WENDY GREUEL
CONTROLLER

March 1, 2010

The Honorable Antonio R. Villaraigosa, Mayor
City of Los Angeles
Room 303, City Hall
Los Angeles, California 90012

Dear Mayor Villaraigosa:

SUBJECT: MARCH 1 REPORT

As required by City Charter Section 311(c), I am submitting an estimate of revenue for the upcoming fiscal year as well as an estimate of the amount of revenue required to meet the annual debt service requirements for principal and interest for the City's General Obligation Bonds.

Economic Overview

This revenue estimate, which is the first I've released as City Controller, occurs in very difficult economic times for the City of Los Angeles. In preparing this report, we met with five leading local economists, reviewed the economic forecasts of UCLA, the State Department of Finance, the State Legislative Analyst Office and the Los Angeles County Economic Development Corporation.

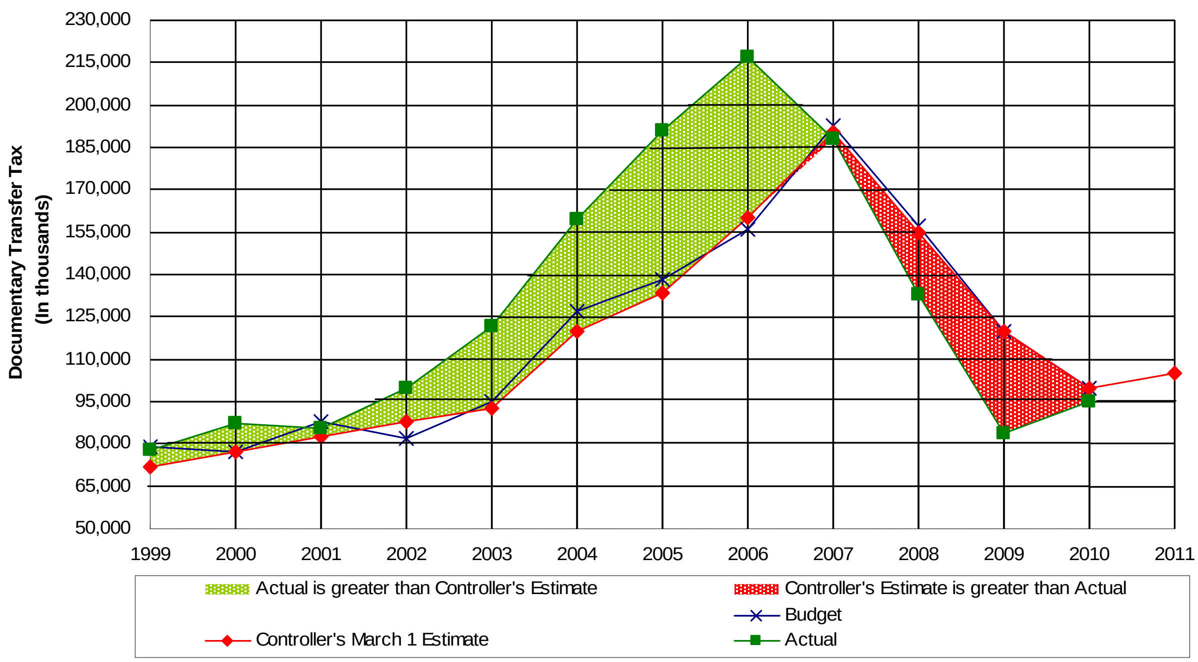
To the extent that there is a consensus among economic experts, it seems that a modest/measured recovery has begun but we should expect it to be slow and gradual in Los Angeles. There are of course a variety of factors that could either hasten of slow the rate of recovery.

The economy could recover more quickly if: 1) Foreclosures are limited and banks continue to delay the resale process for foreclosed homes, 2) International trade continues to improve, 3) Motion picture and television production continue to grow – largely as a result of the State implementing a production tax credit and most importantly, 4) Optimism and consumer confidence improve.

However, an economic recovery could take longer if: 1) Foreclosures don't slow and banks resell properties they now control, further depressing the real estate market, 2) The credit crunch returns, 3) The Federal Reserve discontinues the purchase of housing securities as scheduled at the end of March and a secondary market for those securities is not fully functioning, 4) There is a double dip recession, 5) Commercial property vacancies increase reducing the value of those properties and the resulting tax revenue, and 6) New tourist facilities cannibalize existing tourist facilities.

A question that has arisen is, if a modest recovery has begun and the economy is improving, why do we still have a revenue problem? A look at the Documentary Transfer Tax, Property Tax and Taxable Sales will help to answer this question.

Perhaps the most volatile tax the City has is the Documentary Transfer Tax. It is a tax on the sale of real property and fluctuates based on purchase price and volume. The graph below displays the volatility of the tax. In March of 1998, the Office of the Controller forecast receipts of $72 million, while actual receipts for the ensuing fiscal year were $78 million. In March of 2005, the Controller's Office forecast $160 million, while the actual was $217 million, an unparalleled increase of almost threefold in seven years. However, the decline has proved to be more rapid than the increase. In March of 2009, the Controller forecast receipts of $100 million: we now estimate actual receipts will be $95 million.



As the graph shows, the Los Angeles housing market has been very volatile. For 2011 we estimate receipts to be $105 million. However, regardless of whether 2011 actual receipts are $100, $105 or even $110 million, we are still more than $100 million below our peak receipts of $217 million received in 2006, five years earlier.

Because of the nature and timing of property taxes, both growth and declines in valuations are delayed and show up in property tax receipts at a later date. In fact, Beacon Economics projects that statewide property valuations may be down as much as 4% in 2010-11 and falling a further 10% in 2011-12 with moderate growth returning in 2013-14. The State Board of

Equalization provides county assessors annually with information on the Proposition 13 2% adjustment factor. The adjustment factor follows the consumer price index (CPI) and can be positive (up to 2%) or negative (any amount). The figure to be used for 2010-11 revenue will be negative and, when combined with decreases in assessed values due to decreases in sale prices, the adjustments by the L. A. County Assessor will be a negative 2.7% for 2010-11. The secured Property Tax is the City's largest single tax estimated at $900 million this year. A 3% reduction (2.7 rounded) will reduce revenue by $27 million in 2010-11. It is likely that assessed values and revenue to the City will continue to decline in 2011-12.

Sales Taxes to the City are based upon taxable sales. The State of California has increased its Sales Tax revenue by increasing the tax that it charges on taxable sales from 5% to 6%, a 20% increase in the tax rate. The City does not have the option to increase its sales tax rate and may in fact be hurt by the state increase if citizens seek to reduce their cost of purchasing taxable goods by using alternate sources, such as the internet, thereby reducing their cost by as much as 9.75%, the Sales Tax rate in the City. The Los Angeles Economic Development Corporation forecasts that Taxable Retail Sales within L. A. County will increase by 3.2% in 2010 and 5.6% in 2011 to $85.5 billion. However, growth of 12.4% is still required to reach the level of sales recorded in Los Angeles County in 2007, $96.096 billion.

While the economy is recovering, it will take time until revenues return to pre-recession levels.

As a consequence of current information, we are reducing some current year revenue estimates below budget estimates, and for 2010-11, Property Taxes are reduced further. Hopefully for 2011-12, the economy will respond with stronger positive growth.

I recommend that the Mayor and City Council be very conservative in their development of a 2010-11 budget. It is possible, given the current state of the national economy, that the revenue estimates contained in this report prove to be optimistic.

Revenue Projections

I am projecting General Fund revenues of $4.2 billion for fiscal year 2010-11. My projection is based on a review of data from state and local economic forecasters and publications, and consultation with City officials charged with collecting and tracking City receipts posted in the General Ledger (as of January 2010).

TABLE I
CONTROLLER'S REVENUE ESTIMATE
($ In Thousands)

Adopted Budget FY 09-10		Controller's Estimate FY 09-10		Controller's Estimate FY 10-11
$4,399,790		$4,206,139		$4,189,324
	(4.40%)		(0.40)%	
		(4.78%)		

Note: For comparative purpose, these totals exclude transfers from the Reserve Fund, and revenues from new City fees or policy changes that may occur in FY 2010-11.

This estimate excludes one-time budgeted receipts such as transfers from the Reserve Fund. My estimate of total 2009-10 receipts is $193.7 million less than the City's Adopted Budget of $4.4 billion. My estimate for 2010-11, $4.2 billion, is $16.8 million less than the 2009-10 estimated receipts. Refer to Exhibit III for a ten year summary of General Fund Receipts.

