

Ben Ceja, Budget Director
Ray Ciranna, Interim CAO



Mayor Antonio R. Villaraigosa
A Statement of **Values**
City of Los Angeles

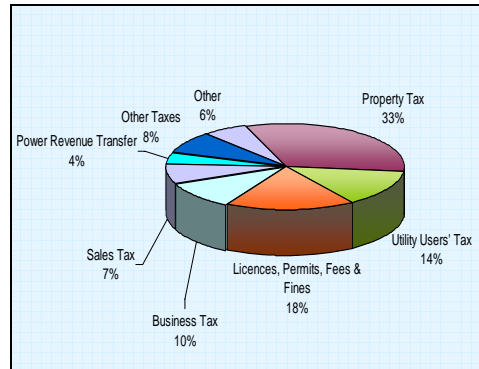


October 11, 2008

Overview of Presentation

- ❑ FY 08-09 City Budget at A Glance
- ❑ FY 08-09 Priorities & Challenges
- ❑ Financial / Credit Crisis & the City
- ❑ FY 09-10 Budget Process & Challenges

**FY 08-09
Budget at A Glance**



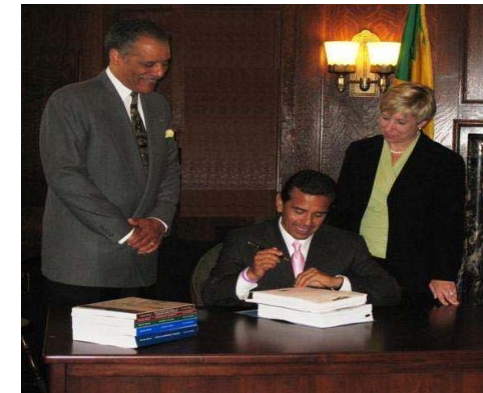
**FY 08-09
Priorities & Challenges**



**Financial / Credit Crisis
and the City**



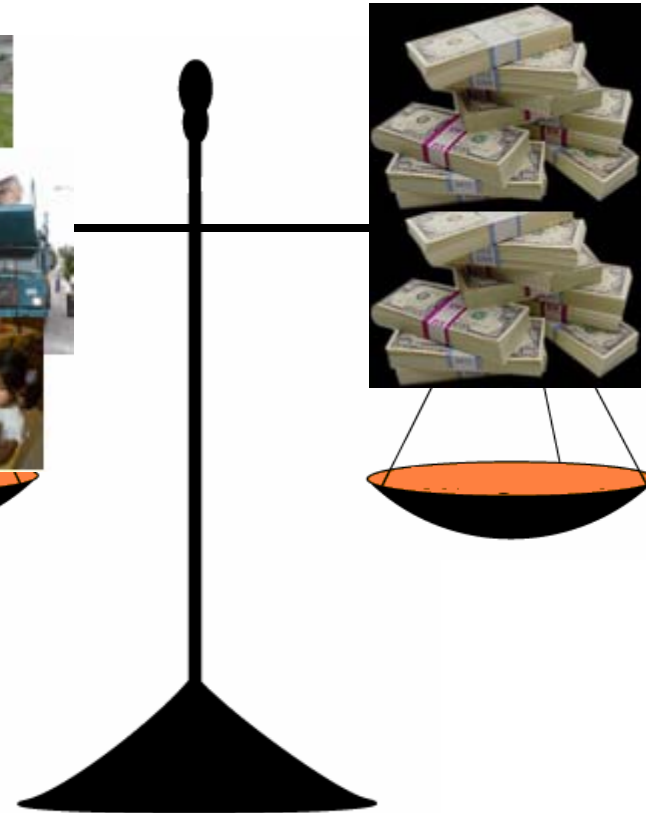
**FY 09-10
Budget Process &
Challenges**



Fiscal Year 2008-09 City Budget at A Glance – Balancing Act

- ❑ The City Budget must balance residents' needs and expectations against limited resources while keeping Los Angeles on a path to fiscal responsibility.
- ❑ Developing the FY09 budget was a balancing act that required tough decisions to be made regarding expenditures and revenues.

