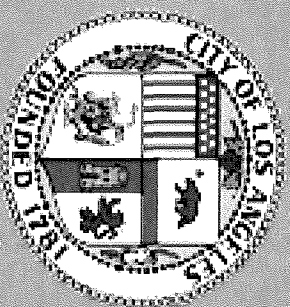


BUDGET AND LABOR UPDATE

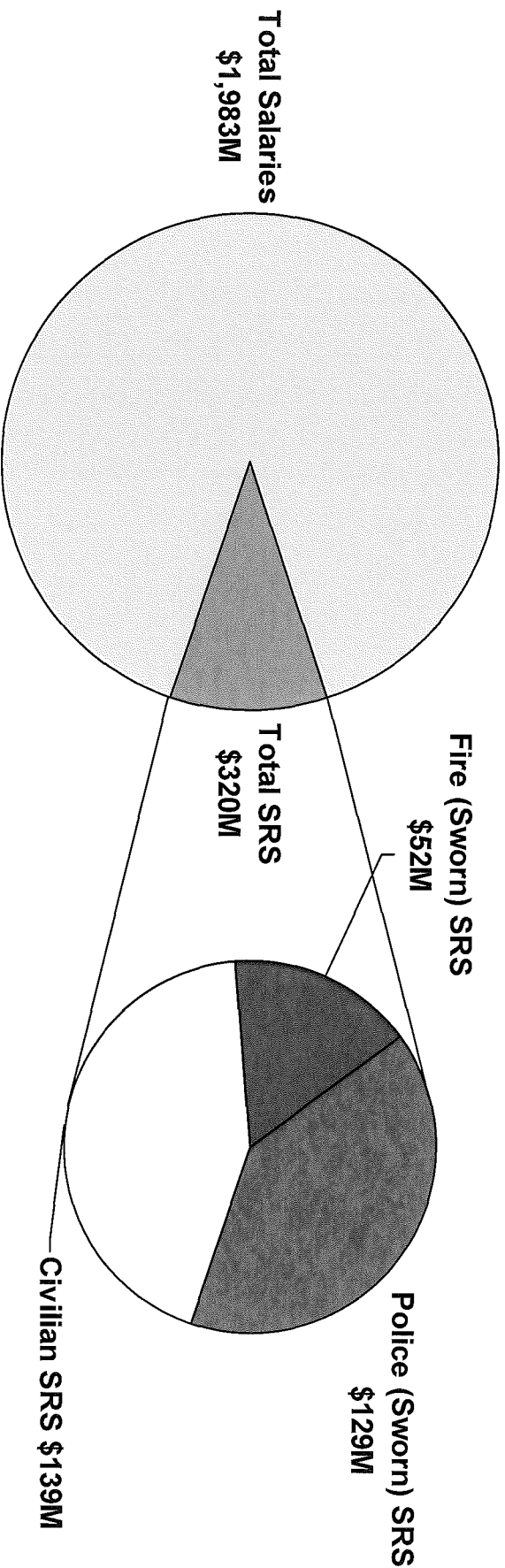
for

City Council



City Administrative Officer
September 15, 2009

2009-10 Adopted Budget Salaries and Shared Responsibility and Sacrifice (SRS)



Police Sworn	\$775	39%
Fire Sworn	\$312	16%
Civilian	\$896	45%
Total Salaries	\$1,983	100%

Total \$320 million SRS

Revenue and State Impact

- FY 08/09 closing yielded \$36 million less than expected
- Current data suggests a \$75 million revenue shortfall in the current fiscal year
- Property Tax - The State will borrow \$113 million although the City can participate in the loan securitization program.
- Gas Tax - The State may defer distribution of gas tax revenue to the latter half of the year.