There is a large (12.8%) projected increase in revenue attributable to activities of the Power Revenue Fund, an increase from an estimated $523 million in 2009-10 to $590 million in 2010-11. The power revenue transfer increased from $220 million to $257 million (16.8%) and the electric users' utility tax increased from $303 million to $333 million (9.9%).

Bond Redemption and Interest

I anticipate that the City's principal and interest requirements for General Obligation Bonds issued to date for fiscal year 2010-11 will be $174,318,519. This is an increase of $7,185,967 from the previous fiscal year.

TABLE II
GENERAL OBLIGATION BONDS
DEBT SERVICE REQUIREMENTS
FOR FISCAL YEAR 2010-11

	Principal	Interest	Total Requirement
GOB - Series 1998-A Refunding	$ 12,765,000	$ 3,357,244	$ 16,122,244
GOB - Series 1999-A Refunding	5,530,000	1,082,580	6,612,580
GOB - Series 2000-A	4,650,000	116,250	4,766,250
GOB - Series 2001-A	10,065,000	3,119,650	13,184,650
GOB - Series 2002-A	13,110,000	8,046,263	21,156,263
GOB - Series 2002-B Refunding	10,705,000	2,610,200	13,315,200
GOB - Series 2003-A	11,665,000	7,818,800	19,483,800
GOB - Series 2003-B Refunding	3,280,000	668,481	3,948,481
GOB - Series 2004-A	18,025,000	12,439,250	30,464,250
GOB - Series 2005-A	6,340,000	4,485,550	10,825,550
GOB - Series 2005-B Refunding	100,000	3,401,250	3,501,250
GOB - Series 2006-A	3,510,000	2,514,038	6,024,038
GOB - Series 2008-A	5,050,000	4,115,750	9,165,750
GOB - Series 2009-A	8,825,000	3,971,250	12,796,250
GOB - Series 2009-B	--	2,951,963	2,951,963
Total	$ 113,620,000	$ 60,698,519	$ 174,318,519

Additional Concerns

As Controller under the Charter, I must issue a March 1 revenue estimate for budget planning purposes. This letter goes beyond that requirement. My role as Controller is not only to annually report on revenue but also to make payments to City employees, vendors, bond holders and others. As the ongoing state fiscal crisis has vividly demonstrated, when the state does not have sufficient revenues to meet its expenditures, the State Controller withholds payments. The same is true of the City, if we do not have sufficient revenue to meet expenditures, this Office will have to withhold payments until we do. While such a condition is unlikely, it is not impossible this or next year if expenditures and revenues are not brought in line.

I have released several letters expressing concern about the current fiscal condition of the City and urging you and the Council to act quickly to reduce.the budget deficit I know that you, along with all members of the City Council, share my desire for the City to return to strong fiscal footing and know that swift and decisive actions are necessary to reduce the structural deficit.

As City Controller, I am committed to providing you and the City Council with independent financial reports so that you can make the most informed decisions during these challenging economic times. I know that the cuts you will be making in the coming weeks and months will be difficult and drastic. City government will look dramatically different in five years, both in its size and scope of the services provided.

However, I believe that it is critical that you act strategically in making those cuts, so as to maintain the core functions of the City. The City needs to first identify which specific core functions it plans on providing to Angelenos and then shift our resources to meet those needs, not the other way around. For instance, furloughing or laying off employees in revenue generating positions seems counter-productive as the City explores opportunities to generate additional revenue. The services provided by City government should not be driven by what positions employees were able to transfer into, but by a clear policy on the City's priorities given the current - and looming - budget deficits.

In my prior reports, I have expressed grave concern about the status of the City's Reserve Fund. As the fiscal year progresses, despite actions taken to date, it is increasingly likely that the majority or all of the Reserve Fund may be used to balance the current year's budget. This will put us in a very difficult position for cash flow purposes. It would also leave us with very few options if the City were to experience a situation requiring the use of a Reserve Fund, such as a major earthquake or other natural disaster. I strongly recommend that any actions to bring expenditures in line with revenues must also include a rapid building up of both the Emergency and Contingency Reserve Fund balances.

In prior years, the Controller has included in the March 1 report an estimated amount of borrowing needed to meet the City's short-term cash flow requirements for the first half of the following or subsequent fiscal year. This year I am requesting $550 million. This is similar to the total amount that we borrowed in the current fiscal year for cash flow: $400 million in Tax and Revenue Anticipation Notes and $150 million in internal Reserve Fund/interfund borrowing. Since we are using internal funds to balance this year's budget (Reserve Funds, Special Parking Revenue Funds, etc.) we will have fewer resources for internal cash flow borrowing in 2010-11. This results in a need to borrow more in the public market and increases the cash flow TRAN from $400 million in 2009-10 to $550 million in 2010-11.

My Office will work with the CAO and your office, as we have in prior years, to refine the amount of borrowing required and its source(s), as better financial and budgetary information becomes available.

My revenue estimate assumes that we receive the anticipated $220 million (down from the $232 million in the adopted budget) from the Power Revenue transfer for 2009-10. To date, the Board of Water and Power Commissioners has only approved a transfer of $147 million. A reduction of $73 million in the transfer would create additional, significant financial problems for the City. It is also possible that the Power Revenue transfer estimate of $257 million for 2010-11 could be reduced. The utility users' tax on electricity has similarly been increased from $303 million in 2009-10 to $333 million in 2010-11. This increase is based upon DWP's anticipated Energy Cost Adjustment Factor (ECAF) increase in 2009-10 which is a policy decision which the Board of Water and Power Commission and the Council and Mayor have yet to make.

Finally, I wish to express a concern about the fiscal infrastructure of the City. Our issuance of the City's financial statements was delayed due to staffing reductions in departments limiting the ability of departments to respond to the Controller and the external auditor's requests for information. In preparing this report, one department with significant revenue collection responsibilities was not able to respond with revenue estimates until February 18 due to budget issues. We need to be very careful with budgetary reductions to accounting professionals in this City. They are the ones who maintain the flow of financial information and insure that vendor and employees are properly paid in our $8 billion a year operation. If we lose our fiscal infrastructure then the users of City financial data, both internal and external to the City, will not have the information needed to evaluate the fiscal health of the City.

Again, I sincerely thank Bruce Baltin of Pannell Kerr Forrester Consulting, Jack Kyser of the Los Angeles Economic Development Corporation, G.U. Krueger of HousingEcon.com, Jerry Nickelsburg of the UCLA Anderson School of Management, and Christopher Thornberg of Beacon Economics for their invaluable assistance in the preparation of this report. I also thank staff at all City departments involved with providing information on revenues for their areas of responsibility. Finally, I wish to thank the personnel in the Controller's Financial Analysis and Reporting Division for preparing this report.

Sincerely,

WG Greuel

WENDY GREUEL
City Controller

Attachments

cc: Honorable Members of the Los Angeles City Council
Gerry F. Miller, Chief Legislative Analyst
Miguel Santana, City Administrative Officer

City Charter Requirement

Section 311(c) of the Charter for the City of Los Angeles requires that the Controller submit an estimate of the revenues to the City, along with a detailed estimate of money required for all outstanding bonded indebtedness and other lawful obligations of the City on or before March 1 of each year. This report is submitted in compliance with the City Charter requirement.

Consumer Confidence

Consumer confidence measures how consumers feel about the nation's economy. Consumer optimism is indicative of consumer spending which creates approximately two-thirds of the economic activity in the United States. Two leading measures of consumer confidence are the Consumer Confidence Index[1] (CCI) published by The Conference Board ("Board"), an independent economic research organization, and the Consumer Sentiment Index[2] (MCSI) published by the University of Michigan Institute for Social Research (MISR).

In January 2010, the CCI rose for the third consecutive month increasing to 55.9 from 53.6 in December 2009. This primarily reflects consumers' more positive outlook about present-day conditions. Overall, consumers' attitude toward current business conditions and labor markets is positive. Consumers' short-term (6 months) outlook, while overall more positive, was somewhat mixed. Indications of consumers' short-term outlook are as follows:

- Expectation of improved business conditions over the short-term decreased to 20.9% from 21.2%;
- Expectations of worse business conditions increased to 12.7% from 11.8%;
- Expectations of fewer jobs decreased to 18.9% from 20.6%;
- Expectations of more jobs becoming available declined to 15.5% from 16.4%, but
- Expectations of a decline in personal income decreased to 16.2% from 18.4%.

