

**OVERVIEW OF THE
2022-23 ADOPTED BUDGET
AND THE
2023-24 BUDGET
PROCESS**

**FOR THE
NEIGHBORHOOD COUNCIL
BUDGET ADVOCATES**



**NCBA Overview
August and October 2022**

**Jacob Wexler, Chief of the Finance Group
Office of the City Administrative Officer**

SUMMARY

- The Budget Documents
- Budget Overview
- Revenues: Levels, Changes, and Concerns
- Expenditures: Overview, Employee-Related Costs, and Concerns
- Financial Policies and Compliance
- Budget Control and 2020-21 Case Study
- Budget Development and Decisions Process
- How to Analyze a Budget Request
- Budget Analysis 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 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 (These documents are 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 2022-23 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 2022-23 CITY GOVERNMENT

	Appropriations (\$ Millions)	Authorized Positions
<u>I. Proprietary Departments</u>		
Airports	\$ 8,281.6	3,975
Harbor	\$ 1,887.0	999
Water and Power	\$ 10,410.1	13,261
<i>Total \$</i>	<i>20,578.7</i>	<i>18,235</i>
<u>II. General City Budget</u>		
General Fund	\$ 7,446.0	25,182*
Special Funds	\$ 4,309.0	12,760
<i>Total \$</i>	<i>11,755.0</i>	<i>37,942</i>
<u>III. Grants and other Non-Budgeted Funds</u>		
<i>Total \$</i>	<i>2,074.8</i>	<i>-</i>
<i>Grand Total \$</i>	<i>34,408.5</i>	<i>56,177</i>

* Sworn staff represents 55 percent of General Fund positions.



BUDGET OVERVIEW

Budget Component	Budget (Millions)			Authorized Positions		
	Adopted 2021-22	Adopted 2022-23	Percent Change	Adopted 2021-22	Adopted 2022-23	Percent Change
General Fund	\$ 7,503.2	\$ 7,446.0	-0.8%	24,455	25,182	3.0%
Special Funds	\$ 3,977.1	\$ 4,309.0	8.3%	12,278	12,760	3.9%
Total	\$ 11,480.3	\$ 11,755.0	2.4%	36,733	37,942	3.3%



REVENUE LEVELS: MAJOR REVENUES

The major sources of General Fund revenue in 2021-22 include:

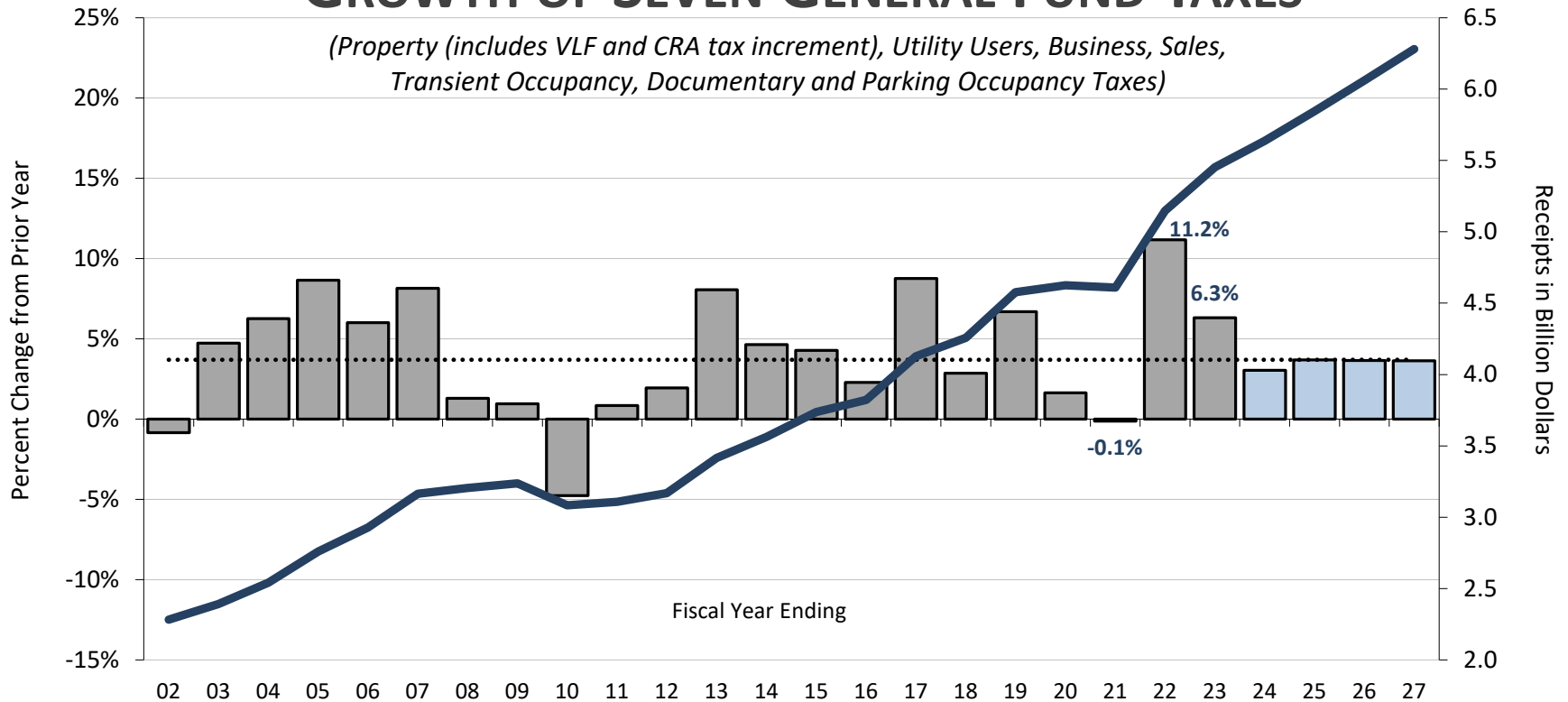
Source	Amount(M)	Calculation Considerations
Property Tax	\$2,688.8	Calculation is based on County's estimate of the growth in assessed value.
Departmental Receipts	\$1,272.9	Major components include related cost reimbursements, intergovernmental transfers, and from fees for service.
Business Tax	\$786.9	Gross receipts tax on businesses operating in the City. Calculation based on current receipts, as of early April.
Sales Tax	\$704.8	Calculated based on economic analyses projecting consumer spending in subsequent year.
Utility Users Tax	\$614.1	Communications, Electric, and Gas Users taxes.
Documentary Transfer Tax	\$298.5	Fee from property sales. Extremely volatile and unpredictable.
Transient Occupancy Tax	\$263.2	Hotel and short-term rental tax.
Power Revenue Transfer	\$229.7	Based on percentage of prior-year gross operating power revenue.
Parking Fines	\$130.0	Has been declining in recent years.
Grants Receipts	\$122.1	Mostly Federal Emergency Management Agency reimbursements.
Franchise Income	\$119.8	Largest sources are natural gas, telecommunications, and solid waste.



