



*Mayor Antonio R. Villaraigosa*

**Community Budget Day  
Tough Choices for a Brighter Future  
October 1, 2005**

*Finance and Performance Management Team*

## Community Budget Day Agenda

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- **Welcome**
- **Introductions**
  - Karen Sisson, Deputy Mayor, Finance & Performance Management
  - Ben Ceja, Associate Director, Finance & Performance Management
  - Bill Fujioka, City Administrative Officer
  - Pat Canfield, Assistant City Administrative Officer
  - Ray Ciranna, CAO's Office
  - Mary Higgins, CAO's Office
  - David Hirano, CAO's Office
- **What We Hope to Accomplish Today**
- **Closing**

## It Takes Ten Months to Build a Budget!

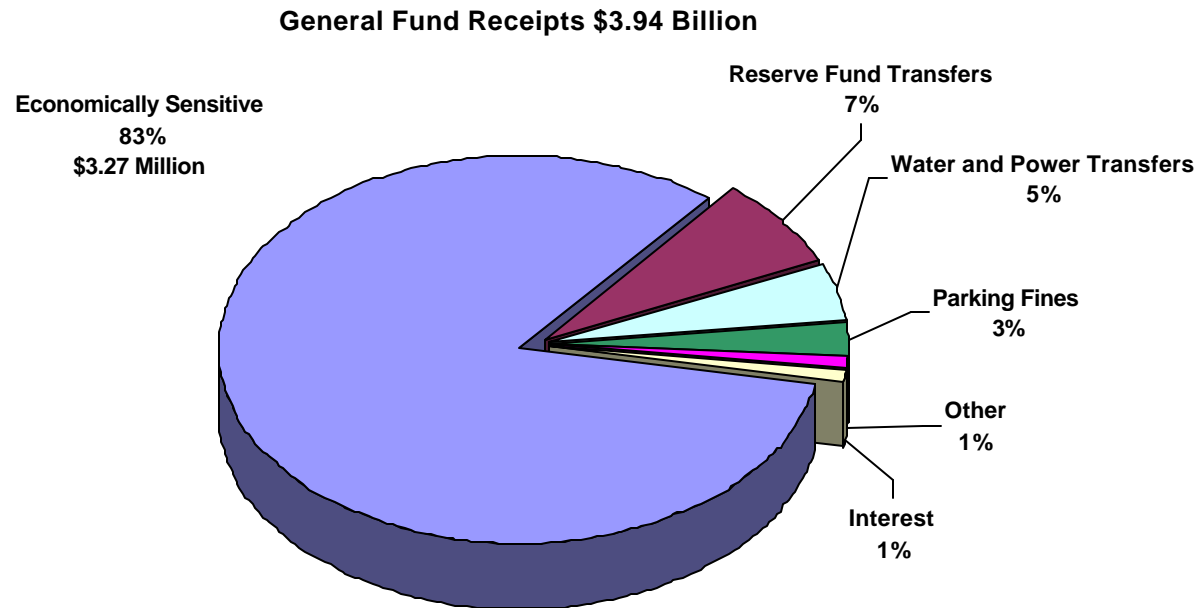
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Mayor's Budget Policy Letter Released	Sept 2005
<b><i>Community Budget Day</i></b>	<b><i>Today</i></b>
Preliminary Departmental Budgets Submitted	Nov 2005
CAO and Mayor's Office Preliminary Review	Dec 2005
<b><i>Neighborhood Council Roundtables</i></b>	<b><i>Jan 2006</i></b>
Preliminary Revenue Estimates & Departmental Hearings with the Mayor	Feb 2006
Gut Check—Revised Revenue Estimates & Second Round of Budget Hearings to Balance the Budget	Mar 2006
Mayor's Budget Released	April 2006
<b><i>City Council Hearings</i></b>	<b><i>April /May 2006</i></b>
Budget Adoption	June 2006

## Economic Condition is the Budget's Most Important Building Block

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- 83% of Los Angeles' General Fund revenue goes up or down depending on economic conditions
- 17% comes from other sources like transfers from the City's "savings account", or Reserve Fund, and from the Power Revenue Fund of LADWP, which are not as closely linked to economic performance