Consumers' assessment of present-day conditions was more positive overall than the previous month based on the following:

- Indications that business conditions were good increased to 9.0% from 7.5%;
- Indications that business conditions were bad increased to 46.1% from 45.7%, the attitude about the labor market improved moderately;
- Indications that jobs were "hard to get" declined to 47.4% from 48.1%;
- Indications that jobs were "plentiful" increased to 4.3% from 3.1%.

Consumer confidence in January 2010 increased moderately extending the trend of the previous two months. The increase was primarily an expression of consumers' more positive

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1 The monthly Consumer Confidence Index is a product of the Consumer Confidence Survey that is based on a representative sample of 5,000 U.S. households and is composed of the Consumer Confidence, Present Situation and Expectations indexes. The indexes are based on 100-point scales, with 1985 considered the base year with 100 points.

2 The Survey Research Center in the Institute for Social Research at the University of Michigan is a national and international leader in social science research. The Survey Research Center conducts the Surveys of Consumers that are considered to be a strong predictor of the future direction of the national economy. The Surveys of Consumers produces the Index of Consumer Expectations, which is included in the Leading Indicator Composite Index that is published by the United States Commerce Department, Bureau of Economic Analysis.

assessment of current business conditions and the labor market. The more positive appraisal of current business and labor conditions was expressed in the Present Situations Index[3], a sub-index of the CCI, which increased 4.8 points. The Expectations Index[4], another sub-index of the CCI, also improved slightly by .6 points. The overall attitude of consumers was reflected by a decrease in their concern about the possibility of a decline in personal income. However, the number of pessimists continued to outnumber the optimists. And, that could play a key role in early 2010 spending decisions.

On February 23, 2010, the Conference Board released the results for February and the CCI decreased from a revised January of 56.5 to 46.0. To some extent, these changes reflect the difficulty of projecting revenues this year when expectations can vary significantly from month to month.

The MCSI index rose slightly in January 2010 to 72.8 from 72.5 in December 2009, the highest reading since September 2009. But the reading fell short of analysts median expectations of a reading of 73.9. One analyst said, “While consumers anticipated continuing gains in the overall economy, few consumers expected an immediate shift toward the type of positive developments that would improve their job and income prospects.”

California Department of Finance – January 8, 2010

The California Department of Finance’s (DOF) economic outlook reported that the country and the State entered 2010 having weathered the worst recession since the Great Depression. The national economy grew at a 2.2 percent annual rate in the third quarter of 2009. It was the first gain since the second quarter of 2008. The fourth quarter of 2008 and the first quarter of 2009 experienced a cumulative decline of almost 12 percent. The second highest consecutive quarterly decline in real GDP since the real GDP was established in the first quarter of 1947.

What started as a housing sector slump in 2005 has now turned into a consumption slump. Since the sharp decline in consumer spending during the third and fourth quarters of 2008, consumer spending has been flat. Consumers are probably exercising caution due to fear of job losses, high debt burdens, eroded home equity, and tight credit. But the economy might not experience much growth until consumer spending increases. The best remedy for that is a stronger job market. Monthly job losses have been trending downward since February 2009 and employment is expected to soon improve. As a result of sluggish consumer spending, new equipment and software sales will continue to be lackluster. Residential construction has trended upward in recent months, and new home sales have trended upward for most of 2009 assuredly to some extent due to the federal tax credit for first-time homebuyers. Sales of existing homes are up but a significant number are distressed properties. The national economy had negative growth in 2009; economic activity for 2010 and 2011 is expressed by the following primary indicators:

- Real Gross Domestic Product (GDP) is projected to grow 2.2 percent in 2010, and 2.9 percent in 2011, compared to an estimated decline of 2.5 percent for 2009.

[3] A sub-index that measures overall consumer sentiments toward the present economic situation and is used to derive (about 40% of) the Consumer Confidence Index.

[4] A sub-index that measures overall consumer sentiments toward the short-term (6 months) future economic situation and is used to derive (about 60% of) the Consumer Confidence Index.

- Personal Income is projected to increase 2.7 percent in 2010 and 4.1 percent in 2011 compared to an estimated decline of 2.2 percent for 2009.
- Nonfarm payroll employment is forecast to decrease by 0.9 percent in 2010, followed by growth of 1.7 percent in 2011, compared to an estimated decline of 3.8 percent for 2009.

In 2009, California's economic decline has been consistent with the national economy. The best news for California is 31,100 jobs were gained in October, the first gain since April 2008. Also monthly job losses have been decreasing since March 2009 and more job gains are expected. Overall, the State has lost approximately 1 million jobs since the beginning of the recession. California's real GDP growth pattern is similar to the national real GDP. The 1.5 percent decline in the first quarter of 2009 was the second largest loss in the series, which goes back to the first quarter of 1969. Significant economic projections are as follows:

- Personal income is projected to grow 2.4 percent in 2010, and 3.6 percent in 2011, compared to an estimated decline of 2.8 percent in 2009.
- Nonfarm payroll employment is projected to decline 0.7 percent in 2010 and grow 1.3 percent in 2011, compared to an estimated decline of 5.6 percent in 2009.
- Total taxable sales to grow 1.9 percent in 2010, and 8.8 percent in 2011, compared to an estimated decline of 15.6 percent for 2009.

The national and California economies have survived an enormous economic storm, but the clouds are expected to clear. The extent of economic grown for both economies could hinge on consumer spending decisions. Important measures of national and local economic strength are shown in Table 1 below.

TABLE I
DEPARTMENT OF FINANCE
ECONOMIC OUTLOOK
JANUARY 2010
(PERCENT CHANGE)

	Estimate 2009	Projected 2010	Projected 2011
United States Forecast			
Real GDP	(2.5)	2.2	2.9
Personal income	(2.2)	2.7	4.1
Wage and salary employment (nonfarm)	(3.8)	(0.9)	1.7
Unemployment rate (percent)	9.2	10.0	9.4
Consumer price index	(0.4)	2.1	2.2
California Forecast			
Personal income	(2.8)	2.4	3.6
Wage and salary employment (nonfarm)	(5.6)	(0.7)	1.3
Taxable sales	(15.6)	1.9	8.8
Consumer price index	(0.2)	2.5	2.6
Unemployment rate (percent)	11.6	12.0	11.2

California Legislative Analyst – November 18, 2009 Forecast

According to the California Legislative Analyst's Office (LAO), the national and state economies are emerging from the worst recession since the Great Depression. National and state economies are expected to experience a sluggish recovery in 2010 and 2011. The national economy grew at a 3.5 percent annual rate in the third quarter of 2009. However, that estimate includes the impact of various federal stimulus-related spending efforts. But the data confirms a recovery has started. Job losses have slowed from that of the first and second quarters of 2009. The national economy lost approximately 768,000 jobs in the third quarter of 2009, as compared to 2.07 million and 1.29 million in the first two quarter of 2009. The pattern of economic growth accompanied by job losses is indicative of the early stages of a recession recovery. "The national index of leading indicators has been positive for six straight months. In September, eight of the ten factors that make up the index were positive, including money supply and interest rates, consumer expectations, initial claims for unemployment insurance, stock prices, manufacturing orders, and deliveries." Only building permits and average hours worked in manufacturing were down.

The LAO's forecast, "reflects the mainstream view that the nation is likely to experience a modest recovery over the next few years followed by a relatively slow expansion over the latter part of the forecast period." The strength of the recovery could depend on the health of the financial sector. Credit constraints have improved, but credit markets have not been restored to their pre-recession levels. As a result, lenders and borrowers have been cautious, which constrains economic growth. Growth of 2 percent and 3 percent is projected for 2010 and 2011, respectively. But those rates are historically low for a recovery from a deep recession. Following the 2.9 percent decline in the deep 1981-1982 recession, the GDP bounced back with growth of 4.5 percent in 1983 and 7.2 percent in 1984.

The more robust recovery is not expected after this recession because the federal funds rate is already near zero leaving almost no room for the Federal Reserve to further stimulate the economy. A "U-shaped" type of recovery pattern is projected for the U.S. economy, where the pace is slow, resembling that of a mature expansion. The LAO cautions that some economists, "worry the country is heading into an "L-shaped" non recovery, which the economy stagnates for an extended period with little or no growth such as Japan experienced in what is called its "lost decade" of the 1990s." However, the U.S. has never experienced an L-shaped recession in the modern era. The following indicators are the basis for the 2010 and 2011 outlook:

- Gross Domestic Product is projected to increase 2.0 percent in 2010 and 3.0 percent in 2011, as compared to an estimated decline of 2.5 percent for 2009.
- Personal Income is projected to increase by 2.8 percent in 2010 and 4.1 percent in 2011, compared to an estimated decline of 2.1 percent for 2009.
- The unemployment rate is projected to be 10.0 percent for 2010, decreasing to 9.4 percent for 2011, as compared to 9.2 percent for 2009.