The Balancing Act



Fiscal Year 2008-09
Adopted Budget
Overview, Priorities & Challenges



The Fiscal Year 2008-09 City Budget at A Glance

- ❑ The City's General Fund is what supports most of the municipal services in the City such as Fire and Police services
- ❑ Special funds are generated for a specific purpose, typically approved by voters for a specific service like sewer construction
- ❑ Proprietary Departments and the CRA are governed by separate boards but still fall within the jurisdictional review of the Mayor and City Council

BUDGET COMPONENT	AMOUNT (\$ Millions)	Authorized Positions
City Budget (FY 08-09)	7,113	36,971
General Fund	4,554	
Special Funds	2,559	
Proprietary Department Budgets	\$10,442	15,218
Airports	3,207	3,763
Harbor	1,154	1,073
Water and Power	6,081	10,382
Community Redevelopment Agency (CRA)	726	270
Grants and Other Non-Budgeted	1083	
Total City Government	\$19,364	52,459

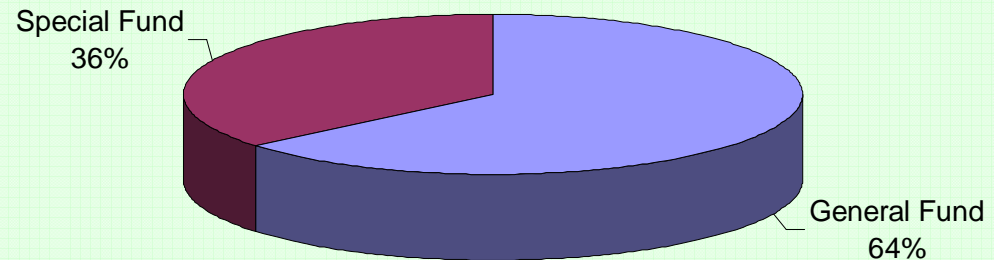


Fiscal Year 2008-09 City Budget at A Glance

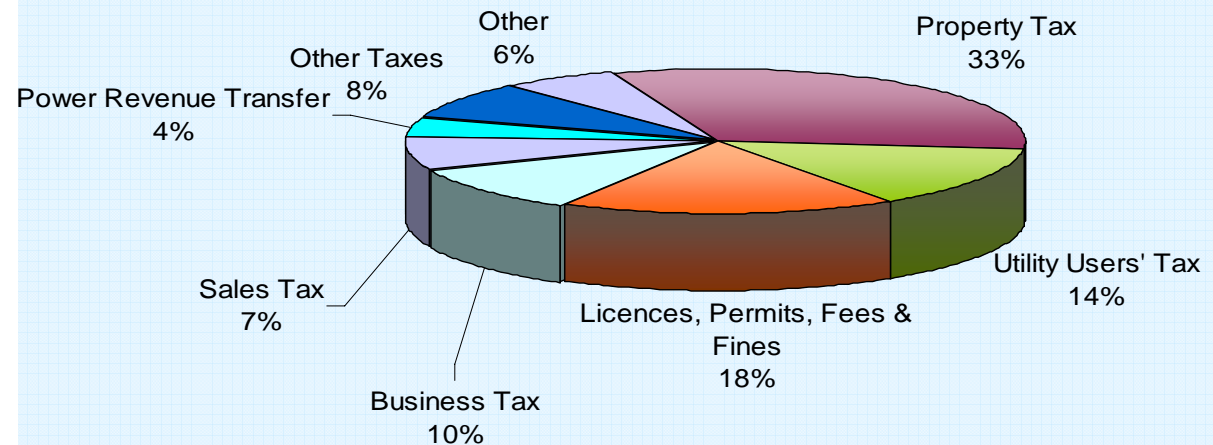
- General Fund revenue fluctuates depending on economic conditions
- Diversity of revenues also helps stabilize revenue volatility
- Most of the decisions that are made on the budget year after year pertain to the General Fund
- Special funds offer little flexibility but provide stability for the City and its services by ensuring a dedicated source of funding for key services



