

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 19, 2005

CAO File No. 0116-00001-0000
Council File No. 05-0600
Council District: All

To: Antonio R. Villaraigosa, Mayor
Alex Padilla, Council President
Bernard C. Parks, Chair, Budget and Finance Committee

From: William T Fujioka, City Administrative Officer 

Reference: 2005-06 Adopted Budget

Subject: **FIRST FINANCIAL STATUS REPORT**

SUMMARY

The Office of the City Administrative Officer monitors the budget and transmits reports detailing the City's current financial condition to both the Mayor and Council. As instructed in the 2005-06 Adopted Budget, this Office is transmitting the first financial status report for Fiscal Year 2005-06. The first financial status report typically updates the Reserve Fund balance and projected revenues and expenditures. However, the Controller's 2004-05 year end closing report is not yet available. Therefore, this financial status report provides a preliminary outlook of 2004-05 receipts and highlights issues on the horizon that may affect the current year budget. We also make recommendations regarding several reappropriations and other budgetary adjustments.

Revenue

General Fund revenue in Fiscal Year 2004-05 exceeded the revised estimate by \$28.2 million. Additional adjustments anticipated to be made by the Controller will reduce this estimate to \$27.5 million. Approximately \$10 million of this surplus reflects unbudgeted higher business tax receipts. The Office of Finance will report on business tax rate relief beginning in Fiscal Year 2005-06 made possible by higher Fiscal Year 2004-05 business tax receipts. After the Office of Finance report is presented to Council, we will report on budget-balancing options such as impounding the surplus Fiscal Year 2004-05 business tax revenue to offset any Fiscal Year 2005-06 revenue adjustments associated with business tax rate relief.

The balance of the Fiscal Year 2004-05 revenue surplus, approximately \$18 million, will increase the year-end Reserve Fund balance. We will report in the near future on the final Reserve Fund balance which will also be affected by the amounts of reversions, loan repayments and other factors. The \$18 million additional revenue, about 0.5% more than the budget estimate, is the result of higher interest income, hotel, telephone, property and real estate transfer taxes. July 2005 receipts are consistent with budget planning, but it is too early in the fiscal year to draw conclusions or recommend revenue revisions.

Issues of Concern

An area of concern is telephone users' taxes collected and remitted by wireless companies and franchise fees collected and remitted by cable television operators. These revenues are threatened by litigation, legislative and policy changes at the state and federal levels, and changes in the marketplace. In conjunction with the City Attorney, we are closely monitoring this litigation. The emergence and proliferation of new technologies such as the internet and the bundling of voice, data and video services suggests the need to carefully review the City's communications-related taxes and fees and modernize them to reflect current technology. To address that need, the Mayor recently established a City Communications Tax Equity Task Force with responsibility for evaluating options and making recommendations for modernization, including developing a strategy for legislative advocacy. We will report on the progress of that task force and focus especially on the potential budgetary impact of current-year telephone tax receipts in future financial status reports.

An additional concern is the impact that the potential termination of the contract to dispose of the City's solid waste at the Sunshine Canyon Landfill will have on the 2005-06 and future year budgets. The Council recently created a Recovering Energy, Natural Resources and Economic Benefit from Waste for Los Angeles (RENEW LA) Committee tasked with exploring alternative waste disposal options to Sunshine Canyon, including increasing waste diversion and increased recycling. However, if the proposed extension is not approved, the City's cost to dispose of refuse will likely increase by a minimum of \$17 million annually. There will also be transition costs in the current year of an unknown amount. Funding totaling \$850,000 is available in the Unappropriated Balance to offset any current year costs.

Finally, several departments are concerned about delays in consolidating security functions into a new Office of Public Safety within General Services. Until the consolidation is finalized, the affected departments will continue to front-fund the salaries of the security personnel involved. Eventually, these funds will need to be transferred from General Services back to these departments.

Budgetary Adjustments

Budgetary adjustments totaling approximately \$6.5 million are recommended in this report. Of this amount, General Fund reappropriations totaling approximately \$3.0 million are recommended to cover 2004-05 expenditures (See Attachment), \$2.4 million is for capital projects and the remaining \$1.1 million is for miscellaneous adjustments.

The Discussion Section of this report provides additional detail.

