

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

0220-03122-0011

Date: October 16, 2007

To: Honorable Mayor  
Honorable Members of the City CouncilFrom: Karen L. Sisson, City Administrative Officer Subject: **SUPPLEMENTAL INFORMATION RELATED TO A MODERN COMMUNICATIONS TAX ORDINANCE**

On October 3, 2007, the City Council discussed the CAO report relative to the need for the City to place a modern communications ordinance before the electorate on February 5, 2008. As recommended in the CAO report, the City Council directed the City Attorney to prepare all necessary materials to place a measure on the February 5, 2008 election. In addition, the Council requested information on potential public outreach of this issue and further detailed information of the impact of the \$270 million revenue loss. Accordingly, all necessary resolutions and ordinances have been provided by the City Attorney to the Council. This memorandum is provided to address the public outreach issues and to provide more detailed service impact of the potential revenue loss.

### **Public Outreach and Informational Materials**

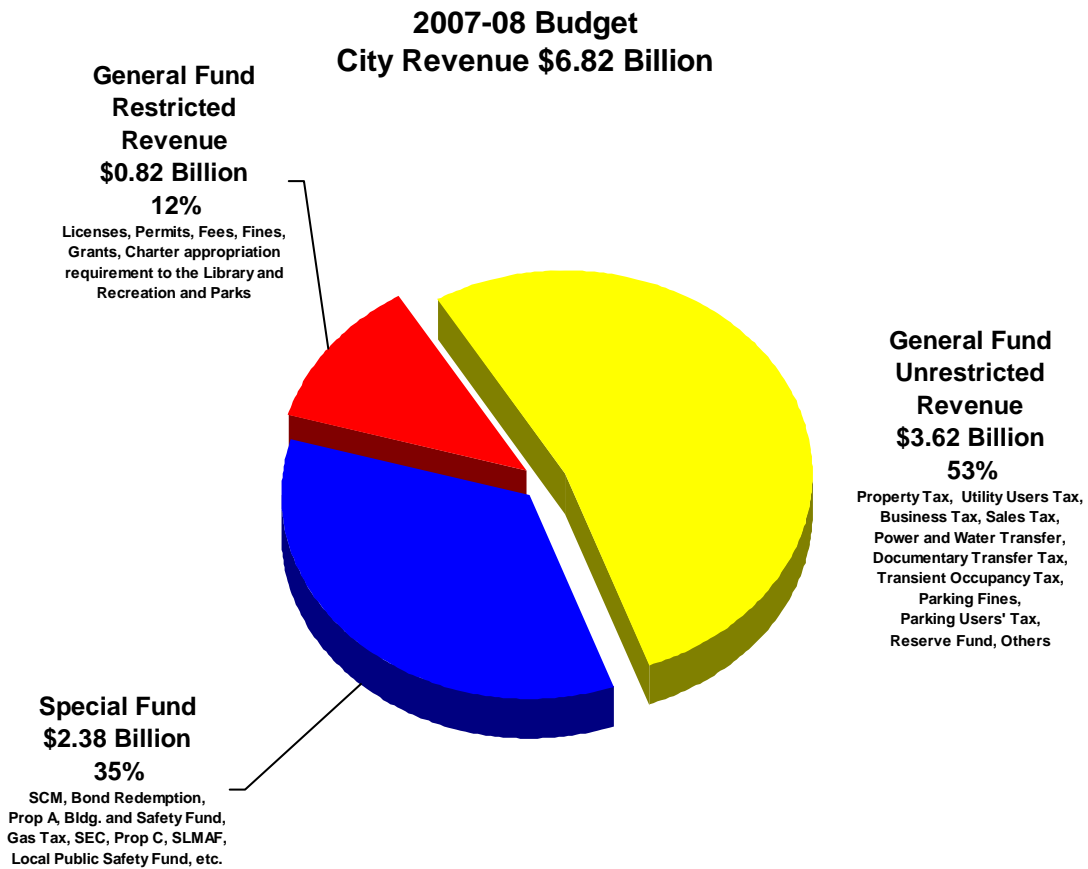
Public outreach will consist of various activities coordinated by the Department of Neighborhood Empowerment. On Saturday, October 13, 2007 the Mayor's Office and the Department of Neighborhood Empowerment (DONE) hosted the Community Budget Day for Neighborhood Councils. Among other budget related topics, the agenda included a discussion on the current tax and market conditions and the implications of losing the existing TUT revenue. DONE will be responsible for compiling data from Saturday's event regarding the TUT discussion with community members.

