



City of Los Angeles Community Budget Day

City Budget Update

Presented by

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Executive Summary

The City has entered a new period of growth and fiscal balance.

- Fiscal year 2013-14 is a turning point in the City's financial position.
 - Established a "new normal" of a lower workforce
 - Solid set-aside fund balance of over \$400 million
 - ✓ \$326.7 million Reserve Fund on July 1, 2013 (6.71% of General Fund Revenues - highest ever)
 - ✓ \$61.5 million Budget Stabilization Fund (After \$8 million is transferred to General Fund per Adopted Budget)
 - ✓ \$21 million Unappropriated Balance
 - Positive increase of City revenues, including property and sales taxes, over 3% for the past year
 - Continued implementation of a strategic plan including a Five Guiding Principles approach
 - Rate of growth in pension and OPEB have been mitigated
 - ✓ Adopted new tiers for new sworn and civilian hires
 - ✓ Increased employee contribution towards retirement health benefits from 0% to 2% (sworn) or 4% (civilian)
 - No Fiscal Emergency Resolution, no furloughs, no layoffs under the 2013-14 Adopted Budget
 - Met Capital Improvement Expenditure Policy ("CIEP") of 1%
 - 2013-14 Adopted Budget creates a roadmap to budget surplus by 2017-18



The City has entered a new period of growth and fiscal balance.

Executive Summary

- In First Financial Status Report released on October 17, 2013, CAO reports on:
 - 2012-13 revenues which came in higher than budgeted by \$116.7 million.
 - 2013-14 revenues which are still too early to state whether they will come in higher or lower but currently are tracking on budget.
 - Reserve Fund which was higher than expected by about \$65 million.
 - Four-Year Outlook which was unchanged from Adopted Budget but which contains two scenarios showing a surplus by 2017-18 under one and a continued but smaller deficit in 2017-18 under a second scenario.
 - 2013-14 projected department deficits of \$25.3 million which identify 5 main drivers of the deficit including:
 - Fire Department \$14 million
 - Election Cost for Public Health Initiative \$4.6 million
 - Police Department \$3.8 million
 - City Attorney \$2 million
 - Transportation \$0.88 million
 - Ongoing issues of concern with regard to labor-related litigation, class action liability, federal and state actions taken, and pension issues.



Budget Guiding Principles in Action

I Responsible Fiscal Management

- Reserve Fund at 6.71%
- Budget Stabilization Fund at \$61.5 million
- Budgeted 1% of General Fund revenues for capital improvements
- Partially mitigated accrued police overtime liability
- Responsible use of one-time revenues

II Focus on Core Services

- Maintenance of effort for street repairs set at 800 miles for 2013-14 and 735 miles thereafter
- Restoration of fire services linked to deployment plan
- Police hiring at 10,000 officers maintained
- Restored library services
- Approved formation of an Economic Development Department and completed consolidation of Office of Public Safety into LAPD

III Alternative Service Delivery Models

- Convention Center management agreement approved
- Economic Development non-profit implementation in progress to attract and retain businesses in the City
- New marketing program adopted between Zoo and GLAZA
- New private parking contractors identified, Council approval pending

IV Sustainable Workforce

- Contained staff growth to 0.2% from 2012-13 levels
- Tier II for civilian employees begins on July 1, 2013
- Minimized service impacts and avoided furloughs or layoffs through the pursuit of labor concessions
- Assumes no future salary increases through 2018 and assumes employee contributions of 10% of medical premiums

