

# Financial Facts At A Glance

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*Where are we?*

*How did we get here?*

*Where are we headed?*

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## INTRODUCTION

Over the last several years, the City has experienced economic pressures unlike anything seen in recent decades, including the ninth highest unemployment rate in the nation for metropolitan areas with populations of one million or more. The length and depth of the economic downturn has resulted in unprecedented declines in most of the City's various sources of revenues. In addition, the City has had to address a number of expenditure pressures, including most significantly increased pension and health costs to amortize unfunded liabilities resulting from investment losses.

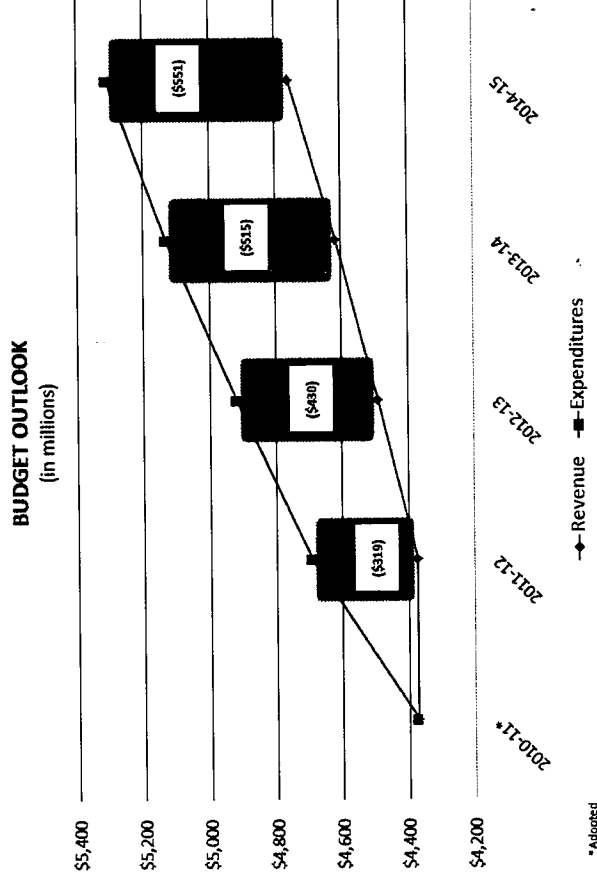
In response to the challenges, the City made major cuts in its budgeted appropriations throughout the 2008-09 and 2009-10 fiscal years. As part of the City's last two adopted budgets and through subsequent interim actions, the City implemented a number of ongoing and one-time initiatives, including various transfers from special funds, layoffs and the elimination of General Fund positions, the freezing of hiring for most civilian (non-safety) positions and the slowing of hiring of new police recruits, a modified deployment plan for fire department resources, reduced overtime funding, an early retirement incentive program, mandated unpaid days off for employees, and the elimination or consolidation of several small departments.

The City has also drawn from the Reserve Fund. During the fiscal year, a total of \$132 million is expected to be transferred to the General Fund to balance the 2009-10 Budget.

The City's 2010-11 Adopted Budget, while projecting moderate growth in revenues, calls for additional on-going expenditure reductions as well as some new one-time measures in order to achieve balance. These measures include additional staffing reductions, additional furloughs, and the leasing or long-term contracting of City parking facilities to private operators.

## BUDGET OUTLOOK

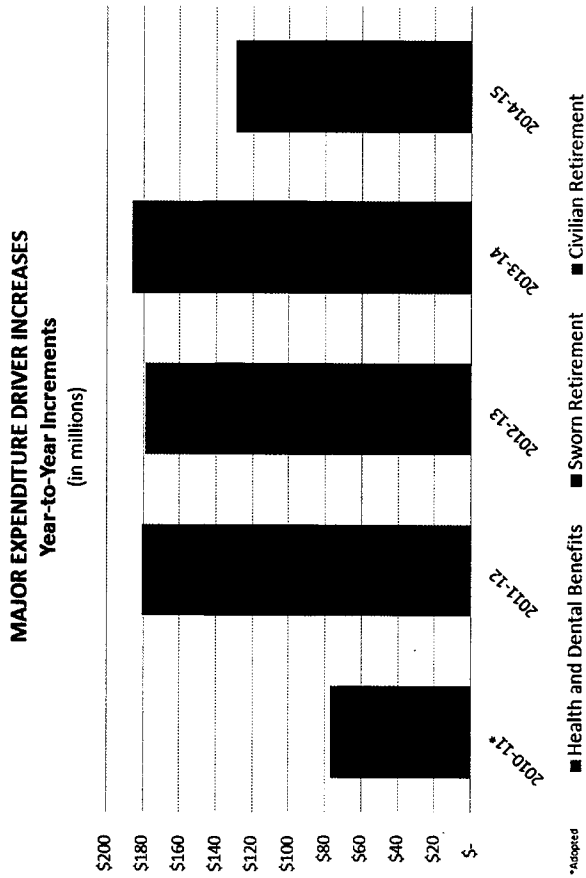
The City periodically prepares a multi-year General Fund budget outlook to identify future budget challenges, including whether a budget gap is likely to occur. This planning tool helps the City identify potential budgetary pressures and allows for earlier implementation of budget adjustments, either through the annual budget process or through interim action.



