

**OVERVIEW OF THE 2019-20 PROPOSED BUDGET
AND THE
2020-21 BUDGET PROCESS
FOR THE
NEIGHBORHOOD COUNCIL BUDGET ADVOCATES**



**NCBA Overview
September 2019**

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Office of the City Administrative Officer**

SUMMARY

- Budget Documents
- Budget Overview
- Revenues: Levels, Changes, and Caveats
- Expenditures: Overview, Employee-Related Costs, and Risks
- Four-Year Budget Outlook
- Financial Policy Compliance
- Budget Process: Development and Control
- How to Analyze a Budget Request
- Resources



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 General Fund 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 (2018-19 Adopted Budget books not yet published):

- [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 2019-20 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 2019-20 CITY GOVERNMENT

	Appropriations (\$ Millions)	Authorized Positions
<u>I. Proprietary Departments</u>		
Airports	\$ 8,260.9	4,328
Harbor	\$ 1,608.9	999
Water and Power	\$ 9,345.2	11,263
<i>Total \$</i>	<i>19,215.0</i>	<i>16,590</i>
<u>II. General City Budget</u>		
General Fund	\$ 6,569.7	24,603*
Special Funds	\$ 4,140.4	12,428
<i>Total \$</i>	<i>10,710.1</i>	<i>37,031</i>
<u>III. Grants and other Non-Budgeted Funds</u>		
<i>Total \$</i>	<i>1,594.6</i>	<i>-</i>
<i>Grand Total \$</i>	<i>31,519.7</i>	<i>53,621</i>

* Sworn staff represents 56 percent of General Fund positions.



BUDGET OVERVIEW

Budget Component	Budget (\$ Millions)			Authorized Positions		
	Adopted 2018-19	Adopted 2019-20	Percent Change	Adopted 2018-19	Adopted 2019-20	Percent Change
General Fund	\$ 6,190.6	\$ 6,569.7	6.1%	24,101	24,603	2.1%
Special Funds	\$ 3,709.2	\$ 4,140.4	11.6%	12,059	12,428	3.1%
Total	\$ 9,899.8	\$ 10,710.1	8.2%	36,160	37,031	2.4%



REVENUES: LEVELS

The following are the major sources of General Fund revenue:

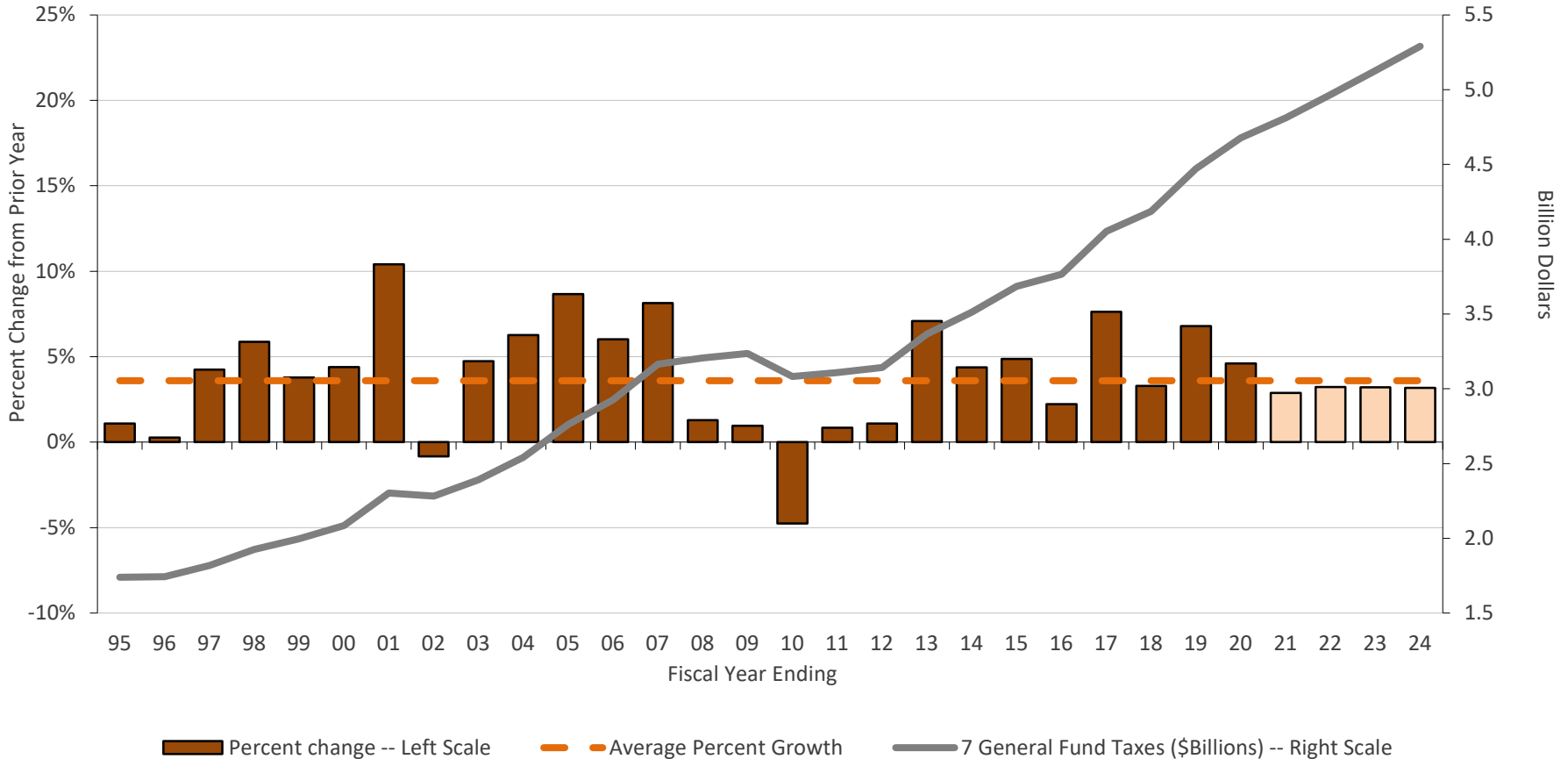
Source	Amount (Millions)	Calculation Considerations
Property Tax	\$2.22 billion	Calculation is based on County's estimate of the growth in assessed value.
License, Permits, Fees, and Fines	\$1.23 billion	Major components include related cost reimbursements, intergovernmental transfers, and departmental receipts from fees for service.
Utility Users Tax	\$652 million	Communications, Electric, and Gas Users taxes. EUT collected from DWP. Communications has been flat due to shift from land lines.
Business Tax	\$657 million	Gross receipts tax on businesses operating in the City. Calculation based on current receipts, as of early April.
Sales Tax	\$590 million	Calculated based on economic analyses projecting consumer spending in subsequent year.
Transient Occupancy Tax	\$326 million	This includes hotels and short-term rentals. Tends to be economically sensitive.
Power Revenue Transfer	\$236 million	
Documentary Transfer Tax	\$212 million	Fee for property sales. Extremely volatile, and difficult to project when it will change.
Parking Fines	\$124 million	Has been declining in recent years.



REVENUES: LEVELS

GROWTH OF SEVEN GENERAL FUND TAXES

(Property (includes VLF), Utility Users, Business, Sales, Transient Occupancy, Documentary, and Parking Occupancy)



REVENUES: MAJOR GENERAL FUND CHANGES

General Fund revenues increased by \$379 million (6.1%) from the 2018-19 Adopted Budget to the 2019-20 Adopted Budget. Major changes include:

Source	Amount (Millions)	
Property Tax	\$154.1	Assumes 6% growth
License, Permits, Fees, and Fines	\$98.8	From increased special fund reimbursements, increased LAPD/MTA reimbursements, and new or increased tobacco, ambulance, and e-payable receipts.
Electricity Users Tax	\$35.8	Based on DWP estimates, adjusted to reflect uncollectable receipts.
Communications Users Tax	(\$25.2)	Continued decline due to loss of subscriptions and price competition
Sales Tax	\$31.8	Continued 3.6% growth, with additional increases from cannabis and a court decision on out-of-state e-sales.
Business Tax	\$67.2	4.2% growth, bolstered by \$66.7 million in total receipts from cannabis, of which \$14.2 is one-time.
Transient Occupancy Tax	\$4.5	\$2.1 growth from hotels; \$2.4 growth in short-term rentals, which assumes continued growth tempered by implementation of the new Home-Sharing Policy.
Documentary Transfer Tax	(\$2.6)	While this can be highly volatile, we expect stability next year.
Parking Fines	(\$18.1)	Parking fines continue to decline.