Reserve Fund

- The Reserve Fund balance stands at \$151 million versus \$243 million in budget
- A sufficient reserve is necessary for the City to respond to natural disasters
- Credit rating agencies and investors use the Reserve Fund as a barometer of the City's fiscal health

2009-10 Budget Deficit

- The deficit attributed to the revenue shortfall and Shared Responsibility and Sacrifice (SRS) has grown from \$320 million to \$405 million

SRS	\$320
Implementation Delay	\$10
Additional Revenue Shortfall	\$75
Total Budget Deficit	\$405

Benefits of ERIP and Coalition LOA

As discussed in June 2009

- Fiscal - Reduces the payroll base and benefit costs over the next several years
- Organizational - Ability to reduce top layers of management
- Management – Layoff process can be lengthy and cumbersome
- Humane way to reduce the City's workforce
- As originally proposed, sufficient savings was projected in the current year to offset a significant portion of the civilian SRS

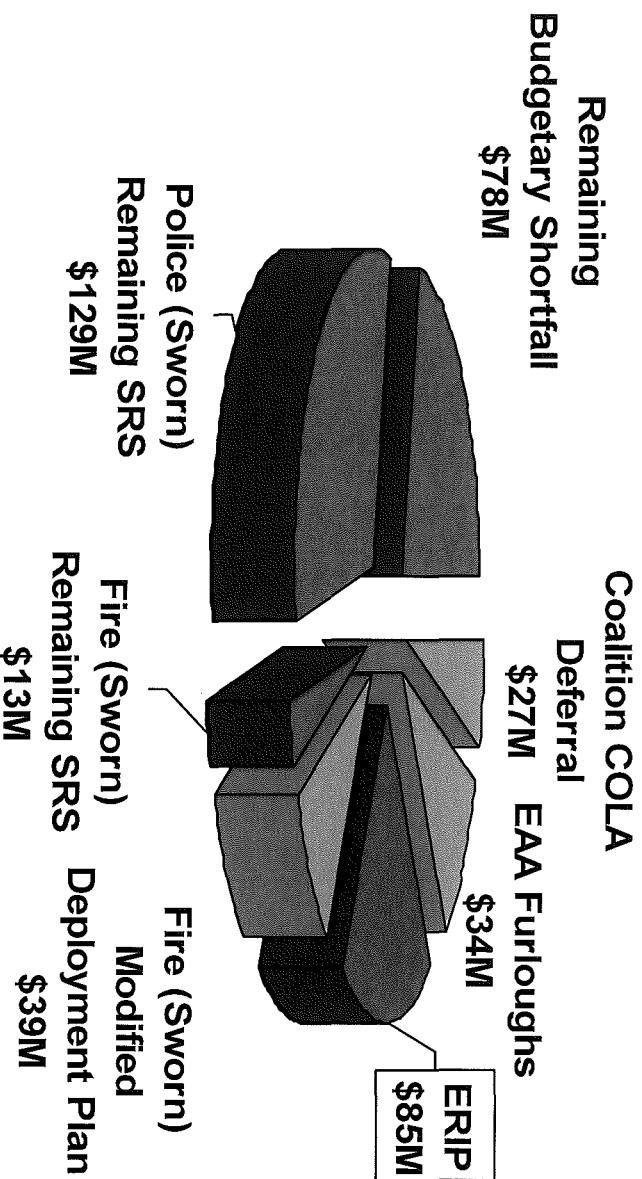
Original ERIP Assumptions

- Payroll Savings – Nine months of savings totaling \$111 million
- Budgetary Solutions – Goal of achieving 70% General Fund savings (\$85 million of the \$111 million)
- Cost Neutral – The reduction in payroll as well as a long-term increase in the employees' contribution rate, would offset any costs related to ERIP
- Legal Challenges – Approval by a majority of labor organizations representing a majority of LACERS members would minimize legal challenges by those opposed to the program

Shared Responsibility and Sacrifice (SRS)

As Discussed in June 2009

\$405 Million SRS/Budgetary Shortfall with Original ERIP Assumptions



Originally, approved and tentative actions would have resolved \$185 million of the \$405 million leaving a gap of \$220 million

Modified ERIP Assumptions

- Payroll Savings – Now only four months of savings totaling \$23 million (General Fund is only \$12.4 million)
- Budgetary Solutions – The City Attorney opined that employees cannot be permanently transfer between appointing authorities without their prior consent.
- Cost Neutral – A present value analysis of the employee payback indicates that the increase in employees' contribution rate will not be sufficient to offset added costs related to ERIP
- Legal Challenges – Legal challenges to the increase in employee pension contributions are expected

What has changed? - ERIP Cost

- ERIP actuarial report received on July 30, 2009
- City employees do not pay the full cost of ERIP

