

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0670-00006-0000

Date: February 8, 2010

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer

Subject: **COMMUNICATION WITH RATING AGENCIES**

This morning, my Debt Management staff received an e-mail from Fitch Ratings, expressing concern on the deteriorating financial position of the City. The representative from Fitch stated that

"The council deferred making decisions on most budget proposals for 30 days at its Feb. 3 meeting causing the Mayor on Feb. 4 to order the elimination of 1,000 city jobs. This, in turn, generated a City Attorney opinion that the mayor cannot unilaterally order layoffs, particularly with regard to the elected offices.

While the city council was able to reduce the Solid Waste Lifeline Rate Program on Feb. 3, it is noteworthy that one of the four votes in opposition to that reduction was the Council President's, who has also expressed concerns about the proposal to privatize the city's parking structures."

Although we did correct the statement concerning the Mayor's ability and the General Manager's ability to layoff, it did little to alleviate Fitch's concerns. This just demonstrates what the investor community is reading in the press, whether correct or not.

~~After receipt of the above e-mail, we also spoke by phone to Fitch. Fitch restated the three areas that would cause the further downgrade of the City's ratings:~~

1. Worsening general fund structural imbalances in an environment of declining tax revenues, a softening property market, and rising personnel-related costs;
2. Failure to achieve long-term personnel cost reductions, particularly through reduction in work force size and modified benefits entitlements; and,
3. Ongoing erosion of general fund reserves.

Fitch is concerned that we have no political consensus between the Mayor and the President of the City Council. This was surprising due to our reports and the meetings with the Principals. They are also concerned about the political vulnerability of the Three Year Plan given the response to the CAO's financial status report and solutions to this year's problems.

The conversation ended with this quote: "This is an amazing opportunity for the elected officials to show leadership and for a valid reason. According to the press, though, they can't seem to step up and make decisions. So if it can't be done now, then when?"

Later this afternoon, staff had a conversation with Moody's Investors Service. Moody's expressed concerns that the City Council had not adopted the necessary budget-balancing recommendations provided in the CAO's mid-year report, as it had in years past.