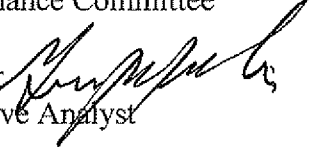


# REPORT OF THE CHIEF LEGISLATIVE ANALYST

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April 27, 2012

To: Honorable Members of the  
Budget and Finance Committee

From: Gerry F. Miller   
Chief Legislative Analyst

## Overview of the 2012-13 Proposed Budget

As requested by your Committee, we have prepared the attached overview of the 2012-13 Proposed Budget, as submitted by the Mayor on April 20, 2012.

If we can be of further assistance in this matter, please let us know.

GFM:KEK

Attachment: Overview of the 2012-13 Budget  
As Submitted by the Mayor

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# **OVERVIEW OF THE 2012-13 BUDGET**

**AS SUBMITTED BY THE MAYOR**

**Presented To  
Budget and Finance Committee**

**Prepared By  
Gerry F. Miller  
Chief Legislative Analyst**

## **Mayor's Budget Shortfall**

**\$-238.27M**

- **General Fund Base Revenue Change (\$20.31M)**
  - ▶ 2011-12 Budgeted Revenue (\$4,385.70M)
  - ▶ 2012-13 Revenue Estimate from Mid-Year FSR (\$4,458.70M)
  - ▶ Revenue Change from 2011-12 Budget to 2012-13 Mid-Year (\$73.00M)
  - ▶ Revenue Changes Subsequent to Mid-Year FSR (\$-52.69M)
- **Obligatory Expenditure Change (\$135.53M)**
  - ▶ 2011-12 Employee Compensation Adjustment (\$2.56M)
  - ▶ 2012-13 Employee Compensation Adjustment (\$44.09M)
  - ▶ Full Funding for Partially Financed Positions (\$134.52M)
  - ▶ Salary Step Plan and Turnover Effect (\$-8.80M)
  - ▶ Change in Number of Working Days (\$-7.61M)
  - ▶ Early Retirement Incentive Program Payout (\$-21.00M)
  - ▶ Labor Provisions (\$2.60M)
  - ▶ MOU Negotiated Payouts (\$1.11M)
  - ▶ Negotiated Unpaid Holiday Hours (\$-0.76M)
  - ▶ Deletion of 2011-12 Equipment (\$-0.69M)
  - ▶ Deletion of Funding for Resolution Authorities (\$-46.52M)
  - ▶ Deletion of One-Time Expense Funding (\$-8.91M)
  - ▶ Deletion of One-Time Funding (\$-0.06M)
  - ▶ Deletion of One-Time Unappropriated Balance (\$-21.68M)
  - ▶ 2012 Tax & Revenue Anticipation Notes (\$-34.96M)
  - ▶ Capital Finance Administration Fund (\$8.01M)
  - ▶ Capital Improvement Expenditure Program (\$38.87M)
  - ▶ Human Resources Benefits (\$39.50M)
  - ▶ Water and Electricity (\$0.50M)
  - ▶ Library - Charter Required Change from 2011-12 to 2012-13 (\$13.06M)
  - ▶ Recreation & Parks - Charter Required Change from 2011-12 to 2012-13 (\$1.71M)
- **Continuation of Existing Services and 2011-12 Savings (\$94.96M)**
  - ▶ CAO - Financial Management System (\$0.13M)
  - ▶ CAO - Inspector General of Citywide Collections (\$0.16M)
  - ▶ CAO - Office of Public Accountability (\$1.22M)
  - ▶ City Attorney - Citywide Nuisance Abatement Revocations Program (\$0.24M)
  - ▶ City Attorney - Community Law Enforcement and Recovery (\$0.16M)
  - ▶ City Attorney - Department of Water and Power Land Use Support (\$0.16M)
  - ▶ City Attorney - Department of Water and Power Support (\$0.36M)
  - ▶ City Attorney - Enhanced Revenue Support (\$0.29M)
  - ▶ City Attorney - Gang Prosecution Program (\$0.47M)
  - ▶ City Attorney - Harbor Department Support (0.67M)
  - ▶ City Attorney - Housing Authority Support (\$0.50M)
  - ▶ City Attorney - LACERS and Pensions Support (\$0.16M)
  - ▶ City Attorney - Los Angeles World Airports Support (\$0.25M)
  - ▶ City Attorney - Neighborhood Council Support (\$0.18M)

**April 27, 2012**

**OFFICE OF THE CHIEF LEGISLATIVE ANALYST**

**Mayor's Budget Shortfall****\$-238.27M**

- ▶ City Attorney - Neighborhood Prosecutor Program (\$1.77M)
- ▶ City Attorney - Outside Counsel Oversight Support (\$0.47M)
- ▶ City Attorney - Pitchess Motions Support (\$1.12M)
- ▶ City Attorney - Police-Related Litigation (\$2.09M)
- ▶ City Attorney - Police Transition Agreement (\$0.18M)
- ▶ City Attorney - Safer City Initiative (\$0.33M)
- ▶ City Attorney - Tobacco Enforcement Program (\$0.92M)
- ▶ City Attorney - Workers' Compensation Support (\$1.02M)
- ▶ Controller - Financial Management System Maintenance (\$2.41M)
- ▶ EMD - Community Emergency Management Division (\$0.12M)
- ▶ EMD - Emergency Management Administrative Support (\$0.10M)
- ▶ Finance - Centralized Accounts Receivable Reporting (\$0.22M)
- ▶ Finance - LATAX Programming and PowerBuilder Support (\$0.25M)
- ▶ Finance - Tax Discovery and Assessment (\$0.15M)
- ▶ Finance - Treasury Services (\$0.07M)
- ▶ Fire - Constant Staffing Overtime (\$32.52M)
- ▶ Fire - Deployment Plan (\$11.56M)
- ▶ Fire - Homeland Security Enhancements (\$0.19M)
- ▶ Fire - Professional Standards Division (\$0.93M)
- ▶ General City Purposes - Annual City Audit/Single Audit (\$0.16M)
- ▶ General City Purposes - Financial Management System Maintenance (\$-9.75M)
- ▶ General City Purposes - Gang Reduction & Youth Development Office (\$22.72M)
- ▶ General City Purposes - Medicare Contributions (\$1.52M)
- ▶ General City Purposes - Social Security Contribution (\$0.18M)
- ▶ General City Purposes - South Bay Cities Association (\$0.01M)
- ▶ General City Purposes - Southern California Association of Governments (\$0.02M)
- ▶ General Services - Emergency Generator Equipment Support (\$0.88M)
- ▶ General Services - FMS/SMS Interface Support (\$0.10M)
- ▶ General Services - Petroleum Products (\$4.00M)
- ▶ Information Technology Agency - Financial Management System Support (\$5.02M)
- ▶ Information Technology Agency - Public Safety Systems Project (\$0.13M)
- ▶ Information Technology Agency - Public Safety Systems Support (\$0.30M)
- ▶ Information Technology Agency - Supply Management System Support (\$2.48M)
- ▶ Mayor - Gang Reduction & Youth Development Office (\$-16.11M)
- ▶ Personnel - Public Safety Bureau (\$1.51M)
- ▶ Police - Air Support Division (\$0.02M)
- ▶ Police - ARRA COPS (\$3.00M)
- ▶ Police - Digital In-Car Video System (\$0.39M)
- ▶ Police - Grant Administration (\$0.08M)
- ▶ Police - Handheld Radio Maintenance (\$0.53M)
- ▶ Police - Helicopter Armor System (\$0.08M)
- ▶ Police - Scientific Investigation Division Expenses (\$0.50M)
- ▶ Police - Sworn Hiring Plan (\$-7.99M)
- ▶ Police - Uniform Allowance (\$10.05M)
- ▶ PW/Contract Administration - Contract Compliance Services (\$0.14M)
- ▶ PW/Contract Administration - Los Angeles Airport Inspection Program (\$3.08M)

**April 27, 2012****OFFICE OF THE CHIEF LEGISLATIVE ANALYST**

**Mayor's Budget Shortfall****\$-238.27M**

- ▶ PW/Contract Administration - Port of Los Angeles Inspection and Compliance (\$1.27M)
- ▶ PW/Contract Administration - Public Right of Way Enforcement Program (\$0.59M)
- ▶ PW/Engineering - Los Angeles River Revitalization Master Plan (\$0.12M)
- ▶ PW/Street Services - Public Right of Way Construction Enforcement (\$0.37M)
- ▶ Transportation - Five Year Parking Operations and Management Plan (\$0.15M)
- ▶ Transportation - Los Angeles Unified School District Construction (\$0.09M)
- ▶ Transportation - Water Trunk Line Construction Program (\$0.45M)
- ▶ Unappropriated Balance - Alterations, Equipment and Improvements (\$3.58M)
- ▶ Unappropriated Balance - Deferred Entry of Judgment Program (\$0.33M)
- ▶ Unappropriated Balance - Neighborhood Council Funding (\$0.08M)
- ▶ Unappropriated Balance - Outside Counsel incl. Workers' Compensation (\$3.00M)
- ▶ Unappropriated Balance - Strategic Advisor for Technology Services (\$0.50M)
- **Other Changes and Adjustments (\$28.09M)**
  - ▶ City Clerk - Primary Nominating and General Municipal Elections (\$16.99M)
  - ▶ Unappropriated Balance - Bank Fees (\$2.10M)
  - ▶ Unappropriated Balance - GSD - Petroleum Products (\$9.00M)

