

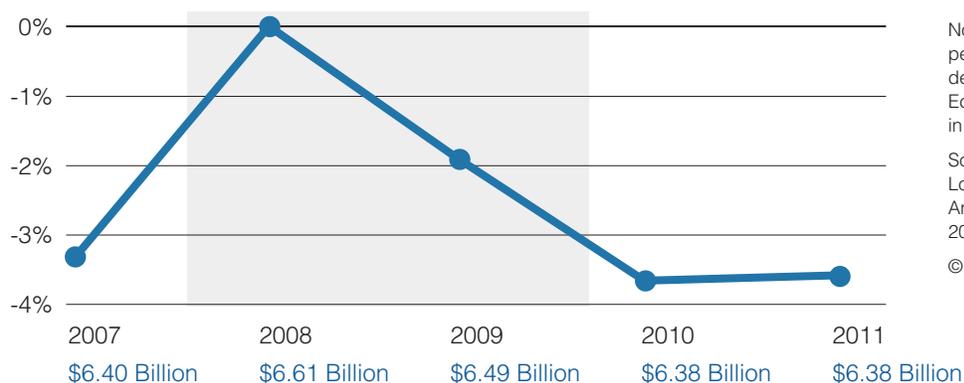
Los Angeles

Ongoing deficits presented challenges to Los Angeles during and after the Great Recession

As of 2011, Los Angeles' revenue was 4 percent below its 2008 peak, and the city faced continuing financial challenges two years after the end of the Great Recession. (See Figure 1.) The revenue shortfalls forced officials to tap into reserve funds and enact nearly a half-billion dollars in cuts, which included reducing the city workforce by nearly 5,000 positions.¹ But pension reforms helped keep Los Angeles among the better-funded large cities in terms of its retiree obligations.²

FIGURE 1

Los Angeles Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Los Angeles' Comprehensive Annual Financial Reports for fiscal 2007-11.

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Significant cuts in operating expenditures weren't enough to offset revenue declines

Los Angeles' nontax revenue had the greatest impact on the city's revenue losses as investment earnings dipped from \$268 million in 2008 to \$107 million in 2010, a drop the city attributed to declining interest rates.³ Other taxes—including those on utilities, business, parking, property transfers, and hotels—also declined, falling \$158 million between 2008 and 2010.

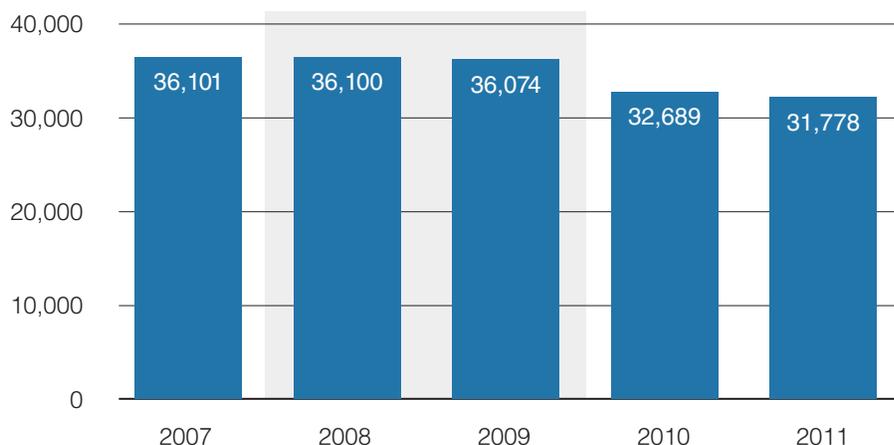
Some key revenue categories, however, were starting to show signs of improvement during this period. A \$122 million increase in charges in fees—largely resulting from a phased, four-year waste disposal rate increase imposed on all single- and multiple-unit dwellings—represented the most significant increase.