RECOMMENDATIONS

That the Mayor and Council:

1. Transfer \$3,006,553.29 from the Reserve Fund to the Unappropriated Balance Fund No. 100/58, and appropriate therefrom to the departments and funds, as specified in the Attachment entitled "Reappropriations";
2. Authorize employment authority for one Assistant City Administrative Officer, Class Code 0011 in the Office of the City Administrative Officer through June 30, 2005 to accommodate a returning employee and transfer \$148,000 from the Reserve Fund to the Unappropriated Balance and appropriate therefrom to Fund 100, Department 10, Salaries General Account No. 1010;
3. Authorize the Controller to transfer \$100,000 from the Council District 7, Real Property Trust Fund No. 689 and appropriate to the Environmental Affairs & Sustainability Department, Fund 100/37 as follows, necessary because original funding provided in 2004-05 reverted before the work could be completed:

Account No.	Account Name	Amount
1090	Salaries, Overtime	\$4,000
2120	Printing & Binding	1,000
3040	Contractual Services	<u>95,000</u>
	Total	\$100,000

4. Direct the General Manager of the Los Angeles Convention Center to report monthly to the Budget and Finance Committee with the progress made toward repayment of the Reserve Fund Loan and eliminating the 2005-06 funding shortfall;
5. Instruct the Los Angeles Convention Center to decrease the 1986-87 appropriation of \$4,177.22 from Account No. 0000, LA Convention and Exhibition Center Construction Fund No. 715;
6. In concert with Recommendation No. 5 above, authorize the Controller to transfer available funds totaling \$211,390.46 from the LA Convention and Exhibition Center Construction Fund No. 715 to the Reserve Fund as a partial credit to the Convention Centers 2004-05 year end Reserve Fund Loan;
7. Instruct the Los Angeles Convention Center to unencumber \$40,000 from the 2004-05 Los Angeles Convention Center, Fund 100/48, Earthquake Reserve account No. 9650;
8. In concert with Recommendation No. 7 above, request the Controller to revert \$40,000 from the Los Angeles Convention Center, Fund 100/48, to the Los Angeles Convention Center Revenue Fund No. 725 and transfer therefrom to the LA Convention Center Authority Revenue Fund No. 724, Revenue Source Code 4189, Earthquake Reserve Fund;

9. Authorize the Controller to appropriate \$759,037 from available funds in the Los Angeles Convention and Visitors Bureau Trust Fund No. 429 to Account No. W429, Los Angeles Convention and Visitors Bureau and authorize the City Administrative Officer to pay the LA Inc., The Convention and Visitors Bureau, the final invoice of \$759,037 for fiscal year 2004-05;

10. Transfer \$175,000 from the Venice Area Surplus Real Property Trust Fund No. 434 and appropriate to the Planning Department, Fund 100/68 as follows, because the original funds appropriated in 2004-05 reverted prior to completion of the work:

Account No.	Account Name	Amount
1010	Salaries, General	\$150,000
1090	Salaries, Overtime	<u>25,000</u>
	Total	\$175,000

11. Transfer \$510,000 from the Reserve Fund to the CLARTS Trust Fund No. 47R and appropriate in Account No. Y320, Private Hauling Expense and transfer and appropriate a like amount therefrom to the Bureau of Sanitation, Fund 100/82, Contractual Services Account No. 3040 to reimburse the General Fund for private hauling expenses incurred in 2004-05 but paid in 2005-06 because the prior year funds reverted;

12. Authorize the Controller to establish the following appropriation accounts within the CLARTS Trust Fund No. 47R for 2005-06 in the amounts listed, and the cash will be transferred upon receipt from the private haulers:

Account No.	Account Name	Appropriation Amount
Y310	Private Landfill Disposal Fees	\$1,680,000
Y320	Private Hauling Expense	\$1,176,000
Y330	Community Amenities Fee	\$563,000

13. Transfer \$289,750 within Proposition C Fund No. 540/94 from Account No. Y209, Tramanto Drive at Coperto Bulkhead Project to Account No. Y213, Lifur at Huntington Intersection Improvement Project;

14. Authorize the Controller to increase the appropriation to the Capital Finance Administration Fund No. 100/53, Commercial Paper Account No. 0316 by \$656,400 to reflect additional cash receipts and to allow the City Administrative Officer to pay down debt service for the Commercial Paper program;

15. Authorize the Controller to transfer \$1,446,280 from the Capital Finance Administration Fund No. 100/53 Account No. 0314, North Valley Station Program, to the MICLA AQ Real Property Acquisition Fund No. 291/50, Account No. S320, North Valley Station Program for the completion of the construction of the North Valley Police Station;

16. Authorize the City Administrative Officer to make technical corrections as necessary to those transactions included in this report to implement Mayor and Council intentions.