**TOTAL BUDGET DEFICIT \$-238.27M**

**BUDGET BALANCING ACTIONS**

- **New/Expanded Revenue Proposed for 2012-13 (\$87.50M)**
  - ▶ Fire Emergency Medical Services Reimbursement (\$15.00M)
  - ▶ Fire Emergency Medical Services Reimbursement - (one-time) (\$13.50M)
  - ▶ PW/Engineering Fees (\$0.40M)
  - ▶ Transportation - Parking Citations (\$10.00M)
  - ▶ Redirection of ex-CRA Tax Increment Monies (\$48.60M)
- **Special Fund Revenue that Offsets General Fund Expenditures for 2012-13 (\$44.41M)**
  - ▶ ITA - Reimbursement from Telecommunications Fund (\$4.00M)
  - ▶ Gas Tax Reimbursement (\$7.84M)
  - ▶ Special Parking Revenue Fund Transfer (\$32.58M)
- **Efficiencies/Reductions Included in the 2012-13 Proposed Budget (\$-69.73M)**
  - ▶ Aging - Administrative Budget Reduction (\$-0.09M)
  - ▶ Animal Services - Cost Recovery for Spay and Neuter Program (\$-0.17M)
  - ▶ Animal Services - Deletion of Filled Positions (\$-0.57M)
  - ▶ Animal Services - Deletion of General Fund Vacancies (\$-0.53M)
  - ▶ Animal Services - Realignment of Authorized Positions (\$-0.03M)
  - ▶ Building and Safety - Deletion of General Fund Vacancies (\$-0.09M)
  - ▶ Building and Safety - Deletion of General Fund Vacancies (\$-0.19M)
  - ▶ City Administrative Officer - Anticipated Attrition (\$-0.44M)
  - ▶ City Administrative Officer - Deletion of General Funded Positions (\$-0.43M)
  - ▶ City Attorney - Deletion of General Fund Vacancies (\$-1.25M)
  - ▶ City Attorney - One-Time Salary Reduction (\$-1.66M)
  - ▶ City Attorney - Reduction in Number of Working Days (\$-9.44M)
  - ▶ City Clerk - Deletion of Filled Positions (\$-0.06M)
  - ▶ City Clerk - Deletion of Vacant Positions (\$-0.06M)
  - ▶ City Clerk - Expense Account Deletion (\$-0.02M)
  - ▶ City Clerk - One-Time Salary Reduction (\$-0.25M)
  - ▶ Controller - Deletion of General Funded Vacancies (\$-0.47M)
  - ▶ Controller - Expense Account Reduction (\$-0.11M)
  - ▶ Controller - One-Time Salary Reduction (\$-0.35M)
  - ▶ Council - Budget Reduction (\$-0.76M)
  - ▶ Disability - Community Affairs Activities (\$-0.02M)
  - ▶ EMD - Deletion of General Funded Vacancies (\$-0.08M)
  - ▶ Finance - Bank Service Fees (\$-1.00M)
  - ▶ Finance - Deletion of Filled Positions (\$-0.09M)
  - ▶ Finance - Deletion of General Fund Vacancies (\$-0.44M)
  - ▶ Finance - Field Office Closures (\$-0.13M)
  - ▶ Finance - Miscellaneous Contractual Services Adjustments (\$-0.10M)
  - ▶ Finance - One-Time Salary Reduction (\$-0.14M)
  - ▶ Fire - Deletion of Filled Positions (\$-0.80M)
  - ▶ Fire - Deletion of General Fund Vacancies (\$-0.23M)

## **Mayor's Budget Balancing Solutions**

**\$238.27M**

- ▶ Fire - Drill Tower Training Facility Closure (\$-4.78M)
- ▶ General City Purposes - Adult Day Care Centers (\$-0.24M)
- ▶ General City Purposes - At the Park After Dark (\$-0.10M)
- ▶ General City Purposes - City Volunteer Bureau (\$-0.05M)
- ▶ General City Purposes - Clean and Green Job Program (\$-1.08M)
- ▶ General City Purposes - Council District Community Services (\$-0.16M)
- ▶ General City Purposes - Downtown on Ice (\$-0.11M)
- ▶ General City Purposes - El Grito (\$-0.06M)
- ▶ General City Purposes - Heritage Month Celebration & Special Events (\$-0.28M)
- ▶ General City Purposes - L.A.'s BEST (\$-0.28M)
- ▶ General City Purposes - Latino Film Festival (\$-0.04M)
- ▶ General City Purposes - Learn and Earn Program (\$-0.03M)
- ▶ General City Purposes - Local Agency Formation Commission (\$-0.09M)
- ▶ General City Purposes - Office of Small Business Services (\$-0.03M)
- ▶ General City Purposes - Pan African Film and Arts Festival (\$-0.04M)
- ▶ General City Purposes - Solid Waste Fee Lifeline Rate Program (\$-1.88M)
- ▶ General City Purposes - Special Events Fee Subsidy - Citywide (\$-2.03M)
- ▶ General City Purposes - Youth Employment Program (\$-0.23M)
- ▶ GSD - Alterations and Improvements (\$-0.21M)
- ▶ GSD - Deletion of Filled Positions (\$-2.62M)
- ▶ GSD - Deletion of General Fund Expense Accounts (\$-0.34M)
- ▶ GSD - Deletion of General Fund Vacancies (\$-0.15M)
- ▶ GSD - Leasing Account Reduction (\$-0.65M)
- ▶ GSD - Public Safety Consolidation (\$-18.10M)
- ▶ GSD - Various Adjustments between Programs (\$-2.94M)
- ▶ ITA - Adjustments to Expense Accounts (\$-2.41M)
- ▶ ITA - Deletion of Filled Positions (\$-0.93M)
- ▶ ITA - Deletion of General Fund Vacancies (\$-1.57M)
- ▶ Mayor - Budget Reduction (\$-0.27M)
- ▶ Personnel - Deletion of Filled Positions (\$-0.73M)
- ▶ Personnel - Deletion of General Fund Vacancies (\$-0.27M)
- ▶ Personnel - Internal Investigation Unit (\$-0.11M)
- ▶ Personnel - Reductions to Various Accounts (\$-1.23M)
- ▶ Planning - Citywide Case Management (\$-0.23M)
- ▶ Planning - Deletion of General Fund Vacancies (\$-0.13M)
- ▶ Police - Deletion of Filled Positions (\$-9.36M)
- ▶ Police - Photo Red Light Program (\$-2.76M)
- ▶ Police - Public Safety Consolidation (\$16.54M)
- ▶ PW/Board of Public Works - Deletion of General Fund Vacancies (\$-0.20M)
- ▶ PW/Board of Public Works - Project Restore (\$-0.12M)
- ▶ PW/Board of Public Works - Reduction of Operating Supplies Expense Funding (\$-0.07M)
- ▶ PW/Contract Administration - Salaries Funding Reduction (\$-0.25M)
- ▶ PW/Engineering - Deletion of General Fund Vacancies (\$-0.98M)
- ▶ PW/Engineering - Miscellaneous Personnel Adjustments (\$-0.01M)
- ▶ PW/Street Services - Deletion of Filled Positions (\$-0.75M)

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**OFFICE OF THE CHIEF LEGISLATIVE ANALYST**

## **Mayor's Budget Balancing Solutions**

**\$238.27M**

- ▶ PW/Street Services - Deletion of General Fund Vacancies (\$-0.59M)
- ▶ PW/Street Services - Street Improvement Expense Reductions (\$-1.17M)
- ▶ Transportation - Deletion of General Fund Vacancies (\$-2.07M)
- ▶ Transportation - Transportation Reorganization (\$-0.02M)
- ▶ Zoo - Los Angeles Zoo Enterprise Trust Fund (\$-3.54M)
- **Other Changes and Adjustments (\$-57.69M)**
  - ▶ Aging - Funding Source Adjustments (\$-0.11M)
  - ▶ Building & Safety - Funding Realignment (\$-1.85M)
  - ▶ Building & Safety - Transportation Cost Adjustment (\$-0.11M)
  - ▶ CIEP - Amount required to reach 1% of General Fund Budget (\$-38.87M)
  - ▶ CIEP - Public Buildings and Facilities (\$0.50M)
  - ▶ CIEP - Street & Highway Transportation (\$0.50M)
  - ▶ City Attorney - Consumer Protection Funding (\$-0.60M)
  - ▶ City Attorney - Housing Special Funds (\$-0.13M)
  - ▶ City Attorney - Sewer Construction and Maintenance Fund Support (\$-0.01M)
  - ▶ City Attorney - Solid Waste Resources Litigation Support (\$-0.08M)
  - ▶ Citywide - Human Resources Consolidation - Phases I and II (\$0.17M)
  - ▶ GSD - Figueroa Plaza Contractual Services Adjustment (\$0.09M)
  - ▶ ITA - TDA Funding Realignment (\$-2.17M)
  - ▶ ITA - TEAMS II Support (\$-0.10M)
  - ▶ Personnel - Funding source Adjustments (\$0.39M)
  - ▶ Planning - Funding Source Adjustment (\$-0.33M)
  - ▶ Police - Consent Decree Systems Support (\$0.10M)
  - ▶ Police - Cost of Living Adjustment (\$0.09M)
  - ▶ Police - Firearms and Ammunition (\$0.17M)
  - ▶ Police - Funding Source Adjustment (\$-3.40M)
  - ▶ PW/Board - Program and Funding Source Adjustments (\$-0.04M)
  - ▶ Transportation - Funding Source Adjustments (\$-11.90M)
- **Increased Services in the 2012-13 Proposed Budget (\$9.50M)**
  - ▶ Arts and Cultural Facilities and Services Trust Fund (\$1.66M)
  - ▶ CAO - Actuary Services (\$0.05M)
  - ▶ CAO - Debt Management Support (\$0.10M)
  - ▶ CAO - Grants Management Database (\$0.10M)
  - ▶ CAO - Performance Budget Implementation (\$0.12M)
  - ▶ Controller - Payroll System Replacement (\$0.02M)
  - ▶ Controller - Payroll System Replacement (\$0.08M)
  - ▶ Disability - ADA Compliance Officer and Monitoring (\$0.16M)
  - ▶ Fire - Fire Station Alerting System Consultant (\$0.25M)
  - ▶ General City Purposes - Economic Development Initiative (\$2.50M)
  - ▶ General City Purposes - LACERS/Pensions Audit (\$0.83M)
  - ▶ General City Purposes - LAPRA/LAFRA Audit (\$0.18M)
  - ▶ General City Purposes - Los Angeles Bi-Annual Homeless Count (\$0.35M)
  - ▶ Other Special Fund Adjustments (\$2.02M)

**April 27, 2012**

**OFFICE OF THE CHIEF LEGISLATIVE ANALYST**



## **Mayor's Budget Balancing Solutions**

**\$238.27M**

- ▶ Unappropriated Balance - Fire Station Alerting System Consultant (\$0.25M)
- ▶ Unappropriated Balance - Fire Third Party Review of Resource Deployment (\$0.75M)
- ▶ Unappropriated Balance - Payroll System Study (\$0.10M)
- **New Services/New Facility Expenses in the 2012-13 Proposed Budget (\$11.57M)**
  - ▶ Disability - Voluntary Compliance Agreement (\$0.09M)
  - ▶ Finance - LATA Oracle Database Management Licenses (\$0.26M)
  - ▶ Fire - Emergency Medical Services Captains (\$1.55M)
  - ▶ Fire - Engine Company Restoration (\$1.85M)
  - ▶ Fire - Fuel Vehicle Management System (\$0.08M)
  - ▶ Fire - LAX Airport Security - Blue Ribbon Panel (\$0.19M)
  - ▶ Fire - Risk Management (\$0.07M)
  - ▶ Fire - Variable Staffed Ambulances (\$2.30M)
  - ▶ GSD - Building Emergency Education Program (\$0.14M)
  - ▶ GSD - Capital Projects Materials Testing Support (\$1.62M)
  - ▶ GSD - New Facility Maintenance (\$0.31M)
  - ▶ ITA - LATA Enhancements (\$0.07M)
  - ▶ ITA - PaySR Development and Support (\$0.05M)
  - ▶ Personnel - Deferred Compensation Plan Administration (\$0.10M)
  - ▶ Personnel - Firefighter Hiring (\$0.67M)
  - ▶ Planning - Housing Element Update (\$0.25M)
  - ▶ Planning - Metro Transit Oriented Districts Grant (\$1.52M)
  - ▶ PW/Contract Administration - Compliance Services to Other Departments (\$0.46M)