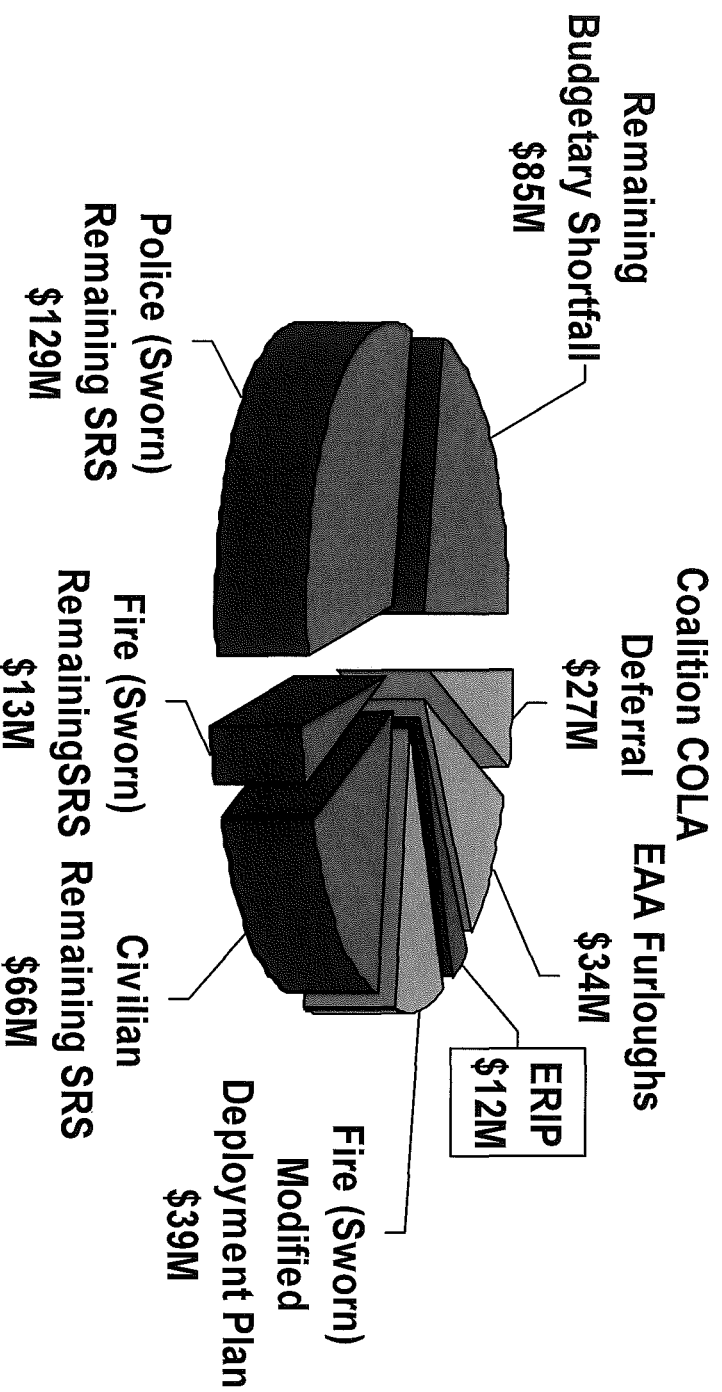
Fiscal Year 2009/10	Alternative 1	Alternative 2
UAAL Increase	\$250 million	\$354 million
Cost of Cash Incentives	\$43 million	\$51 million
Total ERIP Cost	\$293 million	\$405 million
Employee Payback	\$179 million	\$175 million
City Surplus/(Deficit)	(\$114 million)	(\$230 million)

Based on 15 year amortization period
 All data reflects present values

Shared Responsibility and Sacrifice (SRS)

September 2009

\$405 Million SRS/Budgetary Shortfall with Revised ERIP Assumptions



With updated information, approved and tentative actions would now only resolve \$112 million of the \$405 million leaving a gap of \$293 million

Sworn SRS Shortfall

- The sworn SRS component totals \$181 million (\$129 million for Police and \$52 million for Fire).
- Fire's Modified Deployment Plan (\$39 million in savings).
- Remaining sworn deficit of \$13 million for Fire.
- Negotiations have not been successful thus far with UFLAC and the City has filed a Notice of Impasse with the ERB.
- Contract negotiations are ongoing with PPL; however, resolution has not been achieved and it is unlikely to reach an agreement to cover the full \$129 million.
- Police options include furloughs, Police hiring, layoffs and grant funds