REVENUES: CAVEATS AND ESTIMATE LIMITATIONS

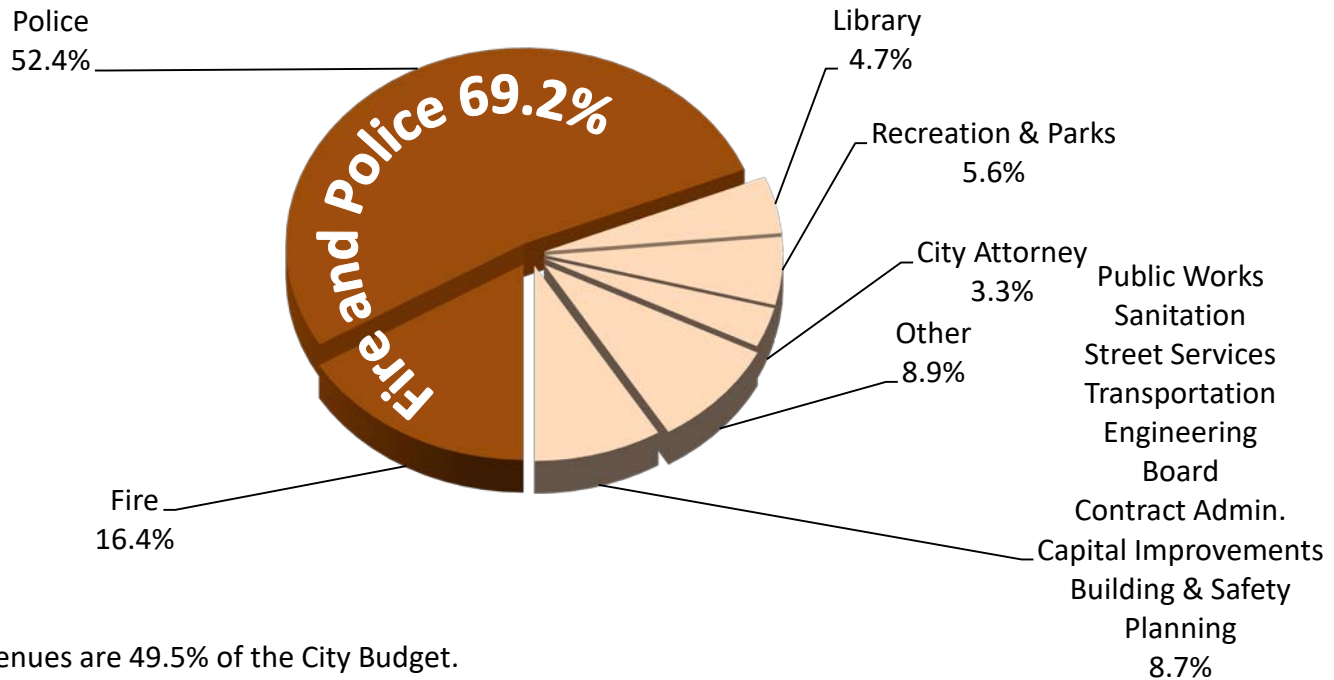
Estimates for the following revenue sources are based on our best estimates, but are uncertain:

- Cannabis receipts, in both Business and Sales Tax – Due to the lack of historical data.
- Short-Term Rentals – Due to the unknown impact of the implementation of the Home-Sharing Policy in July 2019.
- Gas Tax – Short in 2018-19 and continues to be unpredictable.



EXPENDITURES: OVERVIEW

UNRESTRICTED REVENUES (\$5.3 BILLION) 2019-20 ADOPTE BUDGET



Unrestricted Revenues are 49.5% of the City Budget.
Restricted Revenues (50.5%) include those from grants, fee-supported and reimbursed programs,



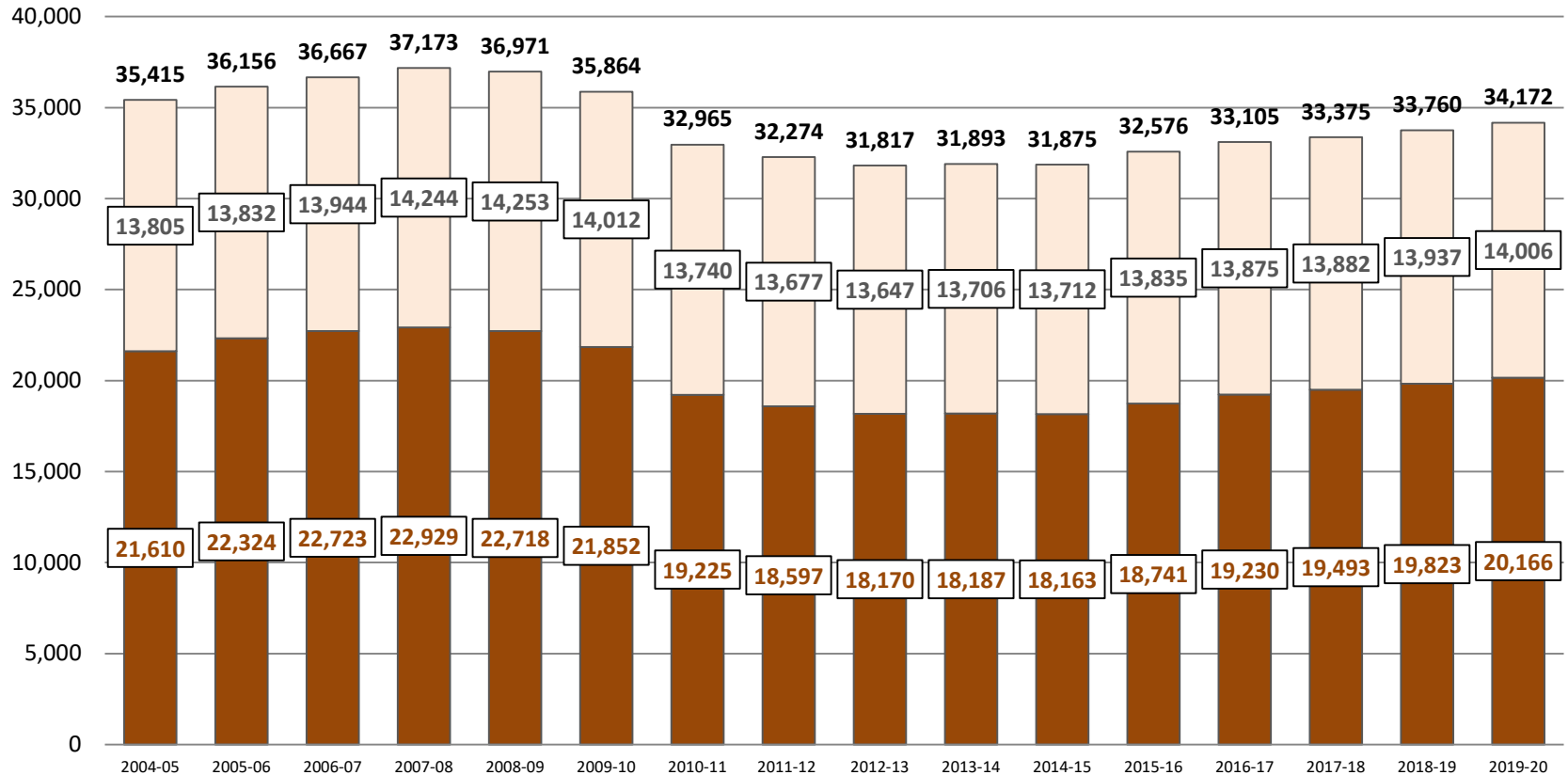
EXPENDITURES: KEY INVESTMENTS

- **Homelessness**
 - Increase General Fund by \$3 million to over \$100 million; funding for A Bridge Home sites (\$10 million), clean ups (\$31 million), and Police overtime (\$8.5 million).
 - \$281 million in HHH projects for affordable housing.
- **Infrastructure**
 - \$38 million Increase in Measure M funding, put toward street projects and alleys.
 - \$43 million increase for storm water and water quality projects, driven by Measure W.
 - General Fund: \$73 million, down from historic high of \$100 million for facilities and street and sidewalk repair.
- **Public Safety**
 - \$47 million in Police Overtime increases, which should match the current budget need.
 - \$12 million in Police technology improvements.
 - \$2 million to reopen the Harbor Jail.
 - \$1 million to add Fire Fast Response Vehicles to stations 9 and 64.
 - \$3.2 million to the Information Technology Agency for radio infrastructure.