**TOTAL BUDGET BALANCING ACTIONS \$238.27M**

## **SIGNIFICANT ISSUES**

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### **2012-13 AND FUTURE YEARS**

Major components of the Mayor's solutions to close the structural budget gap of \$238.27M include the following:

- ▶ The Mayor's Proposed Budget recognizes \$48.6M in former CRA Tax Increment funds as revenue in the 2012-13 Fiscal Year. This is made up of two components: a one-time payment of \$30.0M from the City's share of funds set aside as the payment to the State if the CRA continued to exist and unencumbered carryover funds; and, \$18.6M representing the City's share of annual ongoing tax increment funds resulting from the CRA dissolution. It is important to note that receipt of these funds has a degree of uncertainty, and it will be necessary to continue to monitor receipt of the tax increment funds throughout the year.
- ▶ One-time savings of \$32.58M are transferred from the Special Parking Revenue Fund to balance the Proposed Budget. Use of these funds will impact parking projects intended to be funded in the Department of Transportation Five-Year Plan. Other special fund revenue from Gas Tax and the Telecommunications Development Fund (\$11.84M) is also proposed to be used to offset General Fund expenditures for related costs.
- ▶ One-time (\$13.5M) and ongoing (\$15.0M) revenue from Fire Emergency Medical Services reimbursements are included in the Proposed Budget. These reimbursements represent both one-time (prior year) and ongoing Federal reimbursements for medical transports and improved ongoing revenue collection due to better billing practices and use of hand-held billing devices.
- ▶ Additional new or expanded revenue (\$10.40M) is proposed for 2012-13. The main component of this is a continuation and expansion of the part-time traffic officer program (\$10.0M), which has resulted in increased revenue in 2011-12. Revenue is anticipated from the Bureau of Engineering (\$0.40M) from increased fees for special services.
- ▶ Additionally, increases in revenue are projected over the 2011-12 revised estimates, including property, sales, and business tax (\$52.5M).
- ▶ Departmental Efficiencies and Reductions in Public Services are applied in nearly all departmental budgets and result in \$69.73M in General Fund savings. Deletions in these categories include the elimination of vacant General Fund position authorities; realignment of authorized positions; one-time salary reductions; expense reductions; reductions to General City Purposes accounts; and deletions of filled positions.
- ▶ Additionally, other changes and adjustments includes \$57.69M in General Fund savings, primarily due to the Capital Improvement Expenditure Program. Savings of \$38.87M are realized by making an exception to the one-percent Capital Improvement Expenditure Policy contained in the City's Financial Policies.
- ▶ The Mayor's Proposed Budget anticipates savings of \$23.7M from the elimination of 669 positions, of which 269 are currently filled. Most of these positions are civilian positions in the Police Department (159), with other reductions in various other departments, including Animal Services (11), Fire (12), General Services (12),

## **SIGNIFICANT ISSUES**

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Information Technology (11), Personnel (11) and Street Services (37). Elimination of filled positions will likely result in layoffs, although the actual number is yet to be determined and will depend on other vacancies which may occur.

- ▶ Reductions of 15 percent are made in various General City Purposes accounts, with a few notable exceptions. No reductions are made to the Gang Reduction and Youth Development Program (GRYD), which includes a General Fund increase of \$6.9M to replace lost grant dollars. Funding for Downtown on Ice (\$0.114M), the Citywide Special Events Fee Subsidy program (\$2.03M) and the At the Park After Dark program (\$0.97M) are eliminated. Other reductions are made to the Youth Employment Program and lifeline reimbursement program.
- ▶ The Proposed Budget assumes savings that would result from Human Resources Benefits. This must be resolved by July 1 in order for these savings to be achieved.
- ▶ To address the rising costs of pensions and health care, the Mayor has proposed a Pension Reform Plan which would apply to new civilian employees. This Plan increases the retirement age to 67, reduces the maximum retirement allowance and makes a number of other changes to reduce long-term retirement costs for civilian employees. The Proposed Budget instructs to the City Administrative Officer to prepare recommendations by July 1, 2012 for a new civilian retirement tier for Mayor and Council consideration. Various proposals have been discussed by the City Council in the past two years.

It is important to note that a significant portion of the Proposed Budget balancing solutions are one-time solutions. However, it is equally, if not more, important to note that the City has taken a number of steps to measurably reduce the structural deficit now and in future years. Two years ago, the City faced a \$492.0M deficit for 2010-11 and the four-year outlook presented in January 2010 projected a deficit of \$952.1M for the 2012-13 fiscal year. The projected deficit is dramatically lower, but a structural deficit still persists. Projected shortfalls over the next four years are driven primarily by increased salary costs, from combined increased payments for sworn and civilian pensions and health care costs and the effects from a sluggish economy. Additional measures must continue to be taken to reduce ongoing costs, improve revenues and collections and create a more robust local economy that benefits all Los Angeles residents.

## **POLICY CONSIDERATIONS**

- **Compliance with Financial Policies:** In the CAO's Supporting Information for the Budget and Finance Committee, the CAO reports on the 2012-13 Proposed Budget in comparison with the following areas of the City's Financial Policies:

## SIGNIFICANT ISSUES

City Financial Policies		Mayor's Proposed Budget
<b>Reserve Fund</b>	The Reserve Fund shall be 5% of the General Fund Budget. The policy provides for a phasing-in period and requires increasing the percentage deposited into the Reserve Fund beginning in 2006-07.	Reserve Fund rate is 4.64% of General Fund revenues, as compared to 4.04% for 2011-12 Adopted Budget. (See discussion on the Reserve Fund.)
<b>Capital &amp; Infrastructure</b>	To the extent possible, the City shall annually budget 1% of General Fund revenue to fund capital or infrastructure improvements.	Provides 0.17% of General Fund revenue for capital and infrastructure projects (\$7.51M). A 1% investment would require an additional \$37.87M to be appropriated to capital or infrastructure improvements.
<b>One-Time Revenue</b>	To the extent possible, current operations will be funded by current revenues. The use of unencumbered prior year balances in all funds shall be scrutinized and carefully limited to be used primarily for one-time expenditures. One-time revenues will only be used for one-time expenditures.	A total of \$85.81M in one-time revenue or other funds and cash from deferred expenditures is programmed in 2012-13, including redirection of \$30M in former CRA Tax Increment Monies, \$13.5M in reimbursements for ambulance billings, a \$14.58M transfer of surplus SPRF revenue (the remaining \$18M is considered as ongoing revenue), and \$19.9M in one-time expenditure deferrals by reducing the number of working days (i.e. furlough days) in the City Attorney's office (\$9.4M) and making one-time salary reductions and adjustments in various departments (\$10.5M total). One-time expenditures totaling \$2.7M are included in the 2012-13 Proposed Budget. Therefore, there is an excess of \$83.11M in one-time financial resources budgeted in 2012-13 for ongoing expenditures.

April 27, 2012

OFFICE OF THE CHIEF LEGISLATIVE ANALYST

## SIGNIFICANT ISSUES

City Financial Policies		Mayor's Proposed Budget
<b>Pension and Retirement Funding</b>	When the required contribution rate falls significantly below the normal cost rate, the City will set aside the incremental rate amount for one-time expenditures only.	A credit has not been earned; therefore funding is not set aside in accordance with this policy.
<b>Budget Stabilization Policy</b>	This fund is intended to prevent overspending during prosperous years and provide resources to help maintain service levels during lean years.	A total of \$0.50M is included in 2012-13 Proposed Budget. This is the same amount that was included in 2009-10 and 2010-11.

- **One Time Revenue/Expenditure Deferral:** The Supporting Information to the Budget and Finance Committee states that the Proposed Budget includes \$65.91M in one-time revenue, \$11.8M in one-time expenditure deferrals and \$8.1M in one-time source of fund adjustments for a total of \$85.81M in one-time cash and deferrals. A total of \$2.7M in one-time expenditures is also identified. As a result, one-time financial resources of \$83.11M are budgeted for ongoing expenditures. The use of one-time sources of revenue and cash from deferred payments should be considered very carefully as the economic downturn and sluggish recovery will limit growth of ongoing sources of revenue to fund future years' ongoing expenses.
  - ▶ **One-Time Revenue** identified in the Proposed Budget includes reimbursements for Fire Emergency Medical Services (\$13.5M) and from Gas Tax (\$7.8M), as well as the redirection of former-CRA tax increment revenues (\$30.0M). The Supporting Information also recognizes a portion of this year's transfer from the Special Parking Revenue Fund as one-time revenue (\$14.58M of the \$32.58M transfer). The Four-Year Outlook anticipates \$18.0M in SPRF funding as an ongoing source of revenue.
  - ▶ **One-Time Expenditure Deferrals** include 34 employee furlough days in the City Attorney's Office (\$9.4M); deferrals in capital improvement projects (\$38.87M); one-time reductions in the salary accounts of the City Attorney, City Clerk, Controller, and the Office of Finance (\$2.4M); and adjustments in funding sources to reduce General Fund expenses in various City departments, including the Los Angeles Police Department (LAPD), Controller, Planning, Personnel, and Transportation.
  - ▶ **One-Time Source of Fund Adjustments** includes funding shifts in the budgets of Aging, Building and Safety, City Attorney, Controller, General Services, Information Technology, Personnel, Planning, Police, Public Works Board and Transportation.

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The net effect of these funding adjustments totals \$2.7M. These shifts balance the General Fund budget but could create consequences within those funding sources.

- ▶ **One-Time Expenditures** include \$2.7M for the following: Fire (\$0.25M) for a consultant to develop a Fire Station Alerting System and contingency funds for the consultant (\$0.25M); General City Purposes (\$1.36M) for a mandatory Five-Year audit of LACERS and Pensions (\$0.83M), funding for an audit of the Los Angeles Police Relief Association and the Los Angeles Fire Relief Association (\$0.18M) and funds for the Los Angeles Bi-annual Homeless Count (\$0.35M); and Unappropriated Balance for a third-party review of the Fire Department deployment program, analysis of platoon and special duty staffing, the constant staffing model and response times (\$0.75M) and funds for a study of the City's payroll system (\$0.10M).
- **Functional Transfers:** The Proposed Budget implements functional transfers which have already been considered by the City Council including: consolidation of Human Resources functions within the Personnel Department; completion of the transfer of TEAMS II Systems from the Information Technology Agency (ITA) to the Police Department; and, transfer of the Waste Receptacle Program from the Bureau of Street Services to the Bureau of Sanitation. It should be noted that the Proposed Budget includes the addition of an Assistant General Manager in the Personnel Department to manage the human resources consolidation. This position was not part of the consolidation package approved by the City Council. While there may be operational efficiencies achieved by consolidation, the net result of the transfer, as presented in the budget, including the addition of this executive level manager, appears to result in an increased direct cost to consolidate Human Resources functions city-wide. The transfer of civilian staff in OPS from the General Services Department to the Los Angeles Police Department is included in the Proposed Budget. Sworn staff associated with OPS is intended to follow, once amendments can be made to the California Penal Code which impact peace officer status. The OPS transfer has not yet been considered by the City Council, although the Proposed Budget anticipates \$2.2M in savings from hiring efficiencies.
- **Performance Based Budgeting:** In fiscal year 2011-12, the Planning Department and Bureau of Street Lighting were identified to be the first departments to phase in a Citywide performance based budgeting program. Goals and metrics have been included in the Proposed Budget for these and other City departments. Reports will be made to the Mayor and Council throughout fiscal year 2012-13 on the progress toward meeting the budgeted goals.

