

NEIGHBORHOOD COUNCIL BUDGET ADVOCATES

OVERVIEW OF THE 2017-18 ADOPTED BUDGET AND THE 2018-19 BUDGET PROCESS



NCBA Overview
11/13/2017

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Office of the City Administrative Officer

SUMMARY

- Budget Documents
- Budget Overview
- Financial Policy Compliance
- Expenditures: Key investments and concerns
- Revenues: Levels and concerns
- Four-Year Budget Outlook
- Budget Process



THE BUDGET DOCUMENTS

Proposed Budget Documents:

- [Mayor's Budget Summary](#). Prepared by the Mayor's Office to present a message from the Mayor, key investments, and summary data.
- [Proposed Budget Book](#). Technical information, including summary data, appropriations by line item and funding source, grant receipt estimates, and the distribution of funding by function.
- Detail of Departmental Programs (Blue Book), [Volume I](#) and [Volume II](#). Presents changes to each department by program, details of position authorities, contractual services, and travel authority, and detailed descriptions of selected non-departmental appropriations.
- [Revenue Outlook](#). Discussion of estimates and projections for all funding sources, and detail of departmental receipts.
- [Supporting Information for the Budget and Finance Committee](#). Detailed information, analysis, and summary data requested by the Budget and Finance Committee.

Adopted Budget Documents:

- [Adopted Budget](#). Produced and released by the Controller's Office. Contains the Budget Resolution. Otherwise includes the same information as the Proposed Budget Book, updated for the Council's changes.
- [Budget Summary](#). A pamphlet presenting analytical information and summary data regarding the adopted budget.
- Detail of Department Programs: Supplement to the 2017-18 Adopted Budget (White Book), [Volume I](#) and [Volume II](#). Contains the same information as the Blue Book, but updated to reflect the changes made by the City Council.



BUDGET OVERVIEW

TOTAL 2017-18 CITY GOVERNMENT

	Appropriations (\$ Millions)	Authorized Positions*
<u>I. Proprietary Departments</u>		
Airports	\$ 6,091.4	3,935
Harbor	\$ 1,175.0	999
Water and Power	\$ 7,964.2	10,650
<i>Total</i>	<i>\$ 15,230.6</i>	<i>15,584</i>
<u>II. General City Budget</u>		
General Fund	\$ 5,826.5	22,967**
Special Funds	\$ 3,465.6	10,408
<i>Total</i>	<i>\$ 9,292.1</i>	<i>33,375</i>
<u>III. Grants and other Non-Budgeted Funds</u>		
<i>Total</i>	<i>\$ 1,365.6</i>	<i>-</i>
<i>Grand Total</i>	<i>\$ 25,888.3</i>	<i>48,959</i>

*Regular positions.

**Sworn staff represents 59 percent of General Fund positions.



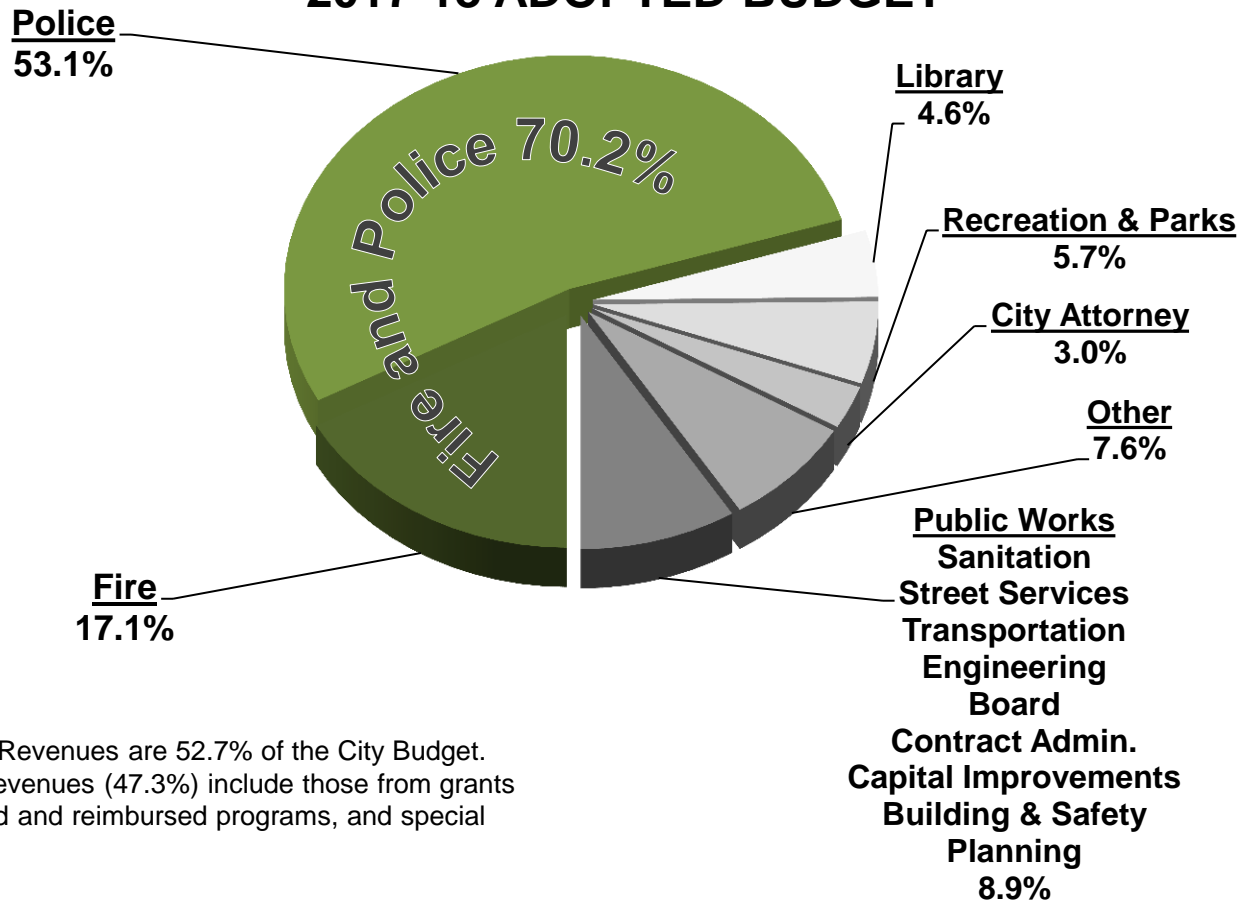
BUDGET OVERVIEW

Budget Component	Budget (\$ Millions)			Authorized Positions		
	Adopted 2016-17	Adopted 2017-18	Percent Change	Adopted 2016-17	Adopted 2017-18	Percent Change
General Fund	\$ 5,576.4	\$ 5,826.5	4.5%	22,866	22,967	0.4%
Special Funds	\$ 3,200.6	\$ 3,465.6	8.3%	10,239	10,408	1.7%
Total	\$ 8,777.0	\$ 9,292.1	5.9%	33,105	33,375	0.8%



BUDGET OVERVIEW

UNRESTRICTED REVENUES (\$4.9 Billion) 2017-18 ADOPTED BUDGET



Unrestricted Revenues are 52.7% of the City Budget.
Restricted Revenues (47.3%) include those from grants
fee supported and reimbursed programs, and special



FINANCIAL POLICY COMPLIANCE

Policy		Compliance
Reserve Fund at least 5% of General Fund	✓+	July 1 at \$298 million, or 5.12%
Budget Stabilization Fund contribution if growth of seven economically sensitive taxes is over 3.4%	✓	\$75 million \$83 million in tax growth used for infrastructure and the Budget Stabilization Fund.
Capital investment at 1% of General Fund	✓+	Investment of 1.28% or \$75 million
All one-time revenues used for one-time expenditures	✓+	\$65 million in one-time revenues for \$108 million in one-time expenditures
Debt service ceiling from non-voter approved debt of 6% of General Revenues; All debt under 15%	✓+	Non-voter approved debt at 4.29% and all debt at 5.96% at this time; Both expected to remain below threshold levels throughout 7-year projections