2008-09 Adopted Budget – Total: \$7.113 Billion



General Fund Revenues – Total \$4.554 Billion

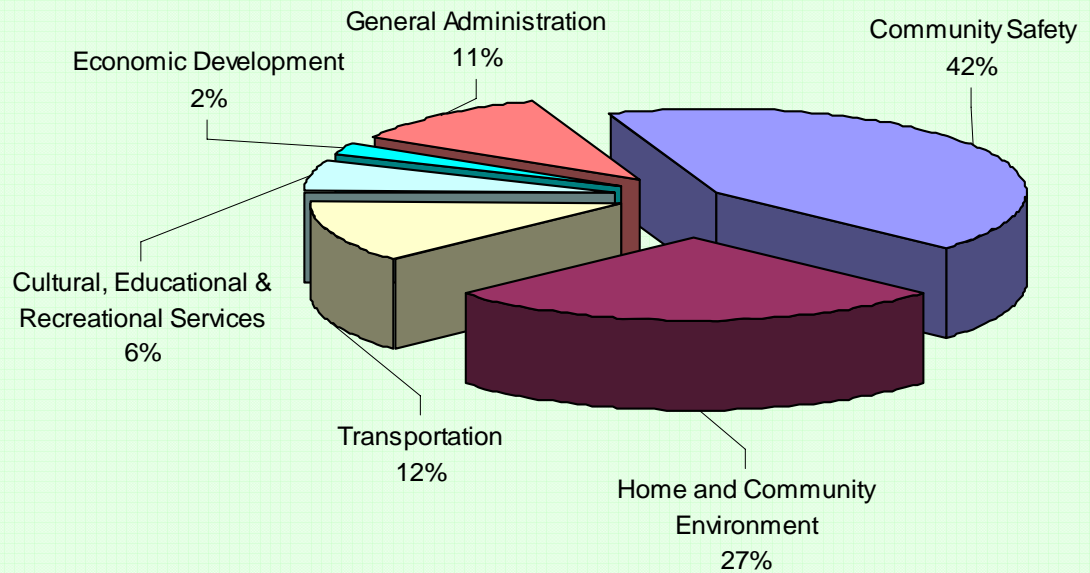


Fiscal Year 2008-09 City Budget at A Glance - Appropriations

- ❑ **Community Safety**
 - LAPD
 - Fire
 - Animal Services

- ❑ **Home and Community Environment**
- ❑ **Transportation**
 - DOT
- ❑ **General Administration**
- ❑ **Economic Development**
- ❑ **Cultural, Educational & Recreational**
 - Library
 - Recreation and Parks

Functional Breakdown of Total City Budget Appropriations - \$7.113 Billion



Fiscal Year 2008-09 City Budget at A Glance - Priorities

Community Safety

- Continuation of five-year police hiring plan to reach a net new 1000 officers hired by 2010.
- Continue funding for 8 existing Gang Reduction & Youth Development Zones and establish 4 additional ones.
- Create a LAFD Professional Standards Division.
- Summer Night Lights at 8 City parks.



Fiscal Year 2008-09 Adopted Budget – Priorities (cont.)

❑ Infrastructure Improvements

- Resurface 235 miles
- Slurry seal 400 miles
- Crack seal 100 miles
- Fill the one millionth pothole



❑ Transportation

- Synchronize 348 more traffic signals
- Install 147 new left turn signals
- New traffic congestion relief programs



Fiscal Year 2008-09 Adopted Budget – Priorities (cont.)

❑ Economic Development

- Remain on track to move 100,000 Angelenos into living wage jobs by 2010
- Place 15,000 LA youth into summer and seasonal jobs.