The Proposed Budget includes instructions for the CAO to coordinate and update departmental performance metrics based on the fiscal year 2012-13 adopted budget and fiscal year 2011-12 actual results and to begin regular reporting to Mayor and Council on departments' progress in meeting budgeted goals and objectives. Full-year funding is provided to fill a new Senior Administrative Analyst II position for the CAO to oversee and implement the transition to performance-based budgeting. The individual will be responsible for strategic planning and developing a Citywide framework that can be used by the Mayor

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and Council to measure and assess the delivery of City services and the performance of City departments.

- **Layoffs:** The 2012-13 Proposed Budget recommends the elimination of certain filled positions in 13 departments/bureaus across the City, including: three Animal Control Officers and support staff in the Animal Shelters; one Paralegal in the Ethics Commission; support positions in the Office of Finance's revenue/billing section; 12 civilian administrative positions in the Fire Department; three mechanics, and certain supply services personnel in the General Services Department; three public safety communications electricians, and various graphics, and information systems' positions in the Information Technology Agency; two positions in the Department of Neighborhood Empowerment supporting neighborhood councils; various support staff in Personnel's Public Safety Employment, Workers' Compensation, and Occupational Health units; 157 clerical positions throughout the LAPD; and 37 clerical, analyst, and truck operator positions in Street Services. The impact of these layoffs on the delivery of City services is not discussed in the Proposed Budget.
- **State Budget Impact:** The State budget as currently proposed does not significantly impact local governments. Constitutional protections prevent the State from taking most local revenues and the State has swept or eliminated most other sources of funding that local governments previously received.

The Governor will release a revised budget in mid-May 2012. This is the document that will receive the greatest attention in Sacramento and has the potential to include additional matters that could affect local governments. City staff will monitor the May revise and report potential concerns that could affect the City budget at that time.

In addition, two initiatives have been placed on the June Statewide ballot and four initiatives have been placed on the November Statewide ballot. None of these initiatives will have a direct impact on the City's budget. One item on the November ballot, the Safe, Clean, and Reliable Drinking Water Supply Act of 2012, may be a source of funding for capital programs in future budgets and would be an available funding source in fiscal year 2012-13.

## REVENUES

- **Revenue Outlook:** We have reviewed the revenue estimates and believe these are in line with general trends for ongoing revenue sources. We note that the Proposed Budget anticipates payments for the City's share of former CRA tax increment (one-time and ongoing payments equal to \$48.6M), a \$41M increase in licenses, permits, fees and fines (5.6 percent), mainly due to an increase in Fire Department reimbursements for Medi-Cal transports (\$23.5M) and an increase in Gas Tax reimbursements (\$7.5M). Much of this revenue is one-time, and the Medi-Cal reimbursement is dependent on an allocation by the Federal government.

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- **DWP Power Revenue Transfer:** The transfer from the Power Revenue Fund continues to be based on a percentage of prior-year gross operating power revenue, not to exceed net income. The 2012-13 rate remains at eight percent, as established by the Board of Water and Power Commissioners. The amount included in the 2012-13 Proposed Budget for the Power Revenue transfer is \$249.1M, which is \$0.98M less than the current year estimated receipt of \$250.08M, and \$4.9M less than the 2011-12 Adopted Budget amount of \$254.0M.

Pursuant to Charter Amendment J, the Department of Water and Power is required to submit its preliminary budget for the upcoming fiscal year to the City Council by March 31 to allow the Council to consider the impacts of the DWP budget on the City. This document was submitted on March 29, 2012, and considered by the City Council on April 24, 2012 (CF 12-0475).

- **Fee Increases:** Several fee increases are recommended in the 2012-13 Proposed Budget:
  - ▶ **City Attorney:** As part of a proposed Deferred Entry of Judgment program, the City Attorney would be authorized to impose an administrative fee of \$65 per case. Based on an estimated 5,000 misdemeanor and/or code enforcement cases expected in this program in 2012-13, \$0.325M is reflected in the Unappropriated Balance as a placeholder until those revenues are recognized.
  - ▶ **Fire Department:** As has been proposed in each budget since 2009-10, the 2012-13 Proposed Budget anticipates \$1M in additional revenues from LAFD Industrial Building Inspection fees.
  - ▶ **Planning:** The Proposed Budget would authorize an increase to General Plan Maintenance Fees to support the rewrite and update of the City's Zoning Code (\$0.37M). The project is expected to be completed within five years. Additionally, Planning will perform a fee study with the goal of achieving full cost recovery for the Citywide Case Management function by January 2013, generating enough revenue to cover the cost of this service for the last six months of 2012-13 (\$0.23M).
  - ▶ **Engineering:** The Proposed Budget proposes that fees and permits for special services provided or collected by the Bureau of Engineering be updated and increased (\$0.40M).
  - ▶ **Zoo:** A \$1 increase in the Admissions Fee is proposed for 2012-13 and is projected to generate \$0.72M.
- **Property Based Revenue:** Property-related revenues continue to comprise nearly one-third of City General Fund revenue. The County Assessor forecasts a 0.5 percent increase in Countywide assessed values for 2012-13. Relative to the 2011-12 revised forecasts, 2012-13 property tax revenues are projected to increase by \$24.7M (1.7 percent) to \$1.45B. However, after making an adjustment for a one-time event, this is still \$58M below 2008-09 property tax receipts. In 2013-14, property taxes are forecast to grow by 2.2 percent to \$1.48B, and grow by three percent in 2014-15 to \$1.53B. Revenue in subsequent fiscal years is projected to gradually return to historic growth.
- **Documentary Transfer Tax:** The documentary transfer tax is more volatile. Projections in the 2011-12 Proposed Budget are based on modest growth in the local real estate market. Tax revenue from the Documentary Transfer Tax is generated through the sale of real property and fluctuates based on purchase price and sales volume. Documentary Transfer Tax revenues, reached a height of \$217M in 2005-06. By 2008-09, this revenue source had



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fallen to \$84M. The 2012-13 Proposed Budget assumes steady growth in this revenue source due to the projected improvement in the real estate market. Documentary Transfer Tax revenues are expected to grow by 7.5 percent relative to the 2011-12 revised forecast, from \$100M to \$107.5M, and are projected to grow by seven percent in each of the next four fiscal years, to \$140.9M by 2016-17. These projections do not anticipate additional revenue from the possible doubling of the Documentary Transfer Tax from 4.5 percent to nine percent, as suggested in the City Administrative Officer's recent report "Update to the Three Year Plan to Fiscal Sustainability."

- **Transient Occupancy Tax:** The Transient Occupancy Tax (TOT) has shown increased growth in the past year. TOT revenues should continue to be monitored along with all other revenue sources.
- **Reserve Fund:** The 2012-13 Proposed Budget projects a \$210.51M Reserve Fund, consisting of a \$124.79M Emergency Reserve and a \$85.72M Contingency Reserve. This equates to 4.64 percent of General Fund revenues. The 2011-12 Adopted Budget Reserve Fund was \$177.22M, which equated to 4.04 percent of General Fund revenues. However, the actual Reserve Fund on July 1, 2011 was \$197.7M, which equated to 4.52 percent of General Fund revenues. The projected Reserve Fund at the end of fiscal year 2012-13 is \$176.5M or 4.1 percent of General Fund Revenues.

In March 2011, the voters approved Charter Amendment P, which requires the establishment of two accounts within the Reserve Fund. The Emergency Reserve Account must be no less than 2.75% of General Fund receipts. Expenditures from this Account have limits detailed in Charter Amendment P. A separate Contingency Reserve Account must also be created as part of the Reserve Fund, with funding in this Account used to cover shortfalls in City revenue or pay for unexpected expenses. Separate from Charter Amendment P, the City's Reserve Fund Policy provides for a phase-in of increasingly larger percentages of the General Fund to be deposited into the Reserve Fund, to reach a goal of five percent of General Fund revenues within ten years. The City Council recently reaffirmed its commitment to this goal with its adoption of portions of the CAO's Three Year Plan to Fiscal Sustainability (CF 11-0600-S157).

The following chart illustrates the state of the Reserve Fund for five years:

	<b>Actual 2008-09</b>	<b>Actual 2009-10</b>	<b>Actual 2010-11</b>	<b>Estimate 2011-12</b>	<b>Proposed 2012-13</b>
Contingency Reserve	\$40.5M	\$31.9M	\$51.2M	\$77.1M	\$85.7M
Emergency Reserve	<u>\$125.2M</u>	<u>\$121.0M</u>	<u>\$120.3M</u>	<u>\$120.6M</u>	<u>\$124.8M</u>
Total on July 1 of Fiscal Year	\$165.8M	\$152.9M	\$171.3M	\$197.7M	\$210.5M
% of General Fund	3.64%	3.45%	3.91%	4.51%	4.64%
<b>Amount Transferred to Balance the Budget</b>	<b>\$0.0M</b>	<b>\$0.0M</b>	<b>\$3.6M</b>	<b>\$8.9M</b>	<b>\$0.0M</b>

The Emergency Reserve Account in the 2012-13 Proposed Budget is \$124.8M, which equates to 2.75% of General Fund Revenues and, therefore, complies with the requirements of Charter Amendment P.

The Proposed 2012-13 Budget does not rely on a Reserve Fund transfer, but the 2011-12 Estimated Budget has an anticipated transfer of \$8.9M. Any transfers from the Reserve Fund to balance the budget are considered a one-time revenue source.