Additionally, Neighborhood Councils may request several community meetings between now and the election to better inform community members regarding the telephone users' tax. Informational materials can be developed by City departments and coordinated through DONE for dissemination to the Neighborhood Councils and community members.

### **Financial Impact of \$270 million Revenue Loss**

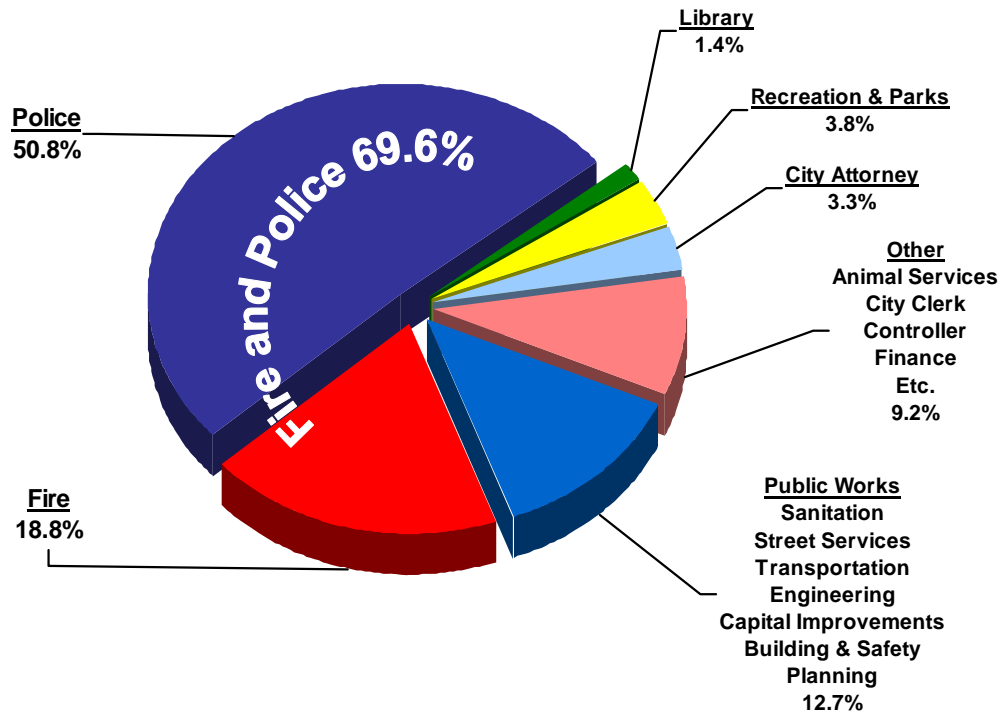
As stated in our previous report, telephone users' tax receipts are General Fund revenue and used to fund crucial City services, such as police and fire services, street and park maintenance, and recreation programs. This revenue accounts for nearly six percent of total General Fund revenues. The negative impact on City services and staff would be significant since the City would be forced to reduce expenditures to maintain a balanced budget.

To provide some perspective on the impact of a \$270 million revenue loss, we need to step back and provide some overall context of the City's budgeted revenues. The City's 2007-08 Adopted Budget is approximately \$6.82 billion, of which General Fund revenue is \$4.44 billion and special fund revenue is \$2.38 billion. The General Fund revenue is further divided between restricted and unrestricted revenue. Of the total General Fund revenue of \$4.44 billion, \$0.82 billion is considered restricted revenue since this revenue is primarily received from fees for services. This leaves approximately \$3.62 billion that is considered unrestricted revenue that can be used for various City services. See pie chart below:



While revenue from the telephone tax accounts for nearly 6% of total General Fund revenue, this percentage increases to over seven percent of the total unrestricted revenue. To provide additional context of the budget, it is important to understand how the City's unrestricted revenue is currently allocated to departments. The pie chart on the next page illustrates this allocation. Of the total unrestricted revenues, police and fire consume approximately 70 percent of this revenue. If public safety programs are left untouched, the City would have to make drastic reductions in other programs and departments.