FISCAL IMPACT

Transfers and appropriations totaling \$6.5 million are provided to meet current obligations, approximately \$6.0 million in General Funds and \$500,000 in special funds. Approximately \$5.5 million of the \$6.5 million in total transfers and appropriations utilize prior year funds and only \$1.0 million utilize 2005-06 General Funds. A preliminary look at 2004-05 revenue reflects an \$18 million surplus, or 0.5 percent above the budgeted amount. Revenue and expenditure risks, including Utility Users' Telephone Tax, the potential termination of the Sunshine Canyon landfill contract and other departmental shortfalls cannot be specifically determined at this time and will be addressed in future reports. This Office will provide a more thorough analysis of the Reserve Fund in our next financial status report.

DISCUSSION

CITYWIDE ISSUES OF CONCERN

In addition to the Utility Users' Telephone Tax and Sunshine Canyon contract issues discussed in the summary, several departments have discussed their concern about the status of the consolidation of security personnel.

The 2005-06 Adopted Budget transfers position authorities (153 total positions) and funding from the Department of Recreation and Parks, the Los Angeles Convention Center, the Library Department and the Zoo Department to the Department of General Services (GSD) to implement the consolidation of security functions into a new Office of Public Safety (OPS). Implementation was pending consideration by the Public Safety Committee of a Memorandum of Agreement (MOA) between GSD and the Los Angeles Police Department (LAPD). The MOA would define the ongoing working relationship between the two agencies, areas of LAPD support and the responsibilities of each agency, with specific emphasis on ensuring that the Office of Public Safety would not encroach upon the traditional law enforcement role and duties of the LAPD. The MOA was signed by the Chief of Police on April 29, 2005 and approved in concept by the Police Commission on June 21, 2005, with the request that the Public Safety Committee consider several issues not contained in the MOA, including: civilian oversight of OPS, with particular attention toward categorical and non-categorical use of force incidents; training; prohibition against vehicle pursuits; development of a complaint and risk management tracking system; and the process for impound of vehicles.

A motion (Greuel-Weiss, C.F. 05-1295) considered by the Council on June 21, 2005 reflected similar concerns with regard to civilian oversight, training, and vehicle impounds. The motion also instructed GSD to provide to the Council quarterly reports detailing OPS' performance and any categorical and non-categorical use of force incidents.

On June 27, 2005, the Public Safety Committee considered the issues raised by the Police Commission and the Greuel-Weiss motion, as well as a presentation by a representative of the American Civil Liberties Union (ACLU) urging civilian oversight of OPS. The Committee instructed the CAO and the Office of the Chief Legislative Analyst to report back on the formation of a civilian oversight body, and GSD to report back on the operational and procedural matters. These reports are tentatively scheduled to be considered by the Public Safety Committee in September 2005. In addition, GSD and the LAPD are in the process of discussing amendments to the MOA, which will take several weeks to complete. Upon approval by the Chief of Police and the Police Commission, the MOA will be presented to the Public Safety Committee for its information.

The departments impacted by this consolidation have expressed concern that they continue to incur the costs of the security personnel but no funding has been included in their budgets. This Office will recommend transferring funds from General Services to the impacted departments to cover their expenses once a more definitive timeline for the consolidation is determined.

DEPARTMENTAL ISSUES

The Department of General Services notified several departments that the some of funds encumbered to pay for purchase orders pending in the Supply Management System (SMS) on June 30, 2005 were inadvertently reverted. To correct this problem, the funds need to be reappropriated to allow for the payment of the items pending delivery. Departments affected include the Fire Department (\$59,275.46), the Information Technology Agency (\$19,567.11), and the Police Department (\$170,000.00).

**A. City Administrative Officer
Recommendation No. 2**

Funding totaling \$148,000 and resolution authority is recommended for one Assistant City Administrative Officer to accommodate a returning employee.