The LAO feels that the "California's Recession has been longer and deeper" than the national recession. For instance, state employment dropped 6.6 percent (one million jobs) since the peak in 2007, compared to the 5.2 percent decline in national employment. And, a deeper decline in housing prices occurred compared to other states. However, more current data indicates that the state economy is rebounding faster from the recession than the national economy. The pace of job losses has subsided in the state. Employment data for the third quarter show job losses of .06 percent of total employment, a sizable improvement from the major losses of the spring. Also Federal data show the pace of California's recovery is in the top half of all states. Home prices in the state's three largest cities are rising faster than the rest of the country. Specific highlights of the LAO's outlook include:

- Personal income growth is predicted to increase 2.1 percent in 2010 and 3.9 percent in 2011, compared to an estimated decline of 1.3 percent in 2009.
- Wage and salary employment growth is predicted to decline 1.2 percent in 2010, and increase 1.5 percent in 2011, compared to an estimated decline of 4.5 percent for 2009.
- The unemployment rate is projected to be 12.1 percent in 2010 and 11.3 percent in 2011, compared to 11.7 percent in 2009.

Table II shown below presents a more detailed statistical view of the LAO's outlook for California and the nation.

TABLE II
CALIFORNIA LEGISLATIVE ANALYST'S OFFICE
ECONOMIC OUTLOOK
NOVEMBER 2009
(PERCENT CHANGE)

	Estimated 2009	Forecast 2010	Forecast 2011
United States Forecast			
Real GDP	(2.5)	2.0	3.0
Personal income	(2.1)	2.8	4.1
Wage and salary employment	(3.8)	(0.7)	1.9
Consumer price index	(0.4)	1.7	2.2
Unemployment rate (percent)	9.2	10.0	9.4
California Forecast			
Personal income	(1.3)	2.1	3.9
Payroll employment	(4.5)	(1.2)	1.5
Consumer price index	(0.4)	1.7	2.2
Unemployment rate (percent)	11.7	12.1	11.3

UCLA Anderson Forecast – December 2009

UCLA Anderson School of Management (UCLA) economists "continue to believe that the economy is on a modest growth path that will be accompanied by extraordinarily high rates of unemployment". Real GDP growth is forecast to settle at 2 percent for most of 2010 and move closer to 3 percent in 2011. Due to sluggish growth, UCLA expects the unemployment rate to peak at 10.5 percent in the first quarter of 2010 then remain at or above 10 percent for the rest of 2010. Analysts surmise that three factors are responsible for the post-recession high unemployment: (1) Employers now view office overhead costs as variable and not fixed; (2) the lagging effects of the implosion of consumer balance sheets, and (3) the economy is transitioning from an import-oriented/low-savings rate economy to a more export and higher-savings oriented one.

In previous recessions, marketing, finance, research, and administrative employees were not as susceptible to lay-offs. Those functions are no longer as recession-resistant. Finance, advertising, and media have suffered unprecedented job cuts. Consumers have tightened purse strings due to lost real estate equity and poor labor markets. As a result, consumer spending is expected to grow at a modest 2 percent, well below the historical 3-3.5 percent.

The economy is highly "medicated" with federal deficits and the Federal Reserve's zero interest rate policy. UCLA thinks that the logical effect of the stimulative "medication" will be a ramp up in inflation. Nevertheless, consumers and homeowners are using the low rates to refinance high cost debt. The inflationary impact is expected to get more attention in 2011. UCLA economists are not very optimistic about consumers leading the nation out of the recession. "The Usual Locomotives That Pull the Recovery are Homes, Cars, and Business Equipment. We are caught in a downturn with troubles first in homes, then in cars and finally in equipment and software."

Overall, UCLA economists are projecting little or no growth for California's economy through 2010, with a slight pick up in early 2011. By the middle of 2011 the economy is expected to begin growing at more normal levels. "The keys to California's recovery remain exports of manufactured and agricultural goods, a recovery in U.S. consumption which increases the demand for Asian imports and for products from California's factories, increased public works construction, and increased investment in business equipment and software." Unemployment is projected to grow to 12.7 percent in the 4th Quarter of 2009 and to average 11.7 percent for the year. The state's economy is expected to grow in 2011, but not at the level required to generate enough jobs to decrease the unemployment rate below double digits until 2012.

Table III shown below presents a more detailed statistical view of the UCLA outlook for the nation and California.

TABLE III
UCLA ANDERSON SCHOOL
SUMMARY OF ECONOMIC FORECAST
DECEMBER 2009
(PERCENT CHANGE)

	2009	Forecast 2010	Forecast 2011
United States Forecast			
Real GDP	(2.5)	2.2	2.6
Personal Income	(2.2)	2.6	4.2
Employment (payroll survey; non farm)	(3.8)	(1.0)	1.8
Unemployment rate (percent)	9.3	10.2	9.5
Consumer price index	(0.3)	1.9	2.1
California Forecast			
Personal Income	(2.5)	1.9	4.9
Wages and salaries (non farm)	(4.3)	(0.3)	1.5
Taxable sales	(3.2)	0.5	3.9
Consumer price index	(0.3)	1.7	2.2
Unemployment rate (percent)	11.7	12.0	10.8

Los Angeles Economic Development Corp. (LAEDC) Forecast – February 2010

LAEDC economists expect the U.S. economy to continue to recover from a very deep recession in 2008 and the first half of 2009. The economic outlook for California will slowly get better in 2010 and further improve in 2011. The forecast for Los Angeles County is for gradual economic improvement during 2010 and 2011 with a number of major industries continued to be challenged. Some significant economic indicators of economic recovery for Los Angeles County include:

- International trade activity is expected to modestly recover in 2010 with more growth in 2011.
- Tourism is projected to turn around in 2010 after the decline in 2009, with more noticeable improvement in 2011.
- Major construction projects will provide more support with a significant boost coming from the federal infrastructure program, the expansion projects at the ports and LAX, plus highway and transit projects funded by the County's new half-cent sales tax.
- Healthcare services will continue to generate jobs with the opening of the 600-bed County-USC hospital and other Los Angeles County hospital building programs.
- Businesses and residents feeling more confident about their prospects in 2010 will have a positive impact on retail sales.

However, some negative economic issues are expected to challenge the County's economy as follows:

- Nonresidential real estate will continue to struggle with rising vacancies, declining lease rates and falling property values in 2010. Construction activity will come close to stalling out due to limited financing. More commercial properties could go into foreclosure.
- Local government finance will be a continuing concern, with staff layoffs and service cuts looming. The decline in home values, the slump in retail sales, and the state's budget problems have hurt municipal and county budgets.
- Apartments and condominium constructions will decline in 2010, reflecting higher rental vacancies and lack of funding.
- Manufacturing employment will continue to decline, reflecting the problems in construction and housing.

Table IV shown below presents a more detailed statistical view of the LAEDC's outlook for California and the nation.

TABLE IV
LAEDC
SUMMARY OF ECONOMIC FORECAST
FEBRUARY 2010
(PERCENT CHANGE)

	Estimate 2009	Forecast 2010	Forecast 2011
United States Forecast			
Real GDP	(2.4)	2.6	3.1
Employment (nonfarm)	(4.3)	(0.9)	1.0
Consumer price index	(0.3)	2.5	2.5
Unemployment rate (percent)	9.2	9.9	9.4
California Forecast			
Personal income	(2.7)	1.3	4.1
Employment (nonfarm)	(4.5)	(0.8)	1.0
Taxable retail sales	(16.0)	3.3	6.5
Unemployment rate (percent)	11.7	12.3	12.0
Los Angeles County Forecast			
Personal Income	(1.5)	1.8	3.8
Employment (nonfarm)	(3.8)	(0.5)	1.0
Taxable retail sales	(12.6)	3.2	5.6
Unemployment rate (percent)	11.7	12.4	12.0

Delays in Fiscal Year Receipts

Most of the national, state and local economic forecasts are based on a calendar year (January 1 through December 31). Certain of the City's receipts are based on a fiscal year (from July 1 through June 30). This differentiation is significant because economic activity that occurs during a calendar year may actually impact two fiscal years.