Non-Coalition Workforce

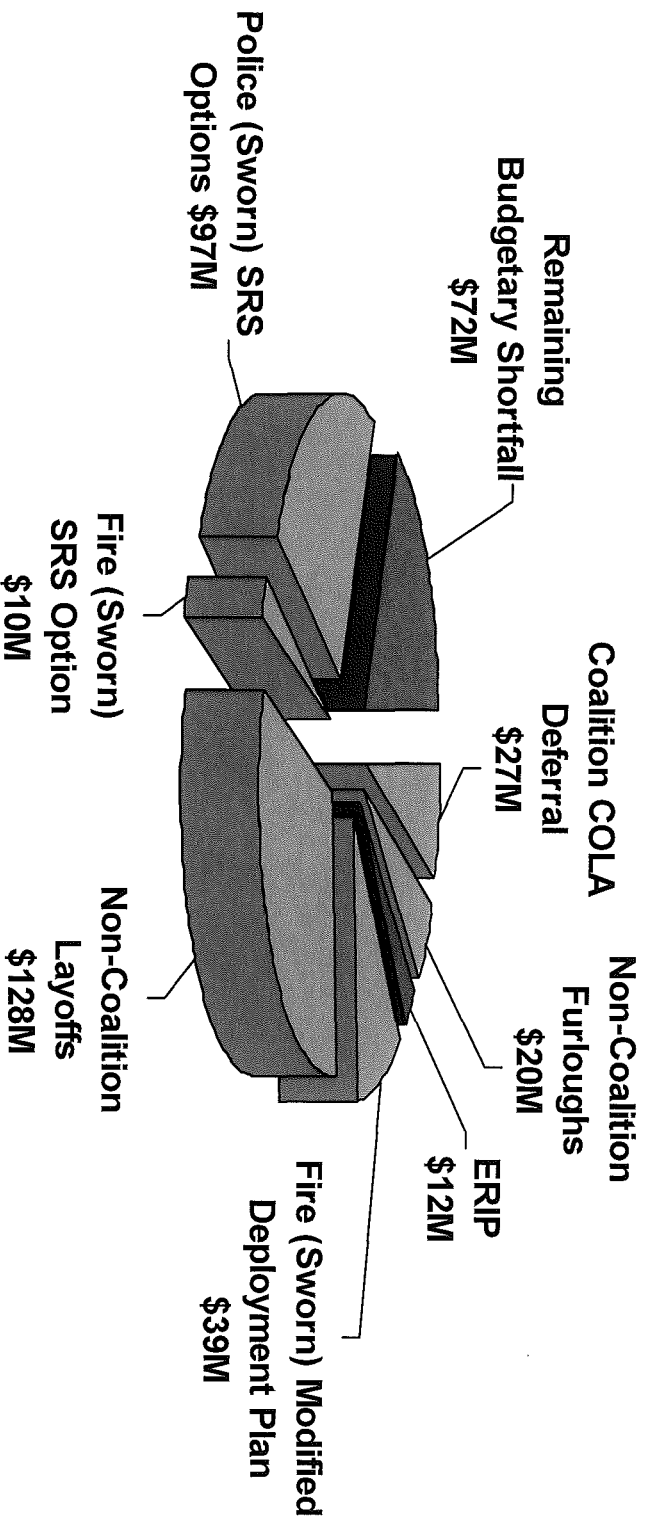
- 8,000 total – 6,400 represented by EAA
- One-third are Special Fund or grant funded
- 25% would not be subject to furlough or layoff
- 4,700 remaining subject to potential layoff

Select Departments - General Fund, Non-Coalition Staffing:

<u>Department</u>	<u>Total GF</u>	<u>Non-Coalition GF</u>	<u>%</u>
Mayor	80	80	100
Council	79	75	95
Finance	373	230	62
Controller	180	135	75
Planning	280	225	80
ITTA	670	470	70
Treasurer	35	21	60

