

CITY HALL
LOS ANGELES, CALIFORNIA 90012

January 20, 2010

Mr. Miguel Santana
City Administrative Officer
200 N. Spring Street
Los Angeles, CA 90012

Dear Mr. Santana:

The economic recession has plagued our nation, plummeted our state into financial crisis, and has had significant impact on the City of Los Angeles. As members of the Employee Executive Relations Committee, joined by the vice chair of the Budget and Finance Committee, we have a special responsibility to ensure the city's fiscal health in this tough economy. The people of Los Angeles expect us to balance our budget and prudently manage our resources to shepherd our community through these tough economic times.

The City Controller has issued strong warnings that we are already living beyond our means, a problem that is now worse due to additional revenue shortfalls. Based on your recent reports, we understand that city revenues have continued to decline since the Financial Status Report (FSR) you issued in November and that our current year shortfall will approach \$200 million when the Mid-Year FSR is released next week. At this time, we have no reason to believe that revenue projections will improve in the foreseeable future.

We want to take immediate steps to ensure the city's long-term financial health and, as you prepare the Mid-Year FSR for the current Fiscal Year (FY) 2009-10, we ask that you work to implement the following goals that we have been developing in conjunction with your office:

- **Balancing the budget in the current fiscal year.** Balancing this year's budget is crucial to our long-term fiscal solvency and is required by our city charter. Revenues are significantly lower than original projections and we are prepared to make tough decisions, including layoffs and cuts in less-essential city services to our constituents. We will consider the elimination, consolidation, or outsourcing of city assets and services, furloughs and layoffs where permissible, continued managed hiring with consideration of a hard hiring freeze and public-private partnerships that will generate revenue.

- **Strengthening the city's credit rating.** Strong credit is essential to access capital markets for short and long-term needs, and is also a gauge of overall fiscal health. We must directly respond to the concerns of our rating agencies and take systematic steps to address those concerns. While the rating agencies acknowledge the city's meaningful response to this year's projected budget gap, they have cited concerns over a structural imbalance between expenditures and projected revenue and the need for pension reform for long-term fiscal health. Please include in your recommendations analysis of short and long-term financial tools, including re-evaluating grants that require matching funds, exploring options for restructuring debt service, and strengthening our financial and debt policies.
- **Restore the city's long term fiscal health and sustainability.** The problems we face are structural; we will not be able to resolve these problems completely in one or two budget cycles. We ask that your FSR continue to include multi-year projections, as you have in the past, but that you add to this a timeline of the various structural initiatives we must consider over a three year period.

In addition to these overriding goals, we ask that you take appropriate steps to implement these actions:

- **Reopen Dialogue with our Labor Partners.** Our agreement with the Coalition of Los Angeles City Unions (the Coalition) permits us to reopen discussions for the current fiscal year if there is a combined loss of at least \$100 million to the city's General Fund. The agreement contemplates a meeting within five days of the city's declaration that the threshold has been met, and states that the Coalition will be responsible for up to one-third of the shortfall. The agreement also describes a process to initiate layoffs in FY 2010-11, if necessary. We believe that it may be impossible to meet the challenges we face in FY 2010-11 without layoffs, and ask that you begin the dialogue with the Coalition immediately.

We are committed to treating all employees fairly and consistently. Agreements with other unions must be reopened if permitted by the terms of the contract. Even if reopening is not expressly contemplated in these agreements, we ask that you send a letter to our labor partners apprising them of our fiscal challenges and asking them to meet us at the table immediately.

We have already begun to review opportunities for pension reform that would impact future city employees. In addition, we ask you to provide analysis on opportunities to reduce the cost of salaries and benefits as well as pension reform for existing employees. We also ask that you continue to work closely with union leaders on immediate steps that can help to reduce the cost of pension payments and health benefits from the General Fund.

- **Maximize Benefit of Early Retirements.** We request that you immediately report to Council on the process of authorizing an additional 363 early retirements, up to a total of 2,763 employees as already contemplated by Los Angeles City Employees' Retirement System (LACERS) and studied by the city's actuary.

- ***Downsize Government and Continue the Highest Priority Services in the Best Manner Possible.*** As you review the operational plans that have been presented to your office we expect you to identify discretionary municipal programs and services that should be eliminated, consolidated with other departments, or otherwise restructured to operate more efficiently. We ask that you devise plans to eliminate no less than 1,000 general funded positions in the next three to six months. We will work with you to help you focus your efforts on the services that we regard as non-essential.

Our labor partners have also expressed concern that employees are willing to transfer from general-funded to special-funded positions, but they do not know whether their existing positions are in jeopardy. In addition, there is no process to identify or facilitate transfers to these special-funded positions. For example, we understand that there are several hundred vacancies in the Bureau of Sanitation, a core service to city residents that is not supported by the General Fund. Please work with the personnel department to devise a streamlined process to fill these and similar vacancies from our city workforce that can be operational within ten days.