TABLE V
COMPARISON OF CALENDAR & FISCAL YEAR SALES TAX RECEIPTS
January 1, 2010

This quarter	of calendar year	Corresponds with this quarter	of fiscal year	Revenue is actually received this quarter	of fiscal year
1st	2010	3rd	2009 - 10	4th	2009 - 10
2nd	2010	4th	2009 - 10	1st	2010 - 11
3rd	2010	1st	2010 - 11	2nd	2010 - 11
4th	2010	2nd	2010 - 11	3rd	2010 - 11
1st	2011	3rd	2010 - 11	4th	2010 - 11
2nd	2011	4th	2010 - 11	1st	2011 - 12

The preceding table demonstrates the difference between the calendar year and the City's fiscal year. Reference to economic activity in the first quarter of the calendar year actually corresponds to the third quarter of the City's fiscal year.

The City's sales tax receipts lag behind the actual economic quarter upon which they are based. For example, third quarter calendar year economic activity for sales taxes generates receipts to the City during the second quarter of the fiscal year.

Estimate of 2009-10 Year End City Revenue

The complete list of estimated City receipts for fiscal year 2009-10 is presented in Exhibit I. The following table presents the City's economy-sensitive General Fund receipts for fiscal year 2008-09 and the estimates for 2009-10.

TABLE VI
GENERAL FUND ECONOMY-SENSITIVE REVENUES
(dollar amounts expressed in thousands)

	Actual Receipts FY 2008-09	**Adopted Budget** FY 2009-10	**Controller's Estimated Receipts** FY 2009-10	**% Variance Controller/ Adopted Budget** FY 2009-10
Property Tax	$ 1,509,073	$ 1,418,870	$ 1,428,678	0.69%
Utility Users' Tax	647,822	667,875	637,000	-4.62%
Business Tax	451,495	426,157	412,426	-3.22%
Sales Tax	311,938	304,243	279,000	-8.30%
Transient Occupancy Tax	136,323	130,200	122,374	-6.01%
Documentary Transfer Tax	83,946	100,000	95,000	-5.00%
Licenses, Permits, Fees and Fines	689,633	723,126	670,061	-7.34%

- **Property Tax.** For fiscal year 2009-10, it is anticipated that property tax receipts will be $10 million higher than the budgeted amount. The 1% general property tax increased $21 million due to higher redemption and the carry-over effect of the growth in property valuation in the prior years. The ongoing effect of the state action to replace a portion of sales taxes with property taxes resulted in a $23 million reduction. This was partially offset by $12 million increase as a result from state action to replace vehicle license fees with property taxes which is now linked to the movement of assessed valuation.

- **Utility Users' Tax.** The estimated utility users' tax receipts of $637 million are broken down as follows: $303 million electric users, $270 million telephone users, and $64 million gas users. Telephone and gas users' tax receipts are estimated to be lower than the original budget by $15 million (change in usage pattern) and $20 million (decrease in price of natural gas), respectively, based on receipts to-date. The electric users' tax receipts are estimated to be $4 million more than budget based on DWP forecast.

- **Business Tax.** The Office of Finance projects that for fiscal year 2009-10, business tax will total $412 million or $14 million below budget. The projection is an 8.7% reduction from prior fiscal year's receipts and a 3.2% reduction from the budget.

- **Sales Tax.** Receipts for the first six months of the fiscal year were $18 million or 11% below budget. The February 2010 receipt was above budget and it is anticipated that for fiscal year 2009-10, sales tax receipts will be $279 million. This is $25 million or 8% lower than the budgeted amount of $304 million.

- **Transient Occupancy Tax.** Receipts during the first five months of the fiscal year were below the current budget estimate; however, receipts for December 2009 improved. It is anticipated that tourism and hotel occupancy will continue to improve in the second half of the year, but year-end transient occupancy tax receipts will still be below budget. This trend is aligned with the projections of Bruce Baltin, of Pannell Kerr Forrester (PKF) Consulting, who indicated that hotel occupancy in the City and the average daily rate will continue to recover. It is estimated that transient occupancy tax will total $122 million or $8 million lower than budget.

- **Documentary Transfer Tax.** For the first half of the fiscal year, sales volume increased while revenues per deed decreased due to falling prices. Receipts as of December 2009 were $7 million below budget and 13% lower than the prior year; however, receipts for January 2010 were higher than budget. It is projected that by the end of the fiscal year, receipts will total $95 million, which is 5% below the original adopted budget and 13% higher than last year's receipts. This is consistent with the projections of G.U. Krueger of HousingEcon.com.

- **Licenses, Permits, Fees and Fines.** Receipts are estimated to total $670 million, which is $53 million (7%) and $19 million (3%) below budget and prior year's receipts, respectively. Reduced related cost reimbursements and decline in other receipts contributed to the $53 million decrease.

Estimate of Fiscal Year 2010-11 City Revenue

The complete list of estimated City receipts for fiscal year 2010-11 is presented in Exhibit II. The following table presents the City's economy-sensitive General Fund receipts for fiscal year 2008-09 and the estimates for 2009-10 and 2010-11.

TABLE VII
GENERAL FUND ECONOMY-SENSITIVE REVENUES
(dollar amounts expressed in thousands)

	Actual Receipts FY 2008-09 (a)	Adopted Budget FY 2009-10 (b)	Controller's Estimated Receipts FY 2009-10 (c)	Controller's Estimated Receipts FY 2010-11 (d)	% Change (c) / (a)	% Change (c) / (b)	% Change (d) / (c)
Property Tax	$ 1,509,073	$ 1,418,870	$ 1,428,678	$ 1,389,371	-5.33%	0.69%	-2.75%
Utility Users' Tax	647,822	667,875	637,000	673,000	-1.67%	-4.62%	5.65%
Business Tax	451,495	426,157	412,426	399,576	-8.65%	-3.22%	-3.12%
Sales Tax	311,938	304,243	279,000	288,765	-10.56%	-8.30%	3.50%
Transient Occupancy Tax	136,323	130,200	122,374	127,877	-10.23%	-6.01%	4.50%
Documentary Transfer Tax	83,946	100,000	95,000	105,000	13.17%	-5.00%	10.53%
Licenses, Permits, Fees and Fines	689,633	723,126	670,061	630,354	-2.84%	-7.34%	-5.93%

- **Property Tax.** The total property tax receipts are projected to decrease to $1.39 billion. The decrease of $39 million reflects the 2.7% negative growth in real estate valuation projected by the County and an increased delinquency rate. The property tax receipts in lieu of sales tax and vehicle license fee are projected to be $89 million and $312 million, respectively, a net decrease of $4 million from 2009-10 estimate.

- **Utility Users Tax.** For the fiscal year ending June 30, 2011, the utility users' tax (UUT) receipts are estimated to total $673 million. The gas users' tax is estimated to increase by $6 million to $70 million. The base telephone (adjusted for the one-time audit receipt) ($270 million) users' component of the UUT is projected to be at the same level as in fiscal year 2009-10. The electric users' tax is expected to be $333 million based upon an Energy Cost Adjustment Factor (ECAF) increase anticipated to be approved in 2009-10.

- **Business Tax.** Receipts are estimated by the Office of Finance and are expected to decrease to $400 million, a 3% decrease in receipts for fiscal year 2010-11.

- **Sales Tax.** Sales tax receipts for fiscal year 2010-11 are estimated to total $289 million. This estimate is consistent with LAEDC's projection that taxable sales in Los Angeles County will increase 3.2% and 5.6% during calendar years 2010 and 2011. Due to the timing of receipts (See Table V on page 9), three quarters of sales tax receipts in 2010-11 will reflect calendar 2010 sales and only one quarter will reflect the transition to 5.6%.

- **Transient Occupancy Tax.** Hotel occupancy is expected to improve in fiscal year 2010-11. It is projected that transient occupancy tax revenues will total $128 million, an increase of $6 million from fiscal year 2009-10. Bruce Baltin of PKF Consulting assisted with this estimate.

- **Documentary Transfer Tax**. Real estate sales activity is expected to improve in fiscal year 2010-11. As such, documentary transfer tax receipts are expected to grow 10% from the prior year to $105 million. G.U. Krueger of HousingEcon.com assisted with this estimate. This estimate can be affected by changes in the housing, job and credit markets in either a positive or negative way.

- **Licenses, Permits, Fees and Fines.** Based upon information from City departments, receipts are projected to total $630 million in fiscal year 2010-11, or a 6% decrease from the estimated receipts of $670 million in fiscal year 2009-10. This revenue category contains General Fund receipts for fee recovery and related cost reimbursement, both of which can be increased or decreased by budgetary decisions.