The most recent update of this outlook suggests that, at current trends, the City will face a budget gap of \$319 million in 2011-12, with even larger gaps occurring in subsequent years. Among the key expenditure pressures are projected growth in pension system contributions, increased cost of health benefits, and employee compensation adjustments. The City will continue to maintain a balanced budget, as required by law, although the measures required to achieve this result may result in a reduction of services.

**KEY EXPENDITURE DRIVERS**

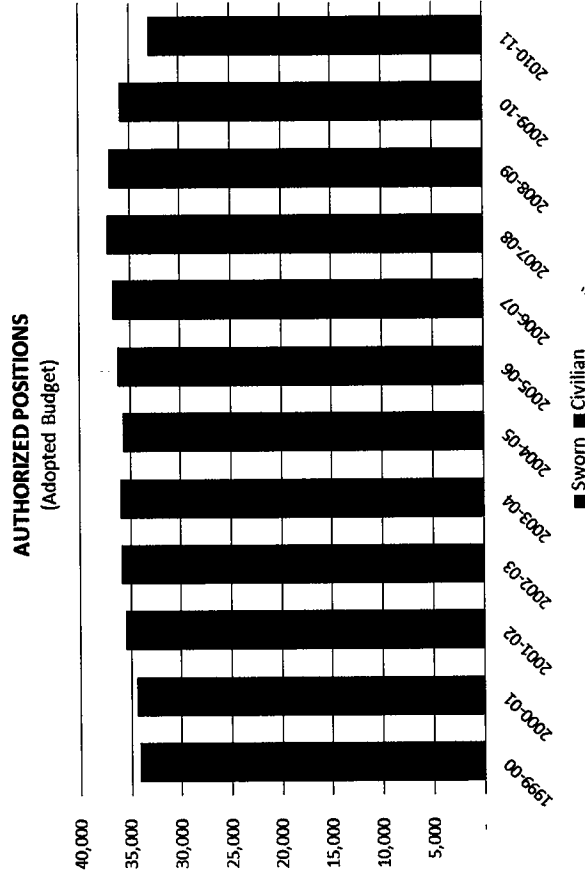
From 2010-11 through 2014-15 personnel costs are expected to account for over \$750 million of year-to-year expenditure growth.



The following pages provide a snapshot of the impact of personnel benefits on the City's budget and serve to spotlight this area for achieving long-term financial sustainability.

**DRIVER: AUTHORIZED POSITIONS**

From 1999-00 through 2007-08, the number of authorized positions continued to increase by an average of 1.5% per year.