**2007-08 Budget  
Unrestricted Revenues  
\$3.62 Billion**



**Order of Magnitude**

The service impact on the City of losing \$270 million can be viewed in various ways. To provide an order of magnitude in simplistic terms, a \$270 million reduction would approximately equate to the following items below. However, these types of reductions would not be realistic or achievable.

1. Laying off 2,700 Police Officers; or
2. Eliminating half of the Fire Department's budget; or
3. Laying off 4,200 General Fund civilian employees (approximately 1/6 of workforce); or
4. Eliminating General Fund appropriations to the following City departments:
  - Aging
  - Animal Services
  - City Clerk
  - Commission for Children, Youth and Their Families
  - Commission on the Status of Women
  - Cultural Affairs
  - Disability
  - Emergency Preparedness
  - Employee Relations Board
  - Environmental Affairs
  - Ethics Commission
  - Office of Finance

Human Relations Commission  
Information Technology Agency  
Personnel  
Planning

There are several different scenarios of this type that can be developed. However, pursuing these types of reductions would not be practical nor efficient in the delivery of City services. Realistically, many of these General Funded expenditures cannot be easily reduced or eliminated. Pension and retirement contributions, debt service payments, workers' compensation payments, liability claim payments, and insurance premiums are all examples of General Funded obligations that cannot be eliminated. Additionally, the Charter imposes other financial obligations on the City that fund departments and other special funds such as the Library Department, Recreation and Parks, and campaign matching funds. These restrictions leave a much smaller expenditure base that must absorb any potential revenue loss.

### **Program and Revenue Options**

The City would have several options to consider but would have to weigh each option based on the collective agreement on what core services need to be provided.<sup>1</sup> The two basic approaches to mitigating the shortfall are to either reduce existing service levels commensurate with the \$270 million revenue loss or combine fee increases where possible to offset existing costs while at the same time reducing existing service levels. Either approach will involve some level of service reductions. Additionally, either approach will require employee layoffs.

Presented below are potential alternatives (revenue opportunities and expenditure reductions) to mitigating a \$270 million revenue loss.

### **Potential Revenue Opportunities**

Effectuate an increase the Solid Waste Resource Fee (Trash Fee) to full cost recovery. The current rate is \$26 per month for single family residences. This would need to be increased approximately \$13-15 to a total of \$39-41 per month. The City could anticipate approximately \$120 million in additional revenue that would be used to fund the full costs of the Refuse Collection Program.

Eliminate the current Council practice of providing no-cost or low-cost services and facilities to various organizations. This would include eliminating all special event waivers, terminating all below-market lease agreements, and eliminating Convention Center waivers. It is also suggested that all revenue from surplus property sales be deposited to the General Fund. The potential revenue could be in the range of \$10-20 million annually.

### **Potential Service Reductions**

Potential service reductions will involve several essential services in the areas of public safety, community services, recreation and cultural programs, transportation services,

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<sup>1</sup> As a note, if the City were faced with a loss of \$270 million, we would anticipate a broad policy discussion to reach agreement on the definition of "core" services.

and general city support. At a minimum, priority services and programs would be reduced including eliminating or slowing down police officer hiring, closing fire stations (i.e. rolling brown-outs), reducing library hours at both regional and branch libraries, reducing the level of maintenance at recreation and park facilities, eliminating recreation programs for children, curtailing street cleaning and maintenance, reducing gang prosecutors, eliminating cultural and art programs, reducing funding for affordable housing programs, and reducing other vital City services. Attachment 1 provides a list of potential service reductions that could be utilized to balance the budget in the event of a \$270 million revenue loss. This menu is not intended to be a final reduction list, but provided to give Council context of services that would need to be assessed for possible reductions.