B. Cultural Affairs

Cultural Affairs has expressed concern that its Salaries As Needed account funding is inadequate. Recent salary negotiations for some As Needed staff have resulted in higher than anticipated pay increases. In light of the department's recent fiscal management problems, this Office will work with the department management to identify how it will scale back operations to remain within budget and report back in a future status report.

**B. Environmental Affairs & Sustainability
Recommendation No. 3**

In 2004-05, the Council appropriated \$100,000 from the Council District 7 Real Property Trust Fund No. 689 to conduct an air quality study in Sun Valley (C.F. 04-1393). The department was not able to execute a contract prior to June 30, 2005 and the funds reverted to the Trust Fund. The department now requests that these funds be reappropriated to allow the study to be completed. It is anticipated that the contract will be awarded in September.

**C. General City Purposes
Attachment**

Funds totaling \$488,000 for the 2004-05 City Single Audit Program inadvertently reverted to the Reserve Fund. These funds need to be reappropriated in 2005-06 to complete this work.

D. General Services

It is anticipated that General Services' Leasing account will have a deficit totaling approximately \$1.75 million due to delays in the occupancy of the Public Works Building (\$900,000), increases in operating expenses at Figueroa Plaza (\$600,000) and miscellaneous changes (\$250,000). In addition, funding totaling approximately \$800,000 will need to be identified to remove the underground fuel storage tanks at City Hall. This Office will monitor these issues and identify

solutions in a future status report.

E. Housing

There is some concern that the Bush Administration may reorganize the federal grant programs, including the Community Development Block Grant (CDBG), Housing Investment Opportunities (HOME) and Housing Opportunities for People with AIDS (HOPWA), that could result in reductions in funding. This Office will continue to monitor any developments and report back as necessary.

F. Information Technology Agency Attachment

The Information Technology Agency requests that \$225,000 be reappropriated to their Salaries General account to correct a Citywide Cost Account System error that incorrectly split the pay period that crossed fiscal years, charging the entire amount to 2005-06. This is in addition to the \$19,567 that needs to be reappropriated due to the SMS problem discussed earlier.

G. Los Angeles Convention Center Recommendation Nos. 4 - 8

The Convention Center ended fiscal year 2004-05 with insufficient cash to meet their expenditures. As a result, the Controller issued a Reserve Fund loan totaling \$748,969.66 To partially address this shortfall, it is recommended that the inactive LA Convention and Exhibition Center Construction Fund No. 715 be closed and the remaining monies in the fund (\$211,390.46) be transferred to the Reserve Fund, leaving a Reserve Fund Loan balance of \$537,579.20. In addition, the Convention Center had to unencumber funds totaling approximately \$450,000 and re-encumber them using 2005-06 funds in order to meet obligations that were incurred in 2004-05. As a result, the Convention Center is beginning 2005-06 with approximately \$1.1 million less than anticipated. Convention Center management must either increase revenue, reduce expenditures, or a combination of both to eliminate this problem. It is recommended that the Convention Center report their progress directly to the Budget and Finance Committee on a monthly basis until this shortfall is eliminated.

The 2004-05 Adopted Budget included \$40,000 for the Convention Center Earthquake Reserve Fund, as required by Bond covenants. These funds must now be unencumbered, reappropriated to 2005-06 and transferred to the LA Convention Center Authority Revenue Fund No. 724.

H. LA Inc, the Convention and Visitors Bureau Recommendation No. 9

The City's contract with LA Inc, The Convention and Visitors Bureau provides annual funding in the amount equivalent to one percent of the Transient Occupancy Tax (TOT). Payments are made quarterly based on the estimated TOT and reconciled at the end of the year. In 2004-05, LA Inc received \$7,593,855, or \$759,037 less than owed. It is recommended that funds be appropriated from the Los Angeles Convention and Visitors Bureau Trust Fund No. 429 to permit the final payment

for 2004-05.

I. Personnel

The passage of Assembly Bill 1825 in 2004 requires that the City provide all supervisors with two hours of sexual harassment prevention and elimination training once every two years beginning January 2006. The Department has identified a contractor to provide this training at a cost of \$178,000, which was not budgeted in 2005-06. The Department is encouraged to absorb the cost of this contact and no appropriation is recommended at this time.