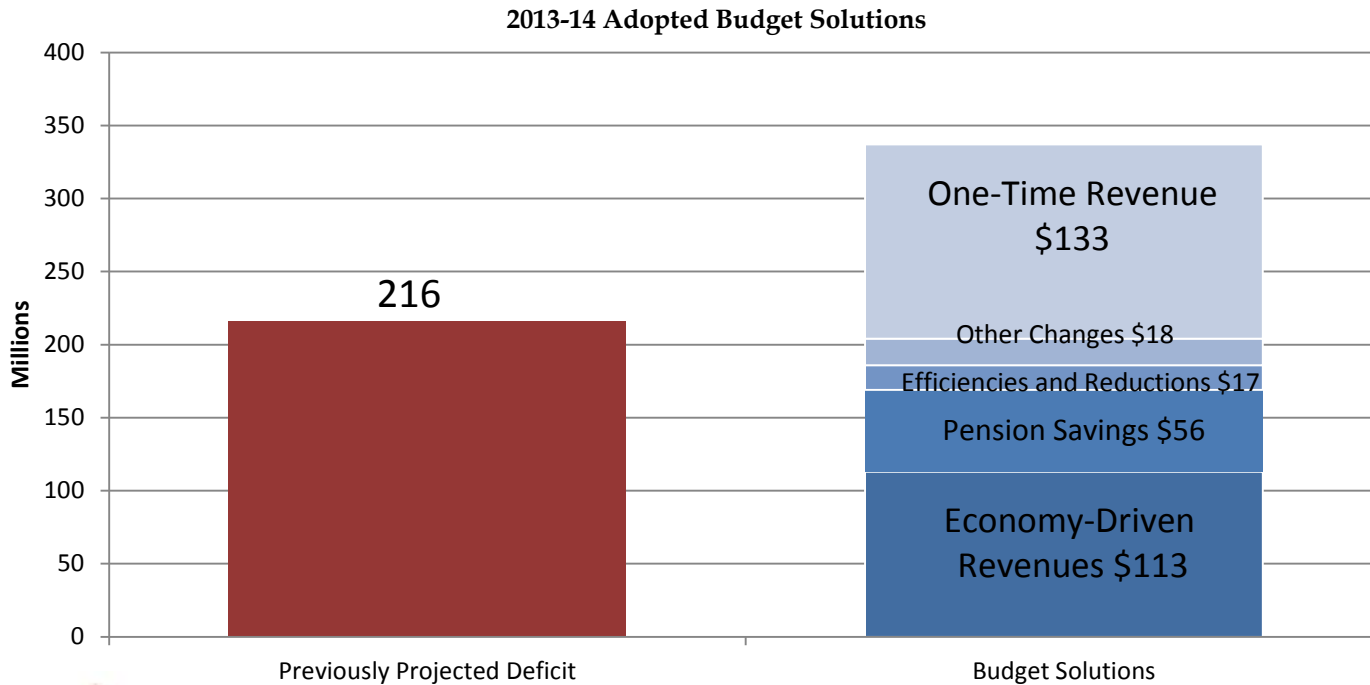
V Protect, Maximize & Enhance Revenue

- Identify 71% ongoing and 29% one-time solutions to balance budget
- Enhancements to collection efforts
- Improved transportation grant accounting provided additional \$42 million one-time revenue
- Review of 900 special funds to ensure proper General Fund cost reimbursement
- Alternative financing methods for major infrastructure projects



