FORM GEN. 160

CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

Date: May 5, 2010

To: The Office of the Mayor
The City Council

From: Miguel A. Santana, City Administrative Officer *Miguel A. Santana*

Subject: **Response to "Los Angeles on the Brink of Bankruptcy" News Article**

The purpose of this memorandum is to address several inaccuracies published in an opinion article of the *Wall Street Journal* on May 5, 2010, entitled, "Los Angeles on the Brink of Bankruptcy: What Mayor Villaraigosa Must Do To Save The City." A copy of the article is attached. The claims in the article are addressed as follows.

Claim #1: Between now and 2014 the city will likely declare bankruptcy.

Response: The City is aggressively pursuing cost-cutting measures to ensure its General Fund budgetary deficit is resolved. Last year's budget included a shared sacrifice component with labor, which resulted in significant savings that was instrumental in mitigating the deficit, including the deferral of cost-of-living-adjustments for civilian employees, reduced working hours, and an early retirement incentive program. This year's Proposed Budget contains additional cost-cutting measures, including an expanded reduction in working hours, layoffs, and public-private partnerships. The City is doing all it can to avoid declaring bankruptcy.

Claim #2: According to the city's own forecasts, in the next four years annual pension and post-retirement health-care costs will increase by about $2.5 billion if no action is taken by the city government.

Response: While pension and retiree health-care costs are projected to increase over the course of the next several years, $2.5 billion over the next four years is not part of City's forecast. The most current outlook in the 2010-11 Proposed Budget indicates the City's General Fund expenditures to the City Employees' Retirement System and Fire and Police Pensions will increase by $556 million over the next four years as follows:

Four-Year Budget Outlook ($ millions)

FY	2010/11	2011/12	2012/13	2013/14	2014/15
LACERS	37.2	42.9	73.4	70.7	41.8
FPP	39.4	55.6	64.4	81.1	49.9
TOTAL	76.6	98.5	137.8	151.8	91.7

Claim #3: **How faulty were our assumptions? Over the last decade, the two main pension funds in Los Angeles have seen their assets grow at just 3.5% and 2.8% annually.**

Response: The investment gains and losses have fluctuated over the last 10 years, mainly attributable to the tech sector industry crash in the early part of the decade and the national housing bubble and global market meltdown of the latter part of this decade. These investment losses are extraordinary occurrences and have been realized by several pension plans across the country, including CALPERS and CALSTRS, and are not exclusive to the City Employees' Retirement System and Fire and Police Pensions.

Pursuant to the State Constitution and the City Charter, the Boards of Administration of the City Employee's Retirement System and Fire and Police Pensions have the "sole and exclusive power to provide for actuarial services in order to ensure the competency of the assets" of the retirement system. Each pension plan's Board of Administration sets the actuarial investment gain assumption.

Claim #4: **Five thousand is the number of employees added to the city's payroll during Mr. Villaraigosa's first term as mayor.**

Response: The total authorized City staffing when Mayor Villaraigosa took office on July 1, 2005 was 35,934. The 2010-11 Proposed Budget has an authorized staffing level of 32,802, which equates to an approximate 9% reduction. During Mayor Riordan's administration, City authorized staffing increased by nearly 8.5% from 32,690 positions to 35,459 positions.

Claim #5: **How have city leaders responded to the crisis? Pension officials have played accounting games, like smoothing the investment return over seven years rather than five years. This is designed to dilute the near-term effect of the financial meltdown at the expense of much higher payments later.**

Response: The actions taken by the Board of Administration of the City Employees' Retirement System and Fire and Police Pensions are legitimate and are in accordance with actuarial practices and standards. Furthermore, they have provided short-term financial relief to the City's pension contribution at a time when investments have soured and tax revenues have plummeted.

Claim #6: **The City Council, wincing at the mere thought of layoffs, chose to shrink the work force through an early retirement program for city workers. This costly program, suggested by union leaders, will not be paid off for 15 years.**

Response: The Early Retirement Incentive Program (ERIP) will result in the retirement of 2,400 City civilian workers. Rather than laying off this magnitude of employees, an agreement was reached with labor organizations representing civilian employees to save the City millions of dollars on a long-term basis. The ERIP savings are anticipated to save the City at least $60 million this current fiscal year and over $100 million for subsequent fiscal years. As part of the ERIP negotiations, City workers agreed to a 1% increase to their pension contributions. This helps pay for the unfunded accrued actuarial liability resulting from the ERIP benefit enhancements.

Claim #7: **Defined benefit pensions must be replaced with 401(k) accounts for new employees.**

Response: The City has an interest in ensuring that its retired employees are financially secure during retirement. Since the City does not contribute to Social Security on behalf of an employee, the current pension plan is the only financial subsistence an employee will have upon retirement.

Claim #8: **Current employees must pay much more than 6% (or 9% in the case of public safety employees) of their salaries for their pension benefits. At a time when the city is contributing over 25% of payroll to the pension funds, this is only fair. Increase the retirement age to 65. Eliminate the $300 million spent on costly retiree health-care benefits.**

Response: In California, pension laws ensure that employees vested into a retirement plan are entitled to retirement benefits. Any benefit changes must be accompanied with an equal or like benefit in return. Any changes to the retirement plan would also require participation with labor organizations. The City is currently meeting with several labor unions to explore options for pension reform that will ensure the City's continued long-term financial stability.

Claim #9: **Reduce city staff back to 2005 levels. Since the police and fire departments represent more than 80% of the city budget, they must also be forced to run more efficiently.**

Response: The 2010-11 Proposed Budget has authorized staffing levels of 32,802. These levels are the lowest during the last 12 years, going back to the pre-1997-98 staffing levels. In addition, 2010-11 Proposed Budget does not sacrifice public safety and other vital core City services.

Claim #10: Eliminate the $300 million spent on costly retiree health-care benefits.

Response: The City does not contribute $300 million towards retiree health-care benefits. The total 2009-10 City contributions for retiree health was $183.3 million, including $95.1 million to the City Employees' Retirement System $88.2 million to the Fire and Police Pensions. The 2010-11 City contributions for retiree health are not anticipated to significantly change from the prior year.

MAS:TTS

Attachment