


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: January 21, 2010

TO: Antonio R. Villaraigosa, Mayor
All Members, Los Angeles City Council

FROM: Wendy Greuel, City Controller 

SUBJECT: UNION AGREEMENT SAVINGS – EXCESS SICK TIME

As we enter the new year, and in my role as the City's chief accountant, I want to update you on current information regarding payroll savings from the recent agreement with City Unions. Historically, City employees accrue sick time with each paycheck they receive and once an employee has accrued over 800 hours of sick time, they are paid for half of that time over 800 hours as a bonus every January. This year, as part of the shared sacrifice agreement with the City Unions, the majority of City employees have volunteered to defer those payments until next fiscal year. Employees that are not covered by the agreement with the Unions were still paid their excess sick time. In January 2009 the City paid approximately \$13.41 million in Excess Sick Time, while in January 2010 the City paid \$3.35 million, which is a difference of \$10.06 million.

While these numbers represent a savings to the City, only a portion will help reduce the general fund deficit we face. Therefore, I urge you not to look at this as long term savings, because it is simply a temporary deferral for a payment the City will have to make in the next fiscal year.

I will be releasing an updated cash flow report in the next week, which will again outline the dire financial situation the City is facing. Although we will begin to see the impact of the ERIP and increased retirement contributions, we anticipate that budgeted expenditures will continue to exceed revenues. I remind you that as of Pay Period 11 (November 21) the City was approximately \$85 million above the 2009-10 salary budget.

I again must reiterate my concern about depleting the Reserve Fund at the end of the fiscal year. The City's Reserve Fund policy targets a Reserve Fund of 5% of General Fund revenues, approximately \$220M this year. The Government Finance Officers Association (GFOA) recommends a Reserve Fund of 5% to 15% of General Fund revenues or 1 to 2 months of operational expenditures, in the City's case, approximately \$250 to \$500 million. The City's reserve fund is used for emergency expenditures (situations like the Northridge Earthquake), to meet cash flow requirements where expenditures do not match revenues to meet expenditure needs where revenue is delayed by actions of others (State budget crisis), or to help stabilize the City during economic uncertainties. However, once depleted, the Reserve Fund will take a long time to refill.

The reserve fund is also one of the main factors used in determining our bond rating, and with Fitch recently downgrading our bond rating, it is more important than ever to maintain a strong reserve fund. As I stated in my Preliminary Financial Report, I support using some, but not all, of the Reserve Fund as part of a plan to bring expenditures in line with the budget and revenue. I do not support depleting the Reserve Fund to maintain staffing levels this year only to face more challenging issues next year.

I look forward to working with you to steer the City through this current fiscal crisis, to more stable times ahead.

CC: Miguel A. Santana, City Administrative Officer
Gerry F. Miller, Chief Legislative Analyst