## **SIGNIFICANT ISSUES**

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- **Solid Waste Resources Revenue Fund (SWRRF):** The Solid Waste Collection, Transfer, Recycling, Recovery of Waste Resources and Disposal Fee (Solid Waste Fee) is imposed on all single-family dwellings in the City and upon multiple-unit dwellings for which the City provides refuse collection services. All receipts from the Solid Waste Fee are deposited into the Solid Waste Resources Revenue Fund (SWRRF) and are used for principal and interest payments, lease payments, direct acquisitions and associated expenses to acquire and repair sanitation equipment used in the collection and disposal of household refuse.
  - ▶ **New Equipment Purchase:** The Solid Waste Fee was increased in September 2008 to achieve full cost recovery of the City's solid waste resources programs. The Proposed Budget provides \$48M for the acquisition of approximately 160 compressed (CNG) and liquefied (LNG) natural gas collection trucks to achieve a 100 percent clean fuel refuse fleet.
  - ▶ **Solid Waste Fee Lifeline Program:** The Proposed Budget provides reduced funding for the SWRRF Lifeline program that corresponds to a limit of 40,000 subscribers enrolled in the Program. The current program allows for a total of 58,910 subscribers. It is our understanding that the number currently enrolled in the program is under 40,000.
- **Street Lighting Maintenance Assessment Fund:** The Five-Year Forecast illustrates that the revenue to the fund is likely to be insufficient beginning in fiscal year 2013-14 (\$0.23M deficit) to maintain the existing capital program or current service levels in the future. The fund deficit grows to \$11.64M in fiscal year 2015-16.
- **Measure R:**
  - ▶ **New Projects:** The Proposed Budget includes \$2M to assist the City with funding for the Hyperion Glendale Bridge Project. Funds are also provided to the Planning Department to implement 2010 Bicycle Plan and the Transportation Element. The Proposed Budget allocates \$11.93M to the Capital Improvement Expenditure Program for 22 capital projects.
  - ▶ **Pavement Preservation Plan:** The Proposed Budget provides Measure R funding to increase the Pavement Preservation Plan from 735 miles to 800 miles, as follows: \$2.1M in one-time expense funding to add 55 miles of slurry seal to the current service level of 400 miles annually, and \$4.22M in one-time expense funding to provide an additional ten miles of resurfacing to the current level of 235 miles. In fiscal year 2011-12, Measure R funds were provided to front fund signal synchronization projects that were to be reimbursed from the State Proposition 1B Program. The Proposed Budget sets aside \$20.62M of a total \$27.35M in anticipated reimbursement from the State to be used in fiscal year 2013-14 to maintain the Pavement Preservation Plan to address a funding gap of over \$30 million that is anticipated. A long-term funding strategy for the Pavement Preservation Plan beyond FY2013-14 has not been developed.

## **EXPENDITURES**

- **Efficiencies/Reductions/Other Changes and Adjustments:** The Mayor's 2012-13 Proposed Budget includes \$69.73M in Efficiencies, including 34 days of furlough in the City Attorney's office, one-time salary reductions in the Office of Finance, Controller, City Clerk,

## **SIGNIFICANT ISSUES**

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and the City Attorney, an eight percent reduction in the Council and Mayor budgets, closure of the San Pedro Fire Drill Tower, eliminates funding to the Photo Red Light program, and the elimination of numerous General Fund vacancies in various departments. The Proposed Budget also shifts funding for various programs that are included in the General City Purposes (GCP) Budget to non-General Fund sources, while reducing other programs in the GCP. The Budget also deletes certain filled positions in Animal Services, City Clerk, Ethics, Finance, Fire, General Services, Information Technology, Neighborhood Empowerment, Personnel, Police, and Street Services. Two major consolidations are also proposed: The consolidation of human resources functions from 17 City department/bureaus into the Personnel Department (\$0.31M); and the consolidation of 129 General Services security personnel into the LAPD and the conversion of 94 others to resolution authority. The Proposed Budget also includes \$57.7M in Other Changes and Adjustments to help balance the 2012-13 budget, including suspension of the City Policy to invest one percent of General Fund in Capital Infrastructure (\$38.87M).

- **Potentially Underfunded Accounts:** There are several accounts that may not have sufficient funding based on current expenditure patterns, as indicated in the following chart:

Potentially Underfunded Accounts	2011-12 Adopted Budget	2011-12 Estimated Expenditures	2012-13 Proposed Budget	Comments
<i>LAPD Overtime</i>	\$16M	\$20M	\$16M	May be insufficient based on current expenditure patterns and banked overtime
<i>Petroleum</i>	\$35M+\$4M in the UB = \$39M	\$48M	\$39M+\$9M in the UB = \$48M	May be insufficient if fleet service reductions not achieved or if prices continue to elevate significantly
<i>Liability Claims</i>	\$48M	\$49M	\$48M	May be insufficient based on current expenditure patterns, and the potential for large settlements or judgments in 2012-13.
<i>Finance (Bank Fees)</i>	\$9M	\$13M	\$6M + \$2.1M in the UB	May be insufficient based on current expenditure patterns, although Proprietary Departments will now directly pay their portion

- **Outside Counsel Expenditures:** The Proposed Budget provides \$3M in the Unappropriated Balance for City Attorney Outside Counsel contracts for both general litigation and Workers' Compensation, which is \$0.75M more than the amount set aside in the 2011-12 Adopted Budget. Funding is provided for existing sworn Workers' Compensation cases only, because

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April 27, 2012

OFFICE OF THE CHIEF LEGISLATIVE ANALYST

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all new cases are being assigned to in-house staff, with the exception of conflict cases that cannot be handled by the City Attorney.

- **Liability Claims/Judgment Obligation Bonds:** A total appropriation of \$47.91M is proposed for Liability Claims in 2012-13, which is a slight increase of \$0.06M over the base amount provided in the 2011-12 Adopted Budget. The 2012-13 Budget proposes \$10.06M of the total be used for liability claims under \$100,000 (a \$0.06M increase over 2011-12) and \$37.85M for liability claims over \$100,000 (same as 2011-12). This estimate also includes \$2M in funding for Attorney Conflict Panel cases managed by the City Administrative Officer.

The Proposed Budget also allocates \$9M to pay debt service for Judgment Obligation Bonds issued to finance liabilities resulting from adverse decisions by the California courts in the Harper case (\$20.50M) and the May Day settlement (\$50.9M).

- **Partially Funded/Unfunded Positions:** The Proposed Budget includes a total of 161 partially funded and unfunded positions. Of that number, 75 are authorized without funding. It is important to note that full year funding will be required to continue these positions beginning in 2013-14.
- **Changes in Authorized Positions/Deletion of Filled Positions:** The Proposed Budget deletes 458 net General Fund positions, consisting of the deletion of 476 regular authorities and the addition of 18 resolution authorities. Of the 476 positions, 233 are currently filled. Resolution authorities are typically assigned to positions that are limited-term or temporary positions, generally associated with a limited duration project or funding source. While the Proposed Budget adds a net 18 resolution authorities, 36 of the deleted resolution authorities are currently filled.
- **Unappropriated Balance:** The Unappropriated Balance (UB) includes funds identified for specific purposes, including contingencies for accounts that may experience shortages, such as petroleum products, or start-up funding for projects or programs that would need funding during the fiscal year, but are not fully developed at the time the budget is adopted. The 2012-13 Proposed Budget includes \$19.7M in the UB, which is a \$2M decrease from the 2011-12 Adopted Budget allocation of \$21.7M. The 2012-13 Proposed Budget earmarks funds for the following:
  - ▶ Bank Fees (\$2.1M) as a contingency in case savings do not materialize from Finance's efforts to reduce merchant fee costs by establishing a Citywide credit card policy and shifting payment responsibility directly to proprietary and special funded departments
  - ▶ Deferred Entry of Judgment (\$0.33M) in anticipation of revenues from a \$65 per case administrative fee on participants in a new diversion program for non-violent and non-repeat offenders.
  - ▶ Equipment, Expenses, Alterations and Improvement (\$3.58M) as a contingency to address necessary account adjustments.

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- ▶ Third Party Review of LAFD Resource Deployment (\$0.75M) to analyze platoon- and special-duty staffing, the Constant Staffing deployment model and response times.
  - ▶ Contingency funding for a consultant (\$0.25M) to help draft a Request for Proposals for a new Fire Station Alerting System and program the Fire Command and Control System to prepare it for the new system. Funding for the consultant services is included in the department's budget (\$0.25M).
  - ▶ GSD Petroleum Products (\$9M) as a contingency to address price increases and volatility in the petroleum products market.
  - ▶ Neighborhood Council Funding (\$0.08M) for new neighborhood councils that are anticipated to be certified in 2012-13
  - ▶ Outside Counsel Including Workers' Compensation (\$3M) for outside counsel attorneys to assist in litigation and transactional matters and for all sworn workers' compensation cases.
  - ▶ Payroll Study (\$0.10M) to study the City's payroll system and develop recommendations to reduce risk and enhance the system, and explore potential system replacement.
  - ▶ Strategic Advisor for Technology Services (\$0.50M) to hire an advisor to review the City's technology services and recommend any improvements, and possibly writing subsequent RFPs to implement those recommendations.
- **Police Department:**
- ▶ **Police Sworn Hiring:** The Proposed Budget adds funding to hire 320 Police Officers to offset attrition. A total of 370 recruits will be hired in nine Academy classes. Of the number hired, 320 are projected to graduate from the Academy, which will offset the 320 sworn officers projected to leave the Department. The consolidation of security services into the Police Department will reduce the Department's 2012-13 sworn hiring needs by 37 officers.
  - ▶ **Public Safety Consolidation:** To consolidate Citywide security functions, funding for 223 positions will be transferred to the Police Department from the General Services Department, Office of Public Safety (OPS). Regular authority for 129 positions will be transferred from OPS and the remaining 94 positions will eventually be transferred in lieu of existing unfunded regular sworn authorities in the Police Department. While the OPS consolidation is included in the Proposed Budget, it has not been approved by Council. A CAO report detailing the transfer of these functions and the associated net savings is pending in the Public Safety Committee and the Information Technology and General Services Committee. If this action is approved by Council, a series of immediate next steps, including LAPD transitional and operational plans, background examinations and City Attorney ordinances would need to be implemented to effectuate the consolidation.
  - ▶ **Deferred Retirement Option Plan (DROP):** DROP allows employees eligible for retirement to have their retirement benefit frozen upon enrollment, and the amount they would have received in pension is deposited in an interest bearing account until they actually retire. In 2011-12, up to 112 officers who enrolled in DROP will have

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reached the maximum five-year period of participation and must retire. In 2012-13, up to 95 officers will have reached the maximum five-year period.