EXPENDITURES: STAFFING

AUTHORIZED CITY STAFFING* (Not Including Proprietary Departments)



* Regular Positions

■ All Others □ Police (Sworn and Civilian)



EXPENDITURES: PENSIONS COSTS

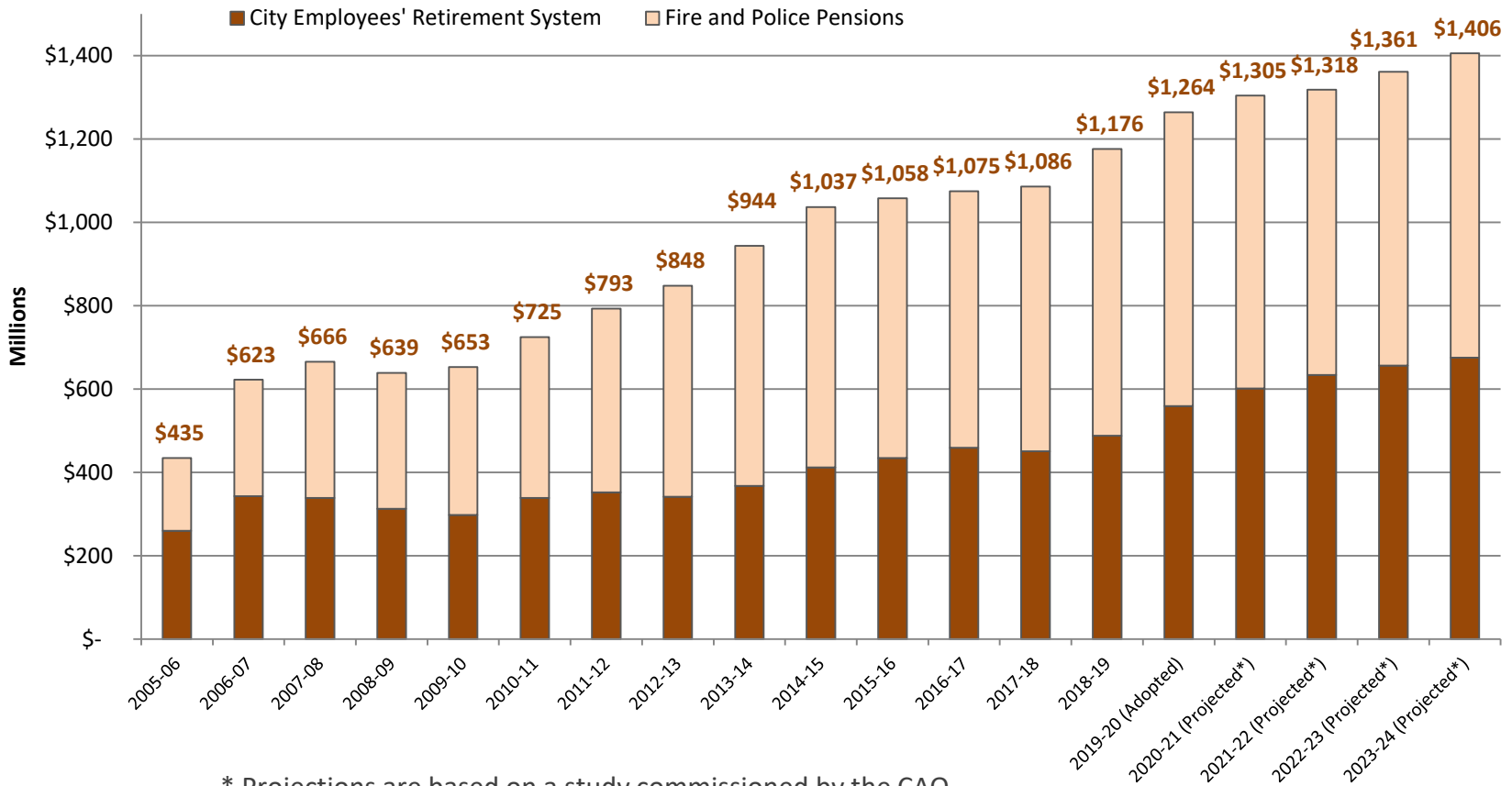
- City contribution is based on the need and commitment to fully fund the pension systems.
- Calculation is based on analysis by an independent actuary of:
 - The need for funding for the system, based on demographic and economic projections, including projections for the cost of the City payroll
 - 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



EXPENDITURES: PENSIONS COSTS

GENERAL FUND CONTRIBUTIONS TO LACERS AND LAFPP

(Actual Amounts 2005-19; Adopted 2019-20, Projected 2020-24*)