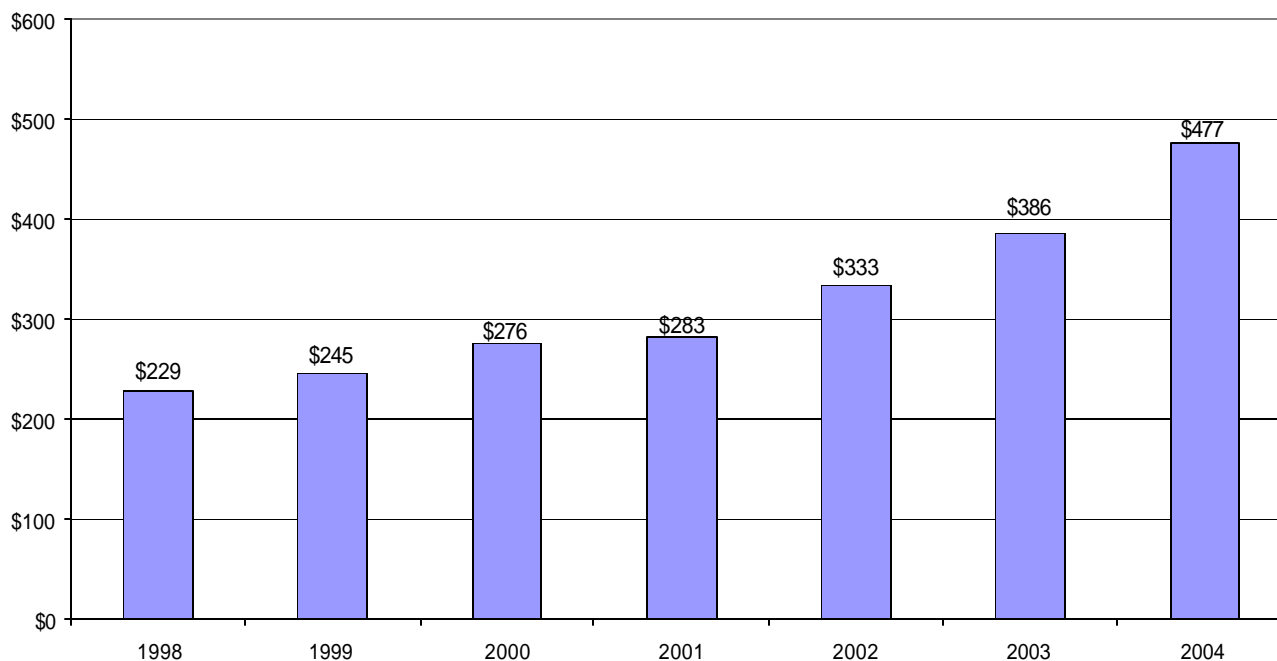


## A Growing Economy Increases City Revenues

- Growth in the real estate market results in higher levels of property taxes, documentary transfer taxes, residential development taxes, and planning fees
- Growth in income impacts the level of sales taxes since people who make more, generally buy more

\$ (Thousands)

**Average Single-Family Residential Market Value in L.A. County <sup>(1)</sup>**



**Median Household Buying Power**

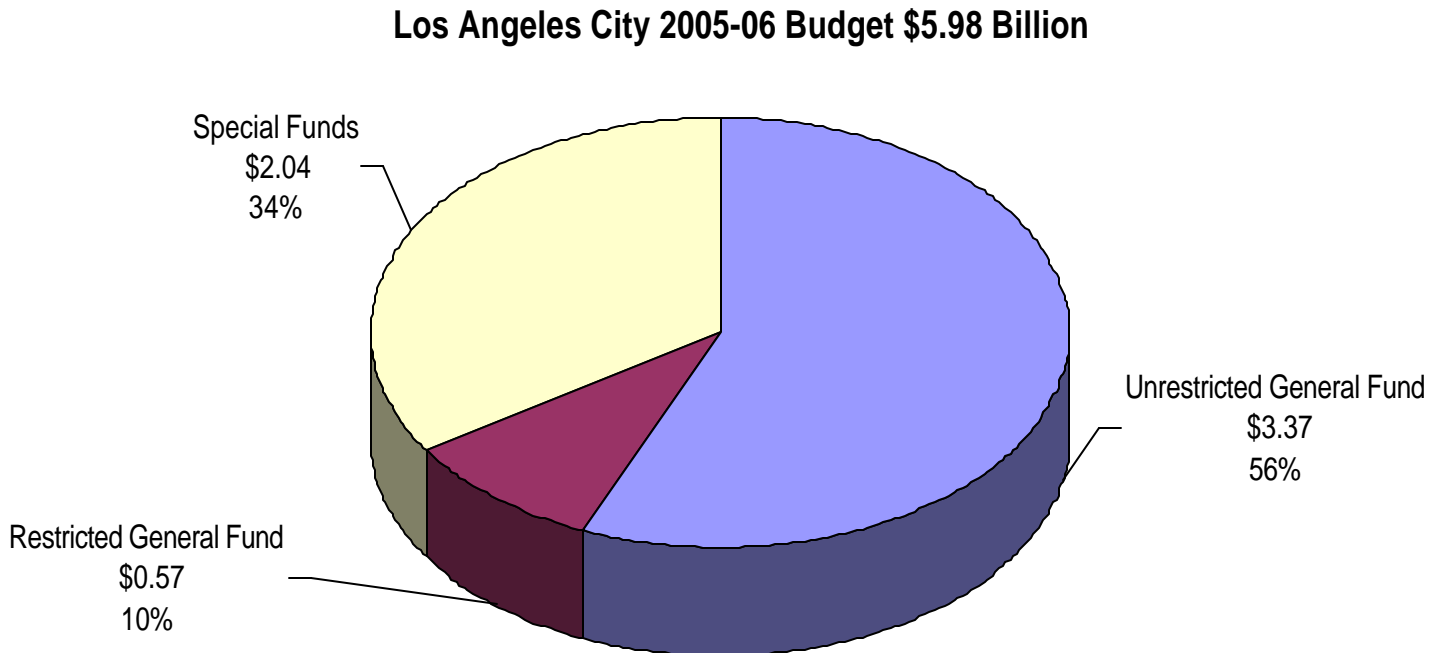
Year	City	County
2001	\$36,548	\$40,789
2002	\$33,398	\$37,983
2003	\$33,398	\$37,983
2004	\$33,541	\$38,311

(1) Properties that have transferred ownership

## The City's Total Revenue Budget is Almost \$6 billion

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- More than half (56%) of the City's total revenue comes from General Fund sources that are considered unrestricted.
- The remaining portion (44%) of total revenue comes from special fund revenues that must be spent for specific purposes and restricted General Fund sources such as fee-based services.



## The City Collects Revenue from Over 20 Different Sources!

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- The “Top 6” revenue sources account for over 70% or \$2.9 billion of General Fund revenues in the FY 2005-2006 budget

<b>Revenue Source</b>	<b>\$ millions</b>
Real Estate Property Taxes <sup>1</sup>	830
Utility user Taxes	588
Licenses, Permits, Fees & Fines	439
Business Tax	385
VLF & Sales Tax Paid thru Property Taxes – Contribution to State (ERAF) <sup>2</sup>	310
Sales Taxes	310
<b>Total “Top 6” Revenues</b>	<b>2,862</b>

- Does not include property tax revenue derived from the state obligation to make cities whole for Vehicle License Fee rebates and redirected Sales Tax to pay debt service on the State’s Economic Recovery Bonds, the so-called “triple flip”.
- ERAF: Educational Revenue Augmentation Funds