REVENUE LEVELS: ECONOMICALLY SENSITIVE REVENUES

GROWTH OF SEVEN GENERAL FUND TAXES

(Property (includes VLF and CRA tax increment), Utility Users, Business, Sales, Transient Occupancy, Documentary and Parking Occupancy Taxes)



Percent Change in Ongoing Tax Receipts
 Average Percent Growth in Ongoing Tax Receipts
 7 General Fund Taxes - Actual and Forecasted Ongoing Receipts



REVENUE: CHANGES

Projected growth of \$540M in various revenues from the 2021-22 Adopted Budget to the 2022-23 Adopted Budget offsets 84% of the loss of one-time American Rescue Plan Act funding of \$640M

Source	2022-23 Amount Increase/(Decrease) vs. 2021-22 (\$Millions)	Growth (%)
Property Tax	\$94.0	3.9%
Redirection of ex-CRA	\$23.9	21.3%
Business Tax	\$70.3	9.8%
Sales Tax	\$98.2	16.2%
Transient Occupancy Tax	\$79.9	43.6%
Documentary Transfer Tax	\$71.6	31.5%
Parking Occupancy Tax	\$11.9	12.0%
Special Parking Revenue Transfer	\$21.9	258.9%
Other Economically Sensitive ¹	\$68.0	2.9%
Total	\$539.7	

¹ Includes economically sensitive portions of Departmental Revenue, Interest, Utility Users Tax, Franchise Income, Parking Fines, Power Revenue Transfer, State Motor Vehicle License Fees



REVENUE: CONCERNS

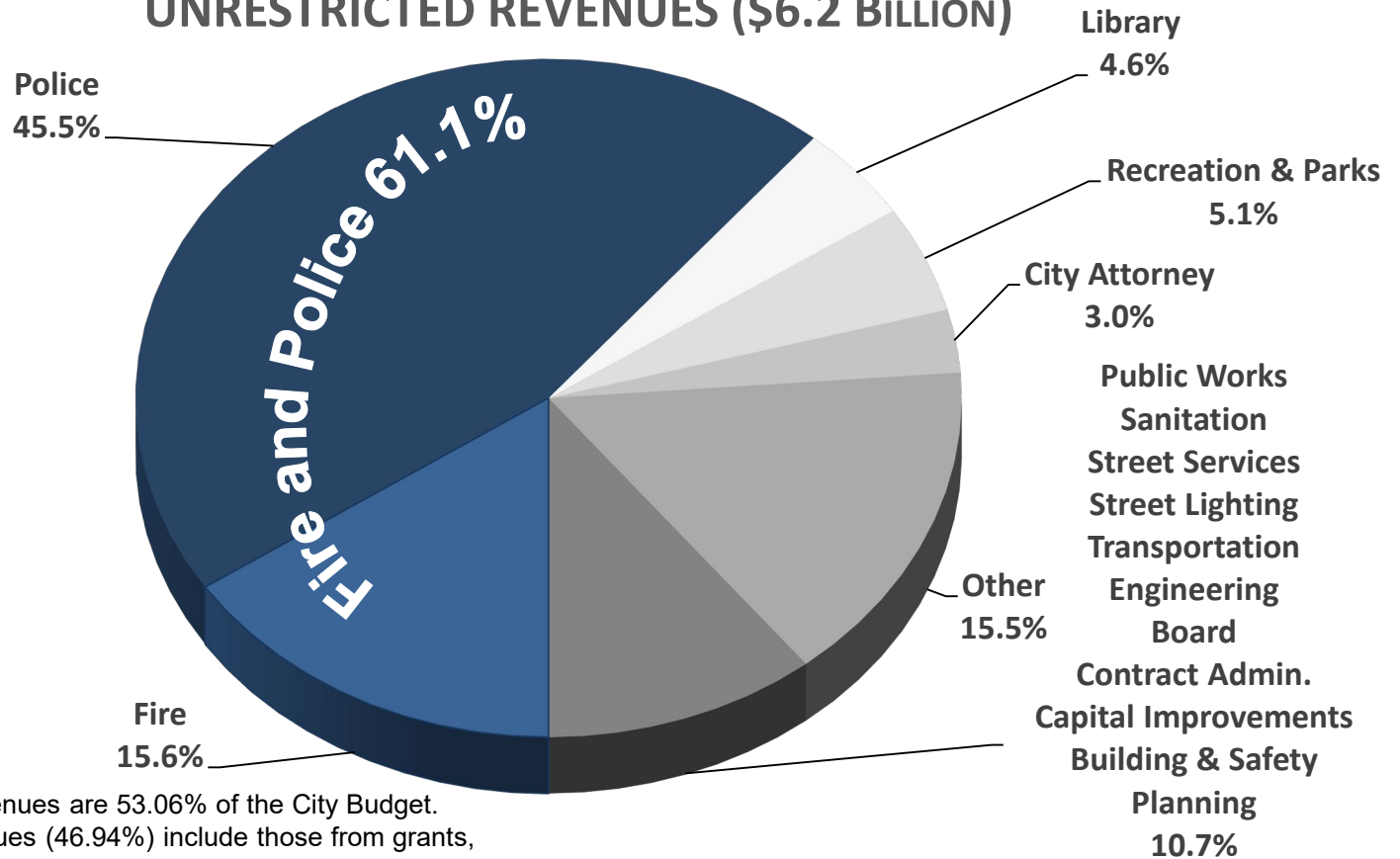
The Adopted Budget's expectation for average or above average growth from economy sensitive revenues faces risk from external economic conditions:

