



ANTONIO R. VILLARAIGOSA  
MAYOR

November 1, 2007

Ms. Karen L. Sisson  
City Administrative Officer  
Room 1500, City Hall East  
200 North Main Street  
Los Angeles, CA 90012

Re: Fiscal Year 2008-09 Budget Policy and Goals

Dear Ms. Sisson:

Los Angeles is unquestionably a city on the move. Over the last two years, we have been riding unprecedented growth in construction, relentless street-level improvements in our traffic management system, and an historic reduction in crime.

These have been the best two years in history for new residential and commercial construction with a two year total of \$10.3 billion in increased valuation. In what marks a major milestone in the reduction of traffic in Los Angeles, the City recently secured \$150 million from the State to complete our City-wide Signal Synchronization program. By getting our City's 4,385 signaled intersections working in harmony, we can reduce drive times up to 16%. We have also made great strides in the area of crime reduction. While violent crime rose nationwide in 2006, murders, rapes, aggravated assaults, and other violent crimes fell by 2.5% in Los Angeles. Overall crime has dropped by 12% since 2005.

For the 2007-08 budget, we took the position that we cannot ensure our future unless we take on the problem of gangs and start investing in the great promise of our youth. As part of my comprehensive gang reduction strategy, we leveraged grant dollars to establish seven gang reduction zones which will provide targeted performance-based youth development, education, and re-entry programs tailored to meet the needs of each unique community. Our youth job placement efforts have never been greater as we partnered with other agencies, non-profit groups, and private companies to place over 10,000 youth in summer jobs in 2007. We are keeping community branch libraries open longer for people of all ages to enjoy. We are also on pace to increase the Los

Angeles Police Department by 1,000 new officers by 2009, making Los Angeles a safer city for everyone.

We remain committed to keeping Los Angeles on the path toward enhanced fiscal responsibility we set two years ago. The General Fund expenditure growth in the FY08 adopted budget increased by a modest 2.3%, compared to 9.9% in FY07, and 7.5% in FY06. This is a reflection of the imaginative leadership you and your colleague general managers continue to provide every day to implement operational efficiencies in your department and creatively solve the challenges of how to do more with less.

There is much more to do this fiscal year. We face numerous challenges to tackle together; none more urgent than ensuring that the City's Reserve Fund is replenished and available in times of emergency and economic uncertainty.

It is time for the planning and development work for the Fiscal Year 2008-09 budget to deepen. I am pleased to report we are already at work. Together with the City Administrative Officer (CAO), we are changing the budget process with the goal of using our limited resources ever more strategically. These process changes reflect an approach emphasizing performance and strategic and long-term planning over incremental budget appropriations. As a first step, we have met with individual general managers, including you, to fashion a budget strategy that aligns my desired outcomes with each department's mission, core functions, and goals. The outcomes I am seeking for Fiscal Year 2008-09 are:

- To improve mobility on city streets and reduce congestion by making roadways more reliable, efficient, and safe;
- To promote youth development and reduce gang crime by addressing the social conditions that contributes to youth participation in criminal activity;
- To reduce crime and improve public safety by staying on track with our plan to add 1,000 net additional officers;
- To increase community trust of the Fire Department and transform the department to reflect the highest commitment to diversity by instituting a Professional Standards Division;
- To promote environmental stewardship by the City of Los Angeles and fight global warming through increased efforts in recycling, energy conservation, and strategic investments in renewable energy and alternative fuels;
- To alleviate poverty by developing more and higher quality jobs that facilitate entry into the workforce for all residents by supporting the completion of signature development projects and creating training opportunities where people

need opportunity the most, and by promoting 21<sup>st</sup> Century land use planning and an array of housing options;

- To focus our resources to neighborhoods with greatest need;
- To improve the City's and residents' capacity to mitigate, manage, and recover from major emergencies through improved planning, public information, community partnerships, and citywide coordination;
- To demonstrate our commitment to fiscal responsibility and progressive government by continuing our plan to eliminate the structural deficit and build up the Reserve Fund to 5% of the General Fund; and
- To maintain or restore increased service levels of essential and core city services and continuously improve in every aspect of city government with a constant demand to serve the customer and increase efficiency.

