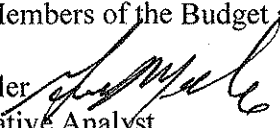


REPORT OF THE CHIEF LEGISLATIVE ANALYST

May 15, 2012

To: Honorable Members of the Budget and Finance Committee

From: Gerry F. Miller 
Chief Legislative Analyst

Subject: **FISCAL YEAR 2012-13 BUDGET - ADDENDUM REPORT**

Earlier today, the Office of the Chief Legislative Analyst (CLA) released the recommended changes to the 2012-13 Proposed Budget. This is an addendum to that report.

Based on the CLA Recommended Changes in our earlier report, the net revenues available are \$7.725M. It is also our understanding that the County Auditor-Controller announced today a revised property tax growth estimate for FY2012-13, which could increase City receipts by \$5.8M. This combined total of \$13.525M may be increased further with additional revenue options or expenditure reductions, as specified in the attached "Service Restoration Options." This is not intended to be an exhaustive list; rather, it incorporates issues that were discussed during the Budget and Finance Committee hearings.

At the discretion of the Budget & Finance Committee and City Council, the resulting additional revenues may be used for Service Restoration, Layoff Mitigation, or increasing the Reserve Fund and/or Budget Stabilization Fund. It is important to consider these additional revenues in the context of future year deficits and thus, any allocations should be made with caution. To the extent that all of these funds are used for ongoing programs, the structural deficit in the future years would increase. Alternatively, if funds are added to the Reserve Fund or Budget Stabilization, it will be available to mitigate future year reductions as well as address at-risk revenues in FY2012-13

Should the Budget and Finance Committee determine that all or a portion of these funds be used for service restoration or layoff mitigation, we would recommend that the funds be placed in the Unappropriated Balance. We would further recommend that the Budget and Finance Committee instruct the CAO and CLA to report to the Budget and Finance Committee before the start of FY2012-13, based on priorities established by the Budget and Finance Committee and City Council, with service restoration proposals as well as recommendations for strengthening the City's reserves, including a policy to begin capitalizing the Budget Stabilization Fund.

RECOMMENDATION

That the Budget and Finance Committee:

1. Consider the attached Service Restoration Options.
2. Determine if all or a portion of the net resulting revenue will be used for service restoration or layoff mitigation and, if so, instruct the CAO and CLA to report to the Budget and Finance Committee before the start of FY2012-13, based on priorities established by the Budget and Finance Committee and the City Council, with service restorations proposals as well as recommendations for strengthening the City's reserves, including a policy to begin capitalizing the Budget Stabilization Fund.

**Proposed 2012-13 Budget
Service Restoration Options**

SOURCES OF FUNDS FOR SERVICE RESTORATIONS	\$ Amount (Millions)	Notes
Net Amount from CLA Recommended Changes	7.725	
Revenue Options		
1. Increase Property Tax Receipts for FY2012-13	5.800	The County Auditor-Controller reported to the Board of Supervisors on May 15, 2012 that estimated property tax growth will be 1.14% rather than .5%, resulting in a potential positive impact to the City.
2. Increase Parking Fines by \$5 Across the Board	2.400	This would be in lieu of the \$10 fine increase in safety and street sweeping violations in the Proposed Budget,
Union Proposals		
3. Increase AB678 Ambulance Reimbursement Revenues	3.000	\$23M in Proposed Budget, UFLAC proposes additional \$3M, although federal appropriation has not been confirmed. Further analysis is required.
4. Reduce Encumbrances	5.000	CAO annually reviews prior year encumbrances; more stringent application of criteria could result in some funds which will be available after the fiscal year closing. Further analysis is required.
Expenditure Reduction Options		
Consultant Studies		
5. Fire Deployment Study	(0.250)	A total of \$750K is allocated in the Proposed Budget
6. Economic Development	(1.000)	A total of \$2.5M is allocated in the Proposed Budget
7. Fire Alerting System Consultant	(0.250)	A total of \$500K is allocated in the Proposed Budget
Other Initiatives		
8. Negotiate 5% Medical Subsidy Co-Pay for All Civilian Employees	(10.000)	The City will pay an estimated \$25M more in 2013 for medical premium payments. Currently, EAA is contributing 5% of the health subsidy. This would be subject to negotiation.
9. Health Care Plan Design Changes	(5.000)	May include increase in benefit co-pays such as drugs and hospital visits
10. Recognize All Sworn OPS Officers as part of 10,000, delete one academy class	(1.500)	94 Sworn Positions would transfer from OPS. Current LAPD Deployment is 9,963. 37 would be hired to maintain the 9,963. If 37 more were hired to get to 10,000 total sworn, one additional academy class could be eliminated.
11. Defer Police Hiring for one year	(7.600)	Police Hiring has not experienced any reductions since the fiscal crises began in 2008-09.
12. Provide General Funds for GRYD Program at 2011-12 level	(3.641)	The Proposed Budget provided a total General Fund increase of \$6.9M
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POTENTIAL SERVICE RESTORATIONS (CLA/CAO to Report before June 30, 2012)	\$ Amount (Millions)	Notes
Add to Reserve Fund or Budget Stabilization Fund	13.725	This would increase the Reserve Fund from 4.64% to 4.94%.
Layoff Mitigation or Targeted Restorations	15.909	The Mayor proposed 231 layoffs, plus the potential layoff of resolution authority positions. The most recent estimate is that there will be 209 layoffs, although this number will likely decrease due to attrition. The cost to restore all 209 positions would be approximately \$18.4M less the cost of Unemployment Insurance, for a net total of \$15.9M
Fire Department		
Engine Company restoration	2.500	This amount includes constant staffing and related costs.
6 Full Time Ambulances instead of Variable Staffed	2.300	\$2.3M is already in the proposed budget. This is the incremental amount needed for ambulances to be full-time on an overtime basis.