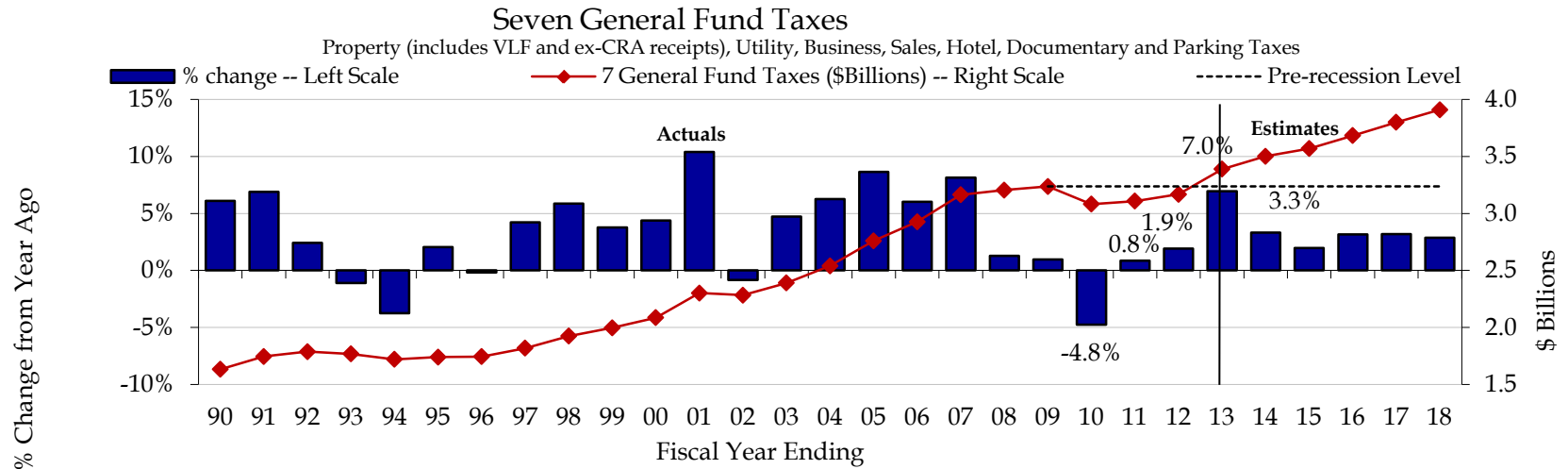
2013-14 Budget Solutions

- Leading into 2013-14, the City reduced the previously projected \$1 billion budget gap by 80%
- The 2013-14 Budget addresses deferred liabilities and investments to City services and infrastructure.
- In addition to closing the \$216 million budget gap, the City is increasing the budget for new services and facilities by \$121 million.



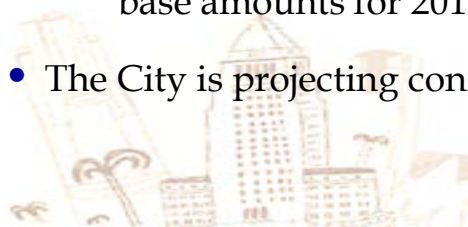


Major General Fund Revenue Stabilized



Source: City of Los Angeles, Office of the City Administrative Officer

- Actual General Fund revenues in 2012-13 exceeded 2012-13 Budget by \$116.7 million.
 - Property Tax – Year end surplus primarily due to early receipt of secured property tax revenues (\$24 million) which will correspond to a lower receipt in 2013-14.
 - Ex-CRA Funds – Higher than expected incremental tax receipts. However, in 2013-14 receipts are expected to be down due to lower than estimated receipts from due diligence review.
 - Business Tax, Utility Users’ Tax, Parking Users’ Tax – receipts were below plan which will lower the base amounts for 2013-14
- The City is projecting conservative revenue growth of 3% annually.





Economy Shows Signs of Improvement

Economic indicators show signs of recovery.

- The City's economy is recovering although the City and economy are at risk if another federal shutdown occurs or the debt ceiling fight continues.
- Important tourism and trade industries are performing strongly.
- Taxable sales have increased 19.4% from their recession-era lows in 2009.
- Average annual wages in the City grew 2.9% from 2011 to 2012.
- Home prices in the City trended upward throughout 2012 and reached four-year highs in the first quarter of 2013.
- Foreclosures in the City fell by 54.5% from the first quarter of 2012 to the first quarter of 2013.
- For the first quarter of 2013, retail vacancy rates were at their lowest point in four years.
- Vacancy rates for industrial properties have dropped from 8.7% in the first quarter of 2012 to 7.3% in the first quarter of 2013.