FINANCIAL POLICY COMPLIANCE

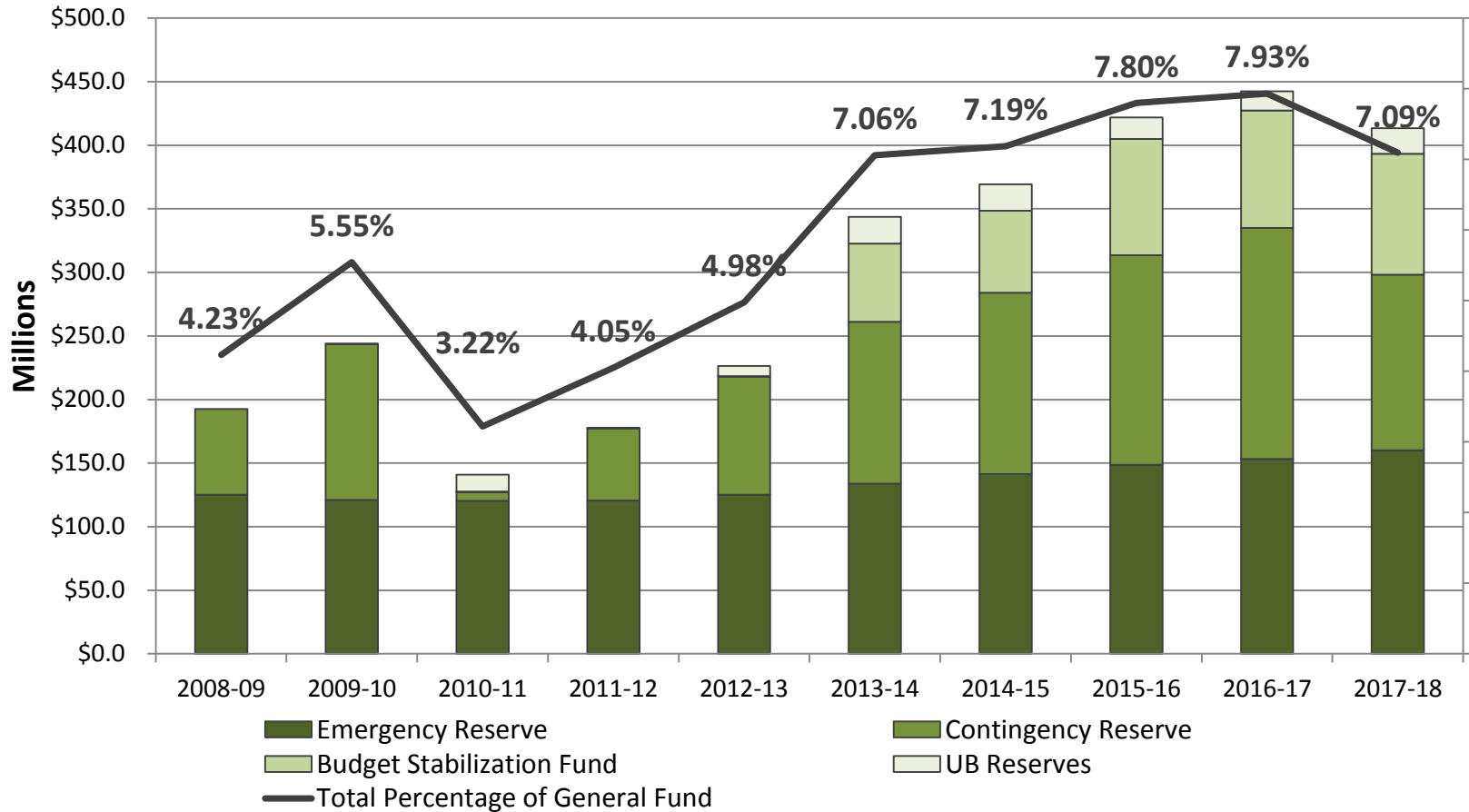
- These are five of the dozens of financial policies under which the City operates.
- [Financial Policies for the City of Los Angeles](#)
- Approved by Council in April 2005.
- Sections on Fiscal, Capital, Reserve Fund, Pension, and Debt.
- Policies of interest include:
 - Discourage interim appropriations for new programs
 - Require development of a multi-year forecast
 - Limit subsidy to grant programs
 - City will seek new and diverse revenues
 - Seek full cost recovery for fee-supported programs
- Budget Stabilization Fund and Encumbrance Policies adopted since 2005, not incorporated into Financial Policies:
 - [Budget Stabilization Fund](#)
 - [General Fund Encumbrance Policy](#)



FINANCIAL POLICY COMPLIANCE: RESERVES

ADOPTED BUDGET RESERVES

(Reserve Fund, Budget Stabilization Fund, and UB Reserves)



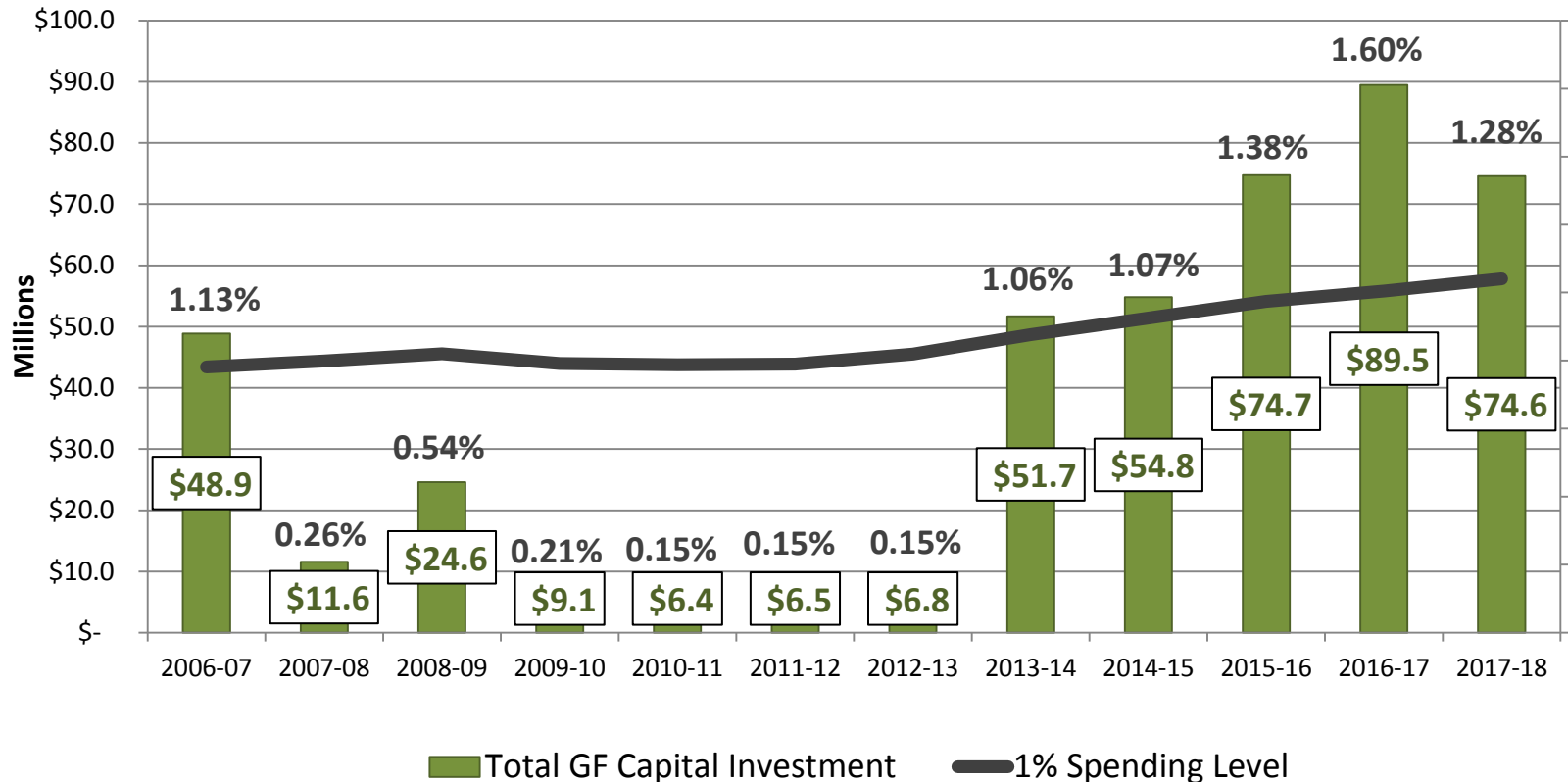
FINANCIAL POLICY COMPLIANCE: RESERVES

- Reserve Fund:
 - Emergency Reserve: 2.75% of General Fund receipts; Intended to be used to address significant economic downturn, disaster, or other unanticipated events.
 - Contingency Reserve: Balance of Reserve Fund; Intended to be used for unanticipated expenditures or revenue shortfalls.
- Budget Stabilization Fund: Intended to provide a soft landing if tax revenues fall and to prevent overspending if they increase.
- Unappropriated Balance Reserve: First line of defense for expenditure shortfalls or required new appropriations during the fiscal year.



