

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: February 11, 2011

To: Antonio R. Villaraigosa, Mayor
Honorable Members of the City Council

From: Miguel Santana, City Administrative Officer



Subject: REVENUE REVISIONS FOR FISCAL YEAR 2010-11

Summary

Over the last several months, this Office has been working with departments on developing solutions to address the projected year-end deficit identified in the Second Financial Status Report of \$62.7 million. This projected deficit was comprised of an unbudgeted uniform allowances for police officers and the assumption that \$53 million related to the Public-Private Partnership (P3) transaction for the City's parking structures would be unrealized in the current fiscal year.

Status of P3

Based on recent information that this Office has received on the P3 transaction, it is now certain that the \$53 million in revenue budgeted for this transaction will not be received in this fiscal year. In January, the Council instructed the P3 Working Group to release the draft concession agreement with additional modifications and obtain responses from potential bidders as to their interest in pursuing the concession with the City. Responses were received on February 10, 2011 indicating that the concession as revised by Council would not result in any responsive bids. The P3 Working Group will be reporting to the Council in closed session next week to request direction. This Office recommends that the Council either adopt a concession agreement that would result in the maximum value of the assets or abandon the strategy altogether. If the Council decides to proceed with the strategy, responses would be due six weeks after final release of the agreement, and then a 90 day escrow period would begin after final award by the Council. Thus, it is certain that proceeds from this transaction will not be received in the current fiscal year because of the time frame. This Office continues to recommend pursuing a P3 parking transaction to strengthen the Reserve Fund and defease the debt.

General Fund Revenue Revisions

As verbally reported to the City Council last week, recent revenue trends further indicate that the City's General Fund revenues will fall short of the budgeted amounts by approximately \$25 million, not with standing the P3 transaction and unrealized revenue from fines from foreclosures and corporate real estate transfer taxes (discussed below). General Fund revenue items now falling behind budget include:

- A decrease of \$20 million in departmental receipts largely from lower ambulance collections in the first seven months of the fiscal year and a reduction in allowable overhead rates;
- An \$11 million reduction in utility users' taxes, primarily from reduced electric use and a lower-than-budgeted energy rate;
- A \$9 million reduction in parking fines due to declining ticket issuance;
- A \$5 million reduction in the documentary transfer tax due to a lower rate of growth than projected at budget time;
- The estimated tobacco settlement and the residential development tax are reduced by a combined \$2 million based on experience.

Other General Fund revenues are performing better than anticipated which would be available to offset a portion of the General Fund revenues below budget. For example:

- The business tax which performed better than expected last year;
- The hotel tax which often leads other economy sensitive revenues as business travel increases.
- Property taxes tied to state action such as the "VLF swap" and "sales tax replacement" are higher than budget.

The attachment outlines all City revenues with downside risk and upside potential. This Office expects to see the property tax cleanup from the December 2010 remittance later this month and will receive the results of the Christmas quarter sales tax in mid March 2011. By that time, better information on the business tax and other economy-sensitive revenues will also be known. The net effect of these revenue changes based on receipts through January 2011 is a likely downside adjustment of approximately \$25 million.

Fines on foreclosed properties and corporate real property transfer tax

In the development of the budget for 2010-11, \$11 million from the following two sources of new revenue were identified for the purpose of restoring selected services: corporate real property transfer tax (\$6 million) and civil fines on foreclosed properties (\$5 million). There are no indications to suggest that these budgeted revenues will be realized in their entirety this year. At most, the corporate real property transfer tax will only generate \$2 million. The civil fines on foreclosed properties are not expected to generate any significant revenue. Consequently, the appropriation in the Unappropriated Balance for the restoration of services has insufficient revenue behind them and must therefore be offset. Reducing the UB appropriation by \$9 million will offset the unrealized revenue and prevent the deficit from increasing by a like amount. This action will be included as part of the Mid-year Financial Status Report.

Addressing the Projected Year-end Deficit

In preparation for the possible loss of P3 revenue, a total of \$62.7 million in solutions were presented in mid-January to the City Council as a means to eliminate the deficit known at that time. Due to concerns raised over some of the proposed solutions, especially the implementation of ten additional furlough days for employees, alternative solutions were

presented to the City Council last week. In total, the City Council approved \$33.7 million of the solutions thereby bringing down the projected year-end deficit to \$29 million. However, with the additional loss of revenue in the current year the projected year-end deficit increases by \$25 million to a total of \$54 million. This number may change as actual revenue and expenditure data becomes available. The Mid-year Financial Status Report will present an updated projected deficit amount based on any new information received after the submission of this report.

This Office is continuing to work on solutions to address the projected year-end deficit in its entirety, without having to resort to the Reserve Fund. There are currently seven actions pending further discussion and action in the Budget and Finance Committee that may generate between \$13 million to \$18 million in savings and/or revenue to the General Fund. Additionally, this Office was recently instructed in a joint letter signed by the Mayor, Council President, Chair of the Budget and Finance Committee, and Vice-chair of the Budget and Finance Committee to present to Council as part of the Mid-year Financial Status Report recommendations to address the projected year-end deficit and the projected deficit for next fiscal year. The Mid-year Financial Status Report is currently being developed by this Office and will be released in early March 2011.