- ***Scrub Encumbered and Unencumbered Funds.*** It is imperative to realign our spending priorities with our fiscal realities. As part of your budget review, please identify funds that have been budgeted but not yet committed for potential reprogramming. Even if funds have been committed, we should consider exercising the city's right to terminate when we are pursuing programs or initiatives we are unlikely to see through to completion. In addition, please work with the City Controller to implement immediate savings as identified in recent audits.
- ***Pursue Public-Private Partnerships.*** We are committed to exploring innovative ways to enhance services to the public through public-private partnerships. We believe the proposal to lease the city's parking structures is crucial to replenishing our reserves, and must be accelerated to close, if feasible, not later than the end of the current fiscal year or the first quarter of the next fiscal year. We are also willing to broaden the city consultant's study to include options for maximizing revenue on our remaining parking assets.

We ask you to identify and provide options for future handling of other non-core city assets and services, including but not limited to facilities managed by city departments such as golf courses and theaters, information technology, property management, convention center management, the Van Nuys and Ontario airports and zoo management.

- ***Enhance Revenues.*** We also request that the FSR include updated fee schedules consistent with current city costs to provide services. We also believe that office space currently provided to non-profit organizations at below market rates must be moved to market-based pricing as quickly as feasible. In addition, please reassess the 100% lifeline subsidy for solid waste to bring it in line with other lifeline subsidy programs.

Miguel Santana, CAO

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In summary, as you prepare the Mid-Year FSR we are requesting that you work to balance the budget in the current fiscal year, strengthen the city's credit rating and restore the city's long term fiscal health and sustainability by taking appropriate steps to implement the following:

- Reopen dialogue with our labor partners
- Provide analysis on opportunities to reduce the cost of salaries and benefits as well as pension reform for existing employees
- Work closely with union leaders on immediate steps that can help to reduce the cost of pension payments and health benefits from our General Fund
- Report on the process of authorizing an additional 363 early retirements
- Identify discretionary municipal programs and services that should be eliminated, consolidated with other departments or otherwise restructured to operate more efficiently
- Devise plans to eliminate 1,000 or more general-funded positions within three to six months
- Devise and implement a streamlined process to fill all vacant special-funded positions with employees from the city's general-funded workforce within ten days
- Identify funds that have been budgeted but not yet committed for potential reprogramming
- Work with the City Controller to implement immediate savings as identified in recent audits
- Accelerate the proposal to lease the city's parking structures to close, if feasible, not later than the end of the current fiscal year in order to replenish the city's Reserve Fund
- Broaden the city consultant's study to include options for maximizing revenue on our remaining parking assets
- Include updated fee schedules and recommendations to bring fees in line with city costs to provide services
- Reassess the 100% lifeline subsidy for solid waste to bring it in line with other lifeline subsidy programs
- Identify and provide options for private or non-profit management of other non-core city assets and services, including but not limited to facilities managed by city departments such as golf courses and theaters, information technology, property management, convention center management, the Van Nuys and Ontario airports and zoo management
- Move office space currently provided to non-profit organizations at below market rates to market-based pricing as quickly as feasible

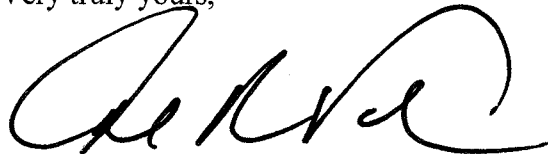
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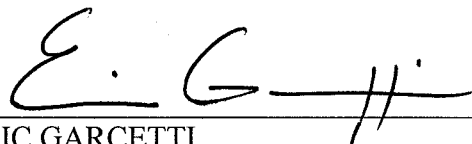
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We are committed to working with you and our elected colleagues to reach consensus quickly and implement our decisions expeditiously. Thank you for your commitment to the fiscal health of the City of Los Angeles.

Very truly yours,



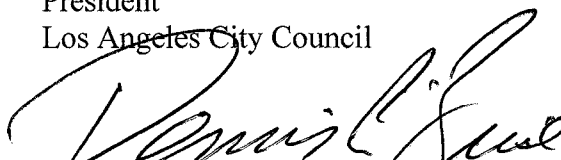
ANTONIO R. VILLARAIGOSA
Mayor



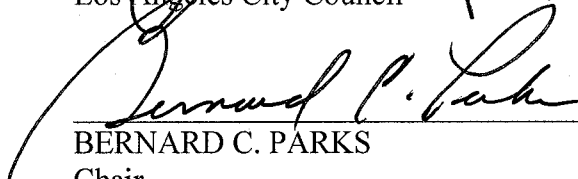
ERIC GARCETTI
President
Los Angeles City Council



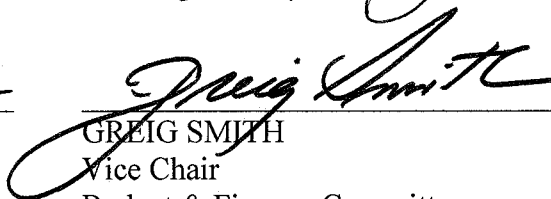
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cc: City Attorney Carmen Trutanich
Controller Wendy Greuel
Honorable Members of the City Council