- ▶ **ARRA COPS:** In 2009-10, funding was provided by the American Recovery and Reinvestment Act (ARRA) COPS Hiring Recovery Program. The grant reimbursed the City for salaries and benefits costs for 50 officers for three years. The City is now obligated to continue funding the positions for an additional year. For 2012-13, an additional \$4.2M is provided in LAPD's budget for the 50 officers.
- ▶ **Deletion of Filled Positions:** Funding of \$13.44M and regular authority for 159 filled positions are deleted from the Department's budget. The positions consist of 81 Senior Clerk Typists, 66 Clerk Typists, 10 Secretaries, one Nutritionist, and one Police Administrator III.
- ▶ **Replacement Vehicles:** Funding of \$6.55M is provided by MICLA short-term financing (commercial paper) to replace 117 black-and-white vehicles that have met or exceeded the standard replacement criteria. During 2012-13, the Forfeited Assets Trust Fund (FATF) will repay 25 percent of the cost. Funding of \$1.62M is provided in the FATF for the replacement of 56 motorcycles. Funding of \$5.37M is provided by the MICLA financing program to replace 144 other vehicles, including 46 undercover vehicles, 80 plain vehicles and 18 miscellaneous specialty vehicles.
- ▶ **In-Car Video Cameras:** Funds totaling \$5.5M were budgeted in 2007-08 to purchase in car video cameras. In 2008-09, the cameras were acquired and installed in patrol cars at four stations in South Bureau. During field testing in 2009-10, several technical issues were encountered requiring resolution by the vendor, IBM. In 2010-11, implementation in South Bureau was completed. The Department is currently finishing the contract selection process for Phase 2 of the program. Debt service of \$2.54M is included in the Capital Finance Administration Fund for Phase 2.
- ▶ **DNA Backlog:** DNA Backlog: The Proposed Budget provides \$1.80M for contractual services to meet caseload demands in the Scientific Investigation Division.
- ▶ **Police Share of Unrestricted Revenue:** LAPD's share of unrestricted revenue will increase from 53.0% in 2011-12 to 55.3% in the 2012-13 Proposed Budget. While the percentage does not appear significant, each 1 percent equates to approximately \$37M. Unrestricted revenue are General Fund receipts which may be used for any municipal purpose.

### ■ Fire Department:

- ▶ **Deployment Plan:** In July 2011 a new Deployment Plan was implemented to optimally align fire resources to meet workload demands. Based on the projected firefighter attrition schedule, the Deployment Plan eliminated 318 sworn regular authorities over a three-year period. In 2011-12, the first year of the plan, 189 positions were deleted through attrition. In 2012-13, 95 positions are projected to be vacated through attrition and eliminated.
- ▶ **Restoration of Resources:** Funding of \$2.51M is provided for one Engine Company (12 sworn positions) to enhance fire resources in the West San Fernando Valley. Funding of \$3.0M is provided for overtime to staff six Variable Staff ambulances which will be available during peak hours to enhance Citywide coverage.

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- ▶ **Constant Staffing Overtime:** The Proposed Budget includes \$99.82M for constant staffing overtime, which is an increase of \$35.72M (56 percent) from 2011-12. The increase is associated with a reduction in the pool of firefighters used to offset the overtime cost required to backfill fixed post positions under the Constant Staffing model. The Unappropriated Balance includes \$0.75M for a third-party review of the LAFD's deployment of resources, including the Constant Staffing model.
- ▶ **Professional Standards Division:** Continuing funding of \$1.27M is provided, and regular authority is added, for nine civilian investigator positions. These positions were initially approved by Council in 2010-11 to address current and projected caseload requirements.
- ▶ **Fire Vehicle Replacement:** The Proposed Budget provides \$14.9M in MICLA financing for the Fleet Replacement Program, which includes 21 ambulances, 11 pumper trucks, ten emergency command vehicles, three ladder trucks, and various smaller vehicles.
- ▶ **Fire Equipment Replacement:** MICLA funding of \$4.1M is provided to replace 695 mobile radios and 195 mobile data computers to replace outdated units and enhance existing communications systems. MICLA funding of \$12.0M is provided to replace the Computer Aided Dispatch (CAD) System, which consists of various modules such as resource management, CAD 911 interface, integrated Automatic Vehicle Location dispatching, and central station alarm interface. MICLA funding of \$5.0M is reauthorized to replace the Fire Station Alerting System which allows the central dispatch center to notify fire station personnel to respond to incidents. An additional \$0.5M is provided for contractual services for a consultant to draft the technical specifications for the CAD System and assist in its implementation.
- ▶ **Firefighter Recruit Training:** The Proposed Budget consolidates the recruit training function at the Valley Drill Tower. Funding and 16 regular authorities are eliminated with the closure of the San Pedro Recruit Drill Tower Training facility. Both the San Pedro and Valley Drill Tower facilities have been temporarily closed for the past two years. Recruit training is projected to resume in September 2013 (during 2013-14), and partial funding is provided for two positions to commence training preparation in May 2013. Four positions formerly associated with the San Pedro Drill Tower will be added to the Valley Drill Tower which will enable the LAFD to increase its recruit class size from 50 to 65-70 per session.
- ▶ **Ambulance Billing:** In 2010-11, the LAPD transitioned the management of the emergency medical services (EMS) billing and collection process to an outside vendor. In 2011-12, the LAFD completed implementation of the Field Data Capture System in 2011-12 that enables EMS field personnel to capture and record patient data electronically which improves the billing process. For 2012-13, the Proposed Budget assumes \$82.3M in ambulance billing revenue, which is an increase of \$15.0M (22 percent) from 2011-12. Of the increase, \$10.0M is attributed to additional reimbursement by the federal government for ambulance services not reimbursed by Medi-Cal, and \$5.0M is attributed to more effective collection efforts. An additional \$13.6M is included as one-time revenue from federal reimbursement for ambulance

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- services provided in prior years. It is our understanding that this has not yet been appropriated by the federal government.
- ▶ **Emergency Medical Services (EMS) Resources:** Funds are provided for six additional variably-staffed ambulances and the restoration of nine Emergency Medical Services (EMS) captains.
- ▶ **Deferred Retirement Option Plan (DROP):** DROP allows sworn employees eligible for retirement to have their retirement frozen upon enrollment. The amount they would have received in pension is deposited in an interest-bearing account until they actually retire. In 2011-12, up to 125 firefighters who enrolled in the DROP program will have reached the maximum five year period of participation and must retire. In 2012-13, up to 133 firefighters will have reached the maximum five year period.
- **Animal Services:** The Department of Animal Services Proposed Budget will eliminate 23 regular authority positions, of which eight are vacant, 11 are filled and four will be eliminated due to the Human Resources Consolidation. The Department will eliminate seven Animal Control Officer positions (three filled and four vacant positions). This elimination leaves the Department with 61 total Animal Control Officer I and II positions, representing a reduction of more than 10 percent in these classifications.
- **City Attorney:** The Proposed Budget provide resources to the City Attorney's Office to continue the Tobacco Enforcement Program, CLEAR Program, Gang Prosecution Program, the Citywide Nuisance Abatement Program, Safer Cities Initiative, and the Neighborhood Prosecutor Program, as well as provide legal counsel to departments and programs across the City, including police litigation, sanitation, community development, telecommunications, and housing. The Proposed Budget includes funding for staff to rewrite the City's Zoning Codes in concert with the Planning Department (\$0.15M). The City Attorney will continue to provide legal support for the proprietary and independent departments (LACERS, Pensions, former-CRA, Harbor, Airports, DWP, and Housing Authority), and will oversee the City's outside counsel contracts. The Proposed Budget eliminates funding for 17 vacant positions (\$-1.7M), applies 34 furlough days to attorney positions (\$-9.4M), and implements a one-time salary reduction to the department's budget (\$-1.7M). Budgeted staffing levels in the City Attorney's office are reduced by a total of 25 positions relative to 2011-12.
- **City Clerk:** The Proposed Budget includes a significant increase in General Fund appropriations in 2012-13 due to administration of the 2013 Primary Nominating and General Municipal Elections. Approximately \$17M is provided to conduct elections for three Citywide offices, eight odd-numbered City Council districts, four even-numbered board elections each for the Los Angeles Unified School District and the Los Angeles Community College District. Funding for the Municipal Elections anticipates inclusion of two to three ballot measures. Additional measures could result in incremental costs, primarily due to printing. Potential measures placed on ballots for County-run elections or for special elections are not included and typically are funded on a case by case basis.



## **SIGNIFICANT ISSUES**

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- **City Ethics Commission Public Campaign Matching Fund:** Included in the Proposed Budget is a General Fund allocation of \$0.94M to the City Ethics Commission Public Campaign Matching Fund. Although the annual required appropriation amount for fiscal year 2012-13 is \$3.10M, Measure H allows the City Council to provide a reduced amount to this Fund when the City has declared a fiscal emergency. Further, the requirements for providing a reduced amount to this Fund are as follows:
  - ▶ Declaration of a fiscal emergency by Resolution;
  - ▶ The minimum fund balance (cash balance, plus reduced appropriation) must apply the Consumer Price Index (CPI) to the base year funding, which, this year, would require a minimum fund balance of \$12.40M.
  - ▶ Consideration of the City Ethics Commission's four-year projections (projected costs and public funding needs) and a two-thirds vote of the Council.The proposed 2012-13 appropriation of \$0.94M, in addition to the projected cash balance from the previous Fiscal Year, would yield a total minimum Fund balance of \$12.40M, as required. It should be noted that proposed changes to campaign contribution limits could eventually have an impact on this fund.
- **Department on Disability:** The Proposed Budget adds funding and position authority for ADA compliance and monitoring and to oversee the Housing and Urban Development (HUD) Voluntary Compliance Agreement.
- **General Services Department:** The Proposed Budget reduces total funding (\$-12.81M) and 245 regular authorities, which represents a 19 percent work force reduction from fiscal year 2011-12. This could impact service levels for General Services Department (GSD) core functions, including custodial, building maintenance and construction services.
  - ▶ **Emergency Generator Equipment Support:** The Proposed Budget adds funding (\$0.88M) and regular authority for three Heavy Duty Equipment Mechanics for monthly inspections and repairs of the electrical/mechanical components of 235 emergency generators Citywide, including those at Mt. Lee, Emergency Operations Center, Police Administration Building and 911 Dispatch Centers.
  - ▶ **Public Safety Consolidation:** The Proposed Budget transfers funding (\$-21.0M) and deletes 223 positions from GSD's Office of Public Safety (OPS) for the consolidation of Citywide security functions. A CAO report detailing the transfer of these functions and the associated net savings is pending in the Public Safety and Information Technology and General Services Committees. If this action is approved by Council, a series of immediate next steps, including LAPD transitional and operational plans, background examinations and City Attorney ordinances would need to be implemented to effectuate the consolidation.
  - ▶ **GSD Petroleum:** The Proposed Budget provides \$39M to GSD plus \$9 million in the Unappropriated Balance as a contingency to address price increases and volatility in the petroleum products market. Additional funding may be required in 2012-13 depending on increasing market prices.

