



ANTONIO R. VILLARAIGOSA
MAYOR

MEMORANDUM

To: Heads of All City Departments (Except Airports, Harbor, Department of Water and Power, LACERS, and Fire and Police Pensions)

From: Antonio R. Villaraigosa, Mayor *AV*

Subject: Fiscal Year 2010-11 Budget Policy and Goals

Date: October 27, 2009

Our fiscal year began in recession and uncertainty, due to the State's budget paralysis, declining city revenues, and the unresolved negotiations with our labor unions. Even now, we are expending \$1 million a day more than what we can afford.

While much uncertainty remains with regard to some of our labor relations issues and the successful implementation of the Early Retirement Incentive Program (ERIP), there is certainty and clarity in the fact that we are living in an age of diminished government resources--structural challenges that require structural solutions.

As I stated in my inaugural address, together, we must put L.A. on a permanent track to a sustainable future. The track to a sustainable future begins with the recognition that we must re-invent the way we do business, deliver services, and manage our resources in a manner that better reflects our priorities and fiscal reality. We must take advantage of every tool available to us to enhance the efficiency and effectiveness of our service delivery systems.

As we contemplate the enormous responsibility we bear in developing the budget for Fiscal Year 2010-11, I believe our planning efforts must start with a clear sense of priorities. My priorities remain consistent with the vision I have articulated throughout my administration: Los Angeles is the great global city of the 21st century, where every neighborhood is safe and free of gangs; where Angelenos are connected by a world class transit system; where we lead the nation in our commitment to green practices and environmental sustainability;



where every child is well-educated; and where all Angelenos have a chance to show their talent and fulfill their dreams.

We must confront our challenges and make fiscal decisions based on a tough, honest, and thorough evaluation of our City's available and potential revenues, our base expenditures including salaries and benefits, our citywide and departmental organizational structures, and our governing framework as defined by our administrative codes and city charter. As such, my office, with participation and support by the City Administrative Officer (CAO) has begun to examine opportunities within each of the following categories for consideration in the development of my proposed budget for FY2010-11:

- Revenue Options
- Consolidation and Elimination of Departments and Functions
- Public Private Partnerships
- Pension Reform
- Charter Changes

I welcome your suggestions and recommendations in each one of these areas for real structural solutions to address our structural problems.

Additionally, knowing that taking specific action in any one of these areas may require a departure from an existing city policy, ordinance change, or voter approval, I plan to begin a dialogue with the City Council on key proposals well in advance of the date on which my proposed budget is due to be presented. To do this, I will be seeking the suggestions and recommendations of each Councilmember in the coming weeks. It is my hope that this effort will result in the development of strategic initiatives that the Council has the opportunity to examine at an early stage of the budget development process. I believe that this approach will make any strategic initiative more transparent and its implementation more feasible.

With the recent approval of an early retirement incentive program by our city workers, these restructuring efforts have never been more important. As you know, there are approximately 7,100 employees that are eligible to participate in the ERIP. We are hopeful that this program will incentivize 2,400 employees to retire, mitigating the need for furloughs and layoffs and helping the City transition to a permanently smaller workforce. If fewer employees enter the program we will be forced to evaluate furloughs and layoffs for next year.

Regardless of whether we lose senior employees to the early retirement program or junior employees to layoffs, every department will lose resources, undoubtedly straining the City's capacity to deliver services. We have the support of our labor

October 27, 2009

Page 3

partners to move people around, but we will be able to backfill only a few of the lost positions—no matter how important they may be. We must use the loss of personnel to early retirement as a tool to restructure and streamline our workforce.

I am directing each department to submit to my office by December 18, 2009, a budget proposal that is the same or lower than the current year's adopted budget, after the reductions imposed for shared responsibility and shared sacrifice. Though the dollar value is limited to this year's adopted budget, departments must account for committed and projected cost of living adjustments, and thus must identify reductions, efficiencies and/or new revenues to offset those adjustments. I trust that you will comply with these instructions and factor the City's revenue challenges into your budget proposals, exercising leadership in crafting fiscally responsible budget requests. Throughout, I ask you to please keep in mind the principles we have shared with you and that will serve as the framework for making sound decisions.

To provide greater guidance I am directing you to take the following steps in the development of your department's budget submission:

1. Do not request new positions or new resources. Our budget for the current fiscal year assumed \$320 million in savings through the shared responsibility and shared sacrifice program. Unfortunately the CAO projects that next year's total general fund revenues will be approximately \$100 million *less* than the current year's revenues, primarily due to lower property taxes. Accordingly, each department's starting budget should be its actual final appropriation, after the reductions imposed for shared responsibility and shared sacrifice. Moreover as a result of deteriorating revenues, we will not be in a position to add any new resources to any department, regardless of our priorities. Rather, to support our priorities, we will have to re-purpose our resources including staff through reprioritization and elimination of non-core functions. I have directed my budget team to disallow all requests for new positions or resources unless one of these requirements is met:
 - a. *Proposed investment is self funding in a short period of time.* We will make strategic investments in people or equipment designed to save money in the long run. However in light of the city's financial crisis we must believe that (i) the identified savings or revenues are highly likely to materialize, and (ii) the savings will offset the additional costs in two years or less.

b. *Proposed investment is covered by offsetting savings in department budget.* Though our revenues are dropping our expenses are increasing, particularly for pension and health benefits. As a result we anticipate that every department will be required to absorb aggregate budget reductions next year. As such, a breakeven swap of positions and resources will not likely be acceptable unless the department is able to meet the required reduction target through other cuts.