- The highest inflation rates since the early 1980s could lead to challenges:
 - Inflation could impact consumer behavior, reducing spending and putting some revenue projections at risk.
 - The Federal Reserve may raise interest rates to reduce inflation, which on several occasions in the past has led to higher unemployment and even economic downturns.



EXPENDITURES: OVERVIEW

2022-23 ADOPTED BUDGET UNRESTRICTED REVENUES (\$6.2 BILLION)



Unrestricted Revenues are 53.06% of the City Budget.
Restricted Revenues (46.94%) include those from grants,
fee-supported and reimbursed programs, and special
funds.



EXPENDITURES: OVERVIEW

Significant expenditures:

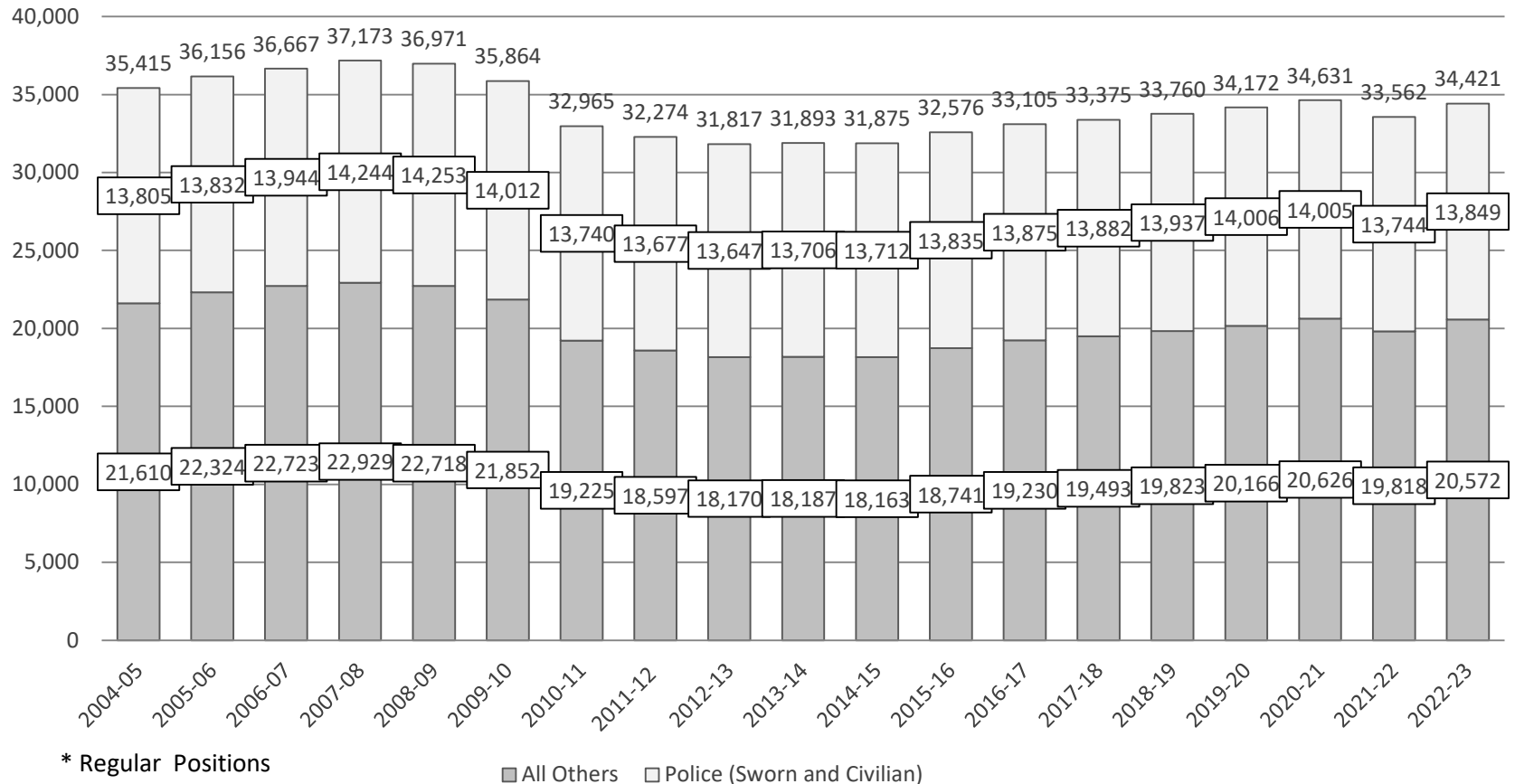
- Homelessness
- Cleanliness
- Justice and Equity
- Infrastructure
- Liabilities and Obligations
- LAPD Budget
- LAFD Budget
- UB and other One-Time 2021-22 Funding Backed Out