FINANCIAL POLICY COMPLIANCE: CAPITAL

Capital Investment as Percentage of General Fund Revenue



FINANCIAL POLICY COMPLIANCE: CAPITAL

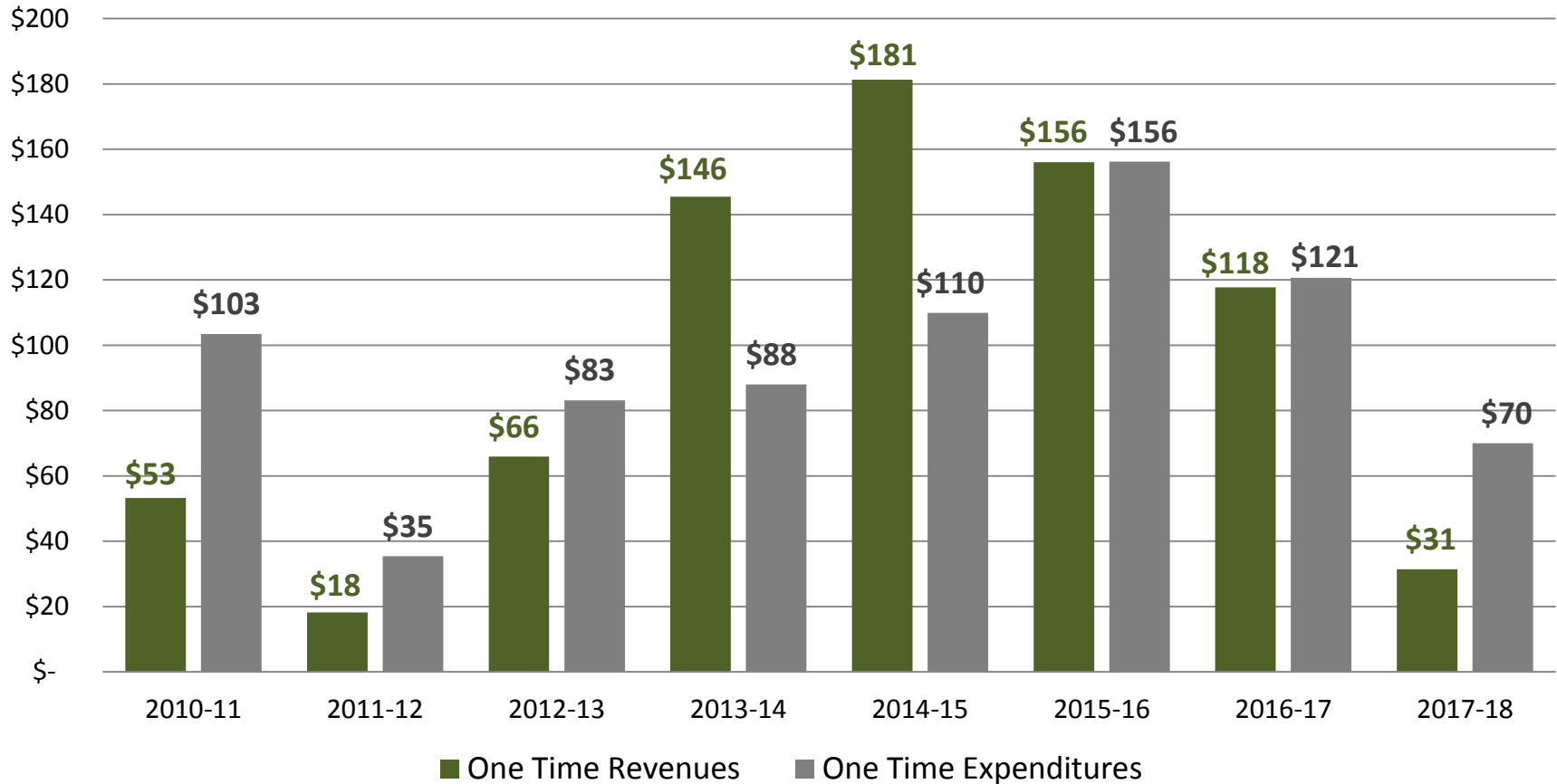
- This policy only applies to General Fund expenditures. Note that there is a lot of other capital investment paid by special funds.
- Detail of the expenditures included as part of the capital investments expenditures can be found on page 20 of the [Proposed Budget Supporting Information](#) book. This table is not updated as part of the adopted budget.
- Major components of the \$74.6 million include:
 - \$19.87 for municipal facilities (City owned buildings), including \$6 million for Vision Theatre.
 - \$25.5 million for street resurfacing and reconstruction.
 - \$20.3 million for sidewalks
 - \$7.4 million for various special physical plant projects (including bridges, streets, and tunnels).



FINANCIAL POLICY COMPLIANCE: ONE-TIMES

ONE-TIME REVENUES VS. ONE-TIME EXPENDITURES

(Proposed Budget)