*KLS:RPC:TUT00080001*

## ATTACHMENT 1

Department	Potential Reduction	Explanation of Potential Reduction
Aging	1,129,022	Eliminate all General Funded activities in the Department
Aging - Home Delivered Meals for Seniors (GCP)	899,423	Reduce funding for senior meals (Maintain funding for senior centers)
Animal Services	1,110,000	Eliminate funding for spay and neuter programs
Building and Safety	400,000	Reduce Code Enforcement activities
Building and Safety	1,320,649	Eliminate Contract Nuisance Abatement activities
City Administrative Officer	2,032,870	Reduce support services by 20%
City Clerk	907,760	Reduce support services by 20%
Commission for Children, Youth & Their Families	299,214	Reduce services by 20%
Commission on the Status of Women	107,265	Reduce services by 20%
Community Development	1,265,962	Eliminate all General Funded activities in the Department.
Cultural Affairs	1,917,604	Reduce funding by 20%
Department on Disability	238,478	Reduce services by 20%
Elected Officials	24,269,804	Reduce elected officials budget by 20%
Emergency Preparedness	1,183,562	Eliminate Department and fold into the Fire Department
Environmental Affairs	897,221	Eliminate most of the Department and fold the rest into Public Works
Fire	33,000,000	Close 15 Fire stations
General Services	43,219,442	Reduce support services by 20%
Human Relations Commission	299,214	Reduce services by 20%
Information Technology Agency	20,489,425	Reduce support services by 20%
Neighborhood Empowerment	1,572,199	Reduce funding by 20%
Personnel	9,972,741	Reduce support services by 20%
Planning	1,000,000	Reduce funding for community plans from 12 to 7
Police	10,000,000	Eliminate police hiring after January 1, 2008 (Approximately \$39 million in subsequent years)
Board of Public Works	1,514,803	Eliminate Clean and Green Program
Bureau of Contract Administration	1,000,000	Eliminate Compliance Office
Bureau of Engineering	6,645,261	Eliminate funding for municipal facilities
Bureau of Sanitation	2,564,359	Eliminate General Fund appropriation
Bureau of Street Services	1,159,065	Reduce funding for weed abatement and debris removal by 50%
Bureau of Street Services	2,000,000	Reduce funding for street tree and parkway maintenance
Bureau of Street Services	4,408,995	Reduce funding for 240 miles of slurry seal
Bureau of Street Services	3,352,223	Eliminate funding for sidewalk repairs
Transportation	2,000,000	Reduce funding for traffic system design and construction
Transportation	1,000,000	Reduce funding for operations (stop signs, striping, curb markings, etc.)
Appropriations to Library Fund	1,754,932	Reduce General Fund appropriation to minimum level per Charter requirement
Appropriations to Recreation and Parks Fund	13,268,635	Reduce General Fund appropriation to minimum level per Charter requirement
Approp to Other Special Purpose Funds		
Affordable Housing Trust Fund	8,000,000	Eliminate General Fund appropriation
Business Improvement District	963,079	Eliminate General Fund appropriation
City Ethics Commission Fund	365,847	Reduce services by 20%
El Pueblo Fund	316,517	Eliminate General Fund subsidy
Emergency Operations Fund	183,100	Eliminate General Fund appropriation
Zoo Enterprise Fund	9,880,000	Eliminate General Fund subsidy
CIEP - Municipal Facilities	504,917	Eliminate General Fund appropriation to CIEP projects
CIEP - Physical Plant	560,000	Eliminate General Fund appropriation to CIEP projects
GCP - City Volunteer Bureau	495,429	Eliminate General Fund appropriation
GCP - DART Program & Safer Cities	820,000	Eliminate General Fund appropriation
GCP - Day Laborer Sites	329,734	Eliminate General Fund appropriation
GCP - Homeless Services	6,700,000	Eliminate General Fund appropriation
GCP - FMS Replacement	8,901,795	Eliminate General Fund appropriation
GCP - LA's Best	2,344,000	Eliminate General Fund appropriation
GCP - Learn to Earn Program	2,000,000	Eliminate General Fund appropriation
GCP - LA Bridges Program	11,859,871	Eliminate General Fund appropriation
GCP - Festivals, Celebrations & Special Events	1,577,600	Eliminate General Fund appropriation
GCP - Community Based Organizations	175,000	Eliminate General Fund appropriation
GCP - Youth Development Strategy & Employment	2,350,000	Eliminate General Fund appropriation
Unappropriated Balance	87,064,746	Eliminate contingency funding
<b>Total</b>	<b>343,591,763</b>	