General Obligation Bond Payments

The following table lists the City's General Obligation Bonds (GOB) debt service requirements for principal and interest for fiscal year 2010-11. The total principal and interest requirements for 2010-11 are estimated at $174,318,519. GOBs are general obligations of the City payable from ad valorem taxes levied upon all of the taxable property in the City. The City issues GOB debt for capital improvement projects, including the acquisition of property and the construction of new facilities and improvements to existing facilities.

TABLE VIII
GENERAL OBLIGATION BONDS
DEBT SERVICE REQUIREMENTS
FOR FISCAL YEAR 2010-11

	Principal	Interest	Total Requirement
GOB - Series 1998-A Refunding	$ 12,765,000	$ 3,357,244	$ 16,122,244
GOB - Series 1999-A Refunding	5,530,000	1,082,580	6,612,580
GOB - Series 2000-A	4,650,000	116,250	4,766,250
GOB - Series 2001-A	10,065,000	3,119,650	13,184,650
GOB - Series 2002-A	13,110,000	8,046,263	21,156,263
GOB - Series 2002-B Refunding	10,705,000	2,610,200	13,315,200
GOB - Series 2003-A	11,665,000	7,818,800	19,483,800
GOB - Series 2003-B Refunding	3,280,000	668,481	3,948,481
GOB - Series 2004-A	18,025,000	12,439,250	30,464,250
GOB - Series 2005-A	6,340,000	4,485,550	10,825,550
GOB - Series 2005-B Refunding	100,000	3,401,250	3,501,250
GOB - Series 2006-A	3,510,000	2,514,038	6,024,038
GOB - Series 2008-A	5,050,000	4,115,750	9,165,750
GOB - Series 2009-A	8,825,000	3,971,250	12,796,250
GOB - Series 2009-B	--	2,951,963	2,951,963
Total	$ 113,620,000	$ 60,698,519	$ 174,318,519

City Indebtedness

The following table depicts the history of City debt service from fiscal year 2006-07 with estimated debt service for fiscal year 2010-11 based on the amount of current outstanding debt.

TABLE IX
DEBT SERVICE REQUIREMENTS [1]
FOR FISCAL YEARS 2007-11
(amounts expressed in thousands)

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11
MICLA [2]	$ 128,704	$ 150,355	$ 157,141	$ 173,683	$ 164,277
General Obligation	169,890	171,625	166,638	167,133	174,319
Judgment Obligation	7,089	6,822	4,299	6,653	3,962
Convention Center Authority	38,593	40,352	46,909	50,074	51,943
Parking System Revenue Bonds	8,605	8,605	8,606	8,603	8,607
Proposition K Lighting District 96-1	3,084	3,086	3,089	3,089	3,056
Site-Specific Tax Revenue Bonds	907	1,030	1,126	1,252	1,256
Solid Waste Resources Revenue Bonds	33,604	34,860	33,259	42,199	46,568
Wastewater System	165,852	172,979	144,105	165,362	159,752
Subtotal	556,328	589,714	565,172	618,048	613,740
Tax and Revenue Anticipation Notes [3]	33,290	39,331	28,041	19,749	[4]
Total	$ 589,618	$ 629,045	$ 593,213	$ 637,797	$ 613,740

Notes:

(1) Long-term debt does not include short-term commercial paper notes. However, the goal is to replace commercial paper with long term debt. As of January 2010, the balance of the MICLA and Wastewater System commercial paper notes is $95 million and $175 million, respectively.

(2) Includes debt service requirement supported by assessment on real property approved by the electorate of $21,492,957 in fiscal year 2010-11

(3) Represents actual interest for Tax and Revenue Anticipation Notes (TRANs) issued on:

7/12/06	-	$767,500,000
7/12/07	-	909,725,000
7/15/08	-	975,325,000
7/16/09	-	1,038,200,000

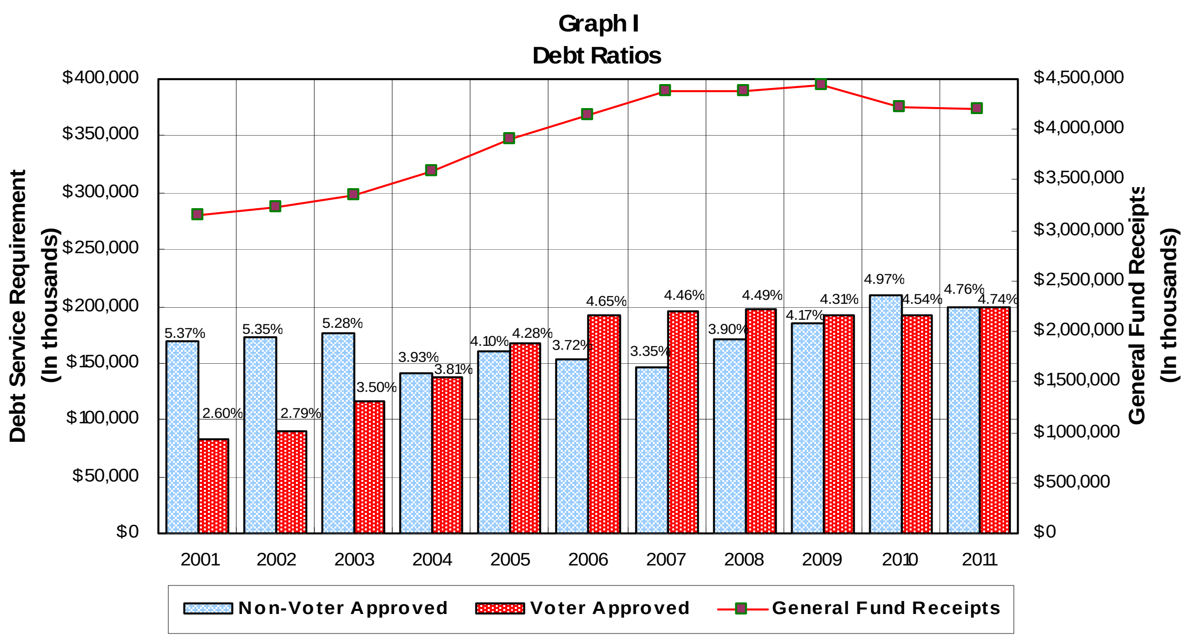
(4) The amount of interest to be paid in fiscal year 2010-11 will depend upon the size of the TRANs and interest rates at the time of sale. The size of the TRANs will depend upon the amount of cash needed for cash flow and budgetary decisions on advance funding of City pensions and retirement contributions.

Source: Official Statements.

City Debt Policy

The following graph illustrates the City's General Fund debt in relation to the City's debt policy.

The City's debt policy established maximum levels for voter and non-voter approved debt. Under current policy, the City's total debt service level for voter and non-voter approved debt shall not be greater than 15% of General Fund revenues. The maximum debt service level for non-voter approved debt is not to exceed 6% of General Fund revenues (with certain exceptions); with the maximum voter approved debt service level equal to the difference between the total maximum debt service level (15%) and the actual ratio of non-voter approved debt to General Fund revenues.



Data from Table X illustrates graphically the City's capacity to issue voter and non-voter approved debt. Based on the current ratio of debt service level to total projected receipts in fiscal year 2010-11, the City has the capacity to issue additional non-voter approved debt with an annual debt service requirement of no more than $52.0 million or 1.24% of General Fund receipts. After the $52.0 million, the City has the capacity to issue voter approved debt with an annual debt service requirement of no more than $178.8 million.