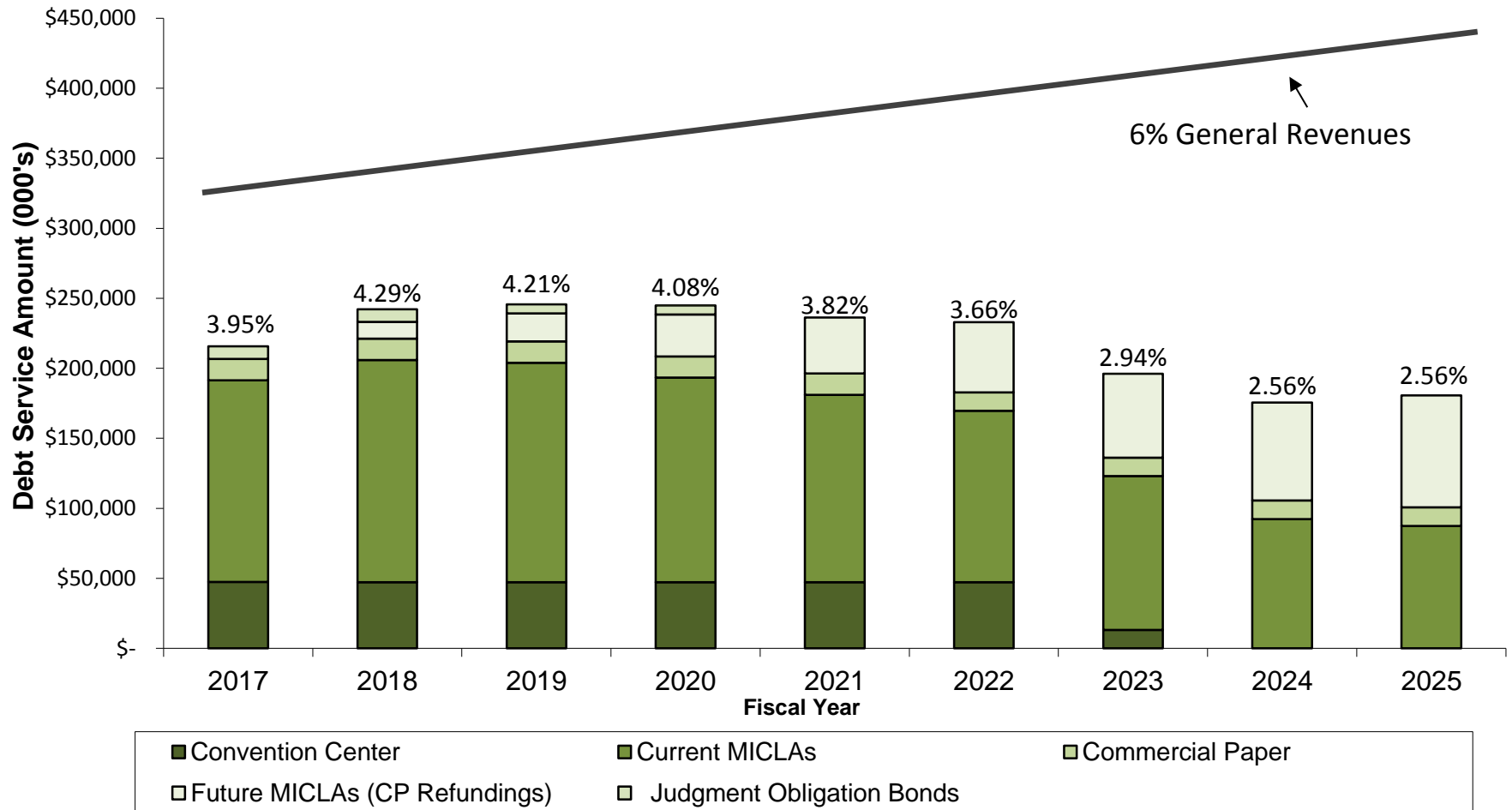
FINANCIAL POLICY COMPLIANCE: ONE-TIMES

- Important policy to support structural balance.
- Adopted Budget used \$65 million in one-time revenues for \$108 million in one-time expenditures.
- Detail of the items can be found on page 19 of the [Proposed Budget Supporting Information](#) book. This table is not updated as part of the adopted budget.
- Significant one-time revenues include:
 - Special Parking Revenue Fund (\$15 million)
 - Reserve Fund transfer (\$9 million)
 - Linkage Fee receipts (\$10 million).
- Significant one-time expenditures include:
 - UB/Reserve for Mid-Year Adjustments (\$20 million)
 - UB/Reserve for Contingent Revenues (\$21 million)
 - LAPD purchases for MTA security (\$6 million)
 - Related cost reimbursements to the Sewer Construction and Maintenance Fund (\$9 million)
 - Vision Theatre (\$6 million).

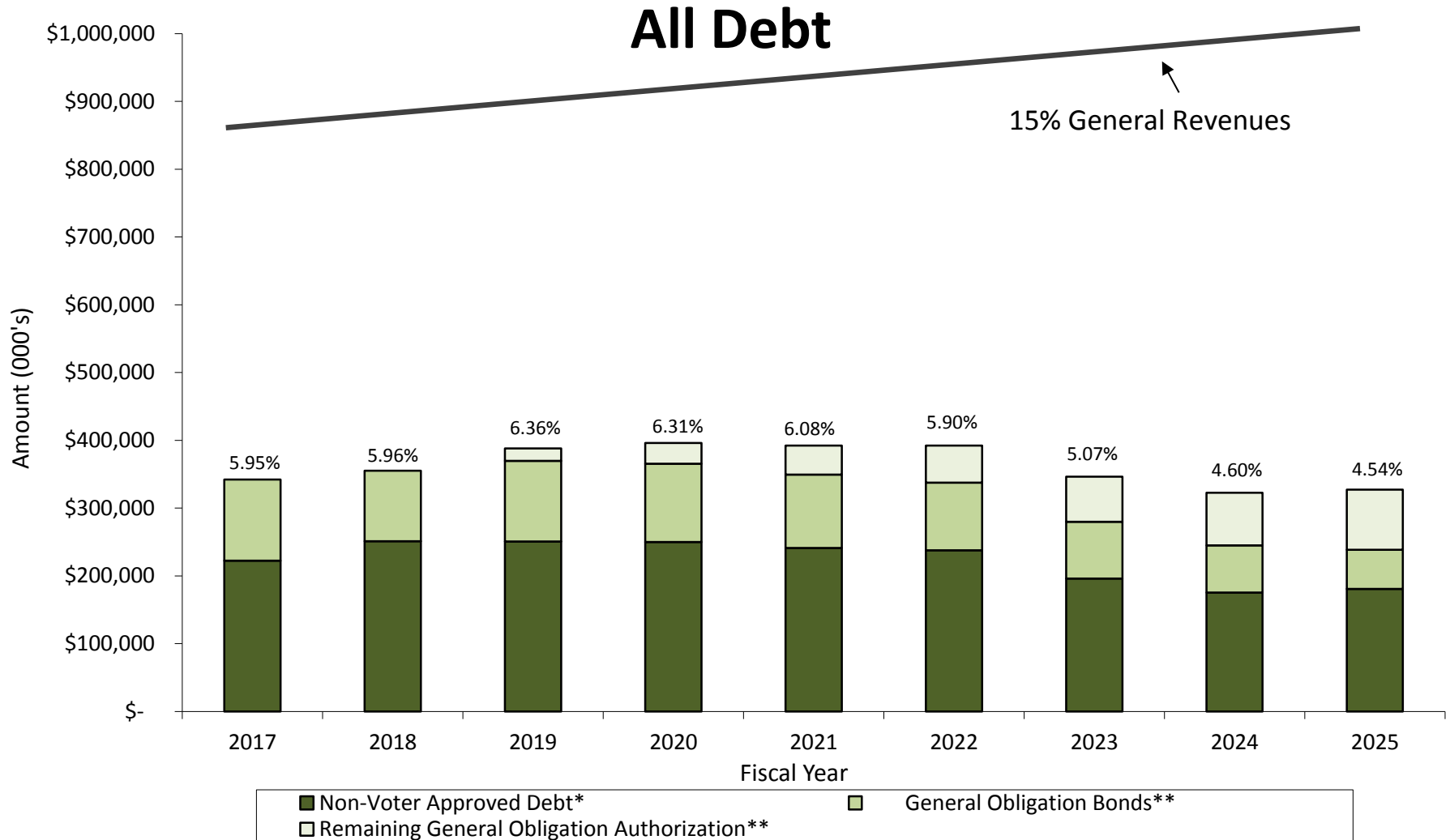


FINANCIAL POLICY COMPLIANCE: DEBT

Non-Voter Approved Debt



FINANCIAL POLICY COMPLIANCE: DEBT



FINANCIAL POLICY COMPLIANCE: DEBT

- These charts illustrate compliance with our debt policies:
 - Debt not approved by voters cannot exceed 6% of the revenues that pay for debt
 - Overall debt cannot exceed 15% of those revenues
- Much of the non-voter approved debt is in the MICLA program and is paid by the General Fund.
- Details related to non-voter approved debt is in the Capital Finance Administration Fund budget, found on pages 695-710 of the [White Book, Volume 2](#).
- MICLA is limited to:
 - Capital equipment and property
 - Useful life of at least six years
 - Preferably of high value
 - Cannot be easily moved or hidden
- Voter-approved debt must comply with requirements of ballot measure, and is often handled off-budget.



