CLA MEMORANDUM

September 15, 2009

To: Honorable Members of the City Council

From: Gerry Miller
Chief Legislative Analyst

2009-10 BUDGET BALANCING OPERATIONAL PLAN (C.F. 09-0600-S137)

Pursuant to the instructions of the Budget and Finance Committee at their September 14, 2009 meeting on the 2009-010 Budget Balancing Operation Plan, the Office of the Chief Legislative Analyst was directed to provide information on the implications and concerns with regard to the proposed Early Retirement Incentive Program (ERIP). Attached herewith is the requested information. This is not an exhaustive list, rather it reflects the major issues that have discussed with regard to ERIP. Should you have questions, please do not hesitate in contacting us.

GFM:SMT

Early Retirement Incentive Program (ERIP)

As of September 2009

If City Approves ERIP

The City would achieve immediate and long-term savings in payroll, employee benefits and pension costs.

More humane approach, providing a soft landing by encouraging voluntary retirements as opposed to layoffs.

Higher paid employees would leave, requiring departments to restructure their organizations with a less expensive workforce.

Concerns:

- **2009-10 Budget Impact:** ERIP does not solve the current year budget deficit. In fact, as currently structured, it limits budget solving options. Several departments would need appropriations if ERIP is approved. Also, the proposed additional .75% contribution would not start until 2011-12, while the City's obligation to pay for ERIP begins in 2010-11.

- **No Layoffs/Furloughs Provision Results in Disparate Impacts:** Layoffs and furloughs of Coalition Members will be permitted only under specific circumstances, resulting in disparate impacts as the remaining budgetary shortfall would have to come from sworn and other civilian unions and non represented employees.

- **Equity Between All City Employees:** On-going discussions with Non-Coalition Unions (e.g. sworn, EAA) involve base pay reductions, furloughs and layoffs. However, ERIP, as currently structured, would protect the base pay of Coalition members.

- **Cost Neutrality:** ERIP, as currently structured is not cost neutral. The most

If City Does Not Approve ERIP

The City would achieve immediate and long-term savings in payroll, employee benefits and pension costs.

Budget Reductions, such as layoffs and furloughs, would be spread over entire workforce, thus minimizing disparate impacts on the City workforce.

Work furloughs are allowed under the fiscal emergency declared by the Mayor and Council earlier this year.

Layoffs will impact newer, entry level employees who are lower end of pay scale.

Layoff process is lengthy and cumbersome given seniority and displacement rules specified in the Charter and Civil Service Rules.

Litigation anticipated, although the City maintains this was a tentative agreement that could not be approved by Council until an actuarial study was completed.

Cost of Living Adjustments would be due to Coalition members, retroactive to July 1, 2009.

likely scenario of ~2,300 participants will cost $332M on a present value basis; the additional .75% contribution and elimination of the defrayal will generate about $179M on a present value basis ($361M gross)

- **Legality:** The additional .75% pension contribution could be challenged. If City loses, then the entire cost of the ERIP would be bourne by the General Fund until all court appeals are exhausted.

- **Actual Cost of ERIP Unknown:** The actual cost will not be known until the window for the filing period closes. There is a proposed 45 day filing period, after which the LACERS actuarial will conduct a review to determine additional contribution necessary to amortize the cost of the UAAL.

- **ERIP Budget Savings Impacted by:** **Timing:** At best, only 4 months of savings can be anticipated from ERIP due to implementation timelines.

  "Bumping" of Non-Coalition to Coalition Position: Savings could be reduced by 20 to 25% when the layoff of a Non-Coalition position is effectively stopped when that individual reverts to a Coalition classification.

  Transfer of Employees to Special Funds: ERIP savings could be increased or reduced depending upon whether employees agree to being transferred to special funded jobs. Under the Charter, employees cannot be transferred against their will, unless it is a functional transfer or a temporary transfer (Mayoral authority).

  Effective Date of Retirement: General Managers have discretion on the effective date of retirements. To the extent critical employees are retained for transition periods, savings from ERIP could be impacted.

Backfill Rate: The backfill rate of positions vacated by ERIP participants will be limited to 6-7% per year.

Actuarial Study is Predicated on Expected Number of ERIP Electors. However, there has been little discussion on the impact if **more or less** than 2,300 participants.

LACERS: Usually processes about 50 retirements per month. ERIP would pose significant challenges to get retirements processed in time to generate necessary savings.

- **Bottom Line:** There is a $405M Budget Problem. As shown on Page 8 of the CAO/CLA Report, if ERIP is approved and generates $12M in savings, the unresolved budget problem is $293M, comprised of: $129M Police Shared Sacrifice, $66M in remaining Civilian Shared Sacrifice, $13M in remaining Fire Shared Sacrifice, and $85M in Budget Shortfalls. If Mayor and Council approve $146M in recommended reductions for Police and Fire, the remaining unresolved deficit is $147M. As a point of reference, eliminating **ALL** non-Coalition employees will generate only $128M.

- **Bottom Line:** There is a $405M Budget Problem. As discussed on Page 10 of the CAO/CLA Report, if ERIP is not approved, furloughs would be implemented across the board for civilian employees, generating $105M, plus $80M in targeted reductions throughout City departments. If Mayor and Council approve $146M in recommended reductions for Police and Fire, the remaining unresolved deficit is $74M

Regardless of whether ERIP is approved or not:

- The City cannot afford the number of general funded jobs in the City.
- There will be service impacts as position reductions will be necessary, whether from ERIP, furloughs or layoffs.
- Furloughs and Layoffs will still be necessary to close the remaining budget gap for 2009-10, with the actual number of furloughs and layoffs, and who it will be imposed upon, dependent on budget balancing choices made by the Mayor and Council.
- Concessions will be needed; City is already at impasse with UFLAC.
- Significant challenges lie ahead in 2010-11, with a projected deficit of over $800M. This will not be solved without an overhaul of how the City does business and a determination of the City's core priorities.
- Significant changes in the financial outlook have occurred since ERIP was first proposed. It made more sense when up to 9 months of savings could be achieved. But, with concerns indicated herein, the additional $75M reduction in revenues, up to $90M more in liability claims, a reduced Reserve Fund, lack of cash flow and the possibility the City will run out of cash in May 2010, the over expenditure of $1M per day, and the uncertainty at the State level, immediate and certain action by the City is necessary.