additional work, the deficit remains unchanged.

Our cash flow and projections are only as good as the decisions upon which they are based. Current information indicates that we have a problem which needs to be addressed by increased salary appropriations, reduced salary expenditures or a combination of the two. As the problem is addressed, we will be able to prepare an improved cash flow based upon improved assumptions.

Finally, I wish to express a concern about General Fund cash and Reserve Fund cash at fiscal year end. If we spend in the salary accounts at a rate of \$250 million above budget, but offset it with an additional \$100 million in appropriations from special purpose funds *and* transfer \$150 million from the Reserve Fund (the current Reserve Fund balance), we end the year with no salary deficit and no Reserve Fund. If we spend up to \$300 million above salary appropriations, appropriate \$100 million, transfer \$150 million from the Reserve Fund, we end the year with no Reserve Fund and will have depleted General Fund cash completely in the last week of June.

If you have any questions please contact Bill Lamb, Director of Financial Reporting at 978-7203.

cc Miguel A. Santana, City Administrative Officer  
Gerry F. Miller, Chief Legislative Analyst

City of Los Angeles  
 Salary Expenditure Projections Based Upon Salary Account Pro-Rated Across 26 Pay Period  
 Budget FY 2008-09

Date	Fire	Police	Sworn	Civilian	Pay Period		Cumulative Actual Total	Projected Total / Period	Cumulative Projected Total	Variance
					Total	Total				
<b>FY 2008-09 Budget</b>									<b>2,737,513,125</b>	
7/1/09	--	--	--	--	--	--	--	--	--	--
7/15/09	5,659,633	13,060,686	18,720,319	18,346,466	37,066,785	Actual	37,066,785	35,984,000	(1,082,785)	Actual
7/29/09	17,606,876	40,870,382	58,477,258	56,001,187	114,478,445	Actual	151,545,230	139,898,000	(11,647,230)	Actual
7/29/09	--	10,174,514	10,174,514	--	10,174,514	a	161,719,744	149,388,000	(12,331,744)	Actual
8/12/09	19,890,950	39,101,449	58,992,399	56,130,510	115,122,909	Actual	276,842,653	253,302,000	(23,540,653)	Actual
8/26/09	16,826,155	39,368,891	56,195,046	55,678,194	111,873,240	Actual	388,715,893	357,216,000	(31,499,893)	Actual
9/9/09					116,478,000	Estimate	505,193,893	461,130,000	(44,063,893)	Estimate
9/23/09					114,478,000	Estimate	619,671,893	565,044,000	(54,627,893)	Estimate
10/7/09					116,478,000	Estimate	736,149,893	668,958,000	(67,191,893)	Estimate
10/21/09					114,478,000	Estimate	850,627,893	772,872,000	(77,755,893)	Estimate
11/4/09					116,478,000	Estimate	967,105,893	876,786,000	(90,319,893)	Estimate
11/18/09					114,478,000	Estimate	1,081,583,893	980,700,000	(100,883,893)	Estimate
12/2/09					116,478,000	Estimate	1,198,061,893	1,084,614,000	(113,447,893)	Estimate
12/16/09					114,478,000	Estimate	1,312,539,893	1,188,528,000	(124,011,893)	Estimate
12/30/09					116,478,000	Estimate	1,429,017,893	1,292,442,000	(136,575,893)	Estimate
1/13/10					114,478,000	Estimate	1,543,495,893	1,396,356,000	(147,139,893)	Estimate
1/13/10					11,674,000	b	1,555,169,893	1,408,030,000	(147,139,893)	Estimate
1/27/10					116,478,000	Estimate	1,671,647,893	1,511,944,000	(159,703,893)	Estimate
2/10/10					114,478,000	Estimate	1,786,125,893	1,615,858,000	(170,267,893)	Estimate
2/24/10					116,478,000	Estimate	1,902,603,893	1,719,772,000	(182,831,893)	Estimate
3/10/10					114,478,000	Estimate	2,017,081,893	1,823,686,000	(193,395,893)	Estimate
3/24/10					116,478,000	Estimate	2,133,559,893	1,927,600,000	(205,959,893)	Estimate
4/7/10					114,478,000	Estimate	2,248,037,893	2,031,514,000	(216,523,893)	Estimate
4/21/10					116,478,000	Estimate	2,364,515,893	2,135,428,000	(229,087,893)	Estimate
5/5/10					114,478,000	Estimate	2,478,993,893	2,239,342,000	(239,651,893)	Estimate
5/19/10					116,478,000	Estimate	2,595,471,893	2,343,256,000	(252,215,893)	Estimate
6/2/10					114,478,000	Estimate	2,709,949,893	2,447,170,000	(262,779,893)	Estimate
6/16/10					116,478,000	Estimate	2,826,427,893	2,551,084,000	(275,343,893)	Estimate
6/16/10					4,111,000	c	2,830,538,893	2,555,195,000	(275,343,893)	Estimate
6/30/10					114,478,000	Estimate	2,945,016,893	2,659,109,000	(285,907,893)	Estimate
<b>Yr-end Encumbrance</b>					85,729,000	Estimate	3,030,745,893	2,737,513,000	(293,232,893)	Estimate
<b>Total</b>	<b>59,993,614</b>	<b>142,575,922</b>	<b>202,559,536</b>	<b>186,156,357</b>	<b>3,030,745,893</b>			<b>2,737,513,000</b>		

- a Uniform allowance
- b Excess sick time
- c Bank overtime

**City of Los Angeles  
Engineers and Architects Associations (EAA)  
Furlough Savings**

<u>Pay Period</u>	<u>Date Paid</u>	<u>General Salary Savings <sup>(2)</sup></u>	<u>Rec &amp; Parks</u>
			<u>Library Savings <sup>(1)</sup></u>
1	15-Jul-09	N/A	N/A
2	29-Jul-09	\$ 2,030,094	\$ 82,211
3	12-Aug-09	1,978,159	77,802
4	26-Aug-09	1,976,417	75,425
Total Savings		<u>\$ 5,984,670</u>	<u>\$ 235,438</u>

(1) Recreation and Parks and Library salaries are not paid through the General Fund.

(2) The salary account is funded by the General Fund and Special Purpose Funds. It is not possible to track each source of funds, but approximately 33% of salaries are attributable to Special Purpose Funds. At the end of pay period 4, General Fund savings are approximately \$4,009,729 and Special Purpose Funds savings are \$1,974,941

Since, Special Purpose Fund salaries are tied to specific requirements, any "salary savings" will be offset by reduced revenue from the source funds.