EXPENDITURES: KEY INVESTMENTS

- **Addressed Obligations**
 - \$40 million for increased liabilities
 - Employee-related cost increases: \$120 million for salaries, \$17 million for pensions, \$12 for workers' comp, and \$42 for health and other benefits
 - \$35.9 million for Accessible Housing Program, per settlement
 - \$31 million for Sidewalks
 - \$121 million for LAPD overtime
 - Continuation of Police and Fire hiring
 - \$134 million commitment to fighting homelessness (does not include sale of surplus property)
- **New Programs**
 - \$87.9 for homeless housing and facilities from Measure HHH
 - \$42.0 for roads and infrastructure from Measure M
 - \$28.1 for roads from increased Gas Tax (SB 1)
 - \$0.8 for Department of Cannabis Regulation
- **Increased Services**
 - 24 positions and \$0.8 million to reduce community plan cycle to six years
 - \$2 million for graffiti abatement
 - \$2.3 million for one Clean Streets Team and two HOPE Teams



EXPENDITURES: DETAILS OF KEY INVESTMENTS

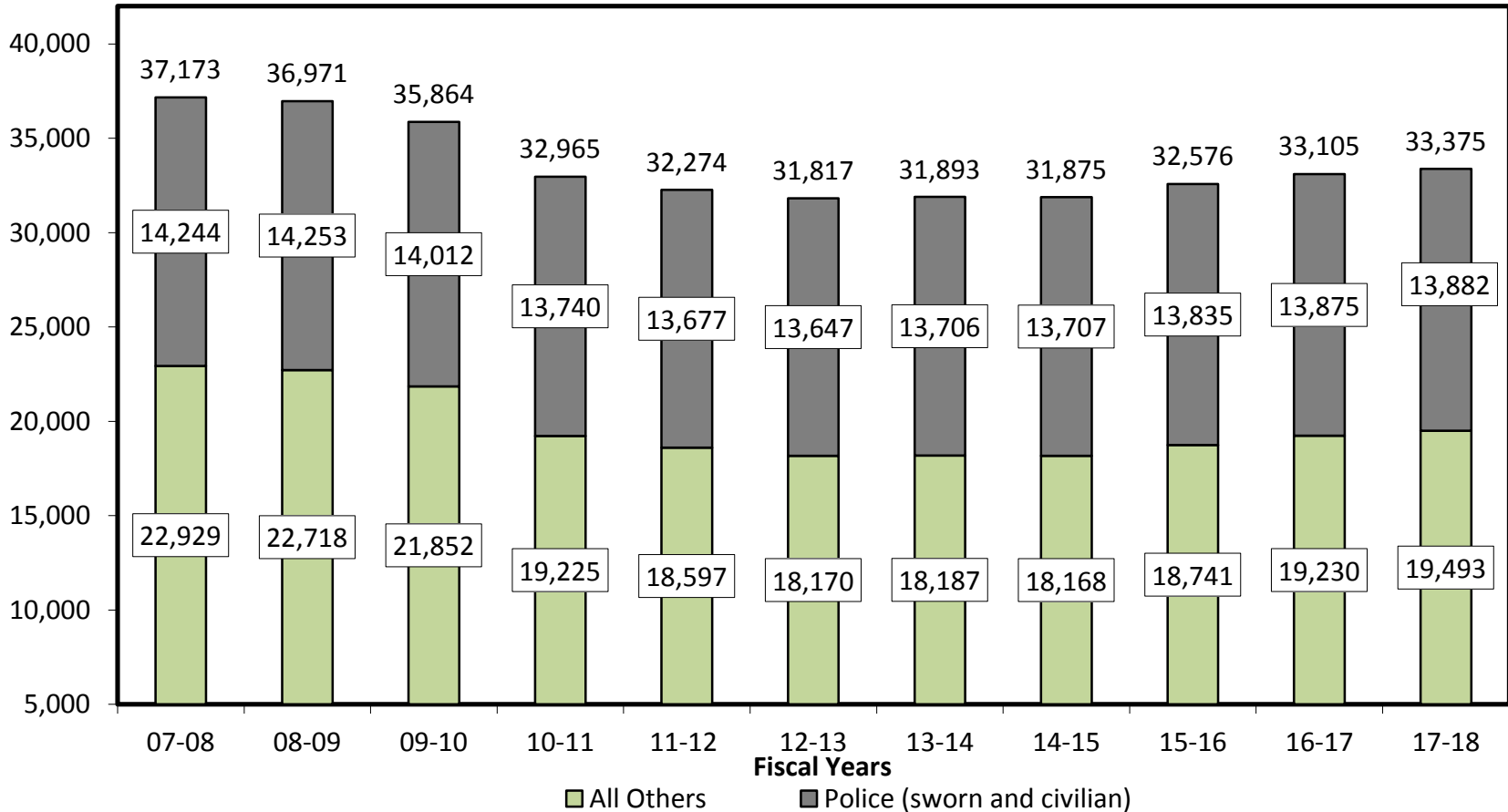
- **Sidewalks:** Found on pages 861-864 of the [White Book, Volume 2](#).
 - Funding sources include \$20 million General Fund, \$11 million other funding sources.
 - Identified how funds are used, including \$15 million for work by City departments, funding for a variety of consulting services, contracts, or direct appropriations, and \$3 million for DWP and LAWA to repair sidewalks around their facilities.
- **Homelessness:** Found on pages 843-853 of the [White Book, Volume 2](#). \$134 million to address homelessness includes:
 - \$89 million through Measure HHH
 - \$25 million by City departments
 - \$19 million for LAHSA
- **Pavement Preservation:** Found on pages 855-859 of the [White Book, Volume 2](#). Just for street repair, and does not include major street projects, or design changes, such as those designed in the Vision Zero program.
 - \$131 million in total funding
 - Identifies departments involved and funding sources



EXPENDITURES: EMPLOYEE COSTS

AUTHORIZED CITY STAFFING

Not including Proprietary Departments



EXPENDITURES: EMPLOYEE COSTS

- Two drivers of employee costs:
 - The number of employees
 - Compensation package, including salaries and benefits
- Compensation packages set in Memoranda of Understanding between City and employee organizations.
 - Under the advice of the Executive Employee Relations Committee
 - Negotiated by the CAO
 - Approved by Mayor and Council
- Over 25,000 of the City's 34,000 employees are under contracts that expire June 30, 2018 (All Coalition and Police Protective League employees).
- Introduces uncertainty into the 2018-19 budget process.
- Generally, past budgets have not directly included funding for contracts that are not negotiated or nearly negotiated.



EXPENDITURES: CONCERNS

Potential Areas of Expenditure Shortfall

- \$45 million in achievable but significant expenditure reductions
- \$40 million increase for Liability Claims is a positive step, but still below actual expenditures in 2015-16 and 2016-17.

Limited Sources Available in Case of Shortfall

- \$20 million in Unappropriated Balance – Reserve for Mid-Year Adjustments provides only limited protection.



REVENUES: LEVELS

General Fund revenues increased by \$250.1 million from 2016-17 to 2017-18. Major changes include:

Source	Amount (Millions)	
Property Tax	\$39.5	Assumes 5.8% growth from 2016-17 Revised
License, Permits, Fees, and Fines	\$148.4	\$52 million for LAPD/MTA contract, \$31 million from special fund reimbursements, and \$12 million from billboard leases
Electric Users Tax	\$25.0	Estimate provided by the Department of Water and Power
Transient Occupancy Tax	\$35.5	\$33.7 from Short-term rentals
Power Revenue Transfer	(\$48.5)	Estimate assumed in the proposed Department of Water and Power budget
Franchise Income	\$15.6	\$15.6 million from solid waste collection franchise



REVENUES: LEVELS

The following are the major sources of General Fund Revenue:

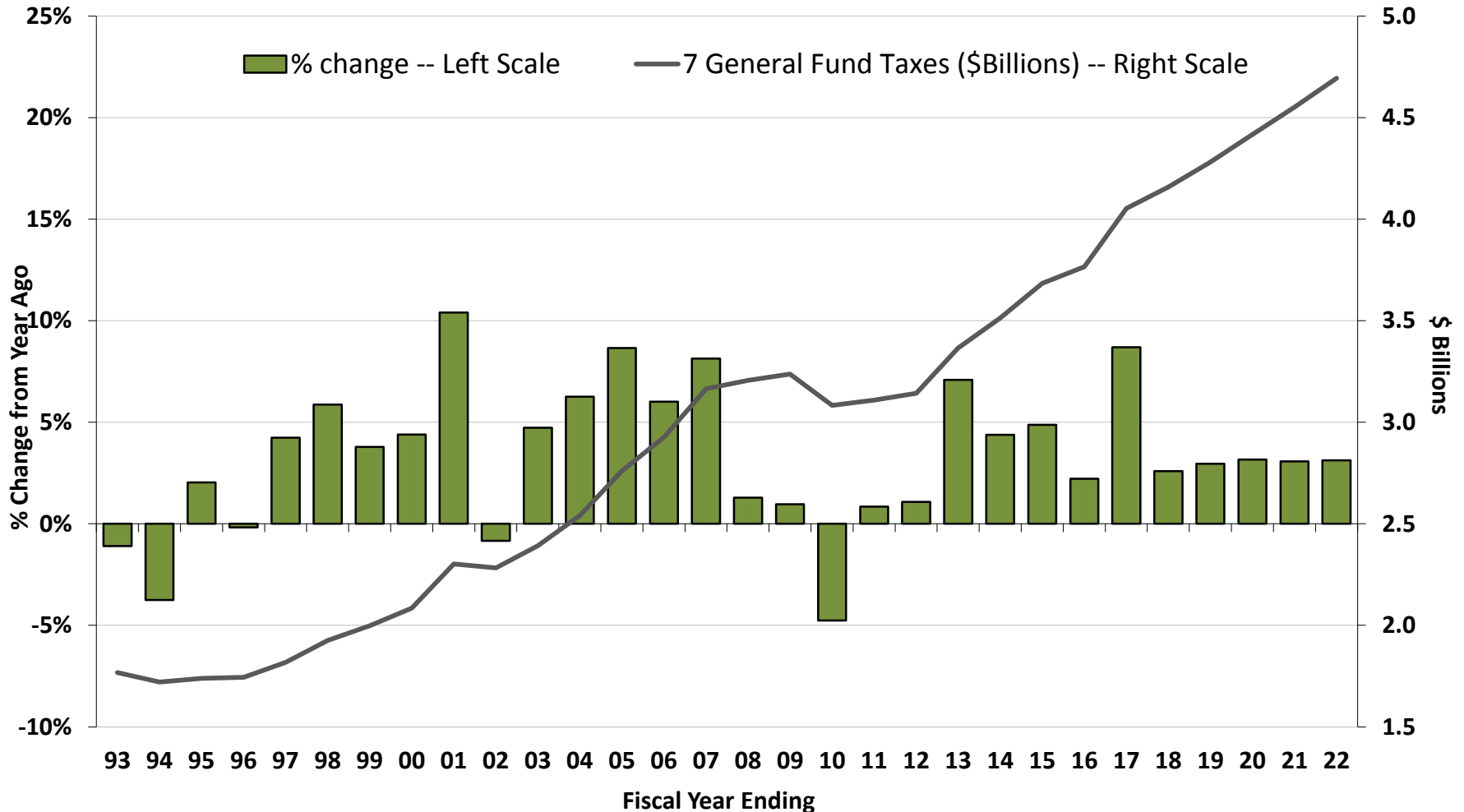
Source	Amount (Millions)	Calculation Considerations
Property Tax	\$1.9 billion	Calculation is based on County's estimate of the growth in assessed value.
License, Permits, Fees, and Fines	\$1.0 billion	Major components include related cost reimbursements, intergovernmental transfers, and departmental receipts from fees for service.
Utility Users Tax	\$660 million	Communications, Electric, and Gas Users taxes. EUT collected from DWP. Communications has been flat due to shift from land lines.
Sales Tax	\$529 million	Calculated based on economic analyses projecting consumer spending in subsequent year.
Business Tax	\$516 million	Gross receipts tax on businesses operating in the City. Calculation based on current receipts, as of early April.
Transient Occupancy Tax	\$282 million	This includes addition of short-term rentals. Tends to be economically sensitive.
Power Revenue Transfer	\$243 million	May be impacted by ongoing litigation.
Documentary Transfer Tax	\$219 million	Fee for property sales. Extremely volatile, and difficult to project when it will change.
Parking Fines	\$141 million	Has been dropping consistently in recent years.



REVENUES: LEVELS

Seven General Fund Taxes, 2017-18 Adopted Budget

Property (includes VLF), Utility, Business, Sales, Hotel, Documentary, and Parking Taxes



REVENUES: CONCERNS

Revenues that are dependent on currently pending policy decisions:

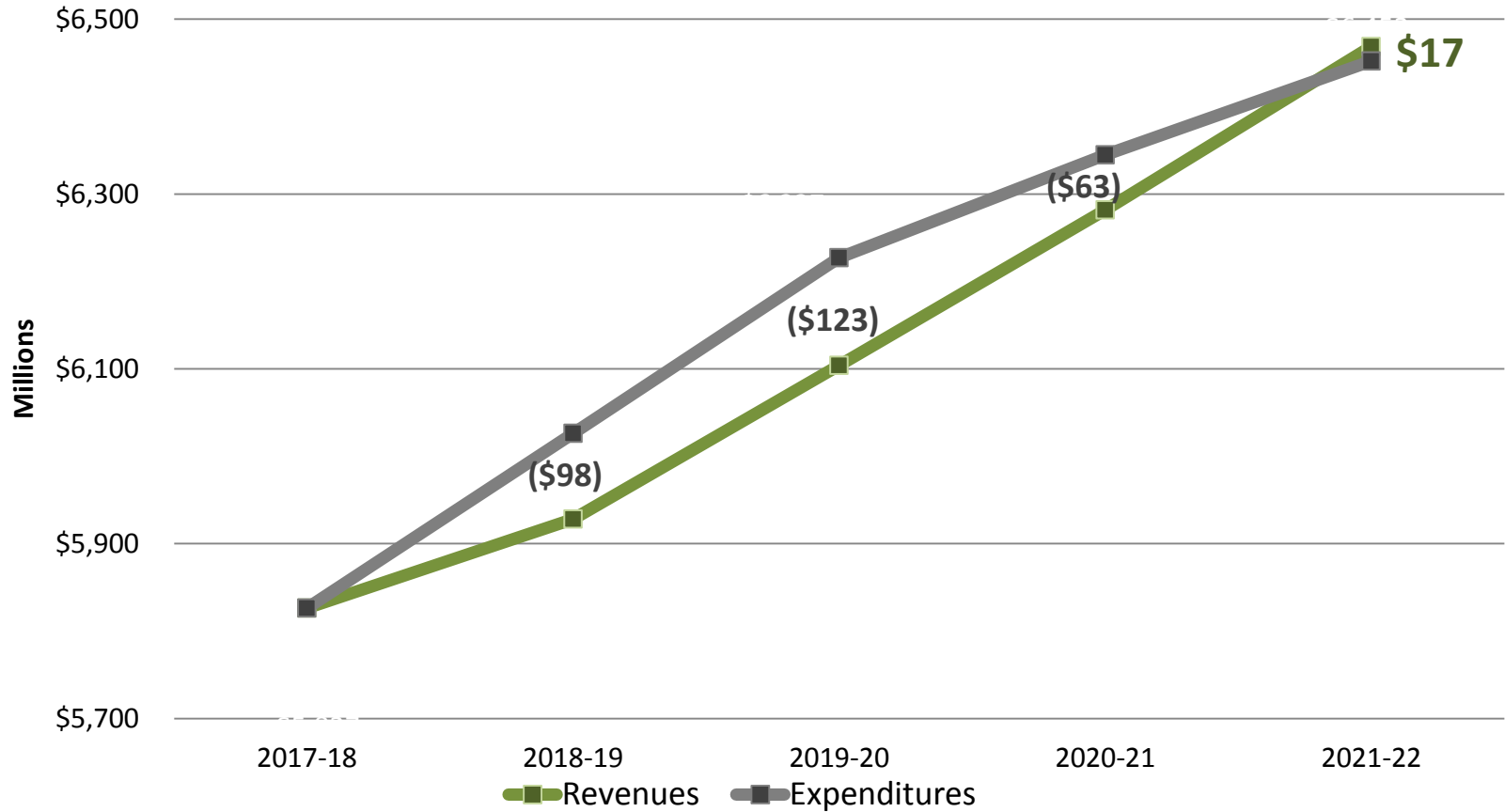
- \$12 million – Billboards
- \$34 million – AirBnB
- \$15.6 million – Solid Waste Franchise
- \$10 million – Linkage Fee (to the Affordable Housing Trust Fund)



THE OUTLOOK

FOUR-YEAR BUDGET OUTLOOK

(Adopted 2017-18 Budget)



THE OUTLOOK

- The Outlook is our forecast of the state of the budget for the subsequent four years, taking into account our revenue and expenditure projections.
 - Revenues Projections: Based on historical growth
 - Expenditure Projections: Based on known changes in future years
- The Outlook tells us whether the budget is structurally balanced, which is a measure of fiscal sustainability.
- In the absence of structural balance:
 - Challenging to add new, ongoing services in future years
 - Fiscally irresponsible to do so in the current budget
- Proposed Budget Outlook is found on pages 10-14 of the [Supporting Information](#) book.
- Adopted Budget Outlook is found on pages A-26 through A-28 of [Appendix A](#), the City's disclosure document approved with any debt issuance.
- This Outlook does not take into account:
 - MOUs that are about to be renegotiated
 - Recent decisions by pensions boards to lower that assumed rate of investment return
 - Pending decisions that could impact revenues from billboards or short-term rentals
- The next slide answers the question: Is our structural deficit getting better or worse?