## Monies in Special Funds Contribute the Remaining \$2 Billion to the Total City FY2005-2006 Budget

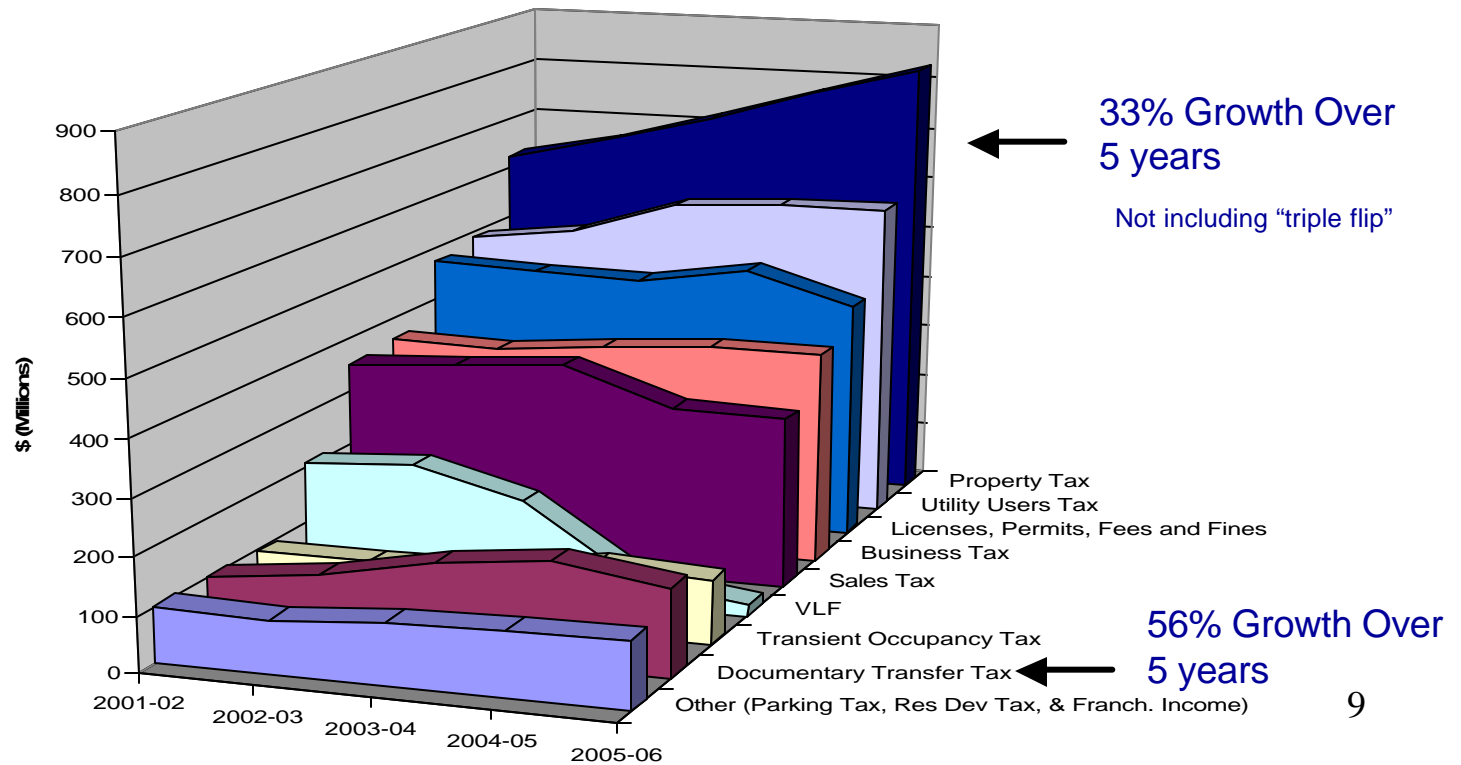
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- The remaining one-third (33%) of total revenue comes from special fund revenues that must be spent for specific purposes.
- Special fund monies are dedicated to specific purposes such as sanitation equipment, traffic congestion mitigation, sewer construction and the City's contribution to rail transit.

<b>Special Fund Revenue Source</b>	<b>\$ millions</b>
Sewer Construction & Maintenance	720
Prop A- Local Transit Assistance	168
Levy for Bond Redemption & Interest	163
Building and Safety Enterprise Fund	105
Gas Tax Street Improvement Fund	98
Sanitation Equipment Charge	96
<b>Total "Top 6" Special Funds</b>	<b>1,350</b>

