

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Council File No. 09-0600

Council District: All

To: Antonio R. Villaraigosa, Mayor
Eric Garcetti, Council President
Bernard C. Parks, Chair, Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer



Reference: 2009-10 Budget

Subject: **MID-YEAR (THIRD) FINANCIAL STATUS REPORT - ADDENDUM**

SUMMARY

On February 1, 2010, this Office presented the Mid-Year (Third) Financial Status Report (FSR) to the Budget and Finance Committee (C.F. No. 09-0600-S159). In response to Recommendation No. 45 of the report concerning the elimination of 1,000 General Funded positions, the Committee directed this Office to broaden this recommendation to include the Office of the Mayor, City Council and sworn personnel in targeted cuts. Below are additional savings measures to be presented to Council along with the Mid-Year FSR. If Council decides to adopt any of the measures, it is recommended that any realized savings be transferred to the Reserve for Economic Uncertainty to mitigate the depletion of the Reserve Fund.

1. Unappropriated Balance – AB1290 Recommendation No. 1

In the 2009-10 Budget, \$10 million was set aside in the Unappropriated Balance (UB) to provide necessary funding to replace AB1290 funds should the revenue not be realized. Recommendation No. 59 in the Mid-Year FSR proposed the transfer of this UB funding to the Reserve for Economic Uncertainty with the expectation that AB1290 funds would be received. The Budget and Finance Committee did not approve this recommendation. By not recognizing the AB1290 revenue, the revenue shortfall as reported in the Mid-Year FSR increases by \$10 million, from \$185.9 million to \$195.6 million, and the resulting Budget deficit increases by a like amount, from \$208.5 million to \$218.5 million.

To reduce the shortfall and deficit, it is recommended that the AB1290 funds be included with Citywide revenues, and that the UB funding be transferred to the Reserve for Economic Uncertainty.

2. Office of the Mayor

The 2009-10 Adopted Budget for the Office of the Mayor is \$25.7 million, which includes a total of \$7.9 million for salary accounts and an additional \$17.2 million (excluding salaries) for Gang Reduction and Youth Development (GRYD). A five percent reduction of the adopted funding for salary accounts and GRYD equates to \$395,245 and \$859,928, respectively.

3. City Council

The 2009-10 Adopted Budget for the Council is \$22.6 million, which includes a total of \$21.4 million for salary accounts. A five percent reduction of the adopted funding for salary accounts equates to \$1,071,145.

4. General City Purposes

The 2009-10 General City Purposes (GCP) Budget includes funding for the Promotion of the Image of the City, Governmental Services, and Intergovernmental Relations.

Council instructed the CAO to provide a list of uncommitted discretionary funds that may be transferred to the Unappropriated Balance, Reserve for Economic Uncertainty. As of February 1, 2010, there is approximately \$3.5 million in GCP funds that have not been encumbered and may be transferred.

5. Council Funds

Council also instructed the CAO to provide a list of discretionary special accounts or funds that may be transferred to the Unappropriated Balance, Reserve for Economic Uncertainty. There is approximately \$26.5 million in uncommitted Council funds that have not had recent activity.

6. Police Department

Police sworn salary costs may be addressed through a range of measures to include the discontinuation of police hiring to layoffs of probationary Police Officer I (P-I) positions. A maximum savings of \$15.2 million in 2009-10 and \$69.4 million in 2010-11 may be achieved by eliminating the remaining Police Recruit classes for 2009-10 and proceeding with layoffs of all P-I's. Some of this total cost savings would be offset by unemployment insurance payments.

- Canceling the remaining Police Recruit classes for 2009-10 would save approximately \$2.2 million this year and \$7.7 million next year. This is based on not hiring 103 new officers through the end of the 2009-10 fiscal year.
- Canceling the remaining Police Recruit classes and eliminating an estimated 87 P-I positions at the Academy will save approximately \$3.6 million this year and \$16.1 million next year.

- Canceling the remaining Police Recruit classes and eliminating an estimated 616 P-I positions throughout the Department will save approximately \$15.2 million this year and \$69.4 million next year.