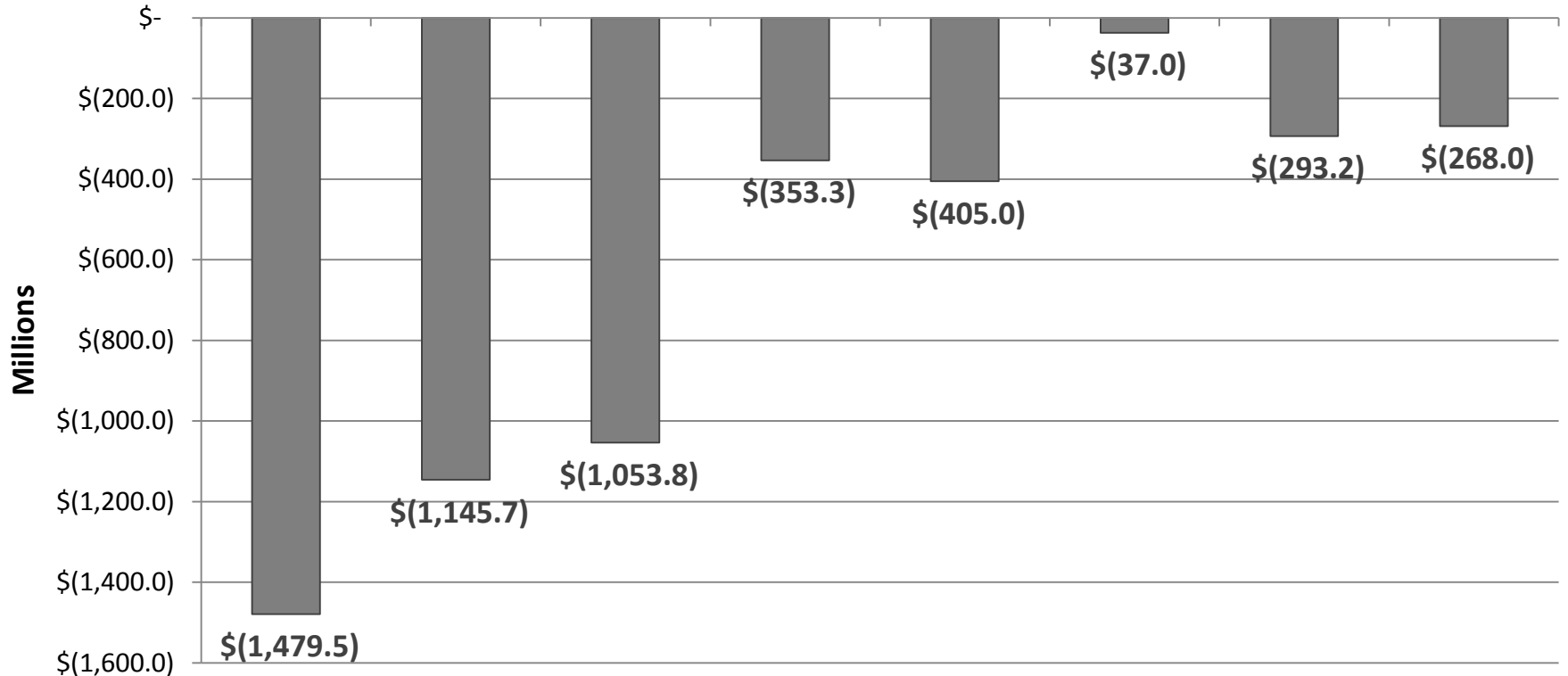


THE OUTLOOK

CUMULATIVE FOUR-YEAR DEFICIT BY YEAR OF OUTLOOK

(Fiscal Years Included in Outlook)

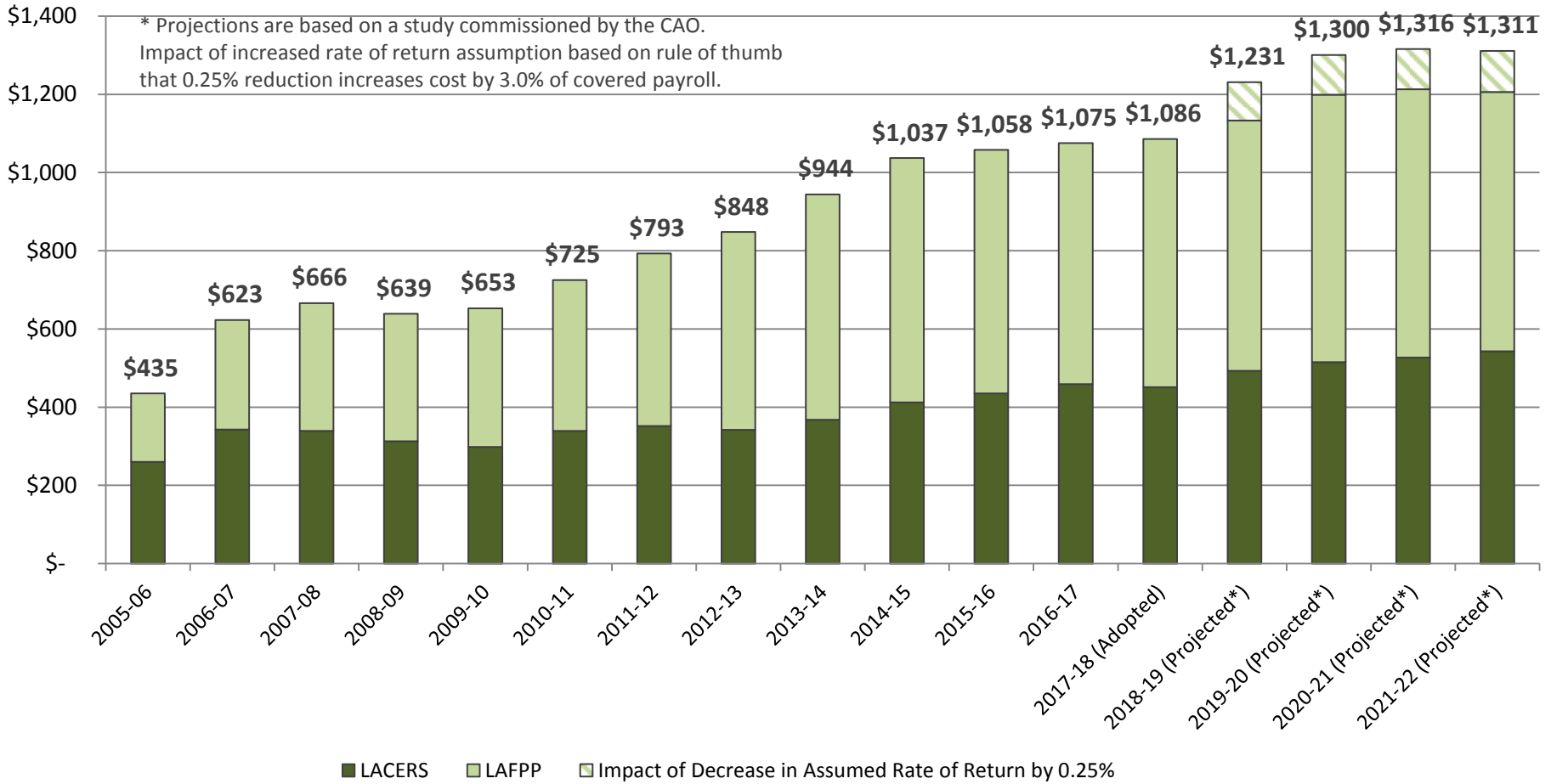
FY 11 (2011-12 to 2014-15) FY 12 (2012-13 to 2015-16) FY 13 (2013-14 to 2016-17) FY 14 (2014-15 to 2017-18) FY 15 (2015-16 to 2018-19) FY 16 (2016-17 to 2019-20) FY 17 (2017-18 to 2020-21) FY 18 (2018-19 to 2021-22)



