

January 8, 2017

## White Paper

While the City's revenues have increased by \$1 billion over the last four years, the City is projecting a deficit of \$85 million for the year beginning July 1, 2016.

The CAO's Second Financial Status Report is projecting a deficit of \$82 million deficit for the current fiscal year because higher than expected expenditures. This does not take into account that revenues may be \$70 million below budget.

<http://cao.lacity.org/budget/20161202FSR2.pdf>

In his January 6, 2017 memo to the Mayor and the City Council, the CAO stated that the "combined potential deficit currently stands at \$245 million" because of increased expenditures of \$80 million and at risk revenues of \$165 million.

[http://clkrep.lacity.org/onlinedocs/2016/16-1322\\_misc\\_1-6-17.pdf](http://clkrep.lacity.org/onlinedocs/2016/16-1322_misc_1-6-17.pdf)

The City's two pension plans are underfunded by over \$22 billion (60% funded) according Moody's Investor Services. This assumes an investment rate assumption in the range of 5.5%. Under this more realistic scenario, pension contributions would increase by over \$500 million a year.

[https://www.moodys.com/research/Moodys-Unfunded-pension-liabilities-now-exceed-debt-for-many-large--PR\\_357522](https://www.moodys.com/research/Moodys-Unfunded-pension-liabilities-now-exceed-debt-for-many-large--PR_357522)

The City's streets are considered to some of the worst in the nation.

<http://www.scpr.org/news/2015/06/11/52365/1-a-street-repair-policy-fix-the-good-leave-the-ba/>

As such, the Neighborhood Council Budget Advocates (the "NCBAs") urge Mayor Eric Garcetti, the City Council, and its Budget and Finance Committee to implement the following recommendations of the LA 2020 Commission<sup>1</sup> as part of its budget for the 2017-18 fiscal year.

- Create an independent "Office of Transparency and Accountability" to analyze and report on the City's budget, evaluate new legislation, examine existing issues and service standards, and increase accountability.
- Adopt a "Truth in Budgeting" ordinance that requires the City to develop a three-year budget and a three-year baseline budget with the goal of understanding the longer-term consequences of its policies and legislation. (Council File 14-1184-S2<sup>2</sup>)

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The Los Angeles 2020 Commission was an independent, private commission to study and report on fiscal stability and job growth in Los Angeles. <http://www.la2020reports.org>

<sup>2</sup> *Los Angeles 2020 Commission / Truth in Budgeting Ordinance.*

<https://cityclerk.lacity.org/lacityclerkconnect/index.cfm?fa=ccfi.viewrecord&cfnumber=14-1184-S2>

- Adopt a discount rate and pension earnings assumptions similar to those used by Warren Buffett<sup>3</sup>.
- Establish a “Commission for Retirement Security” to review the City's retirement obligations in order to promote an accurate understanding of the facts and develop concrete recommendations on how to achieve equilibrium on retirement costs within five years.

IN ADDITION, the NCBA's urge Mayor Eric Garcetti, the City Council, and its Budget and Finance Committee to implement the following recommendations:

- Develop a long-term plan to fix Los Angeles' streets similar to the Save Our Streets LA Measure proposed in April 2014<sup>4</sup>.
- Eliminate the Structural Deficit by halting labor agreements, programs, or initiatives that will result in projected budget gaps in the Four-Year Budget Outlook prepared by the City Administrative Officer.

We request that the Budget and Finance Committee assign a Council File for each of the recommendations and place these items on its agenda prior to January 31, 2017.

The implementation of these recommendations will be the first step in addressing the City's Structural Deficit, its unfunded pension liabilities, and the deferred maintenance on its infrastructure.

The adoption of these recommendations will result in the increased transparency of the City's complex operations and finances and begin the process of restoring Angelenos' trust and confidence in City Hall and its elected officials.

These recommendations may be followed by additional recommendations, as well as the NCBA's reports and recommendations on selected City Departments. These recommendations are being made in 2016 so that they will be an integral part of the upcoming fiscal year's budget process.

The NCBA's look forward to a timely response.

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<sup>3</sup> Warren Buffett on pension fund investment return assumptions. 2007 Berkshire Hathaway Annual Report. <http://www.berkshirehathaway.com/2007ar/2007ar.pdf>

<sup>4</sup> L.A. half-cent tax proposal for street, sidewalk repair is pulled. Los Angeles Times. <http://www.latimes.com/local/cityhall/la-me-street-tax-20140611-story.html>