EXPENDITURES: EMPLOYEE-RELATED COSTS

AUTHORIZED CITY STAFFING*

(Not Including Proprietary Departments)



EXPENDITURES: RETIREMENT COSTS

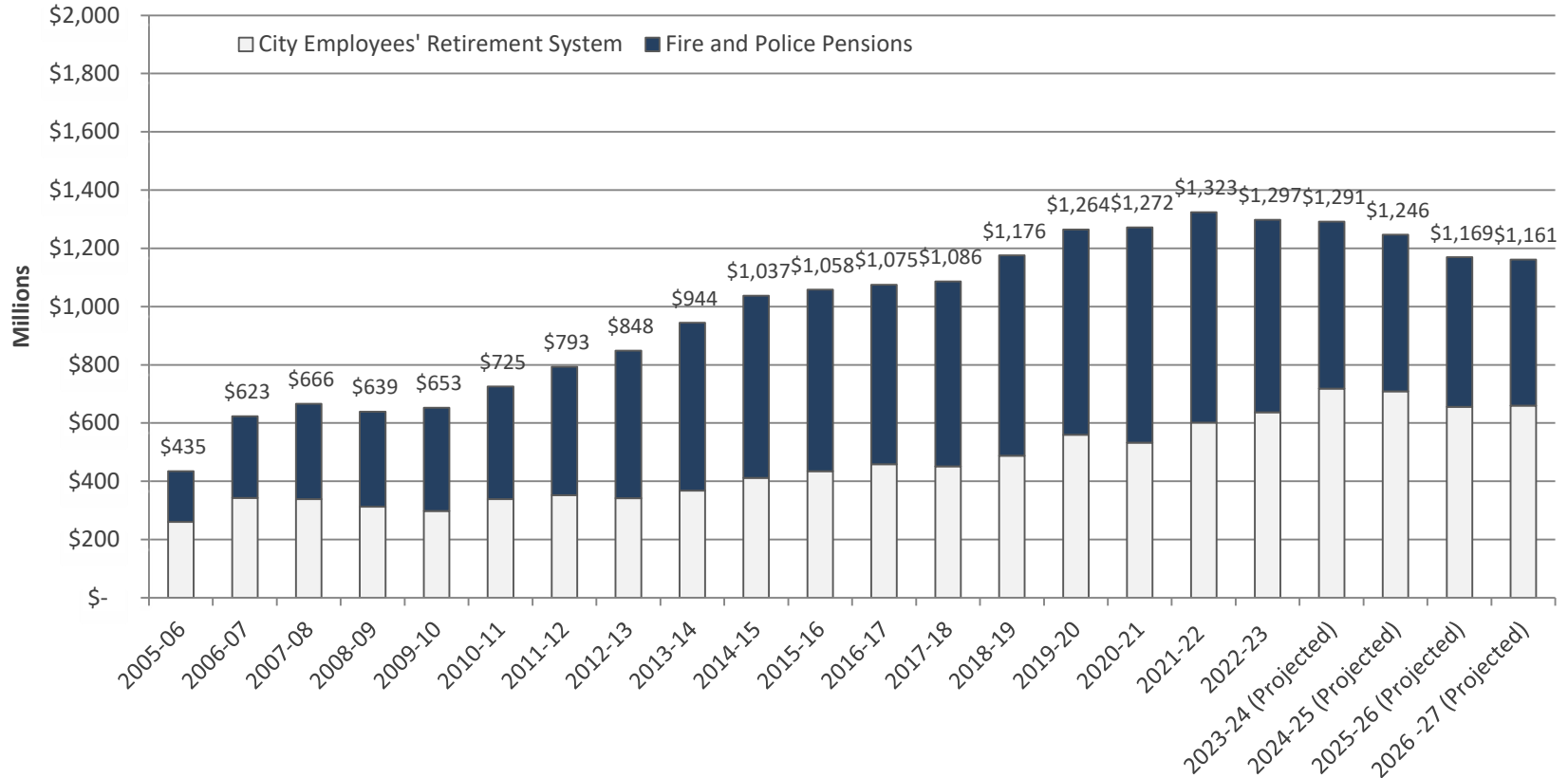
- City contribution is based on the need and commitment to fully fund the two retirement systems.
- Calculation is based on analysis by an independent actuary of:
 - The need for funding for the system, based on demographic and economic projections, including projections for the cost of the City payroll.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