Attachments

MAS:RPC:BC:01110045c

Fiscal Year 2010-11
General Fund Revision At January 2011

\$ Thousands

	2010-11			
	Budget	Revised	Change	
Property Taxes				
<i>Property Tax - 1%</i>	\$1,003,261	\$1,003,261		Carryover from prior year offsets lower receipts from redemptions
<i>VLF Swap</i>	311,578	312,872	1,294	Actual State Remittance
<i>Sales Tax Rplacement</i>	93,690	96,772	3,082	Actual State Remittance
Property Tax	\$1,408,529	\$1,412,905	\$4,376	
Utility User Taxes				
<i>Electric Users' Tax</i>	\$315,600	\$305,000	(\$10,600)	Reduced electric use and lower energy rate.
<i>Gas Users' Tax</i>	75,000	80,000	5,000	Increased commodity price
<i>Communication Users' Tax</i>	264,000	258,546	(5,454)	Lower receipts in all categories
Total Utility Users' Tax	654,600	643,546	(\$11,054)	
Licenses, Permits, Fees and Fines (Excludes "Asset Restructuring and Fines on Forecclosed Properties")	719,973	699,173	(20,800)	Ambulance billing significantly behind plan and reduction in allowable overhead rates.
Parking Fines	142,446	133,500	(8,946)	Ticket issuance below plan
Documentary Transfer Tax	105,000	100,000	(5,000)	Receipts are up from last year, but below level needed to achieve budget.
Tobacco Settlement	11,300	9,500	(1,800)	Affected by declining tobacco sales.
Residential Development Tax	1,700	1,500	(200)	
Power Revenue Transfer	257,000	258,800	1,800	
Transient Occupancy Tax	122,700	130,194	7,494	This account often leads other economy sensitive revenues as business travel increases.
Business Tax	411,960	420,561	8,601	2009-10 receipts were above the revised budget, which increases the base for economic growth. This estimate is subject to revision.
All Other	475,803	475,803		Includes sales and parking taxes; franchise and interest income; vehicle license fees; grant receipts and transfers from other funds.
Subtotal General Fund	\$4,311,011	\$4,285,482	(\$25,529)	
Special General Fund Items				
Asset Restructuring	53,204		(53,204)	
Fines on Foreclosed Properties	5,000		(5,000)	
Real Property Transfer Tax -- Corporate	6,000	2,000	(4,000)	
Subtotal Special general Fund Items	\$64,204	\$2,000	(\$62,204)	
Total General Fund	\$4,375,215	\$4,287,482	(\$87,733)	



CITY HALL
LOS ANGELES, CALIFORNIA 90012

February 4, 2011

Mr. Miguel Santana
City Administrative Officer
200 N. Main Street, 15th Floor
Los Angeles, CA 90012

Dear Mr. Santana:

We commend you for your efforts to work with us to reduce the City's projected year-end deficit of \$62.7 million by more than 50 percent over the last month. By working strategically and aggressively, \$33.7 million in cuts have been enacted, and we are pleased at the level of cooperation and commitment among us and other City entities to swiftly address the remaining \$29 million.

Nevertheless, it is critical, especially in light of your recent projections of economically sensitive revenues continuing to trend downward, with a collective \$20 to \$40 million decrease, that our efforts be redoubled. The necessity for expeditious development and implementation of structural budget reductions and reforms is increased by next year's projected budget deficit of \$300 million.

We must take every opportunity to confront and address these challenges. The preparation of your Mid-year Financial Status Report (FSR) provides an opportunity to address the current year deficit and make the structural changes required to make our City fiscally sustainable.

We expect you to present as part of the FSR a series of proposals and recommendations that will reduce the size and ongoing cost of our workforce, re-organize our government to maximize service levels, and strengthen the status of our Reserve Fund. We encourage you to introduce some of the same proposals under consideration for Fiscal Year 2011-12 to generate a much needed policy discussion of core city services among the City's leadership. The desired outcome is action now to lay the groundwork for solving next year's budget and accelerating long-term structural reform.

We ask that you continue to work closely with our offices to identify proposals to incorporate into the FSR, and we encourage you to present your recommendations based on your best financial analysis.

As always, thank you for your commitment to setting Los Angeles on a sound fiscal footing.

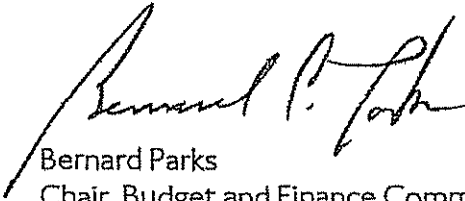
Sincerely,



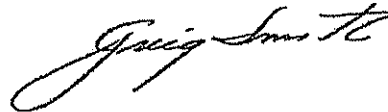
Antonio Villaraigosa
Mayor
City of Los Angeles



Eric Garcetti
President, Los Angeles City Council
Councilmember, 13th District



Bernard Parks
Chair, Budget and Finance Committee
Councilmember, 8th District



Greig Smith
Vice-Chair, Budget and Finance Committee
Councilmember, 12th District