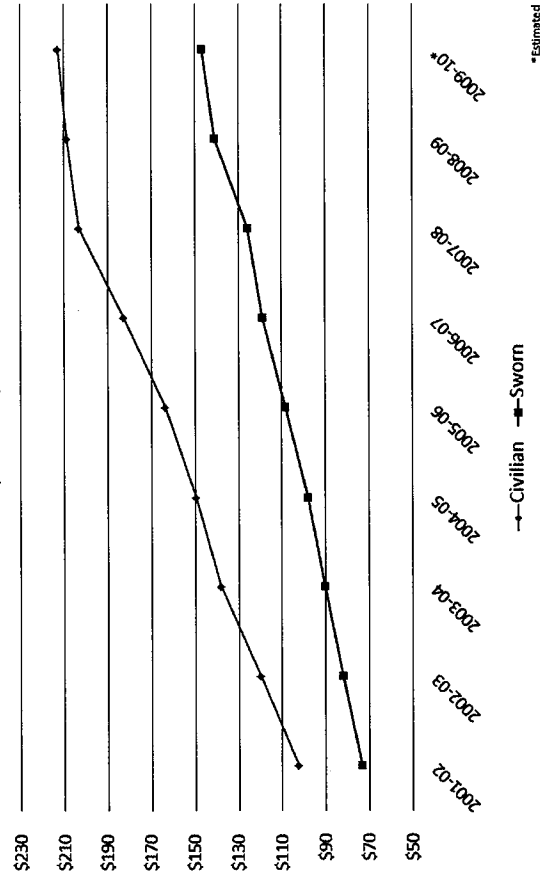


Between 1999-2000 and 2009-10, civilian payroll increased by 45% and sworn payroll by 44%. The number of authorized positions in the 2010-11 Adopted Budget is the lowest since 1999-2000, a decrease of 3% (from 34,063 to 32,964). Staffing growth not only has a direct ongoing salary impact but also translates to further increasing indirect personnel costs such as health and retirement benefits that are already subject to significant market pressure in the current economic environment.

**DRIVER: HEALTH INSURANCE**

In 2001-02, the City spent \$103 million on civilian health benefits covering 23,571 employees; in 2009-10, the estimated cost is \$218 million covering 29,449 employees. The costs of health benefits for Police Officers and Firefighters in 2001-02 were a combined \$74 million for 11,791 employees; in 2009-10, the estimated cost is \$147 million for 13,176 employees.

**ANNUAL HEALTH INSURANCE COSTS**  
(in millions)



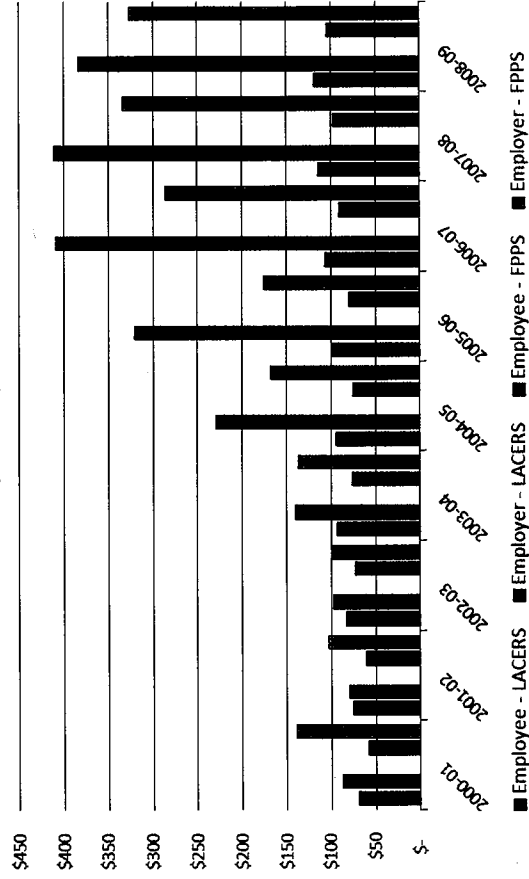
\*Estimated

While enrollment in civilian and sworn health insurance programs increased 25% and 12% for civilian and sworn employees, respectively, costs increased 113% and 104%.

**DRIVER: RETIREMENT AND PENSION CONTRIBUTIONS**

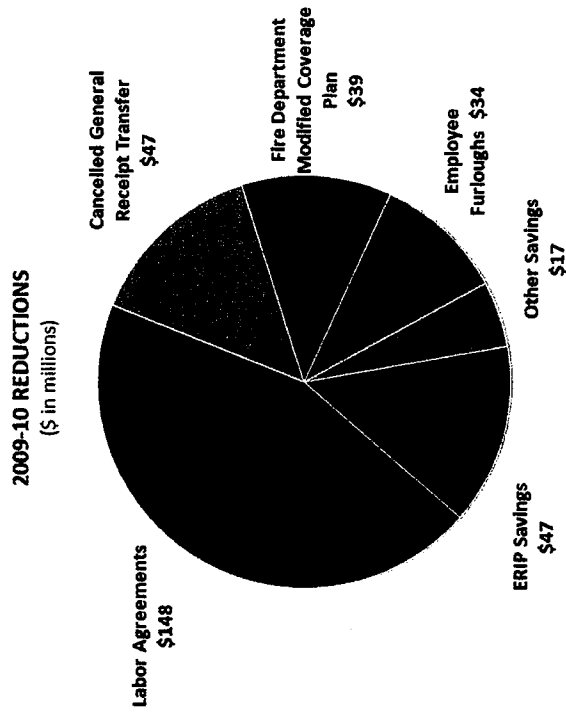
Between 2000-01 and 2008-09, the number of active Fire and Police Pension System members increased 12% (from 12,322 to 13,802), while employer contributions increased 135% (from \$139 million to \$327 million). Active membership in the Los Angeles City Employees' Retirement System increased 17% (from 25,654 to 30,065), while employer contributions increased 336% (from \$88 million to \$384 million).