❑ Affordable Housing

- Continue moving forward on recently developed 5 strategic year plan

❑ Cultural and Recreational Services

- Open Charles Mingus Youth Arts Center in Watts



FY 2008-09 Adopted Budget Challenges

- Economy Sensitive Revenues***
- State Budget Issues***
- Increased Costs (e.g. Fuel)***



Challenges for the Fiscal Year 2008-09 Budget

❑ **City will be facing a budget deficit this fiscal year.**

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- Reduction in economically sensitive revenues
- Potential State of California revenue reductions to local governments
- Increased fuel costs
- International financial and credit crisis

❑ **Similar to last year, the Mayor will be calling on all Departments to make every effort to reduce costs and expenditures now.**



Fiscal Year 2008-09 City Budget at A Glance - Revenues

Top 6 Economically Sensitive General Fund Revenues (\$ millions)	FY07-08 Budgeted	FY07-08 Actual	FY07-08 Actual vs. Budget	FY08-09 Budgeted Amount
Property Tax	1,397.3	1,389.3	-0.57%	\$1,461.4
Utility Users Tax	627.2	628.3	+0.18%	637.6
Business Tax	477.6	467.0	-2.22%	472.4*
Sales Tax	348.9	335.6	-3.81%	336.1*
Transient Occupancy Tax	144.0	148.5	3.13%	155.9
Documentary Transfer Tax	157.0	132.9	-15.35%	120.0*

*Likely to be revised downward.

Challenges for the Fiscal Year 2008-09 Budget - Revenues

❑ State Budget Issues May Reduce Budgeted City Revenues

- ❑ The State has adopted its budget but has already begun to experience liquidity and revenue issues.**

- ❑ The State may once again rely on local government revenues to help offset State cash flow problems by delaying payments to the City**
 - Gas Tax**
 - Local Redevelopment Taxes (CRA)**
 - Other Local Revenues**



Challenges for the Fiscal Year 2008-09 Budget - Costs

❑ Fuel Budget - \$46 M based on estimated \$2.89 per gallon

- City currently uses approximately 16.4 million gallons of fuel per year
- City has aggressively been buying low emission hybrid vehicles whenever possible
- City currently buys at wholesale prices and is negotiating to perhaps buy directly from the refineries



THREE-YEAR COMPARISON OF FUEL PRICES (Average price per gallon)

FUEL	05-06	06-07	07-08	As of 8-3-08 (weekly price)	% Increase between 05-06, to current
Unleaded	\$2.44	\$2.58	\$3.05	\$3.71	52%
Diesel	\$2.52	\$2.56	\$3.26	\$4.23	68%

PETROLEUM ACCOUNT EXPENSES

Fiscal Year	Actual Expenses (in millions)	Total Gallons (in millions)
2005-06	\$25.2	11.1
2006-07	\$41.1*	15.9*
2007-08	\$48.8	16.4
2008-09 (estimate)	\$60-70	16.4

* Fire & Police petroleum administration was transferred to GSD



The Financial & Credit Crisis and the City

- Departments to Monitor and Report Impacts***
- Ability to Borrow***
- City Treasury Investments***
- Pension Funds***



The Financial & Credit Crisis and the City

- ❑ **The Mayor directed the following City Departments and their financial advisors to report back on how the financial/credit crisis may be affecting their operations and finances.**
 - Housing; Community Development; Airports; Harbor; DWP; LACERS; Fire & Police Pensions; Treasurer; CAO; CRA

- ❑ **Key issues being reviewed by the City include potential impacts on:**
 - The cost of current and future debt financing (e.g. variable & fixed rate)
 - The investment of \$7.5 billion in general pool and special funds by the City Treasurer
 - The impacts to the City's Pension Funds and required future General Fund Contributions