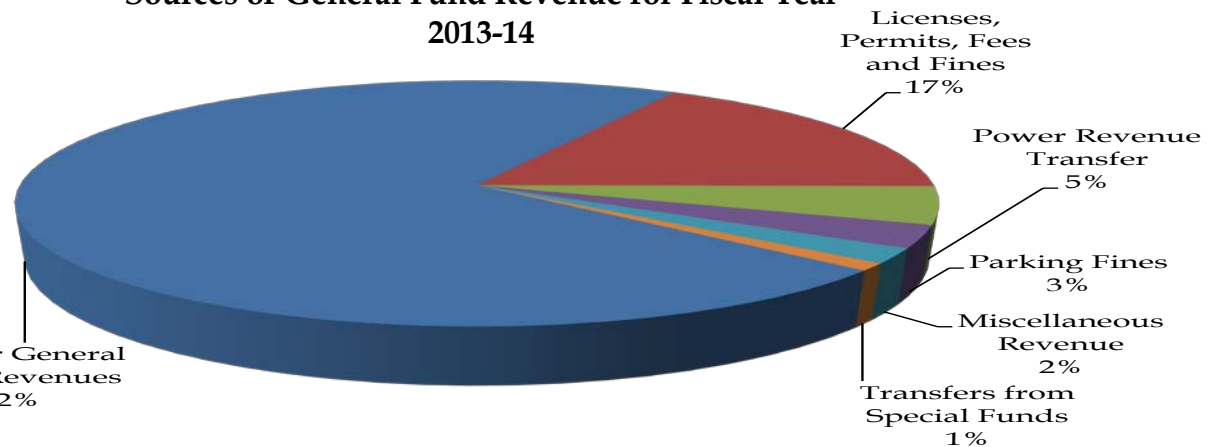
Source: Beacon Economics



2013-14 Adopted Budget Reflects Conservative Revenue Projections

\$ Thousands			\$ Variance	
	2012-13 Actual Receipts	2013-14 Budget	from 2012-13 Actuals	% Variance from 2012-13 Actuals
Property Tax	\$ 1,550,389	\$ 1,549,568	\$ (821)	-0.05%
Property Tax Ex-CRA Inc.	\$ 58,839	\$ 55,434	\$ (3,405)	-5.79%
Utility Users' Tax	\$ 620,448	\$ 641,598	\$ 21,150	3.41%
Business Tax	\$ 448,832	\$ 470,728	\$ 21,896	4.88%
Sales Tax	\$ 338,970	\$ 352,790	\$ 13,820	4.08%
Documentary Transfer Tax	\$ 147,282	\$ 160,106	\$ 12,824	8.71%
Transient Occupancy Tax	\$ 167,824	\$ 174,423	\$ 6,599	3.93%
Parking Users' Tax	\$ 89,423	\$ 94,947	\$ 5,524	6.18%
Licenses, Permits, Fees and Fines	\$ 724,702	\$ 832,712	\$ 108,010	14.90%
Residential Development Tax	\$ 2,379	\$ 2,100	\$ (279)	-11.74%
All Other	\$ 518,145	\$ 532,486	\$ 14,341	2.77%
Total General Fund	\$ 4,667,233	\$ 4,866,892	\$ 199,659	4.28%

Sources of General Fund Revenue for Fiscal Year 2013-14



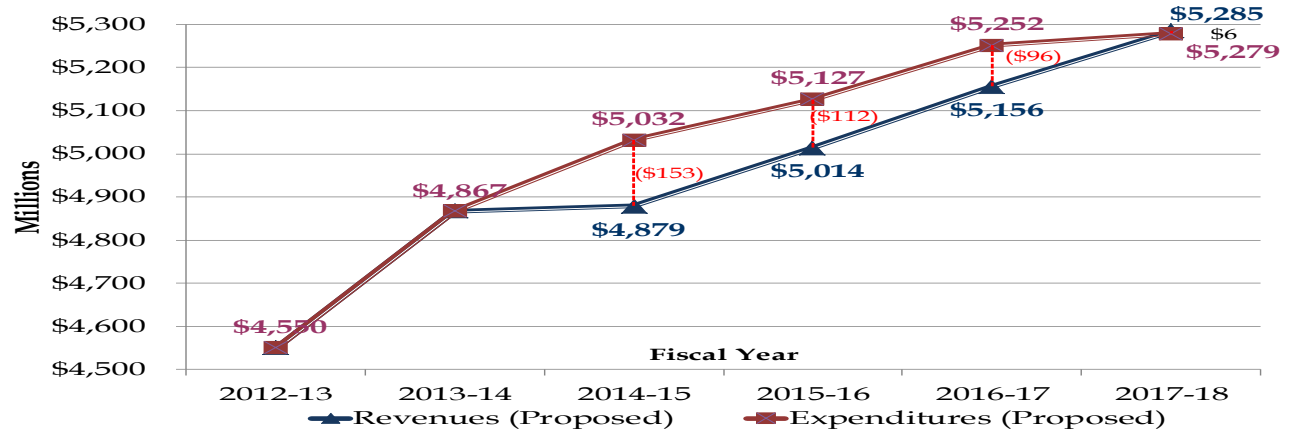


Multi-Year Budget Outlook

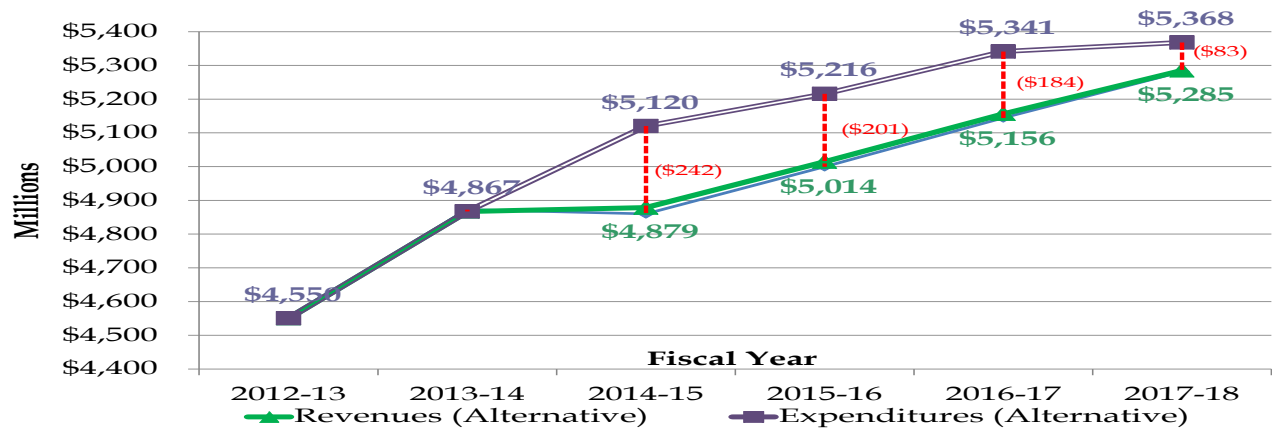
Assumptions for budget outlook include:

- Civilian employees will pay 10% of medical premiums
- No cost-of-living increases for 2014-15 and beyond
- No 5.5% raise on Jan. 1, 2014
- Continue to manage police overtime

Four Year Budget Outlook 2013-14 to 2017-18 Based on Adopted Budget



Four Year Budget Outlook 2013-14 to 2017-18: Alternative without Labor Concessions





The City's Reserve Fund is strong.

Record High Reserve Balances

- The City maintains a cash Reserve Fund for contingencies and emergencies.
- The City has met its Charter mandate for a 2.75% emergency reserve.
- This year, the City met its policy goal of 5% of General Fund revenues.
- Set-aside fund balance of over \$400 million includes:
 - ✓ \$326.7 million Reserve Fund on July 1, 2013 (6.71% of General Fund Revenues - highest ever)
 - ✓ \$61.5 million Budget Stabilization Fund (After \$8 million is transferred to General Fund per Adopted Budget)
 - ✓ \$21 million Unappropriated Balance
- The City has adopted policies with respect to Budget Stabilization Fund for future contributions and limit withdrawals based on rules.
- The City adopted an encumbrance policy that provided additional reversions to increase the Reserve Fund at year-end.

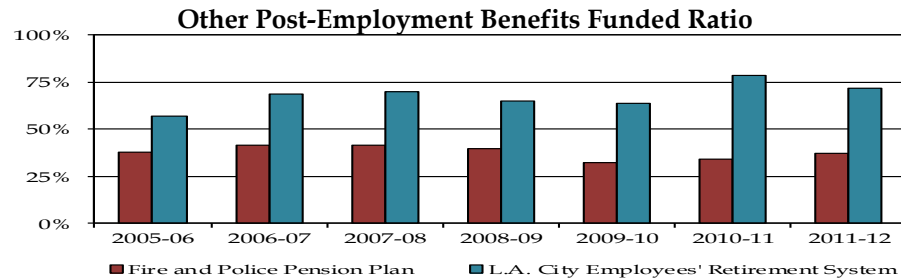
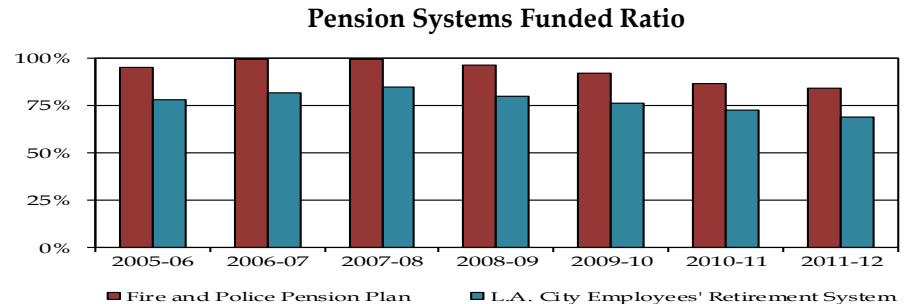
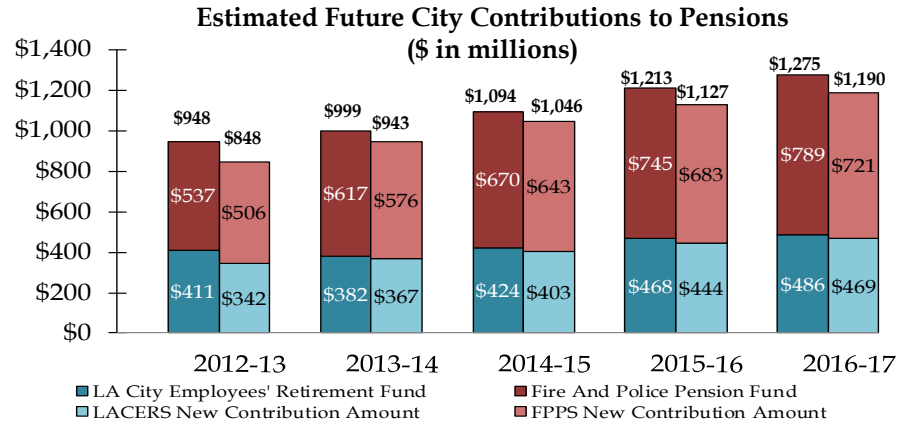