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- **Finance:** The 2012-13 Proposed Budget continues to fund the Office of Finance in its role as the City's tax collector and City Treasurer. Funding is continued for LATAX and the Columbia Ultimate Business Systems (CUBS) collection system, as well as the Tax Discovery program. The Office of Finance's field offices in Westchester, San Pedro, and Watts are recommended for closure (\$-0.12M) and two filled positions in Finance's Revenue Billings, Audits and Collections section are proposed for elimination (\$-0.14M). Four personnel staff are proposed for consolidation into the Personnel Department, as part of Phase II of the Human Resources Consolidation project (\$-0.24M). A one-time reduction in the Office's salary account is also proposed to help balance the City budget (\$-0.14M). The Office of Finance continues to work with other City Departments to review and implement the recommendations of the Commission on Revenue Efficiency, and other efforts to improve City collection of outstanding receivables.
- **Personnel Department:** The Proposed Budget includes funding and resolution authority for one Assistant General Manager to implement and manage the consolidation of human resources functions. The report that was recently approved by the City Council (CF11-0261) stated that the consolidation would not have any direct cost impact to the General Fund and does not recommend any additional positions for this purpose. The addition of the Assistant General Manager is a cost that may not otherwise be necessary in the absence of consolidation. CAO support documents indicate that the amounts transferred to Personnel exceed the amounts transferred from departments, suggesting a cost increase for consolidation.
- **Public Works Board:** The Proposed Budget contains reductions of \$0.12M for the Board of Public Works, Office of Community Beautification (OCB) to implement graffiti reduction services and \$0.068M for the OCB to purchase various tools relative graffiti abatement. In addition, funding in the amount of \$0.33M for graffiti removal on streetlights is proposed to be transferred from the Board's operating budget to the Street Lighting Maintenance Assessment Fund. As part of the Phase I of the consolidation of human resource functions (C.F. 11-0261-S1), funding and regular authority for thirteen positions will be transferred from the Board of Public Works to the Personnel Department.
- **Public Works Street Services:**
  - ▶ **Weed Abatement and Debris Removal:** In order to pursue the implementation of a model similar to the Fire Department's Brush Clearance Program, personnel adjustments, including the deletion of funding and 16 filled positions are proposed in the Weed Abatement and Debris Removal Program.
  - ▶ **Staff Reductions:** To address the City's fiscal constraints, funding and regular authority for eight filled positions are eliminated. Additionally, 13 various resolution position authorities are eliminated.
  - ▶ **Pavement Preservation Plan:** The Proposed Budget provides funding and positions to increase the Plan's mileage by 65, miles from 735 miles to 800 miles. Specifically, an additional 55 miles of slurry seal and an additional 10 miles of resurfacing will be

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funded by Measure R. Funding to fill an additional 50,000 potholes will be funded by the Traffic Safety Fund and the Street Damage Restoration Fee Fund.

- ▶ **Median Island Landscape Maintenance:** A total of \$1.35M is provided to maintain a two-week maintenance cycle for median island landscape.

- **Department of Transportation:**

- ▶ **Funding Realignments:** The Proposed Budget provides funding to align staff resources and programs to match the General Manager's recent reorganization. Position reductions for the Department are limited to the deletion of vacant positions; funding has increased due to the addition of special funds. Overall, the Department generated approximately \$60M in General Fund revenues.
- ▶ **Part-Time Traffic Officer Program:** In fiscal year 2011-12, the Department was authorized to hire 100 part-time traffic officers with the goal of generating an additional \$9M in parking citation revenue. It is anticipated that this revenue goal will be achieved by the end of this fiscal year. An additional \$4M is recognized for the full year effect of these traffic officers. The Proposed Budget includes authorization to hire an additional 50 part-time traffic officers to ensure enforcement efforts of parking violations are maintained. This is anticipated to result in an additional \$4M in revenue. Salary savings from 14 vacant full-time traffic officer positions will support these positions.
- ▶ **Assistant General Manager:** Authority for one Assistant General Manager position is provided as part of a department reorganization. No further information is included for this executive level position.
- ▶ **Parking Citation Increases:** The Proposed Budget increases parking citation fees in two areas. It increases the citation amount for street sweeping violations from \$68 to \$78 and it increase various safety violations by \$10, which currently range from \$58 to \$88. This is anticipated to generate \$6M in additional revenue. The California Vehicle Code (CVC) states that the schedule of parking violations and late payments shall be established by the governing body of the jurisdiction where the notice of violation is issued. The CVC further states that to the extent possible, issuing agencies within the same county shall standardize parking penalties. The new citation amounts in the Proposed Budget would bring the City's fines to the highest in the County.
- ▶ **Student College Internship Program:** The Proposed Budget includes \$0.35M in Proposition C funds and as needed position authority to hire 20 students under a Student College Internship Program. This is intended to be an ongoing program to assist with engineering projects and field assignments. The program will allow the Department to maintain service levels, improve productivity, address backlogs and provide valuable work experience to college students. The interns will work primarily during the summer months and be assigned to engineering district offices and planning and land use offices.

- **Zoo:** The Proposed Budget includes revenue resulting from a \$1 increase in the General Admission at the Zoo. This is estimated to generate approximately \$0.072M in annual

## **SIGNIFICANT ISSUES**

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revenue. In addition, the Zoo and the City Administrative Officer are requested to work with the Greater Los Angeles Zoo Association (GLAZA) on increasing the membership fee to a level that coordinates with the increased admission fee. The Rainforest of the Americas Exhibit is anticipated to be open in April 2013, and funding for the last three months of 2012-13 has been allocated to the Department for as-needed salaries, which can be used to staff the exhibit with part-time employees.

### ■ **Library Department:**

- ▶ **Charter Amendment L:** In March 2011, Los Angeles City voters approved a measure to amend the City Charter and gradually increase over four years the Charter mandated appropriation from the current level of 0.0175 percent to 0.300 percent of the assessed value of all property in the City. This Charter amendment would also require that the Library Department pay for all of its direct and related costs, including employee health, dental, pension, building maintenance, security and utility costs beginning on July 1, 2014. In 2012-13, the Library will receive an appropriation equal to 0.0237 percent of the assessed value of all property in the City. The Proposed Budget reflects an increase of \$13.45M over the 2011-12 Fiscal Year
- ▶ **Expansion of Library Service:** Funds are provided to restore two evenings per week and expand Friday service at Neighborhood Branch Libraries.
- ▶ **Payment of Related Costs:** The Proposed Budget includes the payment of a portion of Library related costs, consistent with Charter Amendment L which includes pension and employee health benefits, utility and maintenance (\$26.7M).

### ■ **Department of Recreation and Parks:**

- ▶ **Deletion of Positions:** The Proposed Budget deletes 96 regular and 32 resolution position authorities, all of which are vacant positions. The majority of these positions are dedicated to Land Maintenance (49 positions) and Building and Facilities Maintenance (11 positions).
- ▶ **New and Expanded Facilities:** Approximately \$2.4 million has been added for New and Expanded Facilities for recreation programming and maintenance of new, renovated and expanded Department facilities and outdoor improvements. With regard to new services, approximately \$0.125M has been added for landscape maintenance of the Police Administration Building. Funding in the amount of \$0.06M has been increased for City Hall Park Landscape Maintenance for the restoration of the park with drought tolerant plants.
- ▶ **Pool Conversion:** Funding is reduced for year round pool conversion at Glassell Park Pool, Hubert Humphrey Pool and Peck Park Pool due to underutilization during non-summer months.
- ▶ **CLASS Parks:** Funding is reduced for the CLASS Parks program at five recreation centers that do not offer Summer Night Lights programming: Central, Denker, Lincoln Heights, Oakwood and Wabash.
- ▶ **Related Costs:** The Proposed Budget includes the payment of a portion of Recreation and Parks related costs which includes pension and employee health

## **SIGNIFICANT ISSUES**

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benefits (\$25.08M) and the full cost of the Department's water and electricity usage (\$15M).

- **General City Purposes.** The Proposed Budget includes 15 percent reductions to most line items over the previous fiscal year allocations. The 2011-12 Adopted Budget provided \$82.25M in funding, whereas the 2012-13 Proposed Budget includes funding in the amount of \$95.36M, an increase of \$13.11M (15.9 percent). This increased amount is mainly attributed to increases in additional obligatory costs, the relocation of the Gang Reduction and Youth Development (GRYD) budget from the Mayor's Office to General City Purposes (GCP) and the new Economic Development Initiative. A summary of significant changes in the Proposed Budget are as follows:
  - ▶ **Downtown on Ice:** Funding for the Downtown on Ice program has been eliminated.
  - ▶ **Latino Film Festival:** This program is deleted from GCP and funded through the Department of Cultural Affairs.
  - ▶ **Pan African Film and Arts Festival:** This program is deleted from GCP and funded through the Department of Cultural Affairs.
  - ▶ **Adult Day Care Centers:** Funding for this program is reduced by 50 percent, due to redesign of the program.
  - ▶ **El Grito:** This event is deleted from GCP and funded through the Department of Cultural Affairs budget.
  - ▶ **Financial Management System Maintenance:** This line item has been removed from GCP and has been reallocated to the Information Technology Agency, the Controller's Office, and the City Administrative Officer.
  - ▶ **At the Park After Dark:** Funding for this program is eliminated.
  - ▶ **Youth Employment Program:** The General Fund portion of this program is reduced from \$1.25M to \$1M, a 20 percent reduction.
  - ▶ **Special Event Fee Subsidy:** Funding for this program is eliminated in the Proposed Budget. Prior year balances will rollover to be used to fund special events.
  - ▶ **Economic Development Initiative:** The Proposed Budget provides \$2.5M in start-up funding for the establishment of a new economic development delivery model.
  - ▶ **Gang Reduction and Youth Development (GRYD):** This line item has been relocated from the Mayor's Office budget to GCP. The appropriation in the amount of \$23.21M, represents a \$6.85 million increase, as compared to the previous Fiscal Year, due to the loss of Federal funds. The Proposed Budget includes a footnote to transfer funds back to the Mayor's Office on July 1.
- **Neighborhood Councils:** The Proposed Budget reduces funding for each Neighborhood Council (NC) by approximately nine percent from \$40,500 to \$37,000 and suspends the Council policy that allows each NC to rollover unspent funds that remain at the end of the fiscal year into NC accounts for the following fiscal year. Two filled positions are deleted (one Senior Accountant II and one Neighborhood Empowerment Analyst). Four resolution authorities are included to assist with Neighborhood Council elections in 2012.