The Credit Crisis and Municipal Borrowing

- ❑ **Commercial Paper: The City's ability to borrow money on an as-needed basis for a short period of time at a lower rate was negatively impacted by the credit crunch.**
 - The overall lack of investor confidence and concern about the financial markets have led to them to focus on buying US Treasuries versus corporate and municipal debt – despite the City's high AA rating.
 - Municipal variable interest rates increased from a range of 1.2% to 1.5% to a range of 5% to 6% within the last few weeks

- ❑ **Institutional Investors and money market funds are beginning to sell municipal bonds which is reducing the demand for new bonds and may increase the City's cost of borrowing.**
 - For example, AIG is currently the largest holder of municipal debt. If AIG begins to sell bonds on a large scale, then it will affect the City's ability to sell new bonds.



Examples of Potential Impacts on City of LA Borrowing

- ❑ **Going forward, it is currently unclear if there will be sufficient buyers of the City's bonds in the near future.**
 - On September 17, 2009, the City of Los Angeles could not sell Convention Center Fixed Rate Bonds due to the "Credit Crisis" as there were no buyers of municipal debt on that day. However, on September 22, the City was fortunate in being able to sell \$250 million of bonds.
 - Future impacts of a continued credit crisis could be delays in making large equipment purchases (e.g. (Sanitation Trucks) and capital construction projects (i.e. power system and sewer system infrastructure projects)



Investment of the City's Public Funds

- ❑ The City Treasurer invests up to \$7.5 billion of the City's general pool and special funds and works with the Controller's Office to disburse those funds to the Departments as required.
- ❑ The City Treasurer works to ensure that the City earns interest payments at or above industry benchmarks while protecting the principal from undue market risk.
- ❑ Prior to the financial crisis and credit crunch, the Treasurer had taken steps to reduce the City's exposure to financial firms whose fundamentals were deteriorating and will continue to do so.
- ❑ Both Standard and Poor's and Moody's Investor Services have rated the City Treasurer's Investment Program as AAA – the first and only such dual designation given to a City nationwide.



City Pension Funds

- ❑ **The City of Los Angeles Pension Funds investment portfolios are conservatively structured to focus on the long-term to weather periods of market volatility.**
 - The portfolios are comprised of a broad diversification of multiple assets classes which reduces overall risk
- ❑ **Impact of Market on Pension Funds**
 - Investment smoothing methodology - Gains and losses are spread over a five-year period to dampen market volatility and impact on the City's contributions
 - Market volatility creates buying opportunities at reduced asset prices