Property tax collections increased by \$30 million, and intergovernmental aid grew by \$6 million, bolstered by \$611 million in federal stimulus money authorized under the American Recovery and Reinvestment Act.⁴

In response to declining revenue, city officials reduced operating spending by 5 percent in 2010, with the largest cuts affecting public safety and public works and transportation. Los Angeles achieved an additional 3 percent in cuts between 2010 and 2011 in part by reducing the workforce through early retirement incentives, layoffs, and leaving vacant positions unfilled. (See Figure 2.) For example, the number of full-time employees working on street services (including cleaning and resurfacing) dropped almost 25 percent over the two years.⁵

FIGURE 2

Los Angeles Full-Time Equivalent Employees, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Los Angeles' Comprehensive Annual Financial Reports for fiscal 2007-11.

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Managing the future: Los Angeles remains vulnerable to fiscal trouble, even as revenue rebounds

Demand for services, investment decisions, and revenue performance will be critical factors in Los Angeles' continuing fiscal well-being. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Persistent shortfalls in the city budget actually began long before the onset of the Great Recession.⁶ Los Angeles had relied on relatively small draws from reserves to balance its budgets.⁷ Reserve levels then continued to decline each year from 2007 to 2010 before rebounding slightly in 2011.

Despite signs that revenue was starting to rebound, Los Angeles' budget chief warned in 2012 that persistent deficits could continue to put severe strains on the city's financial position over the long term.⁸ The mayor's budget for 2012-2013 included more than \$200 million in spending cuts, including personnel reductions, as well as revenue enhancements designed to eliminate the deficit.⁹

In 2012, Los Angeles increased the retirement age and decreased benefits for city employees covered under its pensions and retiree health care plans to reduce costs,¹⁰ continuing the city's attempts to relieve budget pressures created by a requirement in the city charter that full payments toward pension benefits be made every year.¹¹ While this obligation has stressed Los Angeles' finances, it has also led to a pension funding level that was 84 percent in 2010, down from 92 percent in 2007 but still relatively strong.

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 Kate Linthicum, "L.A. Budget Chief Warns of Bankruptcy Without Tax Hikes, Layoffs," *Los Angeles Times* (April 7, 2012), <http://articles.latimes.com/2012/apr/07/local/la-me-la-insolvency-20120407>.

2 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 18–19, <http://www.sco.ca.gov/Files-ARD/CAFR/cafr11web.pdf>.

4 Funding levels reported are over the life of the stimulus legislation. "LA Recovery: Stimulus at a Glance," updated August 2012, <http://recovery.lacity.org/recovery/docs/JuneSAAG2.pdf>; City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010* (2010), 9, <http://www.scag.ca.gov/publications/pdf/2010/FinancialReport063010.pdf>; and City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 9, <http://www.sco.ca.gov/Files-ARD/CAFR/cafr11web.pdf>.

5 City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011*, 363.

6 *Ibid.*, 336–337.

7 City of Los Angeles, *Fiscal Year 2006–2007 Budget Summary*, accessed March 27, 2013, http://cao.lacity.org/bud2006-07/Proposed_Budget_Summary_2006-07.pdf.

8 Linthicum, "L.A. Budget Chief Warns of Bankruptcy Without Tax Hikes, Layoffs."

9 City of Los Angeles, *Fiscal Year 2012–2013 Budget Summary*, accessed March 27, 2013, http://cao.lacity.org/budget12-13/2012-13Budget_Summary.pdf.

10 This plan did not include pensions for police and firefighters. "Pension Rollback Passed by Los Angeles City Council," *Los Angeles Times* (Oct. 26, 2012), <http://latimesblogs.latimes.com/lanow/2012/10/pension-rollback-passed-by-the-los-angeles-city-council.html>.

11 *Los Angeles Charter and Administrative Code, Volume II: Employment Provisions; Article XI: Pension and Retirement Systems*, accessed March 27, 2013, [http://www.amlegal.com/nxt/gateway.dll/California/laac/administrativecode?f=templates\\$fn=default.htm\\$3.0\\$vid=amlegal:losangeles_ca_mc](http://www.amlegal.com/nxt/gateway.dll/California/laac/administrativecode?f=templates$fn=default.htm$3.0$vid=amlegal:losangeles_ca_mc).