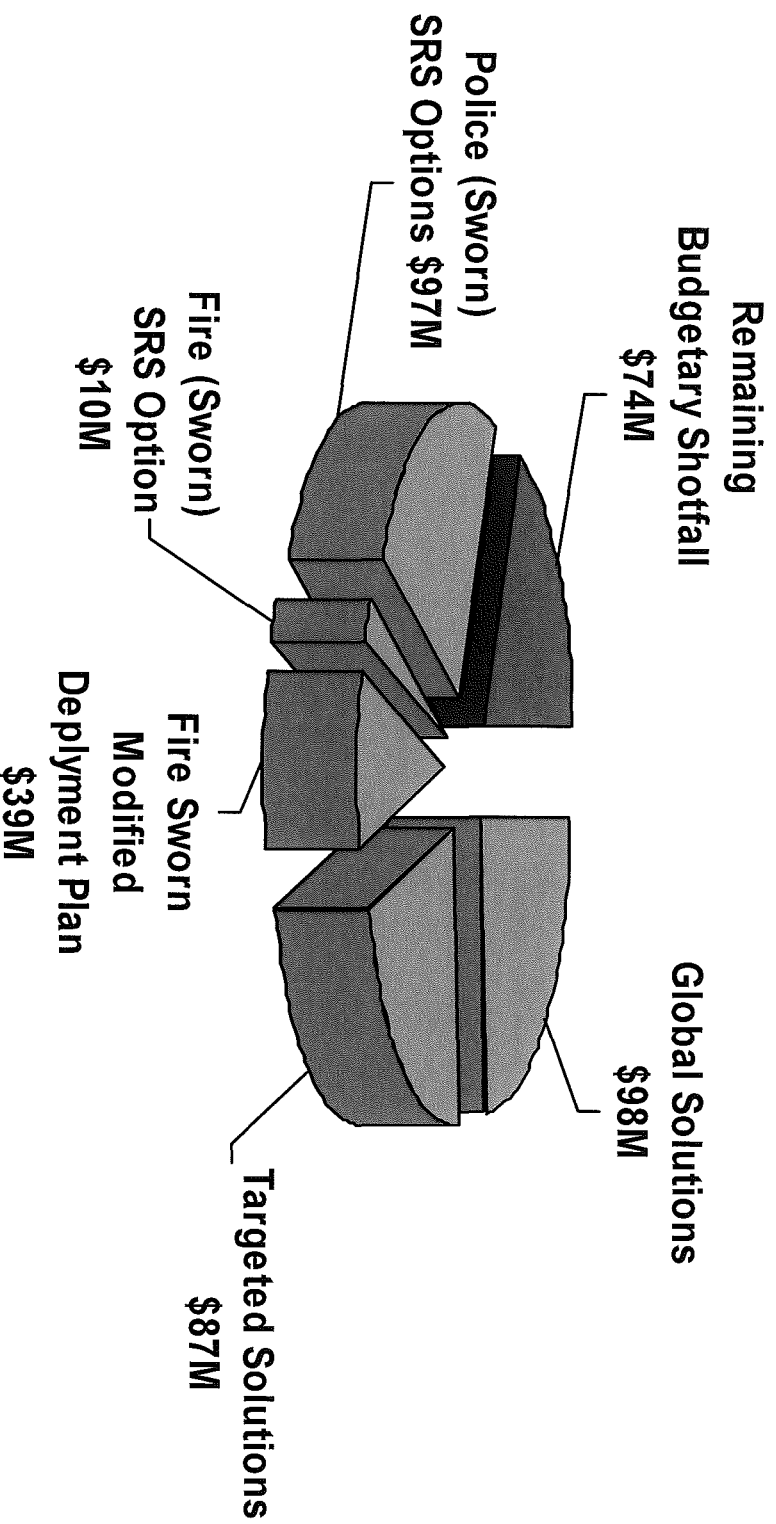
Potential Solutions with ERIP

**\$405 Million SRS/Budgetary Shortfall
with \$333 Million in Potential Solutions**



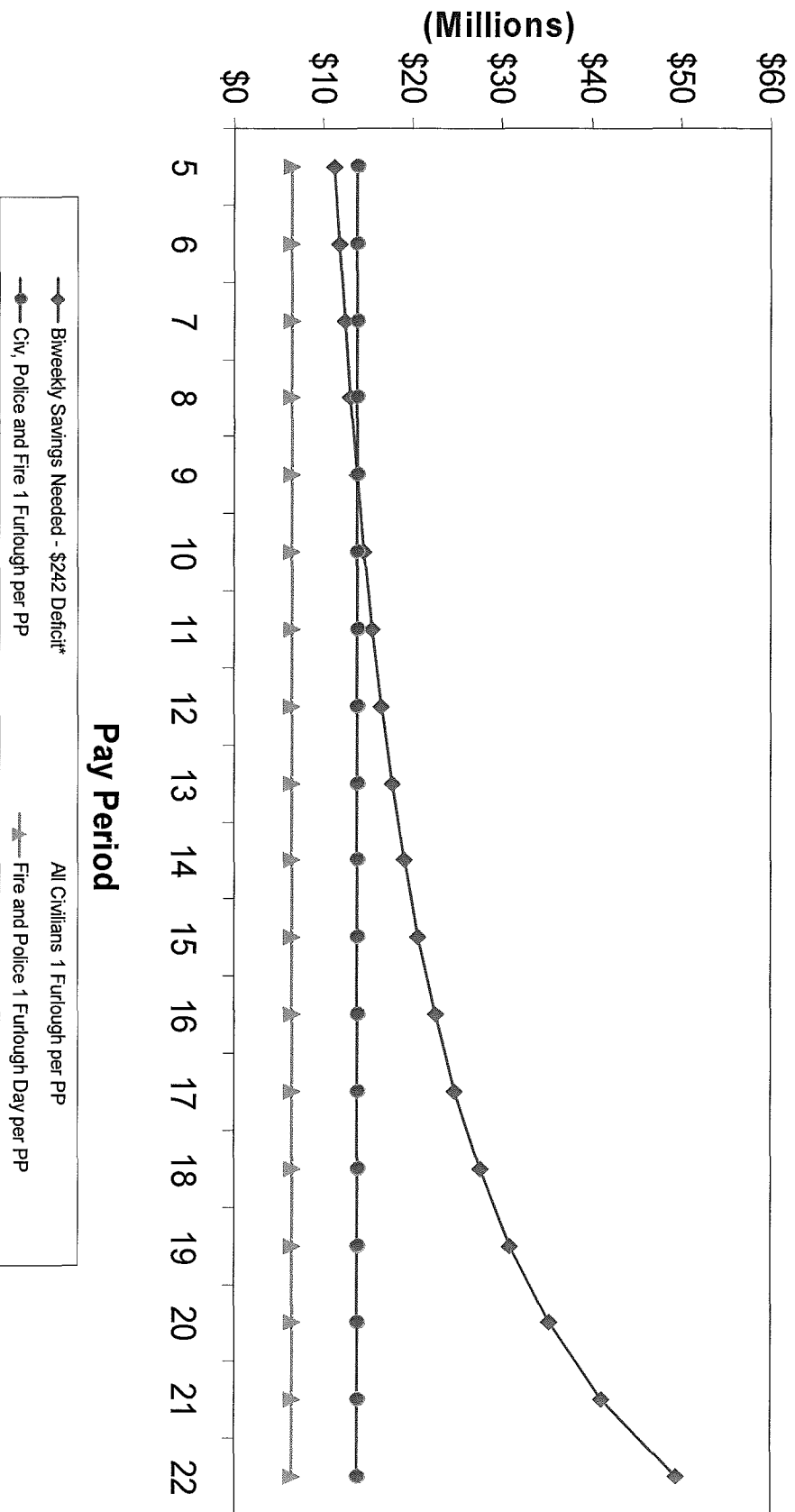
Alternative Operational Plan

**\$405 Million SRS/Budgetary Shortfall
with \$331 Million in Potential Solutions**



Budget Deficit and Furlough Savings

Budget Deficit Furlough Savings



Assumes a \$242 million deficit factoring EAA furloughs and Fire's modified staffing plan.

Need for Immediate Action

- The City is overspending at a rate of \$11 million per pay period or \$1 million per day
- Insufficient monies are available in the Reserve Fund without adversely affecting 2010-11 and the City's bond rating
- If no action is taken, the city may run out of money in early June
- The outlook for 2010-11 reflects a deficit of over \$400 million