Table X

CITY DEBT POLICY

(Shall not exceed 6% of General Fund Revenue for Non-Voter approved debt and 15% for Voter approved and Non-Voter approved combined)

(dollar amounts expressed in thousands)

Fiscal Year	Debt Service Requirement: Non-Voter Approved	Debt Service Requirement: Voter Approved	Debt Service Requirement: Total	General Fund Receipts [a]	Ratio of Debt Service to Total Receipts: Non-Voter Approved	Ratio of Debt Service to Total Receipts: Voter Approved	Ratio of Debt Service to Total Receipts: Total
2000-01	169,203	82,014	251,217	3,150,529	5.37%	2.60%	7.97%
2001-02	172,708	89,973	262,681	3,227,338	5.35%	2.79%	8.14%
2002-03	176,441	117,085	293,526	3,342,648	5.28%	3.50%	8.78%
2003-04	141,009	136,739	277,748	3,585,317	3.93%	3.81%	7.74%
2004-05	160,337	167,281	327,618	3,912,975	4.10%	4.28%	8.38%
2005-06	153,857	192,484	346,341	4,136,531	3.72%	4.65%	8.37%
2006-07	146,792	195,720	342,512	4,386,748	3.35%	4.46%	7.81%
2007-08	170,802	196,743	367,545	4,383,567	3.90%	4.49%	8.39%
2008-09	185,067	191,308	376,375	4,435,145	4.17%	4.31%	8.48%
2009-10	210,127	191,756	401,883	4,226,082	4.97%	4.54%	9.51%
2010-11	199,946	198,867	398,813	4,197,242	4.76%	4.74%	9.50%

(a) All years with capitalized interest have been adjusted upwards to reflect bond proceeds to pay for capitalized interest. For fiscal years 2004-05, 2007-08, 2008-09, 2009-10, and 2010-11 the adjustments are $3,797,274, $16,841,679, $16,082,240, $16,082,240, and $4,060,169, respectively. Fiscal years 2004-05 through 2010-11 include revenues from Staples Center.

Cash Flow

Revenues and expenditures for the first six months of fiscal year 2009-10 are presented on the following table.

TABLE XI
COMPARISON BETWEEN REVENUES AND EXPENDITURES
FIRST SIX MONTHS OF FISCAL YEAR 2009-10
(amounts expressed in thousands)

Fiscal Year 2009-10	Revenues	Cumulative Revenues	Expenditures	Cumulative Expenditures	Cumulative Net Revenue Over/(Under)
July	$ 285,735	$ 285,735	$ 561,499	$ 561,499	$ (275,764)
August	254,468	540,203	391,824	953,323	(413,120)
September	245,854	786,057	368,276	1,321,599	(535,542)
October	223,811	1,009,868	352,485	1,674,084	(664,216)
November	250,395	1,260,263	450,707	2,124,791	(864,528)
December [(a)]	565,418	1,825,681	345,448	2,470,239	(644,558)

(a) The December revenue includes first installment ($307,071,959) of property tax received on 12/18/09.

The Controller uses various resources to compensate for differences between receipts and expenditures that include Tax and Revenue Anticipation Notes (TRANs)[5], Reserve Fund and interfund borrowings, budgeted Reserve Fund transfers to the General Fund, and beginning of the year General Fund encumbrances.

As indicated in Table XII, beginning General Fund encumbrances are an important resource for cash management. As encumbrances backed by cash are liquidated over time, the cash that remains encumbered (and not yet expended) offsets the need for additional levels of current year cash. The following table illustrates cash flow borrowings and beginning General Fund encumbrances for fiscal year 2000-01 through 2009-10.

5 TRANs are used to offset the difference between revenues and expenditures during the first six months of the fiscal year.

TABLE XII
GENERAL FUND CASH FLOW BORROWINGS
FOR FISCAL YEARS 2000-01 THROUGH 2009-10
(amounts expressed in thousands)

	Total Annual Cash Flow Borrowings				Beginning
Fiscal Year	Reserve Fund	Other Funds	TRANS	Total	General Fund Encumbrances
2000-01	32,000	--	200,000	232,000	202,981
2001-02	10,000	--	200,000	210,000	258,235
2002-03	--	--	250,000	250,000	254,660
2003-04	45,000	--	200,000	245,000	237,014
2004-05	--	--	325,000	325,000	264,209
2005-06	--	--	200,000	200,000	288,212
2006-07	--	--	150,000	150,000	328,441
2007-08	42,243	70,000	250,000	362,243	407,534
2008-09	--	116,000	350,000	466,000	381,493
2009-10	100,000 [1]	150,000	400,000	650,001	402,828

[1] The $100 million Reserve Fund borrowing was needed as gap funding until Council authorized other fund borrowing.

Sizing the 2010-11 TRANs

In prior years, I have included an estimated amount of borrowing needed to meet City short-term cash flow requirements in the first half of the fiscal year. My Office will work with the Mayor and CAO, as we have in prior years, to determine the amount of borrowing required and its source, as better information becomes available. However, given projected revenues, and concerns expressed in this letter about delays in reducing expenditures going into next year, likely cash flow borrowing requirements could exceed the $550 million borrowed this fiscal year.

Current plans to balance the 2009-10 budget include moving funds from the Special Parking Revenue Fund and Fire Hydrant Fund to increase the Reserve Fund then use substantially all the Reserve Fund to balance the 2009-10 budget. This reduces or eliminates the Controller's ability to use the Reserve Fund for cash flow purposes. Further, by depleting the other two funds, they are also not available for Cash Flow borrowing. As a consequence, and because other funds such as the SCM are expressing concerns about their own cash balances, we project the need for a $550 million in TRANs cash flow borrowing in 2010-11.

Reserve Fund

In the past, my predecessor and I have expressed concern about using the Reserve Fund to balance the budget. It now appears that we may have no choice but to use most or all of the Reserve Fund to balance this year's budget. While we are late in the fiscal year, less than four months remain, I urge the Mayor and Council to take necessary actions to bring expenditures in line with revenues so that we balance next year's budget and, if possible, reduce the impact on the Reserve Fund this year. I also recommend that the Mayor and Council work towards a plan to replenish the Reserve Fund in an orderly and realistic fashion. Given the challenges facing the City this will be as difficult as it is necessary.

Exhibit I

Office of the Controller
Estimated Receipts for Fiscal Year 2009-2010

	Amount
General Fund Receipts:	
Property Tax:	
Property Tax 1%	$ 1,023,479,000
Property Tax - Sales Tax Replacement	84,976,000
Property Tax - VLF Replacement	320,223,000
Total Property Tax	1,428,678,000
Utility Users' Tax	637,000,000
Licenses, Permits, Fees and Fines	670,061,000
Business Tax	412,426,000
Sales Tax	279,000,000
Documentary Transfer Tax	95,000,000
Power Revenue Transfer	220,500,000
Transient Occupancy Tax	122,374,000
Parking Fines	134,000,000
Parking User Tax	84,000,000
Franchise Income	40,000,000
Grant Receipts	17,000,000
Interest	11,840,000
Motor Vehicle License Fees	9,500,000
Tobacco Settlement	12,166,000
Residential Development Tax	1,000,000
Special Parking Revenue Transfer	25,371,000
Transfer from Telecommunications Development Account	6,223,000
Total General Fund Receipts	$ 4,206,139,000

Office of the Controller
Estimated Receipts for Fiscal Year 2009-2010

Special Receipts:

	Amount
Sewer Construction and Maintenance Fund	$ 653,962,000
City Levy for Bond Redemption and Interest	167,133,000
Building and Safety Enterprise Fund	83,284,000
Special Gas Tax Street Improvement Fund	115,623,000
Proposition A Local Transit Assistance Fund	113,513,000
Solid Waste Resources Revenue Fund	295,552,000
Proposition C Anti-Gridlock Transit Improvement Fund	53,644,000
Street Lighting Maintenance Assessment Fund	53,832,000
City Employees' Retirement Fund	57,548,000
Local Public Safety Fund	29,078,000
Special Parking Revenue Fund	25,479,000
Community Development Trust Fund	41,852,000
Stormwater Pollution Abatement Fund	29,785,000
Convention Center Revenue Fund	20,970,000
Special Police Communications/911 System Tax Fund	19,882,000
Code Enforcement Trust Fund	29,785,000
Zoo Enterprise Trust Fund	18,761,000
Traffic Safety Fund	12,832,000
Citywide Recycling Fund	23,491,000
Workforce Investment Act Trust Fund	14,271,000
Rent Stabilization Trust Fund	10,457,000
Arts and Cultural Facilities and Services Fund	10,343,000
Affordable Housing Trust Fund	59,197,000
Los Angeles Convention and Visitors Bureau Trust Fund	9,407,000
Neighborhood Empowerment Fund	7,469,000
Telecommunications Development Account Fund	10,042,000
HOME Investment Partnerships Program Fund	4,179,000
Supplemental Law Enforcement Services Fund	2,028,000
Multi-Family Bulky Item Fund	7,443,000
Central Recycling and Transfer Fund	1,716,000
Mobile Source Air Pollution Reduction Trust Fund	4,616,000
Municipal Housing Finance Fund	1,368,000
El Pueblo de Los Angeles Historical Monument Revenue Fund	4,421,000
Staples Arena Special Fund	4,150,000
Major Projects Review Trust Fund	842,000
City Employees Ridesharing Fund	2,959,000
Landfill Maintenance Special Fund	4,107,000
Local Transportation Fund	4,732,000
City Ethics Commission Fund	2,126,000
Community Services Administration Grant Fund	1,944,000
Household Hazardous Waste Special Fund	2,024,000
Older Americans Act Fund	2,247,000
Arts Development Fee Trust Fund	1,142,000

Continued...