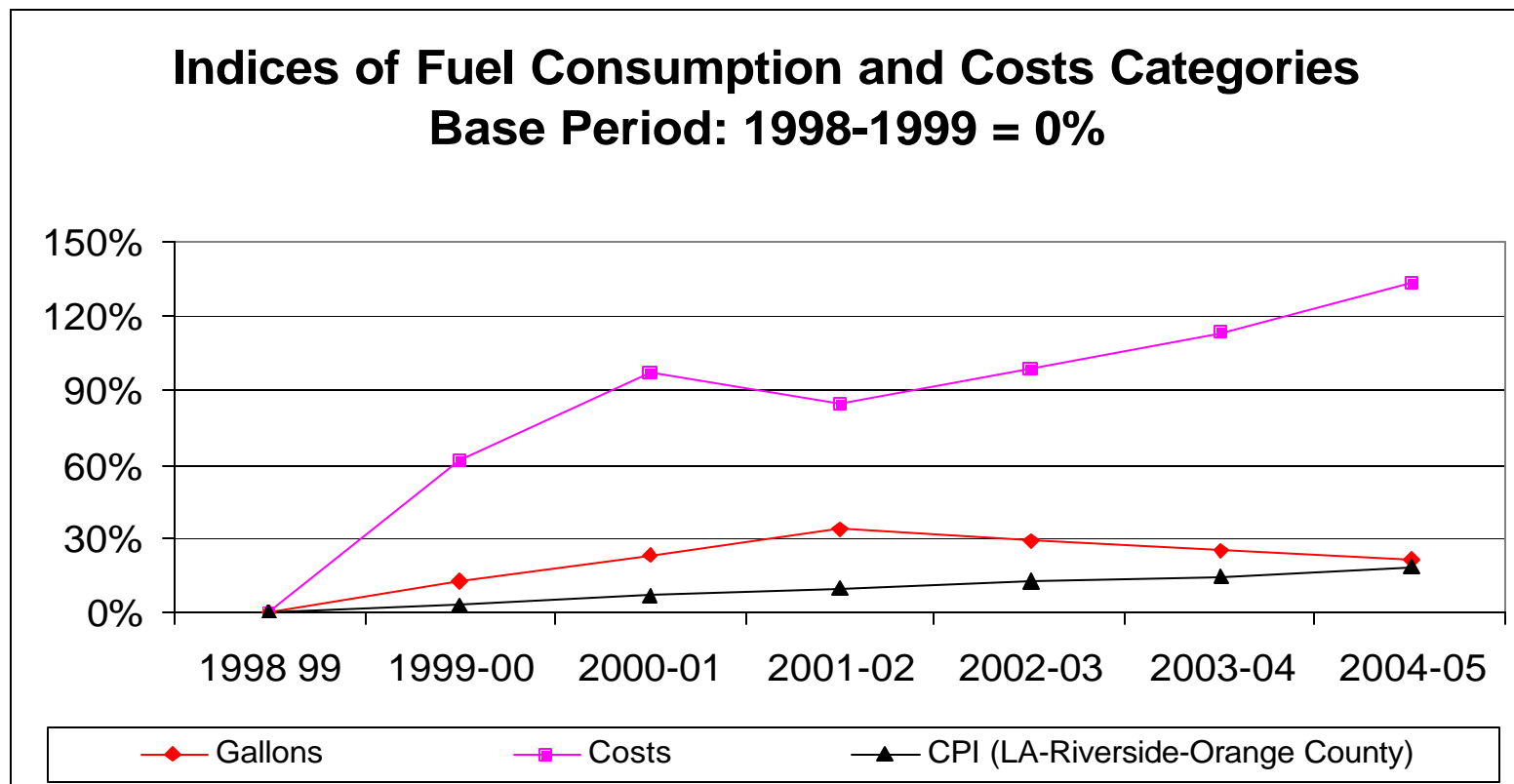
# General Fund Revenues Have Grown Moderately Over the Last 5 Years

- Property Tax and Document Transfer Tax receipts have outperformed overall total revenue growth
- Sales tax revenue lags overall revenue performance due to State take-away
- Diversity of revenues helps stabilize revenue volatility



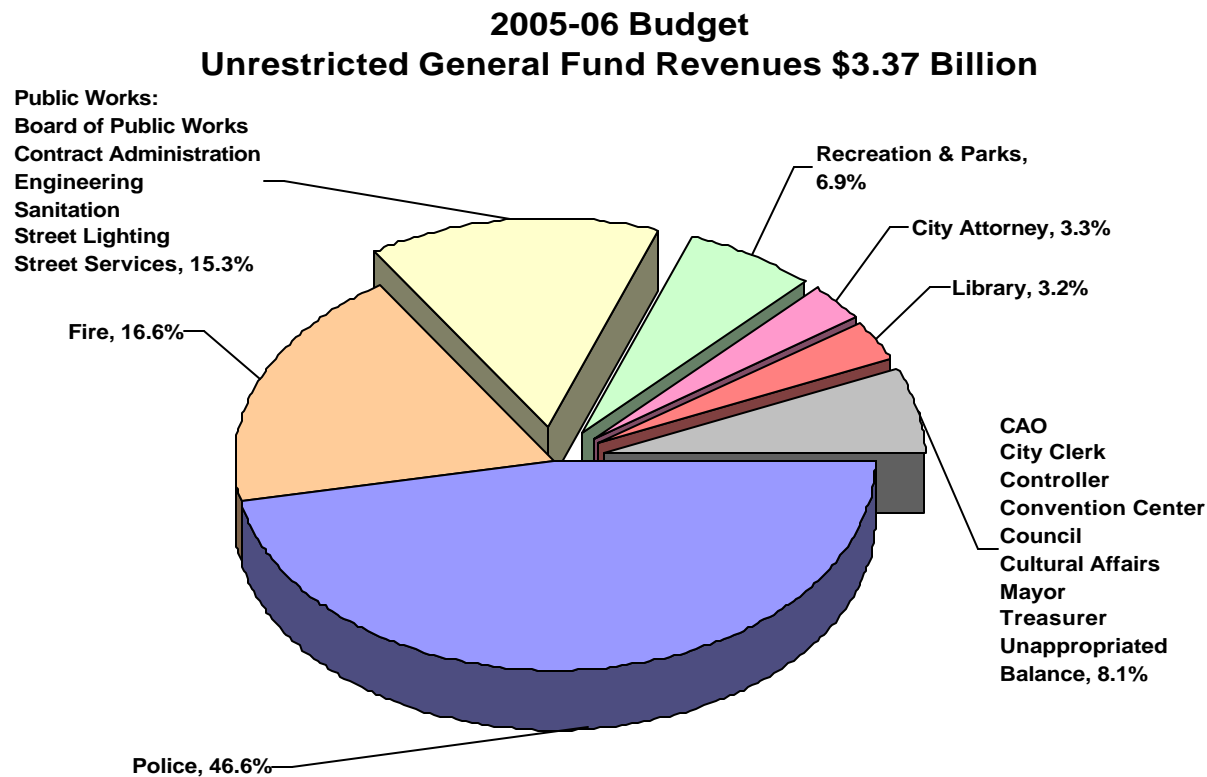
## City Spending is Also Driven by Economic Conditions

- The inflation rate impacts the cost of purchasing materials and supplies from paper and computers to lawn mowers and trash containers
- Increases in the costs of commodities like gasoline, impact the cost of fuel for the City's cars, maintenance trucks and garbage trucks