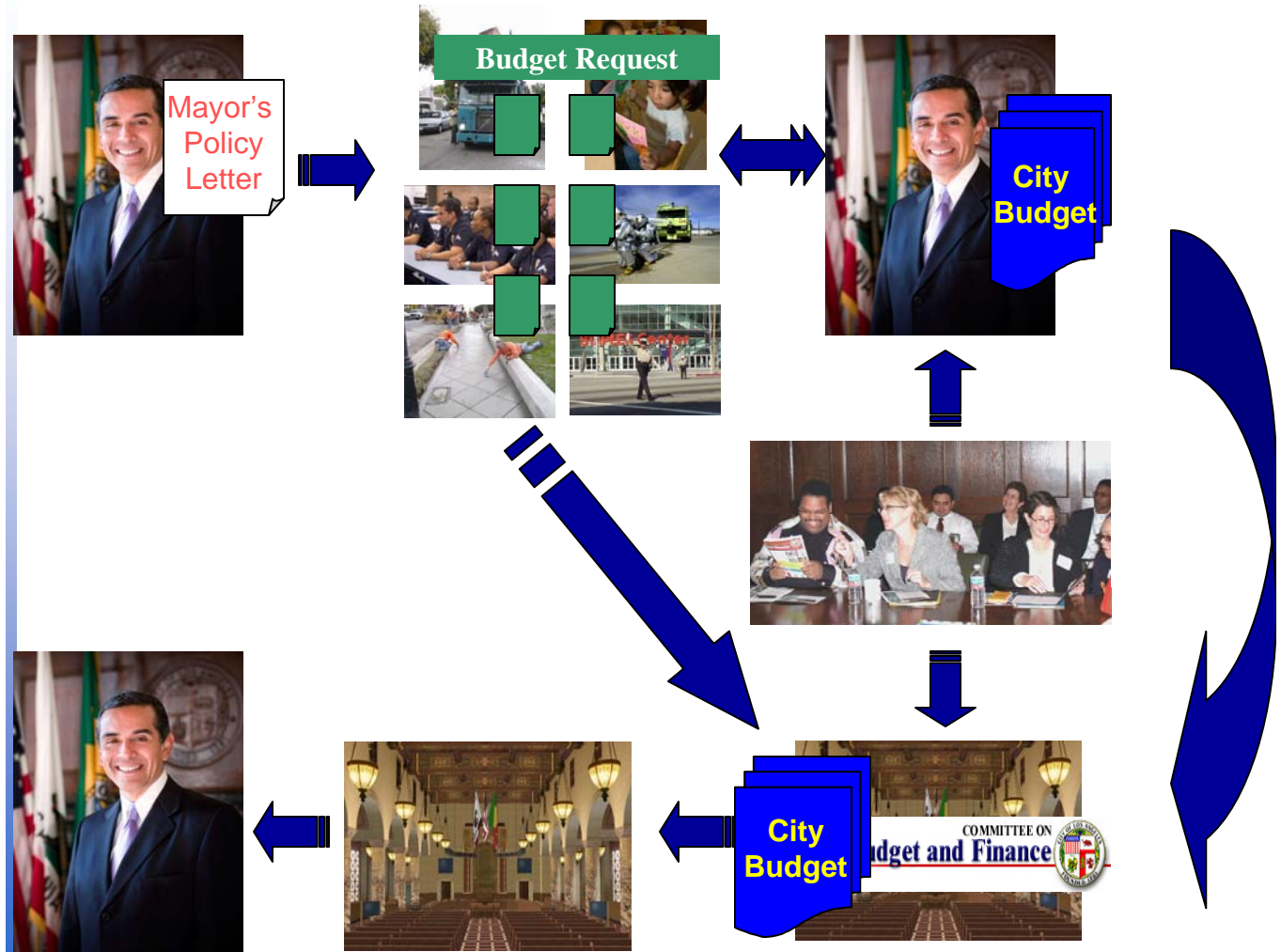
Fiscal Year 2009-10
Budget Process & Challenges



The Budget Process for Fiscal Year 2009-10

- ❑ Budget Strategy Meetings with Departments
- ❑ Mayor hosts Community Budget Day in October
- ❑ Mayor's Policy Letter to departments in October
- ❑ Departments submit budget requests to Mayor's Office in December
- ❑ Department Budget hearings with the Mayor
- ❑ Regional Review of Budget Priorities by NC's
- ❑ Final Decisions by Mayor
- ❑ Proposed Budget by April 20th to the City Council
- ❑ Committee review and recommendations to full Council in May
- ❑ Council modifications in May or June
- ❑ Mayor approval or veto in May or June
- ❑ Council override of Mayor veto or adoption of budget in May or June

Fiscal Year: July 1 to June 30



Future Challenges – Preparing for the FY 2009-10 Budget

- ❑ The CAO's First Financial Status Report dated September 2, 2008 indicates a projected deficit of **\$281.7 million** in FY 2009-10.
- ❑ However, since that time more information regarding the condition of the national and global economies has become known. Therefore, it is possible that the projected FY 2009-10 deficit could be as high as **\$400 million**.
- ❑ Projected sales and business tax revenues will most likely need to be revised downward due to the economic slowdown, job losses, and the credit crunch.





To complete the online Community Budget Survey for the FY 09-10 Budget and for additional online budget information please visit:

<http://www.lacity.org/mayor/budget>

To provide additional recommendations and/or comments to the Mayor's Office please email:

LABudget@lacity.org