The table below summarizes the three measures:

	Count	FY 2009-10 Layoff 3-Month Savings Related			FY 2010-11 Full Year Savings Related		
		Direct Cost Savings	Cost Savings	Total Cost Savings	Direct Cost Savings	Cost Savings	Total Cost Savings
No New Hires	103	1,900,000 *	275,000	2,175,000	5,000,000	2,700,000	7,700,000
No New Hires and Academy Layoffs	190	3,042,000	548,000	3,590,000	10,408,000	5,716,000	16,125,000
No New Hires and Layoff of All Police Officer I's	719	10,865,000	4,330,000	15,194,000	44,638,000	24,728,000	69,366,000

*Includes equipment purchases for recruit training class

7. Fire Department

The Mid-Year FSR Recommendation No. 45 includes the elimination of 60 Firefighter III positions to be absorbed elsewhere in the Department. Council requested additional information concerning the recommendation and the impact to Constant Staffing Overtime costs.

The 60 firefighters staff Basic Life Support (BLS) rescue ambulances at the ten locations with the lowest responses (3.47) per day. The reduction in staff equates to a 1.5 percent cut in Sworn Fire personnel. The elimination will result in a four-month savings of \$1.9 million in sworn salaries, \$18,000 in Salaries Bonus and \$1.5 million in Constant Staffing Overtime. Ten 12-hour Variably Staffed Ambulances (at peak hours) will replace each of the 24-hour BLS rescue ambulances at a four-month cost of \$659,000, leaving a 24-hour Advance Life Support (ALS) ambulance and a 12-hour variably staffed ambulance at each of the affected fire stations.

The 2010-11 direct cost savings for 60 firefighter positions being redeployed within the field to fill vacancies is \$7.2 million, with an additional \$2.7 million in Constant Staffing Overtime savings through the filling of daily vacant platoon duty positions. Annual cost to continue to staff the ten 12-hour Variably Staffed ambulances for the public at peak hours is \$2 million.

Eliminating the 60 Firefighter III positions will save approximately \$3.4 million this year and \$10.1 million next year.

Proposed Elimination of 57 Additional Positions

An additional 57 Firefighter III positions may be eliminated for a four-month savings of \$1.8 million in sworn salaries, \$18,000 in Salaries Bonus and \$543,000 in Constant Staffing. By redeploying these Firefighters within the field, the Department can further reduce Constant Staffing Overtime costs by \$882,000 by filling some of the 250, on average, daily vacant platoon duty positions. Finally, keeping

the drill tower training cadre in the field for the balance of the year will save \$1.2 million in Constant Staffing Overtime.

The 2010-11 direct cost savings for 57 firefighter positions being redeployed within the field to fill vacancies is \$6.9 million. This reduction coupled with the redeployment of 60 firefighters mentioned in the separate Fire Department reduction package contained within the Mid-Year FSR will enable the Department to cancel three Recruit Training classes projected in the 2010-11 Budget. The net affect of canceling the training classes is two-fold. First, the savings from sworn salary and expense accounts for not hiring 150 recruits is \$8.1 million. Secondly, by keeping the drill tower training cadre in the field to fill vacancies, an additional \$5 million in savings is realized.

Eliminating the 57 Firefighter III positions will save an additional \$5.1 million this year. 2010-11 savings for all 117 eliminated positions is \$22.1 million.

8. Collections for Delinquent Accounts

The Office of Finance collects on delinquent accounts. The amount collected corresponds to approximately 50 percent of assessed taxpayers remitting payments, totaling \$30 million in annual revenue.

Currently, a number of delinquent accounts have been referred to City Attorney to pursue further collection. If the City Attorney were able to provide additional assistance with collections, there is potential for additional revenue, with each one-percentage point increase in the collection rate equating to approximately \$600,000.

RECOMMENDATION

1. That the Council, with the approval of the Mayor, transfer \$10,000,000 within the Unappropriated Balance Fund No. 100/58 from Account No. 0242, AB1290, to Account No. 0037, Reserve for Economic Uncertainty.

FISCAL IMPACT STATEMENT

The 2009-10 Budget deficit as reported in the *revised* fiscal impact statement of the Mid-Year (Third) Financial Status Report (C.F. No. 09-0600-S159) is \$218.5 million, reflecting a revenue shortfall of \$195.9 million. A \$10 million budget adjustment is recommended in this addendum, which, if approved, would reduce the revenue shortfall to \$185.9 million and the resulting budget deficit to \$208.5 million.