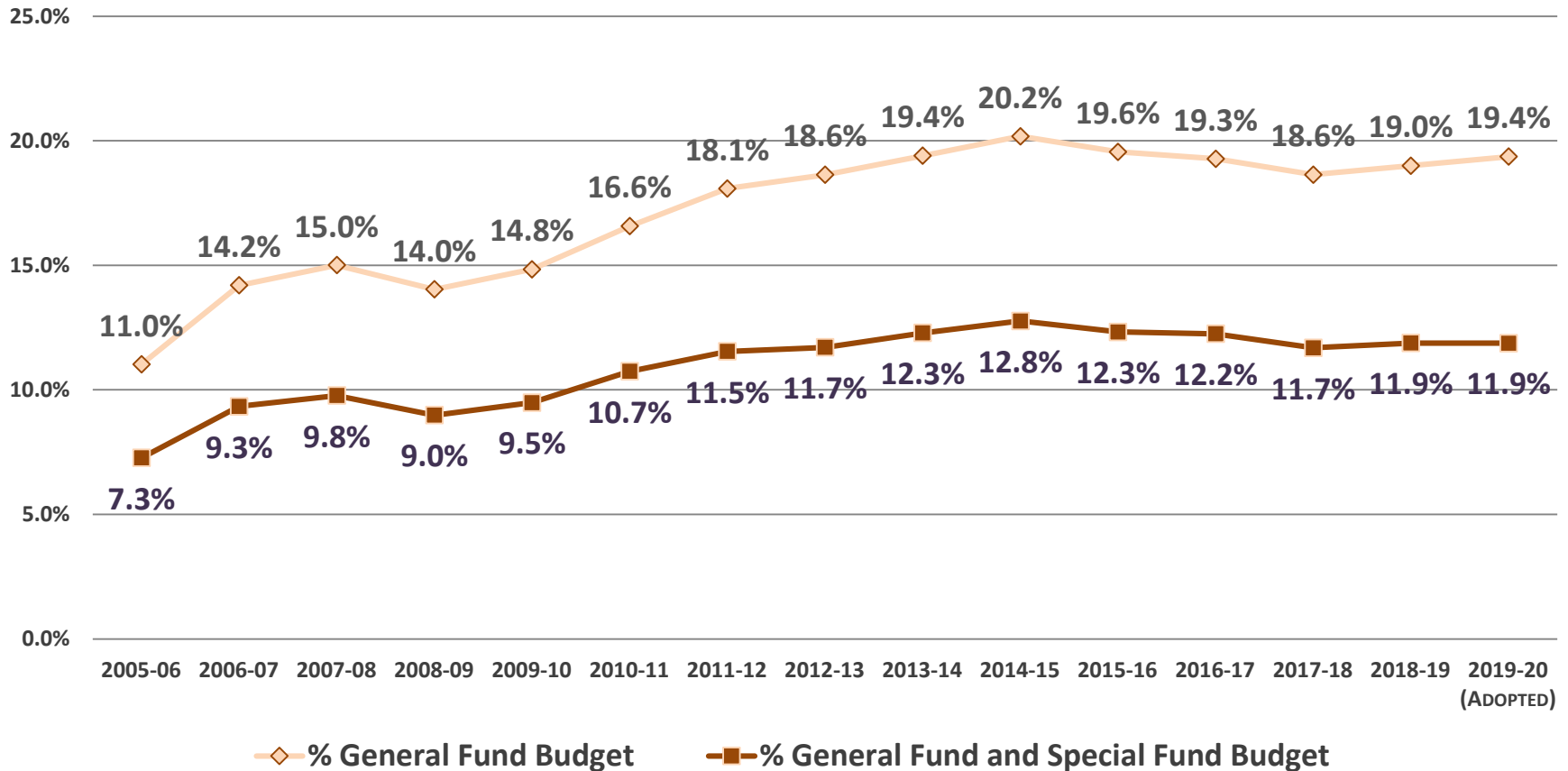


* Projections are based on a study commissioned by the CAO.



EXPENDITURES: PENSIONS COSTS

PERCENT OF BUDGET USED FOR LACERS/LAFPP CONTRIBUTION



EXPENDITURES: AREAS OF POTENTIAL RISK

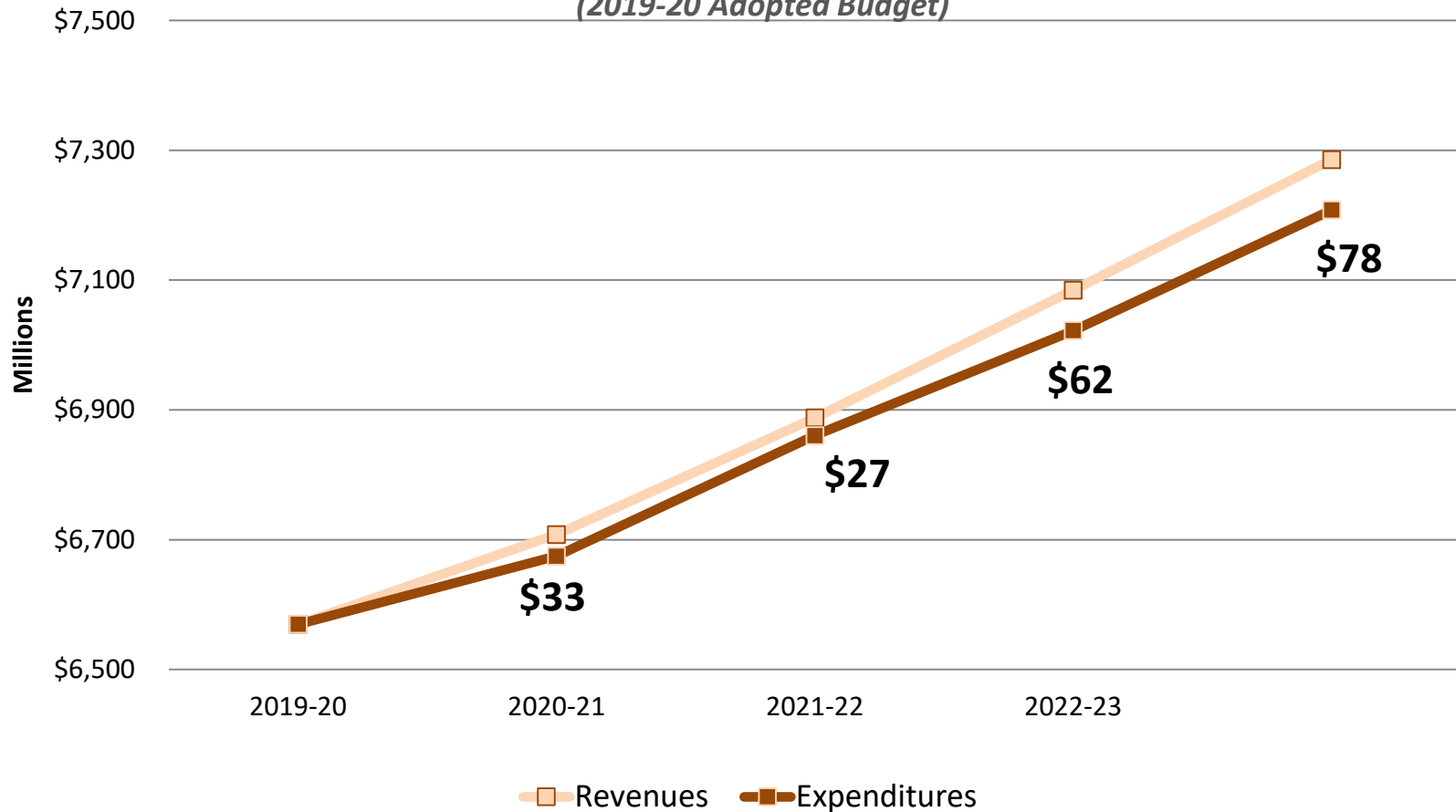
- No funding is included for either sworn or civilian employee compensation adjustments not approved at time of budget adoption.
- Infrastructure needs exceed available funds, even as the budget complies with the capital policy and adds special funding for clean water and mobility projects.
- \$31 million in departmental reductions require department heads to manage within budget.



THE OUTLOOK

FOUR-YEAR BUDGET OUTLOOK

(2019-20 Adopted Budget)