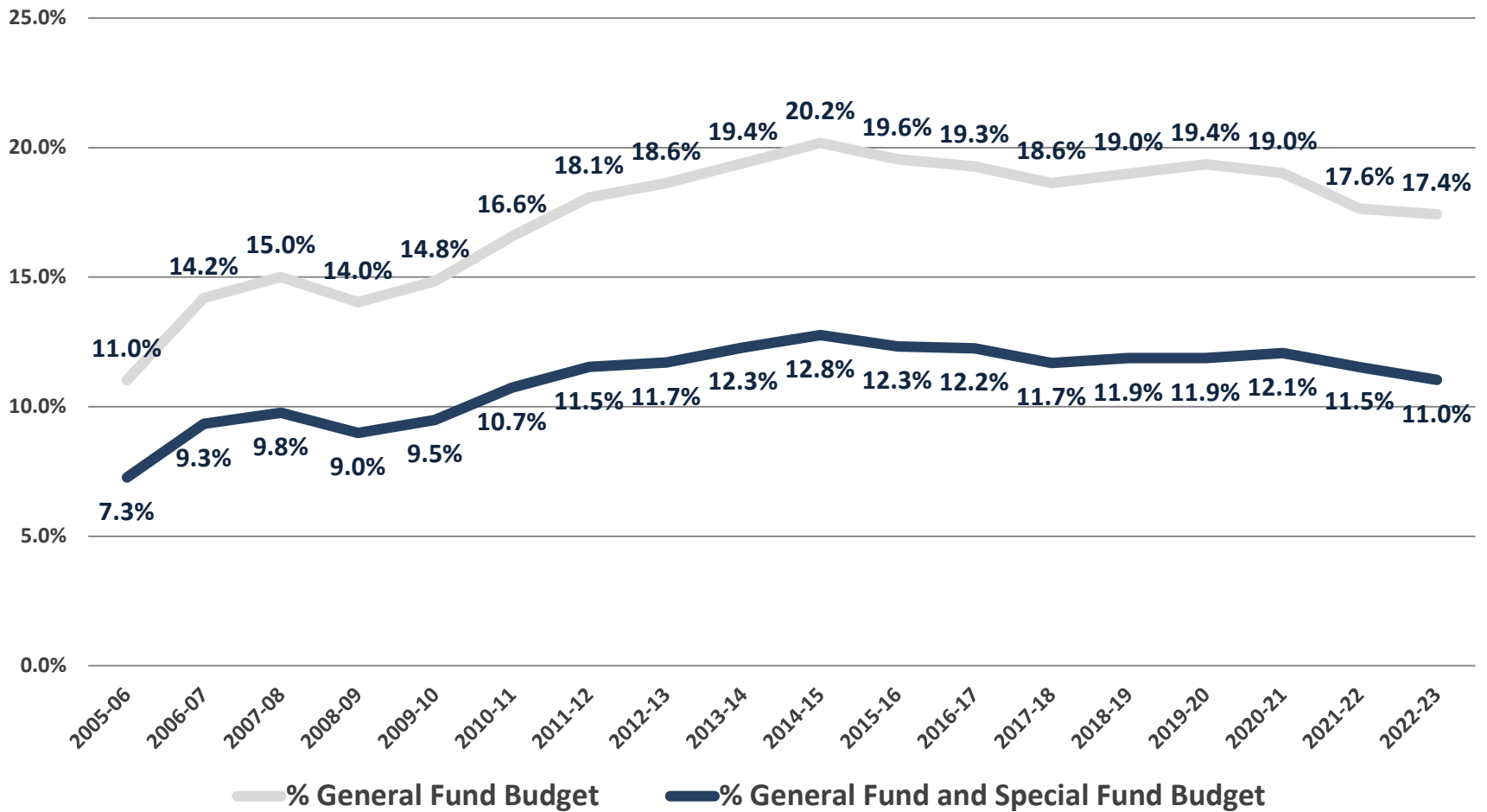
GENERAL FUND CONTRIBUTIONS TO LACERS AND LAFPP

(Actual Amounts 2005-22; Adopted, 2022-23, Projected 2024-27)



EXPENDITURES: RETIREMENT SHARE OF BUDGET

PERCENT OF BUDGET USED FOR LACERS/LAFPP CONTRIBUTION



EXPENDITURES: CONCERNS

Expenditure concerns include:

- Inflation
- Potential spending pressures:
 - Homelessness
 - Labor
- \$25 million in departmental reductions
- \$253 million in General Fund subsidies of special funds



FINANCIAL POLICIES

- At the request of the City Council, the CAO prepared and proposed revisions to all of the [Financial Policies for the City of Los Angeles](#), which Council approved in 2020.
- Policies include:
 - Fiscal
 - Capital and Technology Improvement
 - Pension
 - General Fund Reserves
 - General Fund Encumbrances
 - Debt.
- The City tracks seven primary budget-related policies annually, but there are many others that also impact the City's budget, budget documents, and financial decisions.



FINANCIAL POLICIES: COMPLIANCE

Policy		Compliance
Reserve Fund at least 5% of General Fund revenues	✓	July 1 at \$478 million, of 6.41%
Budget Stabilization Fund	✓	9.48% in growth from Adopted 2021-22 to Adopted 2022-23 is \$291 million above 3.6% growth threshold, requiring the budgeted \$72.8 million contribution to the fund
General Fund reserves goal: 10% of General Fund revenues	✗	9.32% or \$694 million: \$478 million Reserve Fund; \$192 million Budget Stabilization Fund; \$24 million UB – Reserve.
Capital and technology investment at 1.5% of General Fund revenues	✓	Investment of 1.65% or \$123 million
All one-time revenues used for one-time expenditures	✓	All \$192 million in one-time revenues used for \$344 million in one-time expenditures
Debt service as percent of general receipts: No more than 6% for non voter-approved and 15% for non voter-approved and voter-approved	✓	<ul style="list-style-type: none"> • 2.97% for non voter-approved • 4.75% for non voter-approved and voter-approved • Projected to remain below limits through projection period
Achieve structural balance	✓	Four-Year Outlook projects budget surpluses through the projection period from \$40 million to \$516 million