2. The ERIP is a tool to develop a leaner, flatter city structure. I have directed my staff to work with the CAO and the CLA to develop policies to guide both budget allocations and managed hiring procedures going forward. As a general rule we cannot afford to promote existing staff to replace the people we will lose to the ERIP. Moreover I do not believe that our managed hiring process should grant relief to departments that cry first or loudest. Instead I believe that all departments must demonstrate recognition of our fiscal realities by taking all feasible steps to restructure their workforces and programs to function effectively with diminished resources. I believe we have been too slow to reduce the ranks of our administrative staff, since knowledge based workers typically use their own computers and rely less on administrative support.

Spans of control must be extended to achieve a flatter, leaner structure, similar to what the private sector has embraced in recent years. Moreover in a leaner and smaller city government, paygrades and classifications must be studied to reverse grade creep. I believe we must use the early retirement vacancies as a tool to redeploy our resources away from lower priorities and lower skill sets towards higher priorities and more skilled workers. Thus I will not support requests from departments to backfill the specified percentage of its workforce (e.g., 7% in the first year), but instead expect my staff to prioritize departments and programs in an appropriate way to ensure that backfilled positions go where needed and appropriate in light of our policy priorities.

3. Identify and utilize strategic vendor relationships. Our charter permits city departments to contract for work, rather than use city employees, when "the work can be performed more economically or feasibly by independent contractors than by City employees," (City Charter Section 1022). In practice this has often been interpreted as a mandate to use city employees whenever possible. However the CAO's most recent long term projection states that the City's expense for pensions, health care and workers compensation for city employees will increase by over \$500 million in the next three years, more than double the projected growth in

all city revenues over the same period. It is time to assess all opportunities to contract out work that can in fact be done more economically or feasibly by independent contractors. These opportunities must be focused on achieving the best possible outcomes for our residents at a price they are willing to pay.

I ask all managers to take a fresh look at contract opportunities, and to consider the projected cost of pensions and benefits in these assessments. We must also build strategic relationships with vendors and partners through which our residents can obtain better services at lower costs. Similarly we must look for ways to share risk with the private sector, and be prepared to compensate our private sector partners for assuming risk. Managers may be asked to study specific outsourcing opportunities once we know more about the specific vacancies created by the ERIP program.

4. Eliminate non-core functions. To prepare our budget for the current fiscal year the City Administrative Officer asked all departments to rank each program or service it provides. I have asked my staff to work with the CAO to assess all departmental programs, particularly the lowest ranked programs, to answer these specific questions:

- What outcome does the program/service provide?
- How do we know it provides this value and outcome?
- What would happen if this program is no longer provided?
- Can another agency, public or private, do this function better or more efficiently?
- Who would be concerned if this program/function was eliminated?
- How can their concerns be mitigated?

I have directed my policy staff to review these forced rankings immediately and to provide policy direction to departments when the rankings appear to be out of step with other requirements such as legal mandates or policy priorities. Departments should anticipate and plan for elimination of or dramatic reductions to their lowest priority programs.

My budget staff anticipates meetings with each department before budget submissions are due, to understand the likely impact of ERIP acceptances on departmental activities and the opportunities to use ERIP-created vacancies for the streamlining and efficiencies we must realize to achieve sound financial footing. These meetings will be coordinated by the CAO.

Heads of All City Departments (Except Airports, Harbor, Department of Water and Power, LACERS, and Fire and Police Pensions)

October 27, 2009

Page 6

The challenges involved in developing a strategic fiscal plan for Fiscal Year 2010-11 are real and demanding, but I am confident that we can reach our goals. Doing so will require hard work, patience, a commitment to teamwork, and greater collaboration and communication between my office, the CAO, and departments. I am personally committed to making this happen. The end result will be a balanced budget that keeps us on target to achieve our shared vision for Los Angeles.

The CAO will be transmitting the full budget calendar with additional instructions for completing your Fiscal Year 2010-11 budget submittals. Your compliance with these instructions will help keep the process on schedule and facilitate our analysis of your proposed budget. Please work with your CAO budget analyst to ensure that all requested information and supporting documents are submitted on time.

Thank you for your commitment to meeting this challenge. Please contact Ben Ceja, Deputy Mayor of Budget and Finance, at (213) 922-9772 with questions about my instructions.

ARV:bc

cc: Honorable Members of the City Council
Honorable Carmen A. Trutanich, City Attorney
Honorable Wendy Greuel, City Controller
Miguel A. Santana, City Administrative Officer
Gerry F. Miller, Chief Legislative Analyst