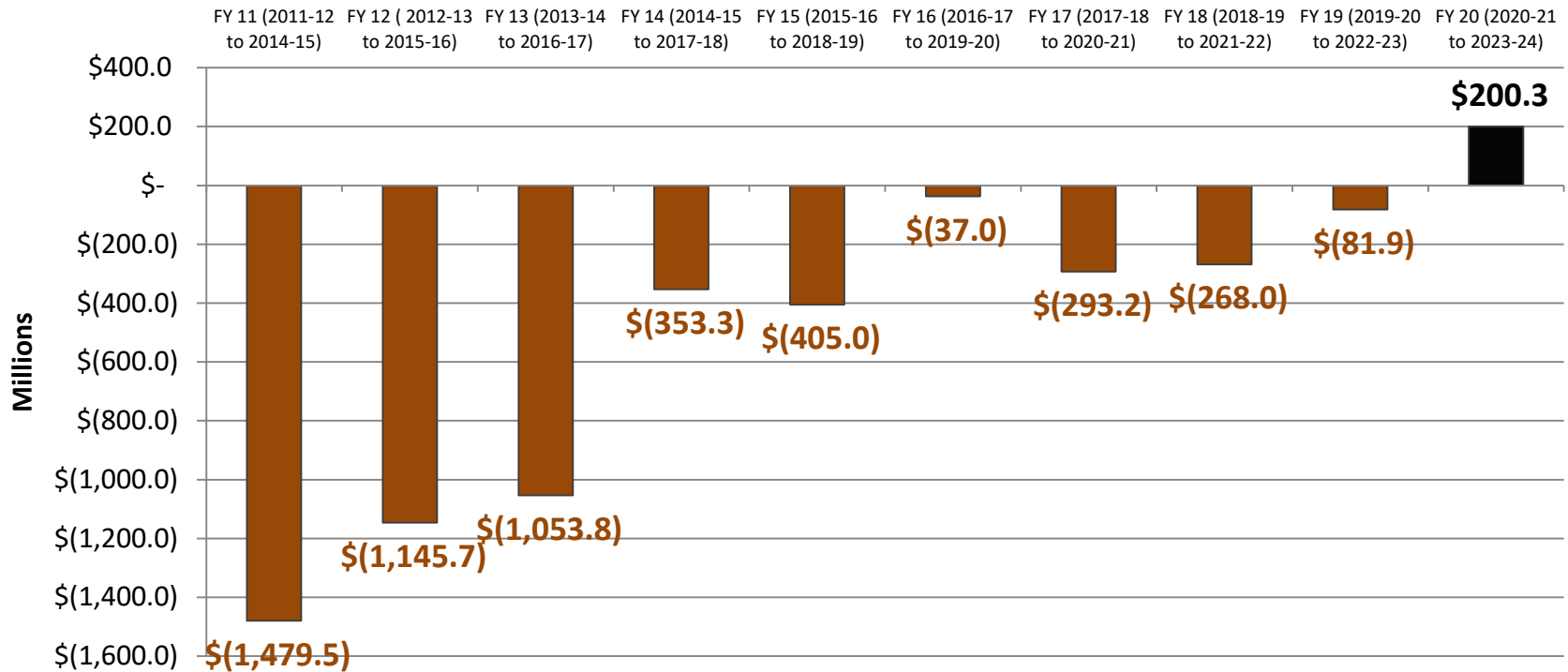
THE OUTLOOK

- The Outlook is the CAO's forecast of the state of the budget for the subsequent four years, taking into account 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, City may face challenges to:
 - Maintain current services.
 - Add new ongoing services in future years.
- Proposed Budget Outlook is found on pages 8-12 of the [Supporting Information](#) book.
- Adopted Budget Outlook is found on pages A-24 through A-26 of [Appendix A](#), the City's disclosure document approved with any debt issuance.
- This Outlook does not take into account:
 - MOUs that are being renegotiated.
 - Potential reductions to the assumed investment return rate that the LACERS and LAFPP Boards could make in 2020, impacting 2021-22.
 - Potential costs associated with major infrastructure projects are included (LA Street Civic Building, Convention Center, LA River).



THE OUTLOOK

CUMULATIVE FOUR-YEAR (DEFICIT)/SURPLUS BY YEAR OF OUTLOOK (Fiscal Years Included in Outlook)



FINANCIAL POLICY COMPLIANCE

- [Financial Policies for the City of Los Angeles](#)
- Approved by Council in April 2005.
- Sections on Fiscal, Capital, Reserve Fund, Pension, and Debt.
- Five primary budget-related policies are tracked annually.
- Budget Stabilization Fund and Encumbrance Policies adopted since 2005, not incorporated into Financial Policies:
 - [Budget Stabilization Fund](#)
 - [General Fund Encumbrance Policy](#)



FINANCIAL POLICY COMPLIANCE

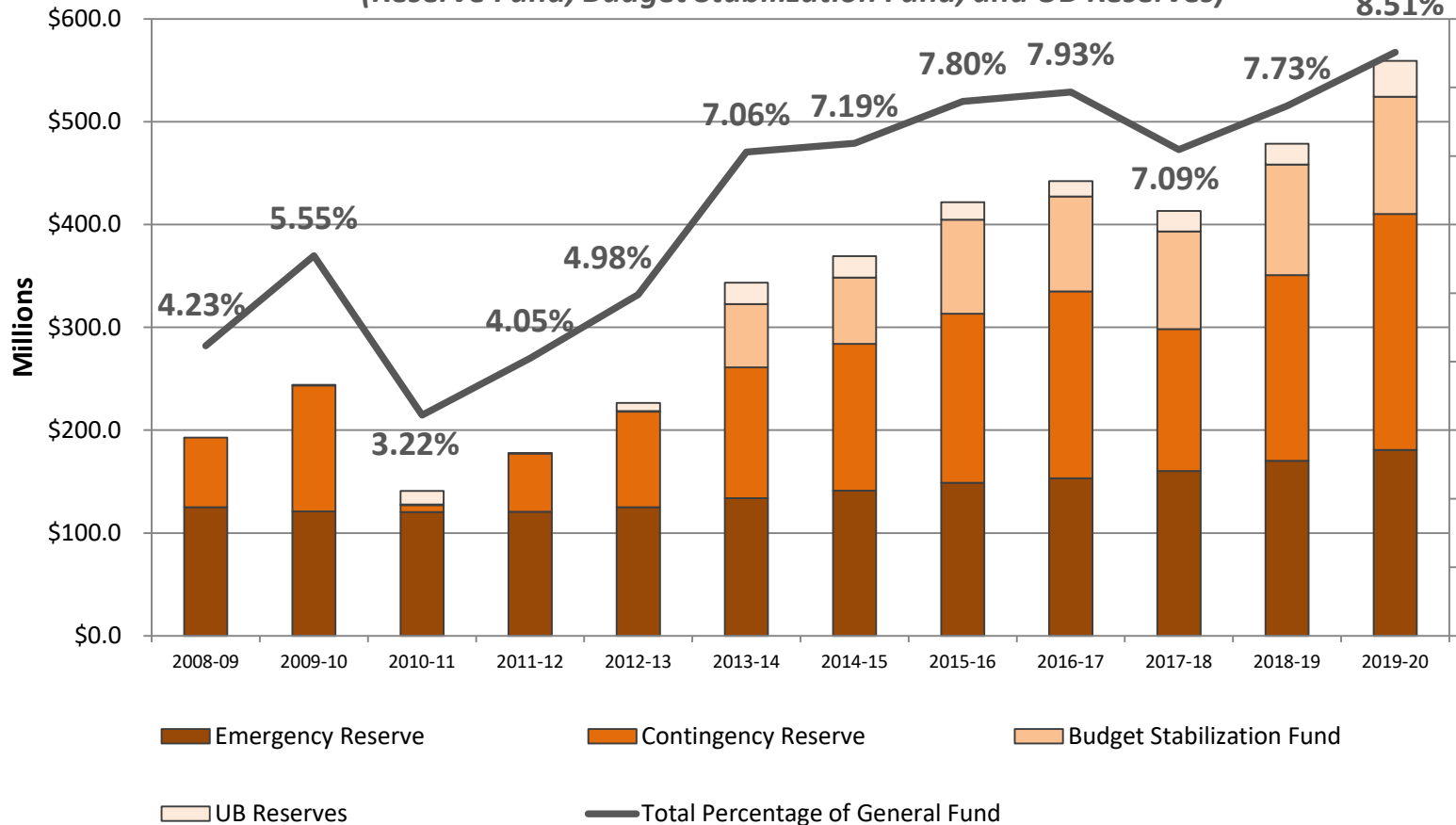
Policy		Compliance
Reserve Fund at least 5% of General Fund	✓	July 1 at \$410 million, or 6.25%
Budget Stabilization Fund contribution if growth of seven economically sensitive taxes is over 4.5%	✓	5.9% in growth in \$62 million above the 4.5% growth threshold. Offset by \$80 million - \$7 million contribution to Fund and \$73 million for capital investment.
Capital investment at 1% of General Fund	✓	Investment of 1.11% or \$73 million
All one-time revenues used for one-time expenditures	✓	\$63 million in one-time revenues for \$141 million in one-time expenditures
Debt service ceiling: 6% for non-voter approved and 15% for non-voter and voter approved of general receipts	✓	<ul style="list-style-type: none"> • 3.92% for non-voter approved • 5.90% for non-voter and voter approved • Projected to remain below limits until at least 2026-27