FINANCIAL POLICIES: GENERAL FUND RESERVES

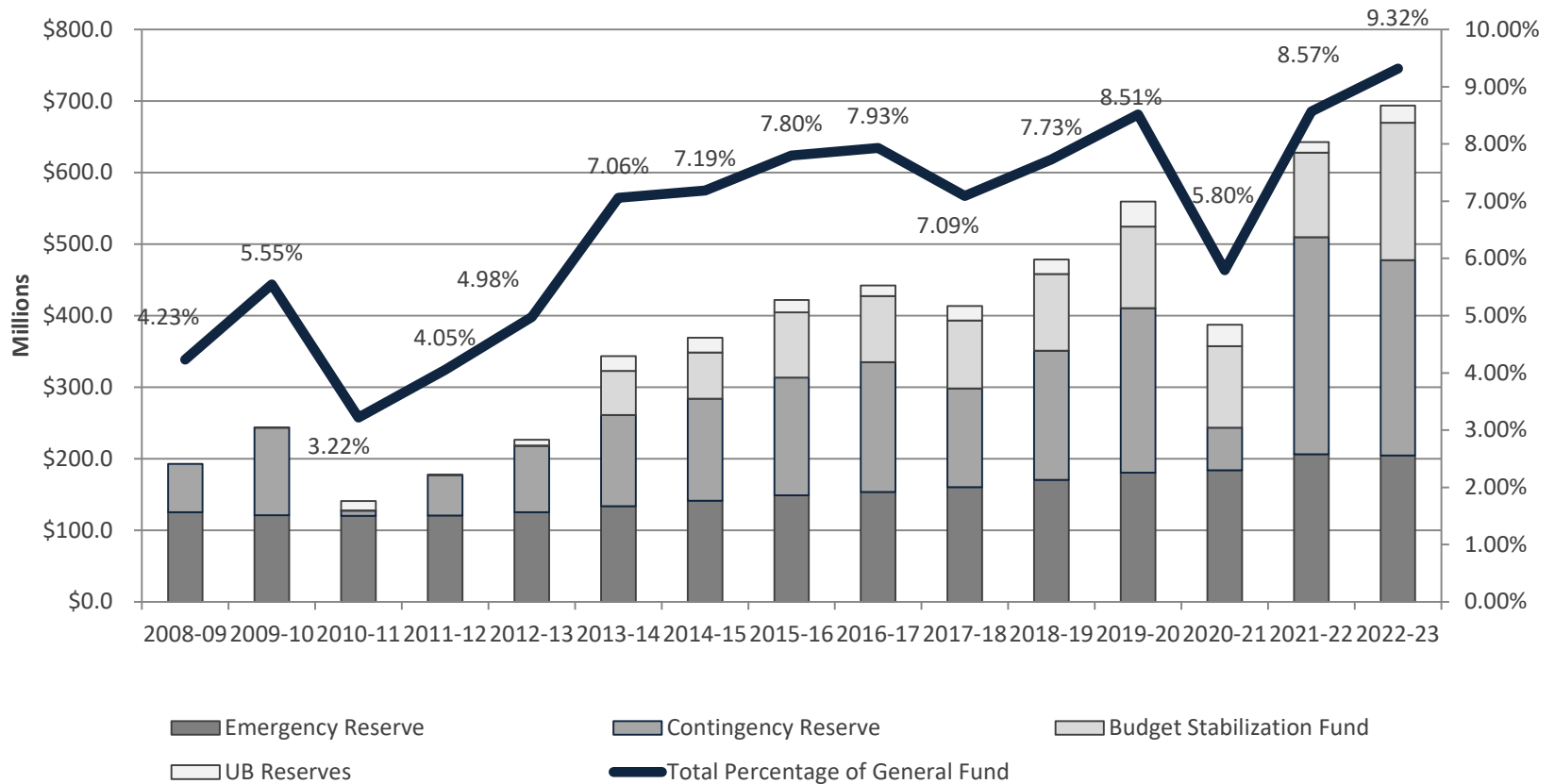
- Prepares the City for unexpected financial challenges.
- Reserve Fund:
 - Emergency Reserve: 2.75% of General Fund receipts; Intended to be used to address significant economic downturn, disaster, or other unanticipated events.
 - Contingency Reserve: Balance of Reserve Fund; Intended to be used for 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 POLICIES: GENERAL FUND RESERVES

ADOPTED BUDGET RESERVES

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



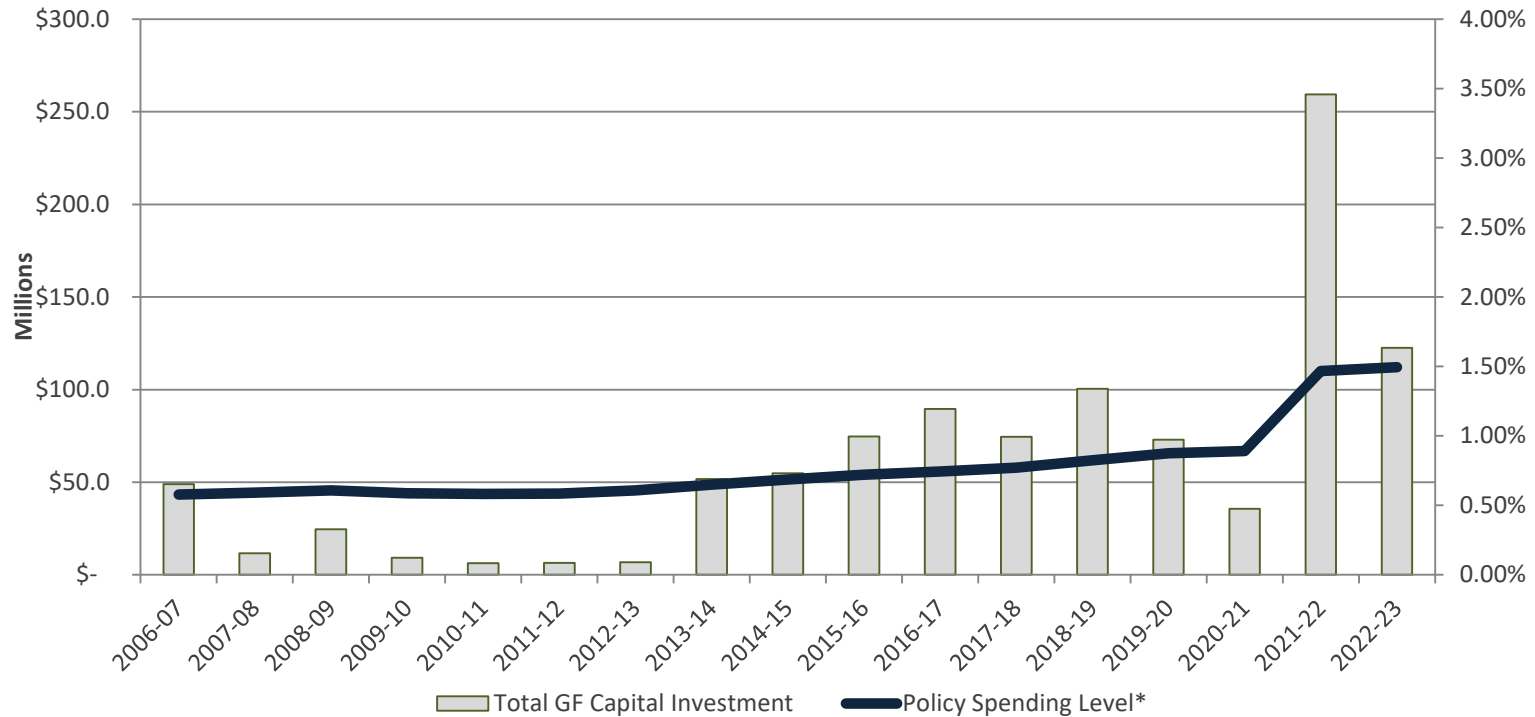
FINANCIAL POLICIES: CAPITAL AND TECHNOLOGY