To track progress, we are already at work with you to develop performance metrics to replace outdated workload indicators.

These outcomes are necessary for the continued prosperity of our city and its people. Yet, we know we have to face these challenges against the fiscal reality that our expenditures are outpacing our revenues.

As projected by the CAO in the Second Financial Status Report, General Fund revenues for the upcoming fiscal year show a growth of only 1.3%. At the same time, based on a conservative set of assumptions, the CAO is projecting the growth in expenditures to be about 6%. This analysis does not assume the loss of \$270 million from the Telephone Users Tax (TUT), which we will know more following the February 5, 2008 election.

Given the fiscal uncertainties related to the TUT and other revenue challenges, building up the Reserve Fund to better plan for a fiscal emergency may require the full 1.3% projected growth in revenues. Therefore, mindful that our budget must be balanced by funding ongoing expenditures with ongoing and predictable revenue sources, I am establishing a no-growth target for departmental budget submissions. Through this charge, I expect every general manager to submit a budget proposal by **December 20, 2007** that is at the same or lower dollar value as last year's adopted budget. Though the dollar value or percent may not change from last year, the budget submitted should account for any cost-of-living adjustments and will therefore need to be managed through offsetting reductions, efficiencies, or new revenues that must be feasible and generated in the same fiscal year.

It is the responsibility of every general manager to look within his/her department's budget to identify options to achieve this target. Divergence from this no-growth target will need to be supported by additional reductions or revenues of equal or greater value. Exceptions from the no-growth target will be considered on a case-by-case basis for departments with enterprise funds, special funds, and departments with an integral role in the collection of General Fund revenues. We will also be mindful of the operational needs of smaller departments knowing that we cannot balance the budget from the limited savings produced by these departments. Nonetheless, every department will need to do their part in helping the City tighten its belt.

We also need to begin planning for the worst contingency. At my direction, the CAO has already initiated a review of expenditure reductions citywide that we may be forced to consider in the event of a loss of TUT revenue. This planning cannot succeed without meaningful departmental input. I want to be clear: In the event of a catastrophic revenue loss, we do not intend to apply an across-the-board, one-size-fits-all approach. We will make budget decisions strategically based on how we can sustain our core departmental missions. However, for planning purposes, I am directing each department to provide a set of preliminary recommendations for reductions and eliminations equaling 8% of your departmental budget.

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 guiding principles we have shared with you and that will serve as the framework for making sound decisions.

The program/service being requested for funding must:

- Be considered key or core to the department's operations;
- Be aligned with the outcomes established in this letter;
- Be aligned with actual needs of the City and its customers;
- Be able to meet last year's service levels;
- Be fully cost recoverable (where appropriate);
- Add value and demonstrate results; and
- Be sustainable for the full-year and not be a long-term burden on the General Fund.

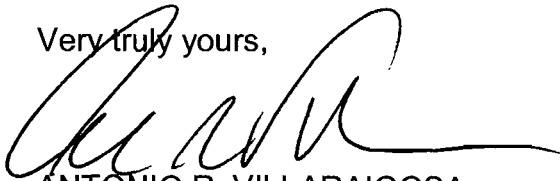
The challenges involved in developing a strategic fiscal plan for Fiscal Year 2008-09 are real and demanding, but I am confident that we can reach our goals. Doing so will require hard work, patience, a commitment to teamwork, and greater collaboration and communication between my office, the CAO, and 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.

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While we expect that there will be continuous communication between all involved parties throughout the process, two structured budget hearings will be held after department budgets have been submitted: in February 2008, and in March 2008. The CAO will be transmitting the full budget calendar with additional instructions for completing your Fiscal Year 2008-09 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 Sally Choi, Deputy Mayor of Finance and Performance Management, at (213) 922-9772, with questions or comments about my instructions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Antonio R. Villaraigosa', with a long horizontal flourish extending to the right.

ANTONIO R. VILLARAIGOSA  
Mayor

ARV:sc/bc

cc: Honorable Members of the City Council  
Honorable Rockard J. Delgadillo, City Attorney  
Honorable Laura N. Chick, City Controller  
Gerry F. Miller, Chief Legislative Analyst