FINANCIAL POLICY COMPLIANCE

ADOPTED BUDGET RESERVES

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



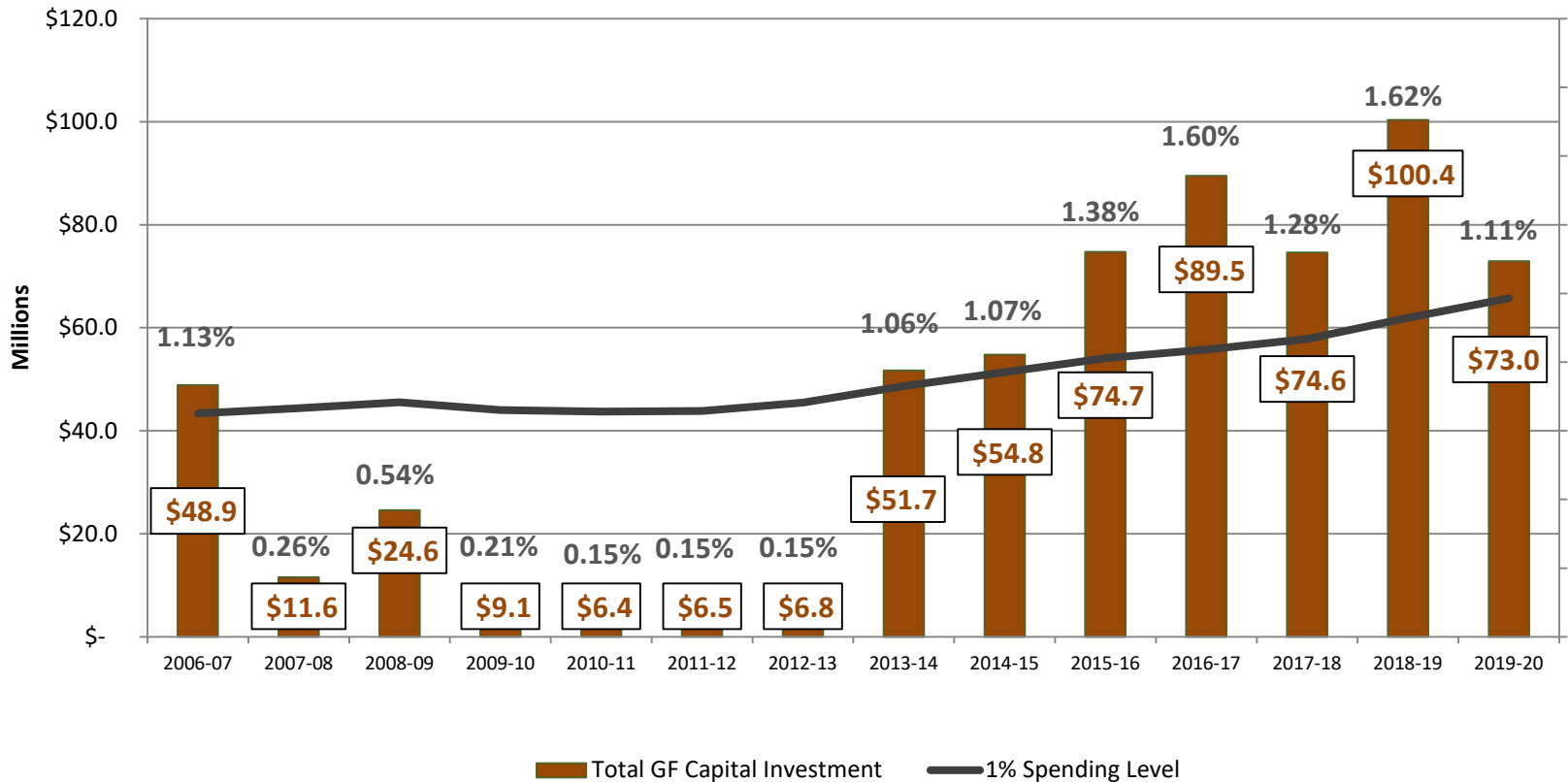
FINANCIAL POLICY COMPLIANCE: RESERVES

- Prepares the City for unexpected financial challenges.
- 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 INVESTMENT AS PERCENTAGE OF GENERAL FUND REVENUE



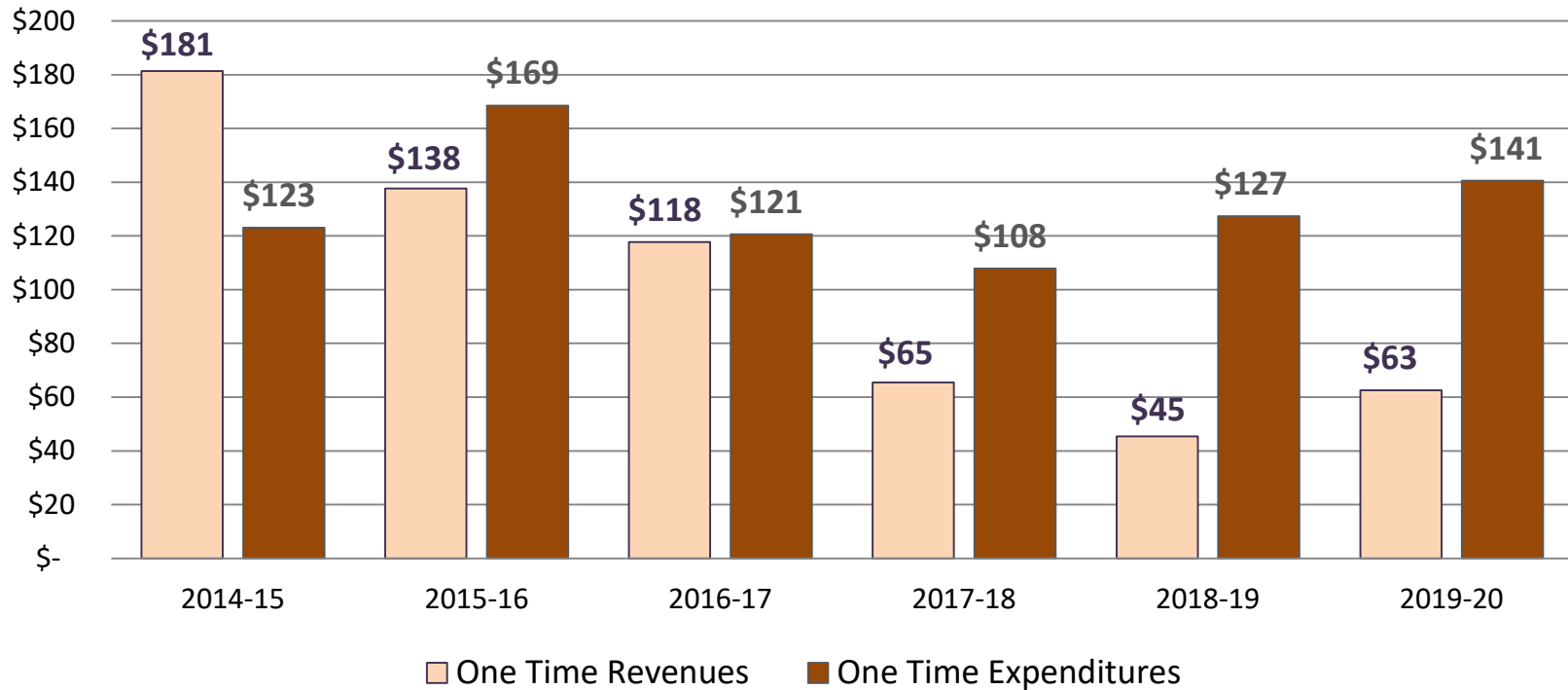
FINANCIAL POLICY COMPLIANCE: CAPITAL

- Encourages investment in the City's critical infrastructure.
- This policy only applies to General Fund expenditures and does not take into consideration significant special funded capital investment.
- Detail of the expenditures included as part of the capital investments expenditures can be found on pages 19-20 of the [Proposed Budget Supporting Information](#) book. This table is not updated as part of the adopted budget.
- Major components of the \$73.0 million include:
 - \$21 for municipal facilities (City owned buildings), including \$6 million for Vision Theatre.
 - \$29 million for street resurfacing and repair.
 - \$15 million for sidewalks.
 - \$4 million for various special physical plant projects (including street and street lighting projects).
 - \$3 million for various community projects.