- Encourages investment in the City's critical infrastructure by establishing a minimum spending target of 1.5 percent of General Fund revenues.
- Requires the City to establish a five-year capital and technology spending plan and establishes a process to develop that plan and criteria for prioritizing projects.
- The investment target policy only applies to General Fund expenditures and does not take into consideration the significant special funded capital investment.
- Detail of the expenditures included as part of the capital investments expenditures can be found on pages 19-21 of the [Proposed Budget Supporting Information](#) book. This table is not updated as part of the adopted budget.



FINANCIAL POLICIES: CAPITAL INVESTMENTS

CAPITAL INVESTMENT AS PERCENTAGE OF GENERAL FUND REVENUE



* Policy is 1.5% of General Fund revenues in 2021-22 and 1% prior to that.



FINANCIAL POLICIES: CAPITAL AND TECHNOLOGY

- Major components of the \$122.5 million include:
 - Municipal Facilities - \$29 million
 - Physical Plant (street, storm water, street lighting) - \$22 million
 - Street Resurfacing/Repair - \$31 million
 - Sidewalks - \$18
 - Technology – \$8 million
 - Copper Wire Theft Prevention - \$5 million



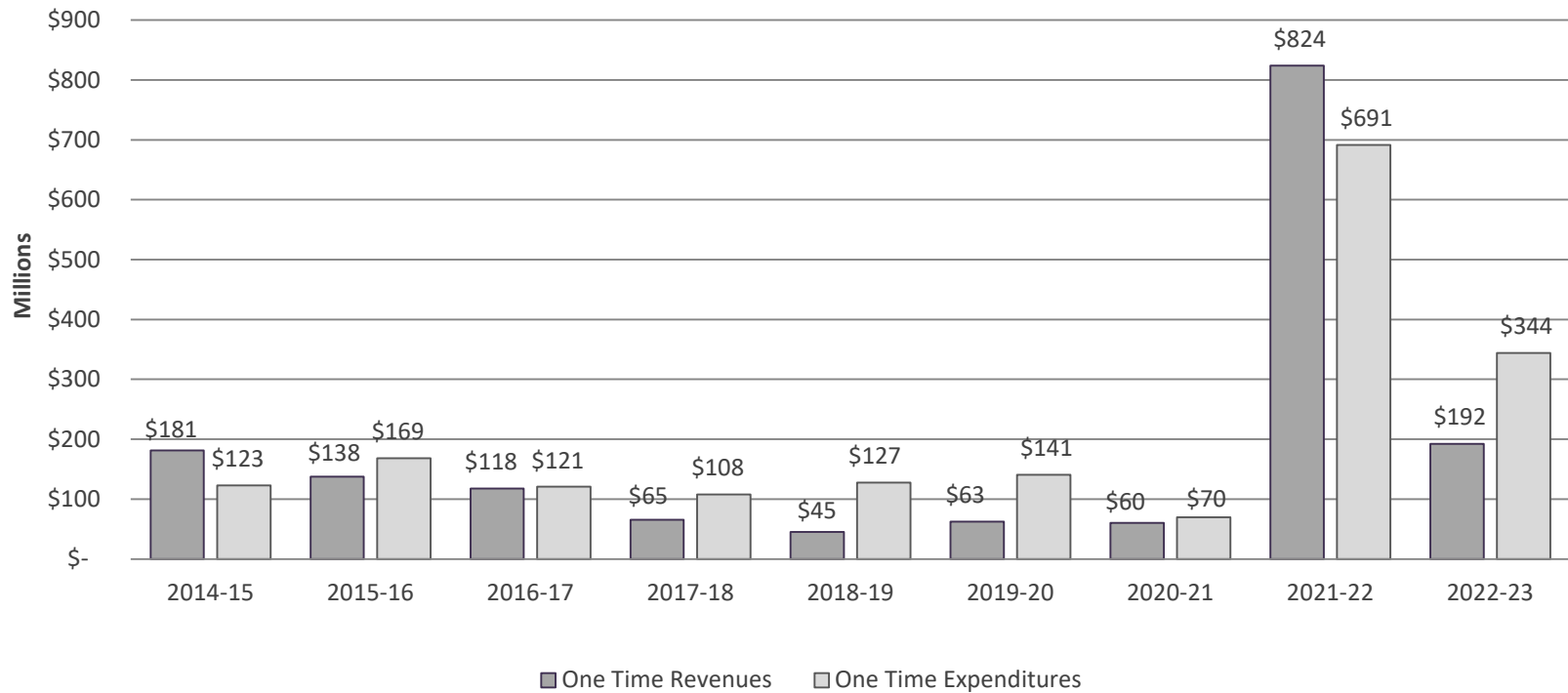
FINANCIAL POLICIES: ONE-TIME REVENUES

- All one-time revenues should be used for one-time expenditures.
- Supports structural balance.
- Detail of the items can be found on page 22-23 of the [Proposed Budget Supporting Information](#) book. This table is not updated as part of the adopted budget.