**J. Police
Attachment**

The Police Department requests that \$2,113,542 in prior year funds that reverted to the Reserve Fund be reappropriated to the following accounts for the reasons indicated:

Account	Amount	Reason for Reappropriation
Salaries General	\$841,602	Unspent funds from State Homeland Security Grant (Operation Archangel) (CF 04-2499).
Salaries Overtime	86,870	Unspent grant funds for the Forensic Casework DNA Backlog Reduction Program (CF 04-2669).
Overtime Sworn	471,570	Unspent funds from the Vehicle License Fee Gap Fund Financing program (CF 03-2267-S2) and the Local Law Enforcement Block Grant (CF 00-2154).
Ammunition	170,000	Supply Management System error.
Contractual Services	71,000	Delays in negotiating Scantron Contract for Pedestrian Stop data collection required by the Consent Decree.
Transportation Equip.	450,000	Delays in the development of specifications for vehicle computer mounts (\$300,000) and the selection of a contractor for equipment consoles (\$150,000).
Other Oper. Equipment	22,500	Delays in the requisition of firearms for the Police Reserve Corps Initiative (CF 05-0571).
Total	<u>\$2,113,542</u>	

**K. Planning
Recommendation No. 10**

Late in 2004-05 the Council authorized funding totaling \$175,000 from the Venice Area Surplus Real Property Trust Fund No. 434 for Planning to complete work on a Community Design Overlay District for Lincoln Boulevard (C.F. 04-2608). However, Planning was not able to hire the staff in time to begin this work in 2004-05 and the funds reverted to the Trust Fund. Therefore, to complete the work, it is necessary to reappropriate the funding in 2005-06.

L. PW/Sanitation

Recommendation Nos. 11 & 12

The Bureau requests \$510,000 to reimburse its Contractual Services account for invoices paid in 2005-06 related to 2004-05 private hauler expenses. At the end of 2004-05, these funds reverted to the Reserve Fund from the CLARTS Trust Fund No. 47R because the contract for these services was not implemented in time to encumber the funds in 2004-05. The Bureau also needs to establish appropriation accounts and amounts in the CLARTS Trust Fund for 2005-06. Actual cash will be transferred upon receipt from the private haulers.

M. Transportation

The Department of Transportation is currently negotiating a resolution to an ongoing dispute with the contractor that processes traffic citations. The contractor processes citations valued at over \$9 million per month to the General Fund. If no agreement is reached, the current month-to-month contract could be discontinued. This Office will continue to closely monitor this issue.

In addition, the Department recently issued a ten-year forecast for Proposition A and C funds which indicate periods with projected funding shortfalls. This issue is currently pending before the Transportation Committee. This Office will work with the Department to identify a plan to resolve any funding shortfalls.

N. Recreation and Parks

The Department recently reported two incidents of large tree branches falling on park patrons. As a result of these incidents, the Department, in coordination with the Bureau of Street Services, inspected the tree inventory and have identified 2,400 trees in need of emergency tree maintenance. The most urgently needed repairs will be done on an overtime basis but the remaining will need to be done via contract. The Department has \$105,000 in Contractual Services for tree maintenance, but the actual cost will be approximately \$600,000, leaving a shortfall of \$500,000. As in the case of all departments who experience the unexpected, we encourage the Department to absorb this additional cost through increased revenue and/or reduced expenditures. We will report back in a future status report if additional funding is required.

CAPITAL PROJECTS

A. Capital Improvement Expenditure Program (CIEP) Municipal Facilities Attachment

On July 12, 2005, the City Council instructed the Bureau of Engineering to work with the City Administrative Officer to identify funding for an independent evaluation of the 77th Street Police Station facility and to report on the results of the study (C.F. 05-1196). This Office has identified available funds from the 2000-01 and 2001-02 Capital Improvement Expenditure Program funds totaling approximately \$100,000 for this study. The funds reverted to the Reserve Fund and need to

be reappropriated to their original accounts.

**B. Capital Improvement Expenditure Program (CIEP) Physical Plant
Recommendation No. 13**

Following the adoption of the 2005-06 Budget, a clerical error in the Physical Plant schedule was identified. The Tramanto Drive at Coperto Drive Bulkhead Project includes Proposition C funding in the amount of \$289,750 which belongs to the Lifur at Huntington Intersection Improvement Project. Both projects will remain fully funded and there is no net change to the budget for Proposition C, or any other funding source, in the Physical Plant CIEP as a result of this correction.

