



ANTONIO R. VILLARAIGOSA
MAYOR

November 6, 2006

Mr. William T. Fujioka, City Administrative Officer
Room 1500, City Hall East
200 North Main Street
Los Angeles, CA 90012

Re: Fiscal Year 2007-08 Budget Policy and Goals

Dear Mr. Fujioka:

The Fiscal Year 2006-07 Adopted City Budget reflects the tough choices we made as City leaders to ensure a brighter future for all Angelenos. In short, together we moved Los Angeles on a path toward greater fiscal responsibility while making critical investments in services. We reduced the structural deficit by \$47 million. We prudently planned for a "rainy day" by increasing the Reserve Fund closer to the five percent threshold established in our financial policies. We took a significant step toward strengthening public safety by providing funding to increase the Los Angeles Police Department by 1,000 new officers over the next five years.

Midway into the second quarter of the new fiscal year, we are well on our way to transforming these budget priorities into tangible results for the people of Los Angeles. As we move forward and begin planning for Fiscal Year 2007-08, my aspirations and vision for Los Angeles remain unchanged. I expect this budget to bring us closer to our vision of Los Angeles as the great global city of the 21st century; where Angelenos are connected by a world-class transit system; where we lead the nation in our commitment to green practices and environmental sustainability; where every neighborhood in L.A. is safe; where every child is well-educated; and where all Angelenos have a chance to show their talent and fulfill their dreams.

These aspirations are threatened, however, by mounting uncertainties involving several of the City's key revenue sources. Over 84% of the City's General Fund budget is closely linked to the economic conditions of our region. Housing prices have begun to level as have the number of homes being sold, thus dampening housing-related revenues such as property taxes and documentary transfer taxes. In addition, the City faces legal challenges to its ability to collect existing utility users' taxes on long distance phone calls and calls made from cellular phones. The City is also in jeopardy of losing

revenue transfers from the Department of Water and Power's Water Revenue Fund. Taken separately, each one of these revenue losses would be difficult to address. Combined, these losses could amount to as much as \$250 million, threatening the City's financial stability and impeding the delivery of services Angelenos expect and deserve.

Mindful that our budget must be balanced by funding ongoing expenditures with ongoing and predictable revenue sources, the City is working hard to prevent these threats from materializing with aggressive efforts in Sacramento, Washington D.C., and the courts. I trust that you will factor these revenue challenges into your budget proposals, exercising leadership in crafting fiscally responsible budget requests.

Transforming L.A. Begins With You

We should each take a moment to contemplate the enormous responsibility we bear in developing the budget for Fiscal Year 2007-08. To make real our vision for many tomorrows, today we must transition the way we budget, deliver services, and engage the public. The budget decisions we make must be based on a tough, honest, and thorough evaluation of the effectiveness of each of our programs. I am asking you to submit budget requests based on demonstrated results, not because a program has existed and operated for many years.

Last year, I asked you to be both leaders in the budget development process and passionate advocates for improvement and change. This year, I am challenging you to be increasingly tough-minded stewards focusing on performance and service. I am challenging every general manager to develop a budget that maintains critical investments in City services while moving us beyond balancing the budget on the margins of our General Fund. Given the fiscal uncertainties outlined and this charge, I expect every General Manager to:

- Submit a budget proposal by November 17, 2006, detailing how you will achieve a five percent reduction over last year's adopted budget. This reduction applies to your full department budget including all special funds. The reduction must be comprised of savings from ongoing as well as one-time program expenditures and should deal with the anticipated loss of any grant funds without requesting an offset using General Fund appropriations.
- Embrace my challenge of identifying \$15 million to \$20 million in savings through operational efficiencies by submitting a Fiscal Year 2007-08 budget proposal that includes specific plans to make business processes more efficient, from improving the timeliness of paying vendors in order to achieve discounts to reclassifying positions based on actual job functions. These plans must be fiscally and operationally achievable.

Understanding that it is often the newest or pilot programs that are submitted for reduction, your budget proposal should reflect the reprogramming of funds from marginal programs to those of demonstrated success and impact. Further, you should consider your department's Fiscal Year 2006-07 budget submittal by including high priority requests that were unfunded but excluding low priority requests unless they have risen to a higher priority status.

If necessary, you may request additional time to complete this task in writing and as part of your budget proposal cover letter. However, all budget addenda relative to this budget reduction exercise will be due no later than December 15, 2006.

Keeping on Task

You have already received detailed instructions from the City Administrative Officer (CAO) on the development of your department budget proposal. The CAO will soon issue additional instructions for you to further explain requirements in the budget reduction exercise. 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.

Additionally, attached to this letter are forms and instructions for compiling the program and budgetary information needed to prepare the Children, Youth and Families Budget and Data Report for Fiscal Year 2006-07. This report provides the public and departments with essential information about the City of Los Angeles' annual expenditures on programs and services targeted to children, youth, and families. It also provides a wide range of information about their well-being. The Commission for Children, Youth and Their Families is committed to working with every City department to improve data collection and analysis for its report. The Commission's ability to improve the lives of our City's children, youth, and families is heavily dependent on your department providing requested information. You may contact the Commission for Children, Youth and Their Families directly with any questions. Completing this family-focused data in a timely and accurate fashion is important to my administration and to our collective goals.

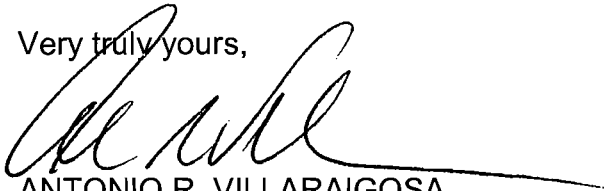
Meeting the Challenge

The challenges involved in developing a strategic fiscal plan for Fiscal Year 2007-08 are real and demanding, but I am confident that we can reach our goals. Doing so will require hard work, patience, and a commitment to teamwork. 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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Thank you for your commitment to meeting these challenges. Please contact Ben Ceja, Associate Director of Finance and Performance Management, at 922-9771, with questions or comments relative to 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:klb

Attachments

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