# Public Safety is the Largest Single Consumer of General Fund Monies

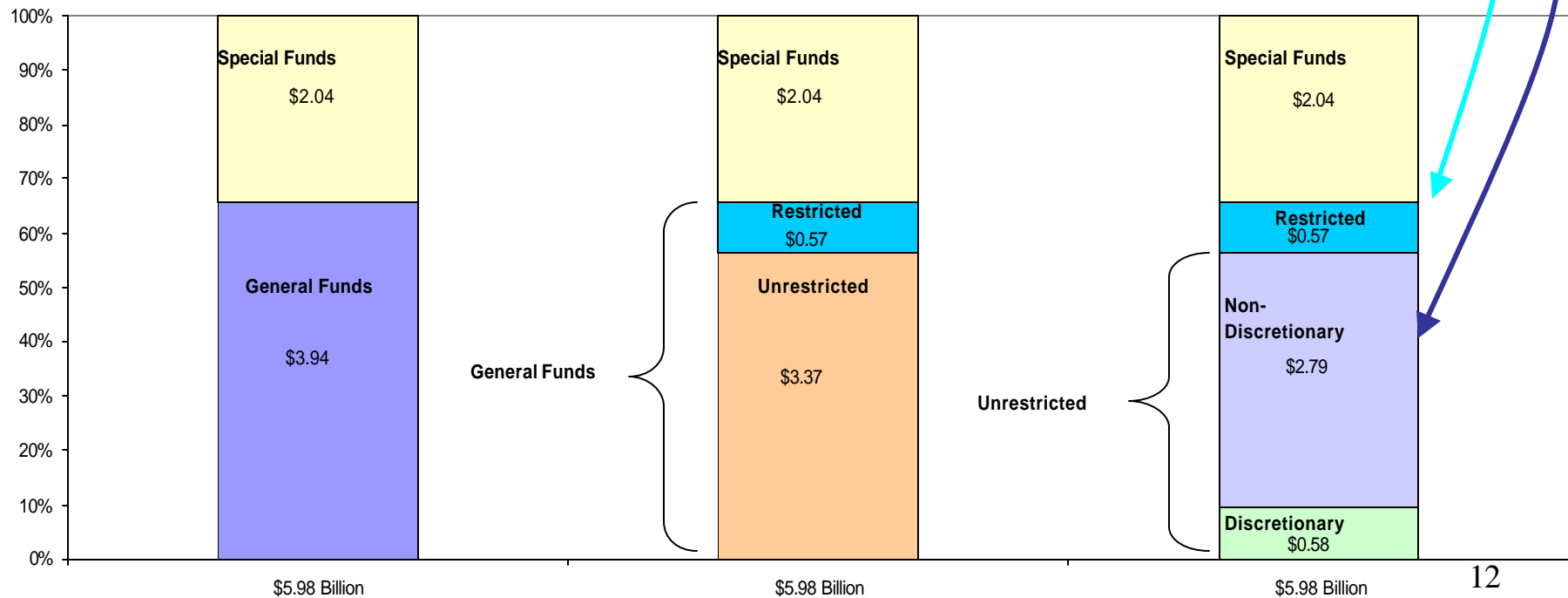
## General Fund Departmental Expenditures



<b>Public Safety</b>	<b>\$2,134 M</b>
<b>Public Works</b>	<b>\$516 M</b>
<b>Recreation &amp; Parks, Library</b>	<b>\$341 M</b>
<b>General Government</b>	<b>\$385 M</b>
<b>Total</b>	<b>\$3,376 M</b>

# Most General Fund Revenues are Already Obligated

- Restricted expenditures account for 15% of total general fund revenues  
Grant supported activities, Fee-Based services such as Animal Services, Permitting, Building Inspections
- Non-discretionary expenditures account for 70% of total general fund revenues  
Sworn salaries for Police and Fire, Trash Collection, Transportation, Debt Service, Mandated Services



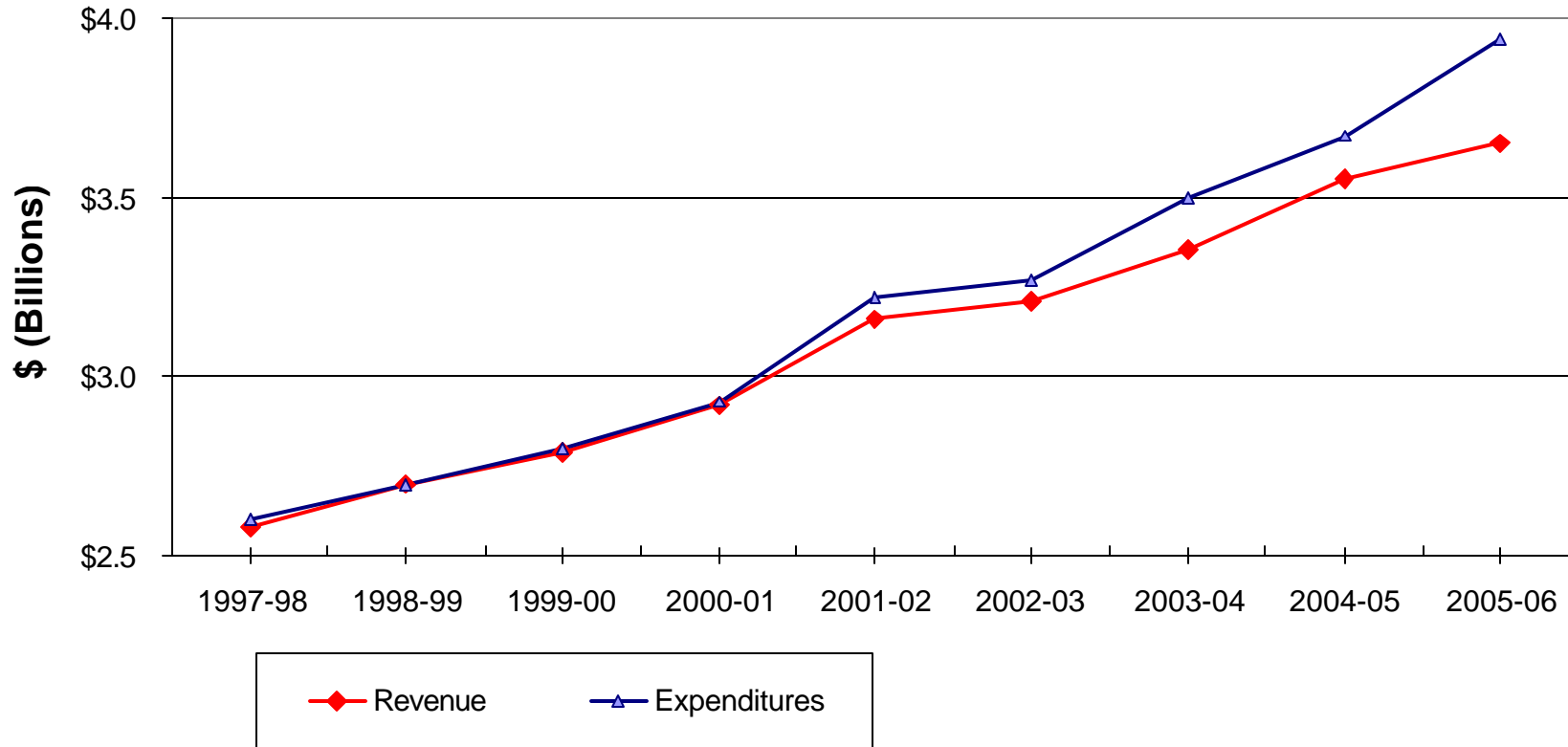
## Budget Priorities Compete for \$500 million to \$700 million in Available Funding