Office of the Controller
Estimated Receipts for Fiscal Year 2009-2010

		Amount
Special Receipts - (Continued)		
Park and Recreational Sites and Facilities Fund	$	500,000
Street Damage Restoration Fee Fund		5,397,000
Industrial Development Authority Fund		420,000
Disaster Assistance Trust Fund		25,307,000
Housing Opportunities for Persons with AIDS Fund		341,000
Measure R Traffic Relief		23,191,000
Allocations From Other Sources:		
AB 2800 Senior Services Grant Fund		57,000
Bus Bench Advertising Fund		158,000
Business Improvement District Trust Fund		359,000
City Planning Systems Development Fund		2,848,000
Coastal Transportation Corridor Trust Fund		315,000
Federal Emergency Shelter Grant		64,000
Fire Hydrant Installation and Main Replacement Fund		861,000
General Services Trust Fund		25,000
Integrated Solid Waste Management Fund		387,000
Pershing Square Project		571,000
Los Angeles Regional Agency Trust Fund		86,000
Used Oil Collection Fund		406,000
Ventura\Cahuenga Boulevard Corridor Specific Plan Revenue Fund		821,000
Warner Center Transportation Trust Fund		97,000
West LA Transportation Improvement and Mitigation		94,000
Total Special Receipts		2,081,541,000
Estimated Receipts for Fiscal Year 2009-2010	$	6,287,680,000

Exhibit II

Office of the Controller
Estimated Receipts for Fiscal Year 2010-2011

	Amount
General Fund Receipts:	
Property Tax:	
Property Tax 1%	$ 988,357,000
Property Tax - Sales Tax Replacement	89,437,000
Property Tax - VLF Replacement	311,577,000
Total Property Tax	1,389,371,000
Utility Users' Tax	673,000,000
Licenses, Permits, Fees and Fines	630,354,000
Business Tax	399,576,000
Sales Tax	288,765,000
Documentary Transfer Tax	105,000,000
Power Revenue Transfer	257,000,000
Transient Occupancy Tax	127,877,000
Parking Fines	134,000,000
Parking User Tax	85,000,000
Franchise Income	41,000,000
Grant Receipts	17,000,000
Interest	11,840,000
Motor Vehicle License Fees	10,000,000
Tobacco Settlement	12,318,000
Residential Development Tax	1,000,000
Transfer from Telecommunications Development Account	6,223,000
Total General Fund Receipts	$ 4,189,324,000

Office of the Controller
Estimated Receipts for Fiscal Year 2010-2011

Special Receipts:

	Amount
Sewer Construction and Maintenance Fund	$ 557,089,000
City Levy for Bond Redemption and Interest	174,319,000
Building and Safety Enterprise Fund	90,059,000
Special Gas Tax Street Improvement Fund	68,837,000
Proposition A Local Transit Assistance Fund	121,877,000
Solid Waste Resources Revenue Fund	284,424,000
Proposition C Anti-Gridlock Transit Improvement Fund	52,244,000
Street Lighting Maintenance Assessment Fund	62,331,000
City Employees' Retirement Fund	59,814,000
Local Public Safety Fund	29,776,000
Special Parking Revenue Fund	50,856,000
Community Development Trust Fund	40,000,000
Stormwater Pollution Abatement Fund	30,592,000
Convention Center Revenue Fund	23,600,000
Special Police Communications/911 System Tax Fund	20,078,000
Code Enforcement Trust Fund	29,595,000
Zoo Enterprise Trust Fund	17,819,000
Traffic Safety Fund	11,426,000
Citywide Recycling Fund	24,265,000
Workforce Investment Act Trust Fund	10,719,000
Rent Stabilization Trust Fund	10,415,000
Arts and Cultural Facilities and Services Fund	10,183,000
Affordable Housing Trust Fund	4,250,000
Los Angeles Convention and Visitors Bureau Trust Fund	9,595,000
Neighborhood Empowerment Fund	7,090,000
Telecommunications Development Account Fund	10,042,000
HOME Investment Partnerships Program Fund	5,642,000
Supplemental Law Enforcement Services Fund	1,878,000
Multi-Family Bulky Item Fund	7,443,000
Central Recycling and Transfer Fund	2,235,000
Mobile Source Air Pollution Reduction Trust Fund	4,602,000
Municipal Housing Finance Fund	1,368,000
El Pueblo de Los Angeles Historical Monument Revenue Fund	4,389,000
Staples Arena Special Fund	3,858,000
Major Projects Review Trust Fund	842,000
City Employees Ridesharing Fund	3,395,000
Landfill Maintenance Special Fund	4,363,000
Local Transportation Fund	5,546,000
City Ethics Commission Fund	2,126,000
Community Services Administration Grant Fund	1,944,000
Household Hazardous Waste Special Fund	2,035,000
Older Americans Act Fund	2,247,000
Arts Development Fee Trust Fund	1,142,000

Continued...

Office of the Controller
Estimated Receipts for Fiscal Year 2010-2011

	Amount
Special Receipts - (Continued)	
Park and Recreational Sites and Facilities Fund	$ 400,000
Street Damage Restoration Fee Fund	5,397,000
Industrial Development Authority Fund	420,000
Disaster Assistance Trust Fund	42,500,000
Housing Opportunities for Persons with AIDS Fund	323,000
Measure R Traffic Relief	35,884,000
Allocations From Other Funds:	
AB 2800 Senior Services Grant Fund	57,000
Bus Bench Advertising Fund	158,000
Business Improvement District Trust Fund	359,000
City Planning Systems Development Fund	2,848,000
Federal Emergency Shelter Grant	64,000
Fire Hydrant Installation and Main Replacement Fund	861,000
Integrated Solid Waste Management Fund	387,000
Pershing Square Project	578,000
Los Angeles Regional Agency Trust Fund	86,000
Used Oil Collection Fund	406,000
Total Special Receipts	1,957,078,000
Estimated Receipts for Fiscal Year 2010-2011	$ 6,146,402,000

Exhibit III

OFFICE OF THE CONTROLLER
GENERAL FUND RECEIPTS
LAST TEN FISCAL YEARS AND ESTIMATES FOR FISCAL YEARS 2010 and 2011
(amounts expressed in thousands)

Fiscal Year	Property Tax [(a)]	Utility Users' Tax	Sales Tax	Business Tax	Transient Occupancy Tax	Licenses, Permits, Fees and Fines	Other Revenues [(b)]	Total General Fund Receipts
2000	$ 527,810	$ 487,439	$ 331,710	$ 317,340	$ 98,306	$ 420,475	$ 667,521	$ 2,850,601
2001	588,307	557,401	357,222	344,605	108,538	431,628	753,640	3,141,341
2002	622,393	488,778	351,062	360,336	93,901	473,162	831,956	3,221,588
2003	663,440	510,339	363,787	356,041	92,652	467,577	878,182	3,332,018
2004	717,801	576,251	377,890	373,248	97,989	462,600	970,296	3,576,075
2005	1,029,161	589,858	316,561	396,794	127,751	496,598	948,582	3,905,305
2006	1,121,848	604,947	323,555	434,529	126,989	477,231	1,043,559	4,132,658
2007	1,334,172	605,270	333,885	464,330	134,557	545,931	964,734	4,382,879
2008	1,389,255	628,319	335,562	466,997	148,523	614,891	779,314	4,362,861
2009	1,509,073	647,823	311,938	451,495	136,323	689,633	668,912	4,415,197
2010 (Estimated)	1,428,678	637,000	279,000	412,426	122,374	670,061	656,600	4,206,139
2011 (Projected)	1,389,371	673,000	288,765	399,576	127,877	630,354	680,381	4,189,324

(a) Starting in fiscal year 2004-05, property tax receipts were increased by the State to offset reductions in Vehicle License Fees and Sales Taxes (the triple flip). Receipts for fiscal years 2004-05 and 2005-06 were further reduced by approximately $48 million each year for the State mandated transfer to ERAF (Education Revenue Augmentation Fund).

(b) Except for fiscal years 1999-2000, 2008-09, 2009-10 and 2010-11, Other Revenues include transfers from the Reserve Fund.