THE OUTLOOK: PENSIONS COSTS

GENERAL FUND CONTRIBUTIONS TO LACERS AND LAFPP

(Actual Amounts 2005-17; Adopted 2017-18; Projected 2018-22*)



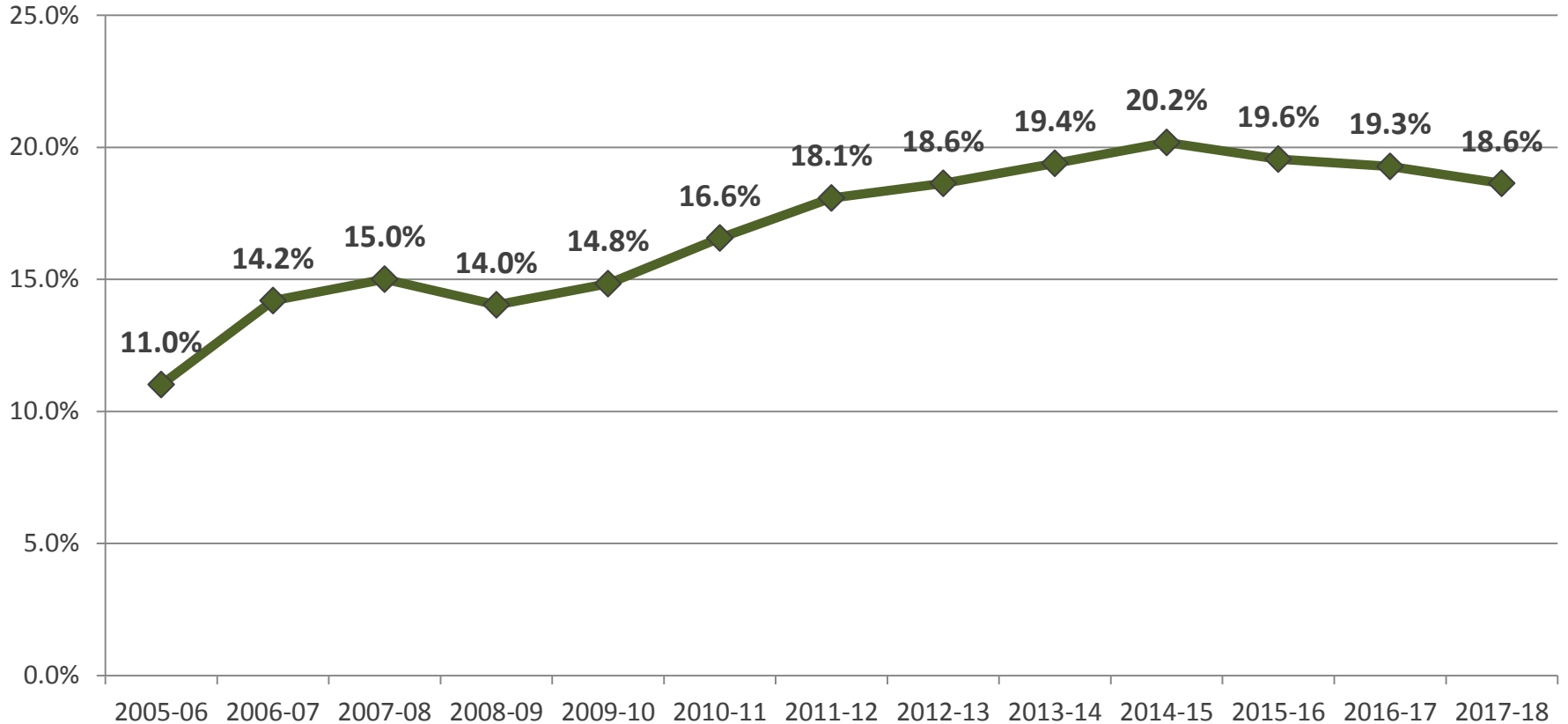
THE OUTLOOK: PENSIONS COSTS

- City contribution is based on the need and commitment to fully fund the pension systems.
- Calculation is based on analysis by an independent actuary of:
 - The need for funding for the system, based on demographic and economic projections, including projections for the cost of the City payroll
 - The value of investments
- How can we control pension costs?
 - Pension reform, including adding new tiers, increasing employee contribution
 - Managing the size and cost of the City payroll
- Discussion of how systems are partially unfunded, but each year the City pays whatever is required based on actuarial study for both pension and retiree health.
- Next chart answers the question, what portion of our General Fund budget goes toward paying for the pension systems?



THE OUTLOOK: PENSIONS COSTS

PERCENT OF GENERAL FUND USED FOR LACERS/LAFPP CONTRIBUTION



BUDGET PROCESS: TIMELINE



BUDGET PROCESS: HOW ARE DECISIONS MADE?

- Revenues and Expenditures must be equal for all funds.
 - General Fund revenues are not finalized until early April.
 - Mayor's team will have a list of Mayor's priorities, and include expenditures accordingly.
- The number and cost of high priority items always exceeds capacity in revenue.
- Mayor makes decisions taking into account his own priorities and input from variety of sources, including departments, the public, the NCBA, and the City Council.
- Budget and Finance Committee receives, reviews, and hears the proposed budget and requests for additional funding, including many of the items that the Mayor could not fund.
 - Requests from departments, NCBA, the public, other Council members, and labor
 - Since expenditures must equal revenues, Committee can only recommend adding items by finding new or increased revenue, or cutting existing appropriations
- Budget and Finance recommends adjustments to budget, and sends it to Council. In recent years, Council has made only limited adjustments, due in part to the difficulty of finding new revenues or cutting existing appropriations.



BUDGET PROCESS: HOW ARE DECISIONS MADE?

Role of the CAO

- Design the budget process in such a way to reflect the Mayor's desired approach
- Support departments as they prepare their budget documents
- Review budget requests and make recommendations to the Mayor's Office.
- Track and analyze broad budget data to advise on analytics such as budget balancing needs and compliance with Financial Policies.
- Produce all required budget documents for publication, by entering and validating data in the Performance Budgeting System.
- Following release of the budget, staff the Budget and Finance Committee and prepare reports in response to its questions.
- Upon approval by City Council, prepare the [Budget Resolution](#) together with the City Attorney.



BUDGET CONTROL

Huh? The budget's not perfect?

- Budget must be continually reviewed and adjusted throughout the fiscal year to address:
 - Expenditure shortfalls
 - Revenue shortfalls
 - Need for interim funding
 - Appropriations of contingent funding
- City Charter Sections 342 and 343 limit budget adjustments that can be performed without approval of the Mayor and Council.
- Primary tool for making budget adjustments is the [Financial Status Report](#):
 - Requested as part of budget by City Council
 - Departments, through the CAO, report with expenditure and revenue projections
 - CAO analyzes departmental submissions and provides updates on City reserves and revenues and raises any issues of concern.



RESOURCES

- [Budget Documents](#). This CAO site has links to most of the documents referenced in this presentation, including historical records.
- [City Charter and Codes](#). On-line versions of the City Charter, Administrative Code, Municipal Code, Planning and Zoning Code, Election Code, and Council Rules.
- [Budget Council File \(17-0600\)](#). Includes all documents considered and submitted as part of budget hearings but not reports submitted subsequently, which are added as sub files.