Pensions and Benefits - Estimated Contributions

Future City pension contributions are growing at a reduced rate.

Strong investment returns are keeping funded ratios over 70%.



Source: City of Los Angeles, Office of the City Administrative Officer

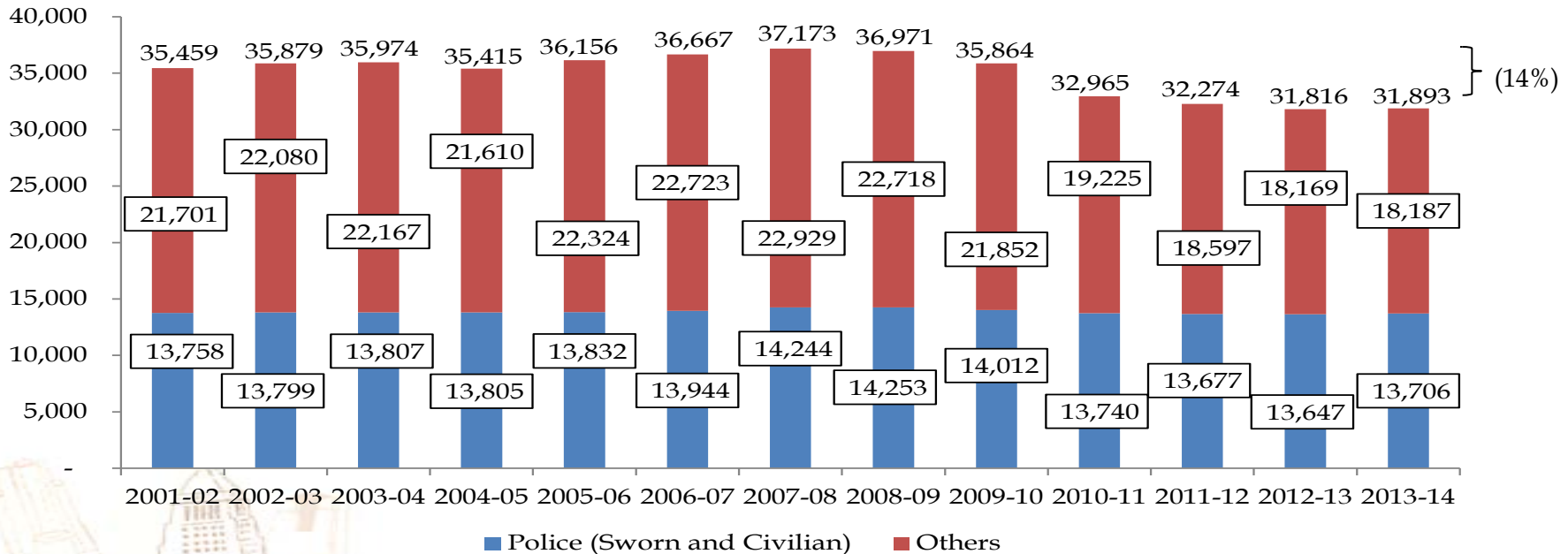


Authorized City Staffing

The civilian workforce has been maintained near its lowest point in more than three decades.

- Staffing has been maintained at its current level which is down 14% from its peak in 2007-08.

Authorized City Staffing (Not Including Proprietary Departments)





Strengths

- The City's budget is based on conservative revenue assumptions.
- The City addresses budget gaps primarily through ongoing solutions.
- The 2013-14 Budget provides flexibility for uncertainties.
- Set-aside fund balance of over \$400 million .
- The underlying economics of the Los Angeles region set the stage for a strong economic recovery.

Challenges

- The City's budget outlook continues to show deficits over the next several years.
- Scenario which shows a surplus by 2017-18 depends on labor concessions.
- Focus on service restoration needs to be balanced with resources.
- External factors (i.e. federal government) and impact to economy.

