


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: January 21, 2010

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer 

Subject: **MID-YEAR REVISION TO GENERAL FUND REVENUE ESTIMATE**

The purpose of this report is to provide the Mayor and Council with an update of General Fund revenue. These receipts are now projected to be \$185.9 million below the adopted budget and \$110.6 million below the September and November 2009 revisions included in our earlier financial status reports. The magnitude of this drop requires that reduced revenue be considered in all financial decisions. We therefore make this separate report on revenue now. The January financial status report will provide a plan for immediate action to close the deficit created both by this projected revenue shortfall and by expenditure accounts projected to be in excess of budget. The attachment provides detail by specific revenue account. Additional information for each major revenue will also be included in that report. The table below summarizes the changes to budgeted City receipts:

SUMMARY 2009-10 GENERAL FUND REVENUE

Revised at January 19, 2010
\$ Millions

2009-10 Adopted Budget		\$4,399.8
Revisions -- September and November 2009 Financial Status Reports	(\$75.3)	
Additional Revision -- January 2010	(110.6)	
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Total Revision		(185.9)
Revised Estimate		<u><u>\$4,213.9</u></u>

The severe recession has reduced expected revenue particularly from the economy-sensitive taxes such as the sales, business and hotel taxes; the communications users' tax; the gas users' tax and related franchise income; and the documentary transfer tax. Other local agencies, most notably the County of Los Angeles, report similar declines in projected revenue.

Although the current consensus of economists and industry experts is that the severe recession has ended, recent data show that recession to have been much more severe than forecast at the time the City's 2009-10 budget was adopted. Because consumer spending trails economic recovery and receipt of tax revenue lags consumer spending, local government is typically the last sector of the economy to experience an economic upturn. Southern California has been especially vulnerable due to the collapse of the local real estate market and much higher unemployment than experienced by the nation as a whole; the effects of the recession will continue to be felt well into the City's next fiscal year.

More specifically, the City budget anticipated a 6% decrease in local taxable sales in the Summer Quarter; but the actual decrease was 16%. Results for the 2009 Christmas Quarter will be available in March, but based on the pattern of recent receipts and available retail sales data, that quarter will be below the budget forecast. The budget projected a 5% decline in the fourth quarter of 2009. When this is combined with the 11% decline experienced in the fourth quarter of 2008, the budgeted two-year decline was 16%. But even that decline understated the severity of the recession. It now appears the fourth quarter of 2009 will be 18% below the fourth quarter of 2007.

This pattern of receipts is also apparent in the hotel tax and in the portion of the property tax linked to taxable sales. Although the business tax is currently ahead of plan due to the tax-amnesty program, it is affected by the same economic factors as the sales tax. All of these economy-sensitive revenues are revised downwards.

Downward revisions are also made in the communications and gas users' taxes based primarily on analysis of receipts during the first half of the fiscal year. The gas users' tax is affected by the energy market which saw the price of natural gas decline by 75% between August 2008 and May 2009. Although the commodity price is now rising, it is still below the budgeted level. Lower natural gas prices also affect franchise income receipts.

Voter approval of Measure S in 2008 broadened the communications users' tax base while reducing the tax rate by 10%. City tax receipts increased by 1% in 2008-09, but have been declining in recent months. It is now apparent that a \$15 million reduction in this account is required.

Significant adjustments are also made in the documentary transfer tax reflecting a slower real estate recovery; the power revenue transfer due to lower 2008-09 power sales; interest income; departmental receipts; and other General Fund revenues.

The January report will also address the \$400 million deficit currently projected for next year. Reductions in spending made now will mitigate the impact of corrective action necessary to deal with next year's projected deficit.

GENERAL FUND REVENUE OUTLOOKFiscal Year 2009-10 Revised
\$ Thousands

	September 2009 Revised		January 2010 Revised	
Budget	Revised @ Sept. 2009	Change from Budget	Revised @ Jan 13, 2010	Change from Budget
Property Tax (Base)	\$1,002,720	\$1,002,720	\$1,013,670	\$10,950
Property Tax - VLF Replacement	307,678	307,678	320,224	12,546
Property Tax -- Sales Tax Replacement	108,472	108,472	84,976	(23,496)
Total Property Taxes	\$1,418,870	\$1,418,870	\$1,418,870	
Electric	\$299,000	\$293,000	\$299,000	
Gas	84,000	81,258	69,000	(15,000)
Telephone	284,875	284,875	269,000	(15,875)
Utility Users' Tax	\$667,875	\$659,133	\$637,000	(\$30,875)
Licenses, Permits and Fees	723,126	710,126	691,126	(32,000)
Business Tax	426,157	426,157	416,157	(10,000)
Sales Tax	304,243	290,102	278,274	(25,969)
Documentary Transfer Tax	100,000	100,000	92,000	(8,000)
Power Revenue Transfer	232,000	232,000	220,000	(12,000)
Transient Occupancy Tax	130,200	126,780	122,700	(7,500)
Parking Fines	134,000	134,000	132,000	(2,000)
Parking Users' Tax	82,300	82,300	82,300	

Secured, unsecured and redemptions are up; big risk in supplemental

Volatile pattern of receipts

Gas prices below forecast

Revenue is falling, possibly due to recession and increased competition.

Many categories at risk; includes optimistic anticipation of ARRA

Receipts are \$15 million above plan at December due in part to amnesty.

Even so, there is downside risk related to the deeper recession. Office of

Finance is expected to reduce the budget estimate. After adjusting for

amnesty, this account is now projected to decline at a rate similar to that of the sales tax.

Now anticipate 11.5% decline

(8,000)

Adjusted per financial report.

(7,500)

December receipts were close to target; some upside potential.

\$700k short at December.

Close to plan in December

GENERAL FUND REVENUE OUTLOOK

Fiscal Year 2009-10 Revised

\$ Thousands

	September 2009 Revised		January 2010 Revised		
Budget	Revised @ Sept. 2009	Change from Budget	Revised @ Jan 13, 2010	Change from Budget	
Franchise Income	49,479	49,479	40,479	(9,000)	Variance in natural gas account
Interest	22,080	22,080	14,880	(7,200)	Revised per treasurer recommendation.
State Motor Vehicle License Fees	12,000	12,000	12,000		Close to plan at December.
Grants Receipts	16,000	16,000	12,000	(4,000)	\$5 million below forecast at December; cause for concern. Line-by-line review in progress.
Tobacco Settlement	12,166	12,166	11,300	(866)	Tied to tobacco sales.
Transfer from Telecomm. Dev. Account	6,223	6,223	6,223		Revenue is OK; but budgeted transfer is \$2 million more than prior years.
Residential Development Tax	1,700	1,700	1,200	(500)	Based on receipts to date this will fall short.
Special Parking Revenue Transfer	61,371	25,371	25,371	(36,000)	Property sale doubtful
General Fund	\$4,399,790	\$4,324,488	\$4,213,880	(\$185,910)	