**ANNUAL RETIREMENT AND PENSION CONTRIBUTIONS**  
(in millions)



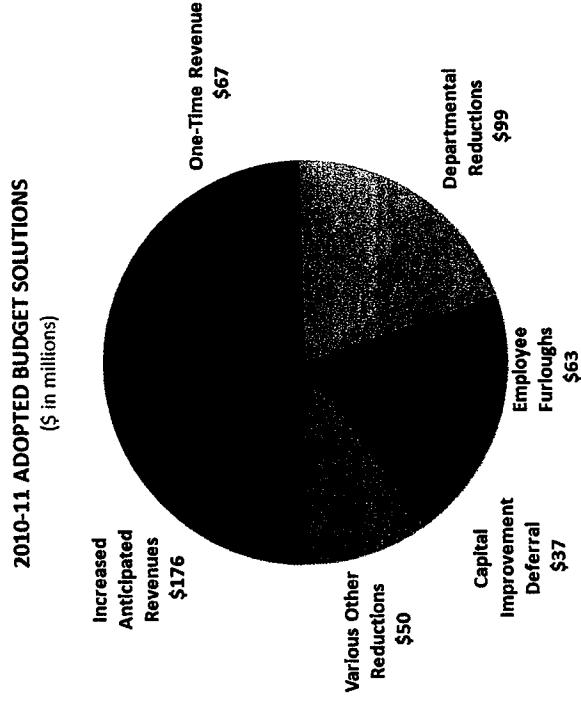
**SOLUTION: FY 2009-10 ACTIONS**

Through a variety of cost reduction actions taken during 2009-10, the Mayor and City Council identified \$333 million in savings to help solve the City's budget deficit.



**SOLUTION: FY 2010-11 BUDGET ACTIONS**

The 2010-11 Adopted Budget solves a \$492 million budget gap through a balance of revenues and reductions.



**CONTINUING SOLUTION: THREE-YEAR PLAN**

In response to the City's fiscal crisis, Mayor and Council directed the City Administrative Officer to develop a multi-year financial plan, *Three-Year Plan to Fiscal Sustainability*, with the following goals:

- 1) Balance the budget in the current fiscal year
  - 2) Strengthen the City's credit rating
  - 3) Restore the City's long-term fiscal health and sustainability
- A four pillared effort was subsequently adopted to address the City's structural financial problems on several fronts.

**I. Responsible Financial Management**

The road to financial solvency and sustainability requires a map and strict adherence to it. Our current financial policies are being strengthened and expanded.

**II. Focus on Core Mission**

The City is focusing its limited resources on the most essential and required functions through pursuing service eliminations and consolidations.

**III. Public-Private Partnerships**

External partnerships present opportunities for the City to raise capital, gap fill services, reduce costs and increase efficiencies, and better enable revenue generating enterprises to be self-supporting.

**IV. Workforce Modernization**

The City's major cost drivers are salary, retirement, and human resources benefits. Unilateral compensation and benefit reductions are not an option, but negotiated compensation reduction is the long-term solution that preserves services and jobs.

**FISCAL STATUS BAROMETER: RESERVE FUND**

The Reserve Fund is projected to begin the fiscal year with a balance of \$140.5 million or 3.21% of General Fund budgeted revenues. In compliance with the City's Financial Policies, 2.75% of budgeted revenues are allocated to the Emergency Reserve (\$120.3 million) with the balance set aside in the Contingency Reserve (\$20.2 million).

**RESERVE FUND**  
As of July 1st  
(in millions)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
Emergency Reserve	\$78.9	\$108.4	\$122.0	\$125.2	\$121.0	\$120.3
Contingency Reserve	\$77.5	\$73.9	\$6.3	\$40.6	\$31.9	\$20.2
<b>Total</b>	<b>\$156.4</b>	<b>\$182.3</b>	<b>\$128.3</b>	<b>\$165.8</b>	<b>\$152.9</b>	<b>\$140.5</b>
% of GF Revenues	4.02%	4.20%	2.89%	3.64%	3.45%	3.21%

\*estimated