FINANCIAL POLICY COMPLIANCE

ONE-TIME REVENUES VS. ONE-TIME EXPENDITURES ADOPTED BUDGETS



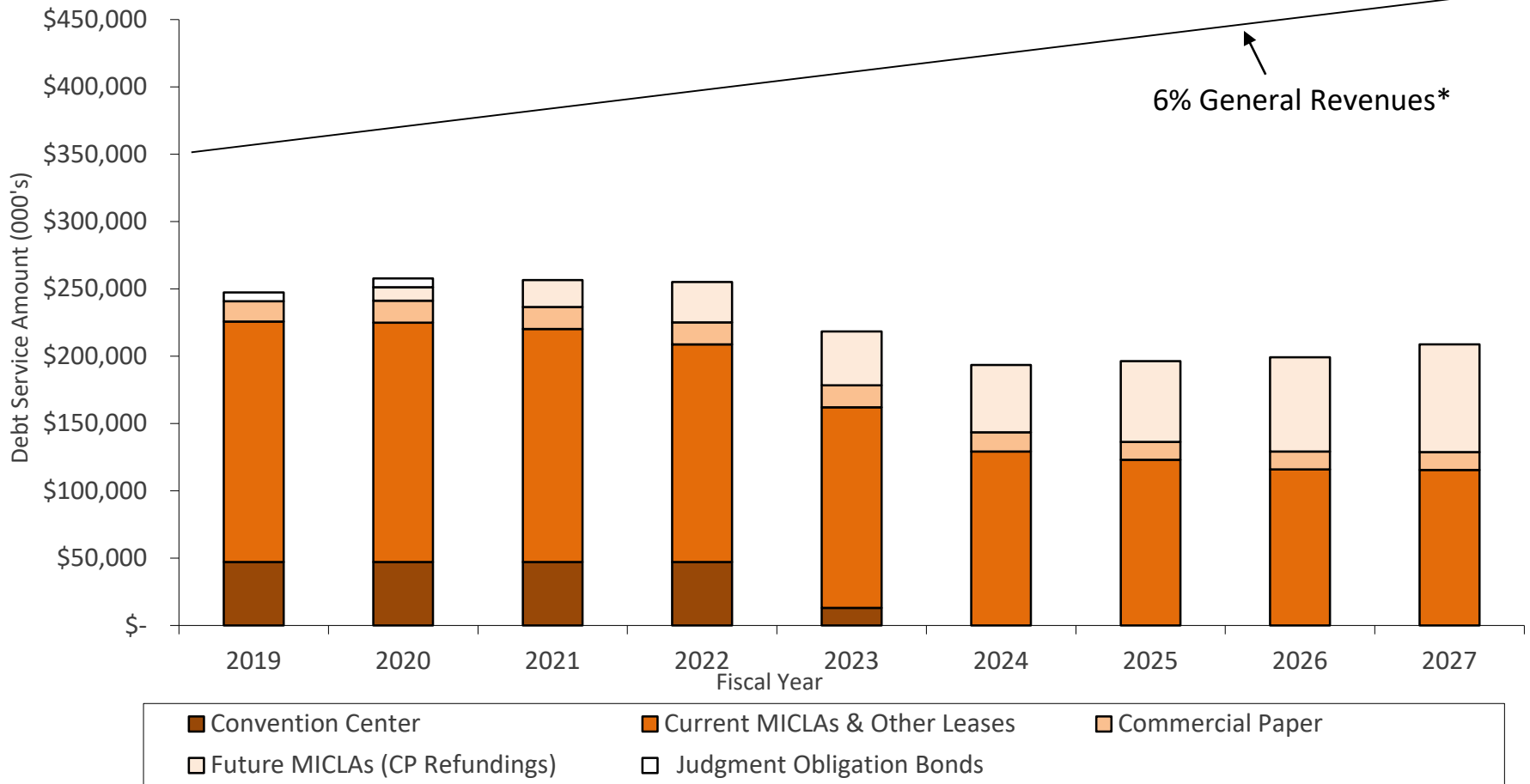
FINANCIAL POLICY COMPLIANCE: ONE-TIMES

- Supports structural balance.
- Adopted Budget used \$63 million in one-time revenues for \$141 million in one-time expenditures.
- Detail of the items can be found on page 17-18 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 transfer (\$34 million) driven by sale and lease of a City property
 - Delayed and accelerated cannabis receipts (\$14 million)
 - CRA Sales (\$6 million)
- Significant one-time expenditures include:
 - UB/Reserve for Mid-Year Adjustments (\$35 million)
 - Retroactive compensation adjustments (\$16 million)
 - Repayments to special funds (\$16 million)
 - Capital and Infrastructure Projects (\$13 million)
 - Homeless services (\$9 million)



FINANCIAL POLICY COMPLIANCE

NON-VOTER APPROVED DEBT

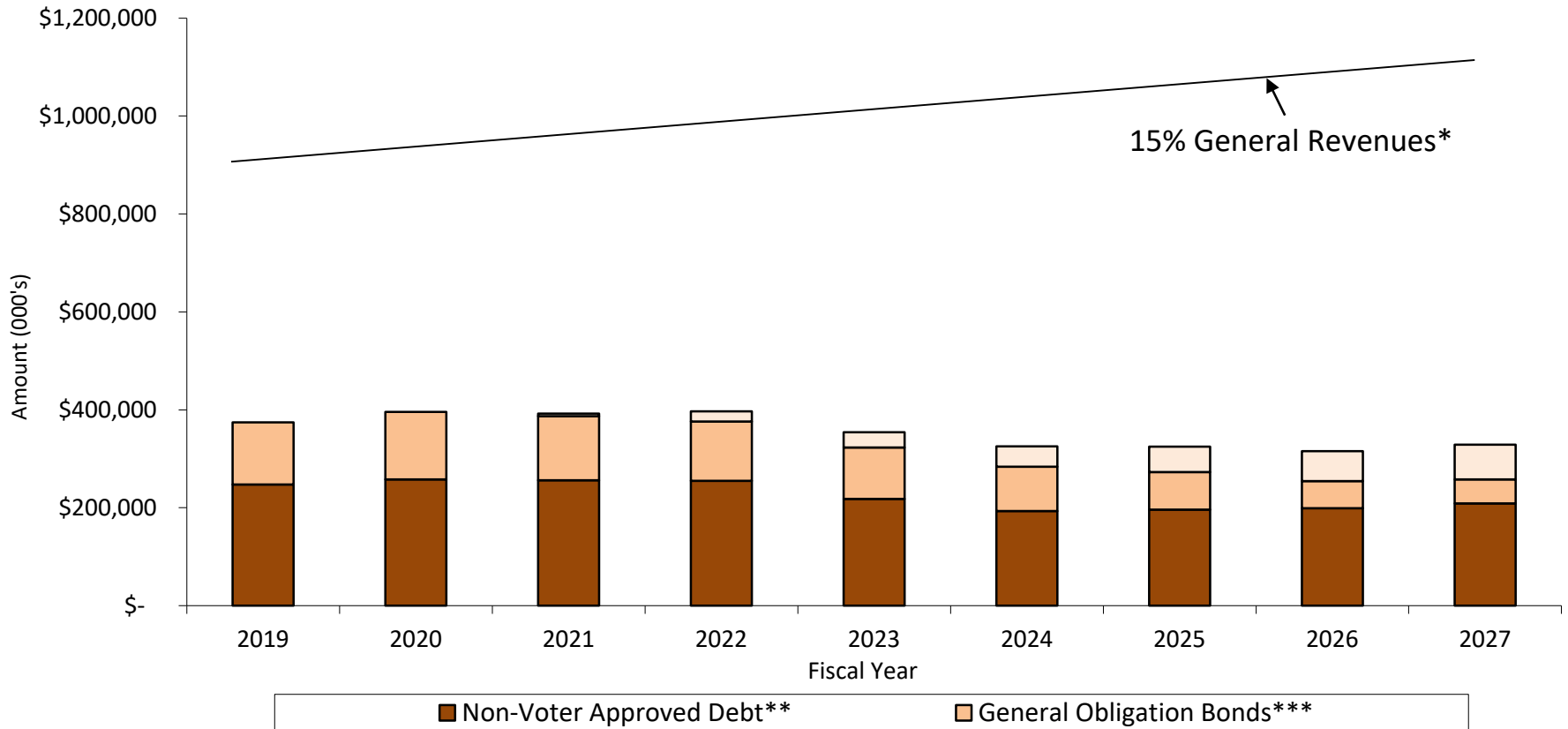


*Projected revenue growth from 2020-21 through 2023-23 is 2.2%, 2.7%, 2.9%, and 2.8% respectively. Projected revenue growth from 2024-25 through 2026-27 is 2.9%.