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- Roughly 10% to 12% of general fund spending is determined by the budget process
- Other options for increasing available funding to meet budget priorities include:
  - Reexamine priorities within existing City programs (timing, sequence and implementation)
  - Take a fresh look at the menu of services the City provides to its residents and stakeholders

# General Fund Spending is Increasing at a Faster Rate than General Fund Revenues

General Fund Base Revenue vs. All General Fund Expenditures

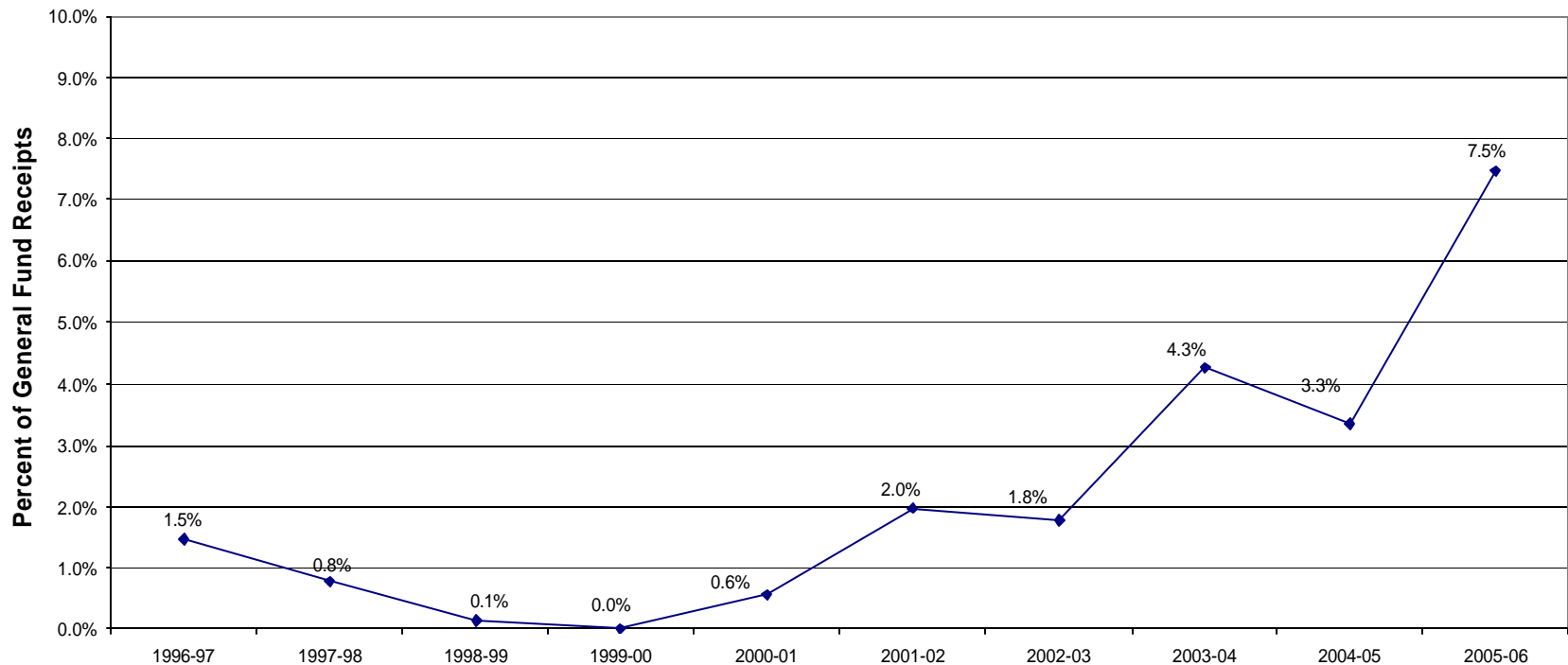


	Revenues	Expenditures
Average 8-year growth rate	4%	5%

## Since 2001 the City Has Relied on Its Savings Account to Cover Ongoing Expenditures

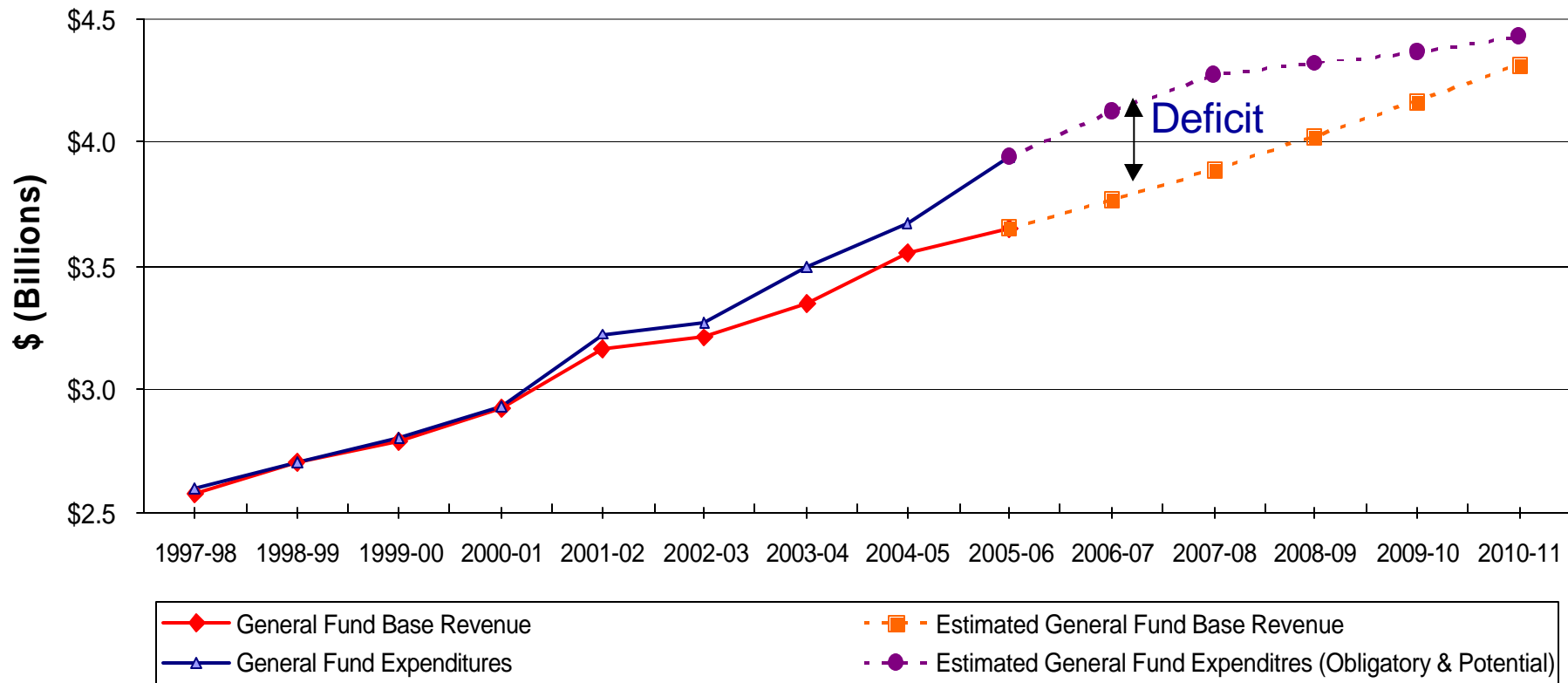
- Differences between budgeted revenues and budgeted expenditures have been offset by higher than expected cash receipts OR City action to slow spending or freeze hiring
- However, reliance on reserves has increased steadily over the past four years resulting in a *structural deficit of approximately \$245 million*