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### **OTHER**

#### ■ **Fire and Police Pension Fund**

##### **Los Angeles City Employees' Retirement System (LACERS)**

- ▶ The City 2012-13 contribution to Pensions is \$506.1M, an increase of \$22M or 4.5 percent over the 2011-12 budgeted contribution. This increase is primarily due to an increase in payroll, changes in the actuarial assumptions (rates for age of retirement, DROP utilization, DROP participation, and mortality), lower than expected investment returns, and a reduction in the anticipated future rate of return from 8 percent to 7.75 percent. These additional costs are partially mitigated by a variety of actions, including the Tier 6 plan for new hires, increased contributions by some members, and a freeze on the maximum health subsidy for other future retirees. The Proposed Budget anticipates paying the entire contribution in July 2012 by funding the required contribution through the issuance of Tax and Revenue Anticipation Notes (TRANS). As a result, the Pensions Fund would gain additional interest earnings, which would reduce the required City contribution by 3.6 percent or \$18.2M. The System's funded ratio, using actuarial value of assets, decreased year-to-year from 83.3 percent to 79.4 percent as of June 30, 2011. The 2013-14 payment is estimated to be \$105.1M greater than 2012-13, and is projected to further increase by \$48.2M in 2014-15.
- ▶ The City contribution to LACERS is \$419.5M, a decrease of \$63.0M or 13.1 percent. The City's portion of this amount is \$341.9M, with the remaining \$77.6M to be paid directly by the two proprietary departments. The reduction is attributable to a variety of factors, including: a reduction in the City's payroll; a decrease in the City's contribution rate because of an increase in certain employees' health subsidy contribution rate; a five-year phase in of a reduced investment return assumption (from 8 percent to 7.75 percent); and a decrease in the medical trend. The System's funded ratio, using actuarial value of assets decreased from 74.4 percent to 73.2 percent, as of June 30, 2011. The Proposed Budget anticipates paying the entire 2012-13 General Fund contribution of \$341.9M in July 2012 by funding the required contribution through the issuance of Tax and Revenue Anticipation Notes (TRANS). Proprietary departments will also fund their portion of the LACERS contribution (\$77.6M) in July 2012. Payment of the entire contribution in July will reduce the required City contribution by \$14.9M.

- **Capital Improvement Expenditure Program (CIEP):** Existing policy states that the City shall annually budget one percent of General Fund revenue to fund capital or infrastructure improvements. For fiscal year 2012-13, General Fund revenues are projected to be \$4.53B, resulting in a one percent target of \$45.38M. The Proposed Budget provides base-level funding (\$7.51M) from the General Fund, which is below the one percent target by \$37.87M.

The Proposed Budget also suspends the one percent policy and instructs the CAO and CLA to report back with recommendations to revise the definition of "contributions for capital or infrastructure improvements" to include all tangible expenditures that are MICLA-eligible,

## **SIGNIFICANT ISSUES**

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including capital repair, infrastructure and technology expenditures. Over the past several years, this requirement has been waived. Since the establishment of the policy in 2005-06, the City has invested \$147.4M as it pertains to this policy. In those eight years, the one percent goal has been met once, in 2006-07. As it is currently interpreted, if the City had complied with the policy since its inception, an additional \$201.1M would have been invested in the City's infrastructure during this time period.

- **Human Resources Benefits and Workers' Compensation:** The Human Resources Benefits and Workers' Compensation Fund provides for direct payments, exclusive of personnel and administrative costs, for various human resources benefits provided to City employees. The Proposed Budget increases this fund by \$39.50M, a 7.1 percent change from fiscal year 2011-12. Included in this estimate is a savings of approximately \$6M in plan changes yet to be approved. This needs to be resolved by July 1, 2012 in order to achieve the savings.
- **MICLA Debt Issue:** The Capital Finance Administration Fund includes \$212.8M for debt service cost for outstanding MICLA debt issued to date. This amount is \$10.7M (5.3 percent) more than 2011-12. While the 2012-13 authorization reflects savings from the refunding of four MICLA bond issuances, the net increase is mainly due to an \$11M increase in debt service for the Police Headquarters Facility. In 2011-12, the City used interest earnings from unspent bond proceeds that accumulated during construction of that facility to pay \$15M of the debt services for that year. This year, \$4M in interest earnings and unspent bond proceeds from the Public Works Building project will be used to pay a portion of the City's \$22.6M debt service obligation for the Police Headquarters project, while the remainder will be paid from the General Fund.

The Proposed Budget recommends a total of \$65.2M in new MICLA authorization for a variety of projects including: a parking control system for the Convention Center (\$1M); funding to replace the Fire Department's Computer-Aided Dispatch System (\$12M); replacement of various heavy duty LAFD trucks and emergency vehicles, and some utility vehicles and crew cab pickups (\$14.9M); GSD's replacement of vehicles for various departments (\$15.3M); ITA routers and network switching equipment (\$1M); use of MICLA Commercial Paper for 117 LAPD patrol vehicles, of which 25 percent will be repaid from Forfeited Asset Trust Funds; funding for various non-patrol vehicles for the LAPD (\$5.4M); contingency funding for the Bridge Improvement Program (\$2M); building equipment replacement (\$2.5M); Civic Center tenant improvements and relocation expenses (\$2M); completion of an EIR on Parker Center (\$1M); and capital repairs at the Public Works Building (\$0.50M).

- **Tax and Revenue Anticipation Notes (TRANS):** The Proposed Budget includes funding totaling \$860.5M to pay debt service on TRANS issued to fund the City's annual required contributions to the City Employees' Retirement System (LACERS) (\$344.9M including interest) and the Fire and Police Pension Fund (Pensions) (\$512M including interest). In addition, \$3.6M in funding is also included to pay debt service for the issuance of TRANS

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to meet short-term cash flow needs occurring early in the fiscal year when certain revenues have not been received. The July 2012 payment of the entire annual contribution to LACERS and Pensions will allow both Funds to earn additional interest to be used to discount the required City contribution without reducing the Funds' annual receipts. For comparison, \$895.5M in TRANS were authorized in the 2011-12 Adopted Budget and \$742.9M was authorized in the 2010-11 Adopted Budget.

### ■ **Telecommunications Liquidated Damages and Lost Franchise Fees Fund Telecommunications Development Account (TDA)**

- ▶ Citywide Customer Relationship Management System: The Proposed Budget includes \$1M in TDA funds for Phase I of a Customer Relationship Management System. ITA has not provided a report or plan for this system.
- ▶ Transfer from the TDA: The Administrative Code provides that TDA Funds may be transferred to the General Fund by majority vote of the Council and approval of the Mayor. The Proposed Budget does not transfer any TDA funds to the General Fund. However, the TDA includes additional funding of \$3M to pay for ITA overhead cost reimbursements.
- ▶ Channel 35 Studio: Funding of \$5.88M is included for Phase I of construction for a new studio for Channel 35. The source of these funds are restricted for capital improvements related to public access.

### ■ **New Initiatives:**

The Proposed Budget includes funding for the following new initiatives:

- ▶ Building and Safety and Planning: initiation of the first year of a five-year plan to update the City's zoning code, as well as coordinated services for anticipated major projects.
- ▶ CAO: implementation of the first phase of a Performance-Based Budget system.
- ▶ City Attorney: Deferred Entry of Judgment Program and zoning code rewrite project.
- ▶ Convention Center: New parking control system for the South Hall and Venice Street garages, which will be financed through MICLA.
- ▶ Finance: purchase of Oracle Database Management licenses to accommodate increased data analysis and report functionality for both the LATAX and Treasury systems.
- ▶ General Services: re-establishment of the Building Emergency Education Program (BEEP) and to bring City facilities into compliance with the high-rise safety ordinance.
- ▶ Information Technology Agency: Customer relationship management system and a new LA Cityview Channel 35 studio.
- ▶ Library: Build a Digital Library that will digitize the Library's historical content and the development of a Library Strategic Plan.
- ▶ Neighborhood Empowerment: 2012 Neighborhood Council elections, temporarily transferred from the City Clerk.
- ▶ Personnel: Human Resource consolidation, Phases I and II.
- ▶ Police: Office of Public Safety consolidation.



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- ▶ Recreation and Parks: Police Administration Building services for landscape maintenance.
- ▶ Fire: recruitment and hiring of new firefighters; purchase of 250 computer modules to be installed on fire vehicles as part of the first phase of a five-year Fuel Vehicle Management System implementation and provision of a designated point of contact to enhance communication and oversight for all services, exercises and training at the Los Angeles International Airport.
- ▶ Zoo: the new Rainforest of the Americas exhibit that is expected to open in April 2013 and the VIP Behind the Scenes Tours pilot program.

The Mayor also proposes a pension reform plan for new civilian employees that increases the retirement age to 67 and implements other reforms that will reduce the City's long-term pension costs. The Proposed Budget requests the City Administrative Officer to provide recommendations on the new tier to the Mayor and City Council by July 1, 2012. Various proposals have been discussed by the City Council in the past two years.

- **Contracting Proposals:** The Proposed Budget recommends one potential new contracting proposal in the Bureau of Street Services Weed Abatement and Debris Removal program. This program is responsible for clearing weeds, brush and debris from the public right-of-way and unimproved parcels. The Proposed Budget would eliminate 28 positions, of which 27 are filled.
- **Special Parking Revenue Fund (SPRF):** The Proposed Budget provides for a surplus transfer of \$32.58M to the Reserve Fund and would eliminate the loan repayment requirement on all surplus funds that are transferred. Exhibit H includes instructions to the CAO to review opportunities relative to the SPRF to increase the financial returns to the City. On April 13, 2011, the Council adopted a Five-Year Operations and Maintenance Plan for the Special Parking Revenue Fund that included \$10.78M in Fiscal Year 2012-13 for capital expenditures. The Proposed Budget allocates only \$7.15M for capital expenditures. The Proposed Budget also provides much lower amounts for various other elements in the Five-Year Plan, including collection services and parking facilities lease payments.
- **Exhibit H "Required Ordinance Changes and Other Budgetary Actions":** Traditionally, Exhibit H outlines actions necessary to be taken by the Council and Mayor in order to implement the Proposed Budget. The past few budgets, however, have included instructions and proposals on policy matters for which Council has already taking action, or that may require further refinement and discussion in a Council Policy Committee and full Council prior to endorsement. Exhibit H of the 2012-13 Proposed Budget, once again, includes a variety of proposals that promote policy decisions affecting future budgets that should be further analyzed by Council policy committees outside of the annual budget approval process.

Instructions in Exhibit H of the 2012-13 Proposed Budget include: Drafting an ordinance to requiring parking lot operators who are delinquent with their tax payments to install revenue control equipment; Reducing the number of City residents that can receive a solid waste

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Lifeline subsidy by nearly 19,000; Eliminating the loan repayment requirements on surplus revenues transferred from the Special Parking Revenue Fund; Eliminating the parking validation program at the Central Library; Increasing fines by \$10 for street sweeping violations, and a variety of other parking violations; Increasing Zoo admissions by \$1; Suspending the City's Capital and Infrastructure Policy, and instructing staff to recommend a revised policy; Creating a lower pension tier for new employees, with a higher retirement age, and reduced benefits and costs to the City; Instructing staff to report on potential ballot measures for March 2013 to raise revenue for public safety; Sharing liability costs with the responsible department; Beginning to measure departments' progress towards certain performance metrics, and a transition to performance-based budgeting; Creating a policy for increasing revenues from advertising, signage, and naming of City facilities; Hiring a consultant to look at LAFD deployment, the Constant Staffing Model, and response times; Denying or revoking City permits from businesses with delinquent taxes; Instructing the CAO to explore "opportunities" to increase the financial returns from the City's Special Parking Revenue Fund; Declaring a fiscal emergency; Continuing Managed Hiring Committee and the "Hard Hiring Freeze"; and Instructing the CAO to report to the EERC with recommendations to mitigate potential layoffs or furloughs.