FINANCIAL POLICY COMPLIANCE

VOTER APPROVED AND NON-VOTER APPROVED DEBT



*Projected revenue growth from 2020-21 through 2023-23 is 2.2%, 2.7%, 2.9%, and 2.8% respectively. Projected revenue growth from 2024-25 through 2026-27 is 2.9%.
 **Includes Judgment Obligation Bonds, Convention Center, MICLA bond issuances, and MICLA Commercial Paper and refundings.
 ***Voter approved debt.



FINANCIAL POLICY COMPLIANCE: DEBT

- Demonstrates that the City's debt burden is manageable.
- These charts illustrate compliance with our debt policies:
 - Debt not approved by voters cannot exceed 6% of the revenues that pay for debt.
 - Voter Approved and Non-Voter Approved debt cannot exceed 15% of those revenues.
- Non-Voter Approved is comprised of MICLA and JOB.
- General revenues include those revenues that are used to pay MICLA and JOB debt service, and include the General Fund, as well as special funds such as Sewer Construction and Maintenance, Building and Safety Building Permit Enterprise Fund, and Special Parking Revenue Fund.
- Details related to non-voter approved debt is in the Capital Finance Administration Fund budget.
- MICLA is limited to:
 - Capital equipment and property .
 - Investments with a useful life of at least six years.
 - Preferably, high value items.
 - Items that cannot be easily moved or hidden.
- Non-voter approved and voter approved debt include all debt except revenue bonds (e.g. solid waste, wastewater) and debt issued by proprietary departments.
- Voter-approved debt must comply with requirements of ballot measure and is often handled off-budget.

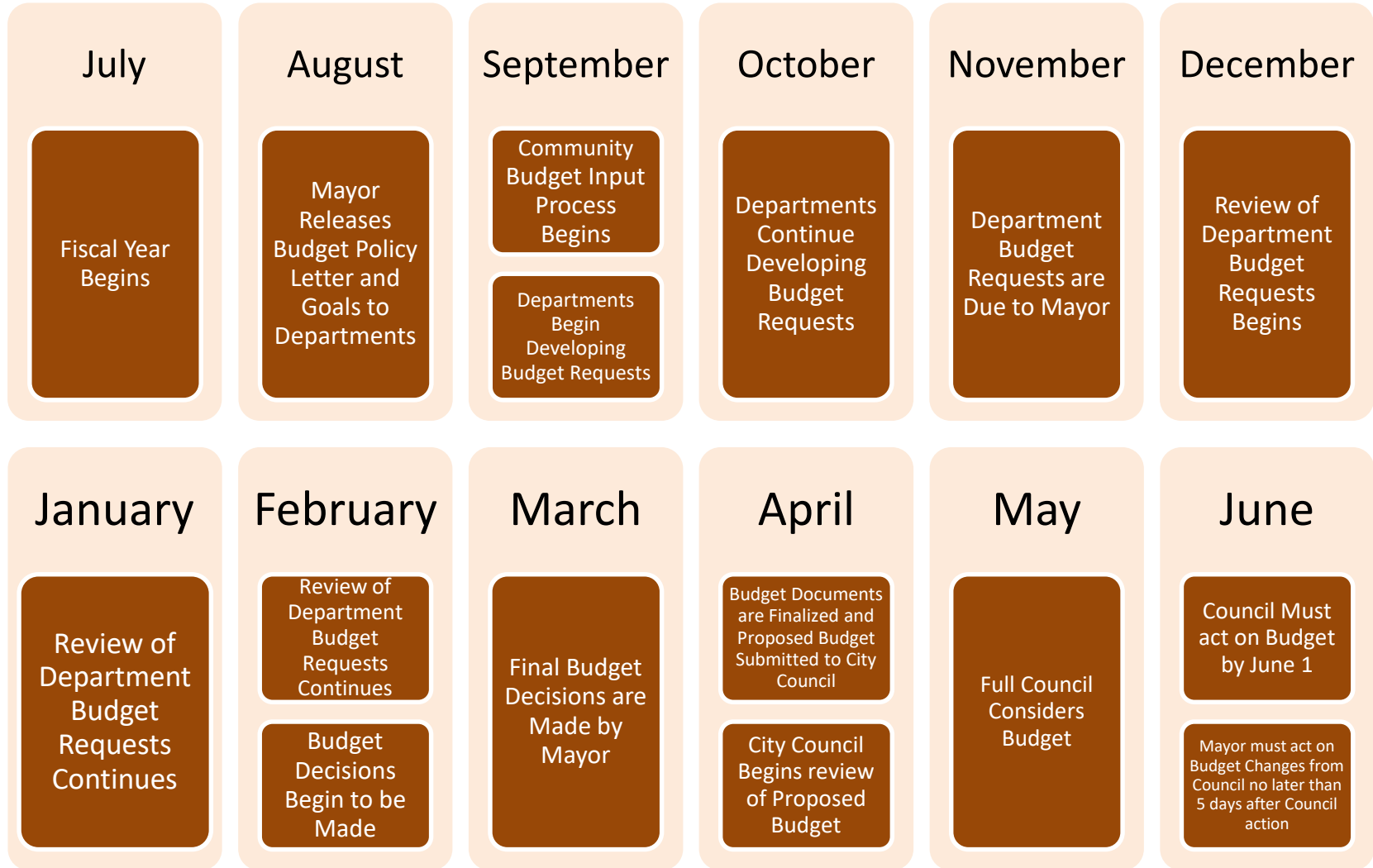


FINANCIAL POLICY COMPLIANCE

- Other policies of interest:
 - Discourage interim appropriations for new programs.
 - Require development of a multi-year forecast.
 - Limit subsidy to grant programs.
 - Encourage new and diverse revenues.
 - Seek full cost recovery for fee-supported programs.



BUDGET PROCESS



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, and other Council members.
 - 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 the 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 PROCESS: CONTROL

- 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.



HOW TO ANALYZE A BUDGET REQUEST - SUMMARY

- Goal – Make a Recommendation
 - Step 1: Identify the Problem
 - Step 2: Describe the Proposed Solution
 - Step 3: Conduct Independent Analysis
 - Step 4: Identify Funding Options
- Tools Available for Analysis



GOAL – MAKE A RECOMMENDATION

- Recommendations include:
 - Fund
 - Not Fund
 - Alternative Proposal
- If not enough information is available to make a recommendation, identify additional information that is necessary to make a recommendation.



STEP 1: IDENTIFY THE PROBLEM

- To meet the need for an enhanced or new service?
- To address a priority of the public, Mayor, Council, or department?
- To satisfy a legal, policy, or other requirement?
- To continue an ongoing project?



STEP 2: UNDERSTAND THE PROPOSED SOLUTION

- What is the approach?
- Identify and validate the resources requested.



STEP 3: CONDUCT INDEPENDENT ANALYSIS

Answer the question, “Should the City use its resources to solve this problem?”

- Is this a problem?
- Should the City solve this problem?
- Is this the best approach to the problem? Suggest alternatives.
- Are these the right resources to solve the problem? Suggest alternatives.
- In what way and to what extent (metrics?) will the proposed approach impact the problem?
- How does this approach compare to best practice, other jurisdiction’s experiences, and industry standards?
- Where does this problem rank among departmental or City priorities?
- Has the department demonstrated past accomplishments in the area?



STEP 4: IDENTIFY FUNDING OPTIONS

- What funding source(s) can be used?
 - General Fund?
 - Special funds?
 - Grants?
 - Fees?
 - Reimbursements?
 - Other?
- Are the revenue projections valid?
- If there are future-year costs:
 - What are they?
 - How will they be funded?
- If the service is already being performed, how has the department funded it in the past?



TOOLS AVAILABLE FOR ANALYSIS

- Legislative history:
 - [Council Files](#)
 - [FSRs](#)
- Past budget documents:
 - [2019-20 Budget Council File](#)
 - [Budget memos](#)
 - [Neighborhood Council Budget Advocates White Paper](#)
 - [CAO report on Budget Advocates White Paper](#)



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 \(19-0600\)](#). Includes all documents considered and submitted as part of budget hearings but not reports submitted subsequently, which are added as sub files.