Reserve Fund Transfer as a Percent of General Fund Budget



# The Five-Year Budget Forecast Shows A Widening Gap Between Revenue and Expense

General Fund Base Revenue vs. All General Fund Expenditures



- Forecast assumes realistic revenue growth
- Expenditures are assumed to increase only at the rate of inflation with the exception of known contractual obligation or debt payments

## FY 2006-2007 Budget Drivers

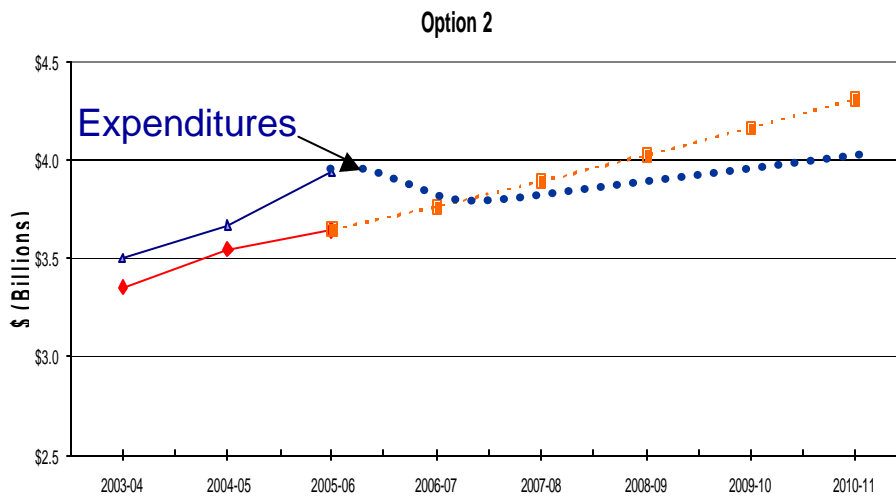
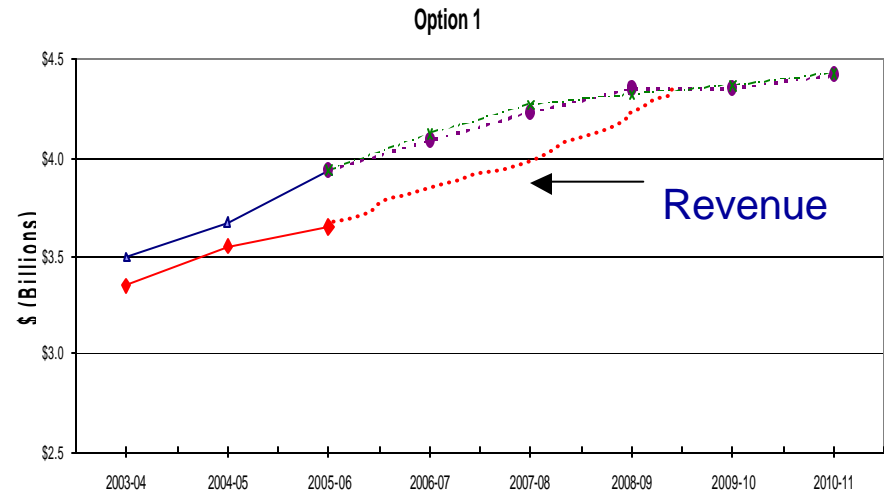
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- Continuing legislative and court challenges to the City's legal authority to collect utility users tax on cell phone service and other new communication technologies
- Labor costs
  - Key Police and Fire Agreements expire in June 2006
  - Employee benefits and healthcare costs continue to increase
  - City contributions to employee pensions may rise as a result of accounting changes and the rising cost of retiree healthcare benefits
- The mix and type of services the City provides to its residents and stakeholders