**C. Capital Finance Administration Fund
Recommendation No. 14**

In July, the City received a reimbursement from the Federal Emergency Management Agency (FEMA) totaling \$656,400 for design of the new Police Headquarters Facility. These funds were received in the Capital Finance Administration Fund No. 100/53, Revenue Source Code 4610. These funds should be used to pay down the debt service for the MICLA Commercial Paper program, which was used to fund the design costs. Therefore, an increased appropriation to the Capital Finance Administration Fund No. 100/53, Commercial Paper Account No. 0316 totaling \$656,400 is recommended.

**D. North Valley Police Station
Recommendation No. 15**

In 2002, the Mayor and Council authorized the issuance of MICLA AQ bonds to finance the construction of the North Valley Police Station (C.F. 02-0279, 03-0600-S61). Construction of the station is nearly complete and approximately \$1.4 million in construction fund monies remain unspent. Construction fund monies are held for the City by a trustee (U.S. Bank). Debt service on the MICLA AQ bonds is paid from the City's General Fund through an annual allocation to the Capital Finance Administration Fund.

The agreement between the City and the trustee states that, after three years, all unspent construction fund monies are to be used to pay debt service. The trustee has indicated that this will occur in September 2005, resulting in a \$1.4 million surplus in the Capital Finance Administration Fund. As construction of the station has not yet been completed, the \$1.4 million in surplus monies should be used to complete construction.

E. Status of the MICLA Commercial Paper (CP) Program

As of June 30, 2005, the City had issued \$52,973,000 of its \$200 million MICLA Commercial Paper (CP) Program. The majority of the issuance was used to acquire the Broadway Building. Future expenditures of CP totaling approximately \$65 million are expected for tenant improvements to this building. During the next few months, CP will also be used on previously approved MICLA projects. During the three month period ending June 30, 2005, CP interest rates ranged from 2.37% (tax-exempt) to 3.10% (taxable). This is considerably lower than the average fixed long-term rate of 4.6% over the last 10 years.



Laura Guglielmo, Sr. Administrative Analyst II

APPROVED:



Assistant City Administrative Officer

WTF:LKG010600012c
Attachment

**ATTACHMENT
FY 2005-06 BUDGET ADJUSTMENTS
REAPPROPRIATIONS**

DEPARTMENT	FUND/ACCOUNT	AMOUNT
TRANSFER FROM THE RESERVE FUND TO THE UNAPPROPRIATED BALANCE FUND 100/58:		
APPROPRIATE FROM:		
	THE UNAPPROPRIATED BALANCE, FUND 100/58	\$ 3,006,553.29
APPROPRIATE TO:		
Fire	<u>100/38</u>	
	2120, Printing & Binding	\$ 234.87
	3090, Field Equipment Expense	15,218.26
	4430, Uniforms	7,835.90
	4450, Water Control	35,112.91
	6010, Office & Administrative Expense	873.52
	Subtotal	<u>\$ 59,275.46</u>
General City Purposes	<u>100/56</u>	
	0506, City Single Audit Program	\$ 488,000.00
	Subtotal	<u>\$ 488,000.00</u>
Information Technology Agency	<u>100/32</u>	
	1010, Salaries General	\$ 225,000.00
	6010, Office & Administrative Expense	15,317.23
	7300, Furniture, Office & Technical Equipmnet	1,885.82
	9350, Communications Services	2,364.06
	Subtotal	<u>\$ 244,567.11</u>
Police	<u>100/70</u>	
	1010, Salaries General	\$ 841,602.00
	1090, Salaries Overtime	86,870.00
	1092, Overtime Sworn	471,570.00
	3010, Ammunition	170,000.00
	3040, Contractual Services	71,000.00
	7340, Transportation Equipment	450,000.00
	7350, Other Operating Equipment	22,500.00
	Subtotal	<u>\$ 2,113,542.00</u>
CIEP - Municipal Facilities	<u>100/54</u>	
	R083, Facility Improvement - Police	\$ 58,328.60
	S083, Facility Improvement - Police	42,840.12
	Subtotal	<u>\$ 101,168.72</u>
TOTAL		\$ 3,006,553.29