# The City Has Three Options for Attacking the Structural Deficit

- **Option 1:** Hope that economic growth together with aggressive management of City expenditures results in higher revenues “growing” us out of the deficit.

Reliance on economic growth alone is unlikely to solve the structural imbalance between revenues and expenditures.

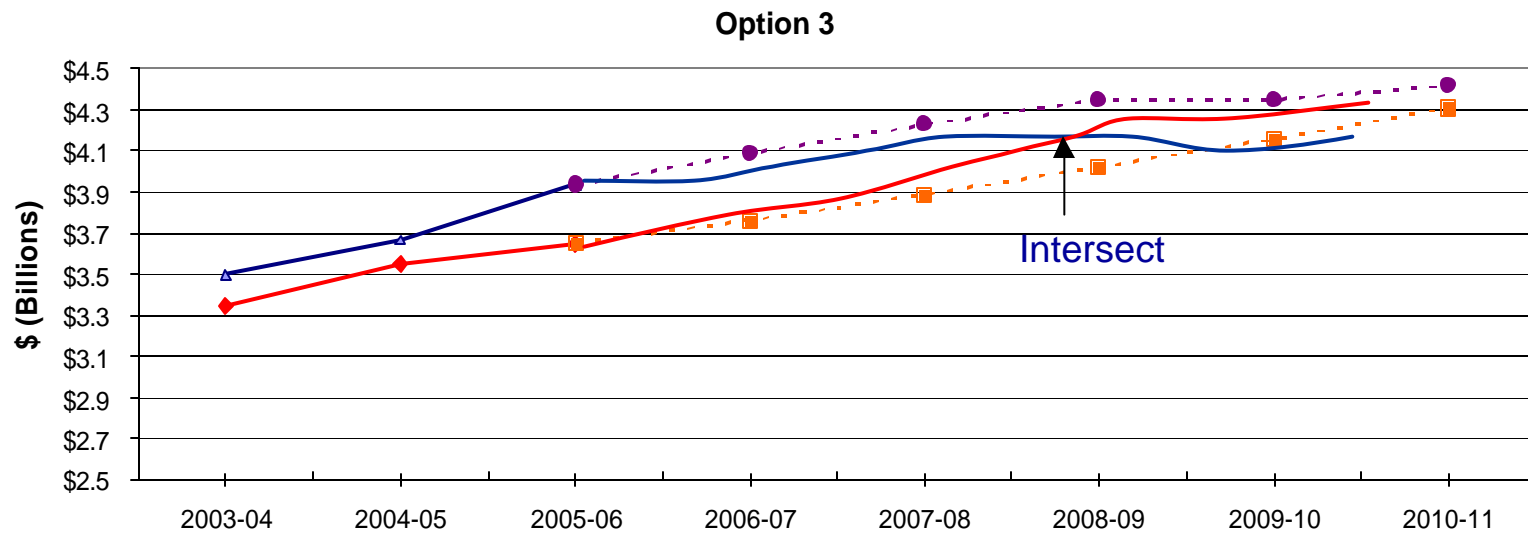


- **Option 2:** Cut costs and services sufficiently in FY2006-2007 to reduce expenditures to meet anticipated revenues.

Service reductions of this magnitude would be severe and unacceptable.

## Third Option is to Take a Series of Actions to Slow Down the Rate of Expenditure Growth and to Attack the Structural Deficit

- Actively manage City departmental expenditures to create better value for residents and stakeholders by working toward operational efficiencies and taking a hard look at the *mix* and *delivery* of City services
- The Mayor and City Administrative Officer have begun an evaluation of 150 proposals to capture efficiencies and budgetary savings this fiscal year



## Your Role as a Community Leader

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- **Provide honest, thoughtful input** about the programs and services that are most important to your community and why they are important
- **Look at the “Big Picture”** and think about what priorities the City as a whole must meet to make Los Angeles the City we all want it to be:
  - A City with **improved public safety** and an expanded police force
  - A City that **supports its public schools**
  - A City that **provides gang intervention and training programs** that reduce gang violence
  - A City with **reduced traffic congestion** and communities that are better connected to each other
  - A City that is **the “greenest” big city** in America
  - A City that is **the leading economic and cultural center** of the world

## Next Steps – Closing Remarks

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- Become knowledgeable about the budget process through this session and other City resources
- Participate in the budget breakout sessions that follow this presentation to learn more about how you can provide input through your Neighborhood Council
- We want to hear from you! Stay tuned for ways to contact us!