FINANCIAL POLICIES: ONE-TIME REVENUES

ONE-TIME REVENUES VS. ONE-TIME EXPENDITURES (Adopted Budgets)



FINANCIAL POLICIES: ONE-TIME REVENUES

- Adopted Budget used \$192 million in one-time revenues for \$344 million in one-time expenditures, all one-time revenues are being used for one-time expenditures.
- Significant one-time revenues include:
 - Reserve Fund - \$17 million
 - Delayed Property Tax - \$34 million
 - FEMA - \$105 million
- Significant (\$20 million +) one-time expenditures include:
 - \$105 million in Reopener payouts
 - \$54 million for Additional Homeless Services, GCP
 - \$79 million to use FEMA reimbursements to repay Reserve Fund and other funds for emergency COVID response front funding



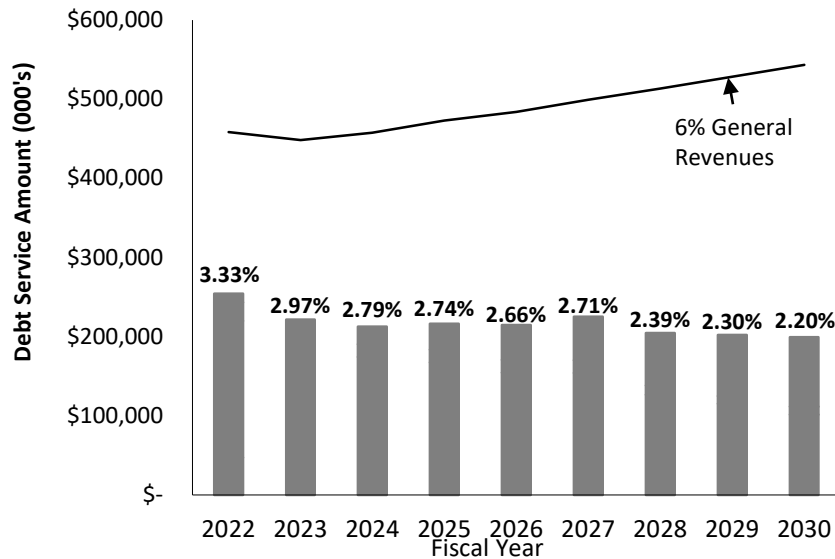
FINANCIAL POLICIES: DEBT LIMITS

- Separate thresholds for non voter-approved and voter approved debt:
 - Non voter-approved debt cannot exceed 6% of the “general revenues.”
 - Voter-Approved and non voter-approved debt cannot exceed 15% of “general revenues.”
- Illustrates whether the City’s debt burden is manageable.
- General revenues include those revenues that are used to pay MICLA debt service. They include the General Fund and special funds such as Sewer Construction and Maintenance, Building and Safety Building Permit Enterprise Fund, and Special Parking Revenue Fund.
- Non Voter-Approved debt is comprised of MICLA (including Convention Center) and other lease-backed debt and commercial paper.
- Non voter-approved debt is detailed 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.
- Voter-approved debt must comply with requirements of the authorizing ballot measure and is often handled off-budget.
- The only types of debt not included in these two categories are revenue bonds (e.g. solid waste, wastewater) and debt issued by proprietary departments.

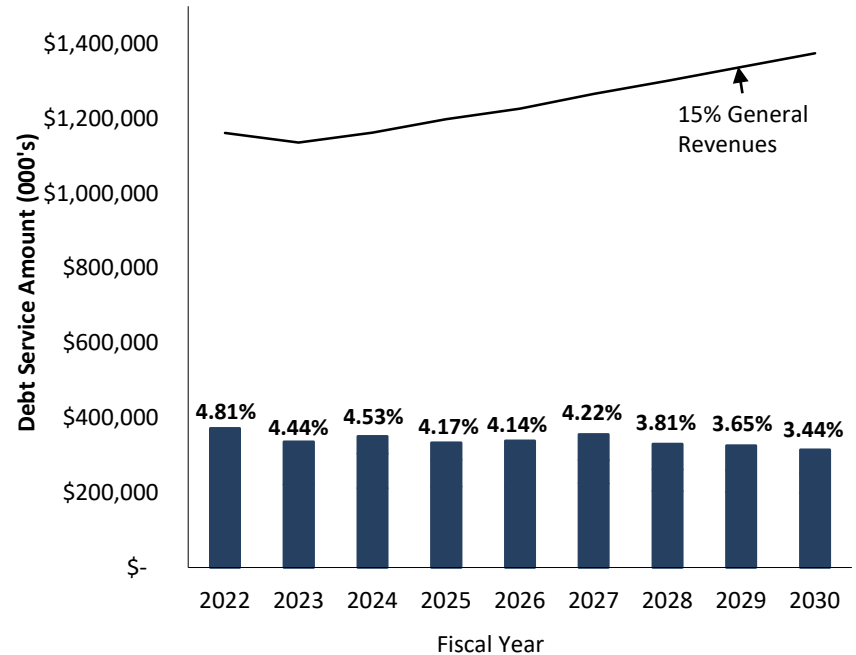


FINANCIAL POLICIES: DEBT LIMITS

NON VOTER-APPROVED DEBT



VOTER-APPROVED AND NON VOTER-APPROVED DEBT



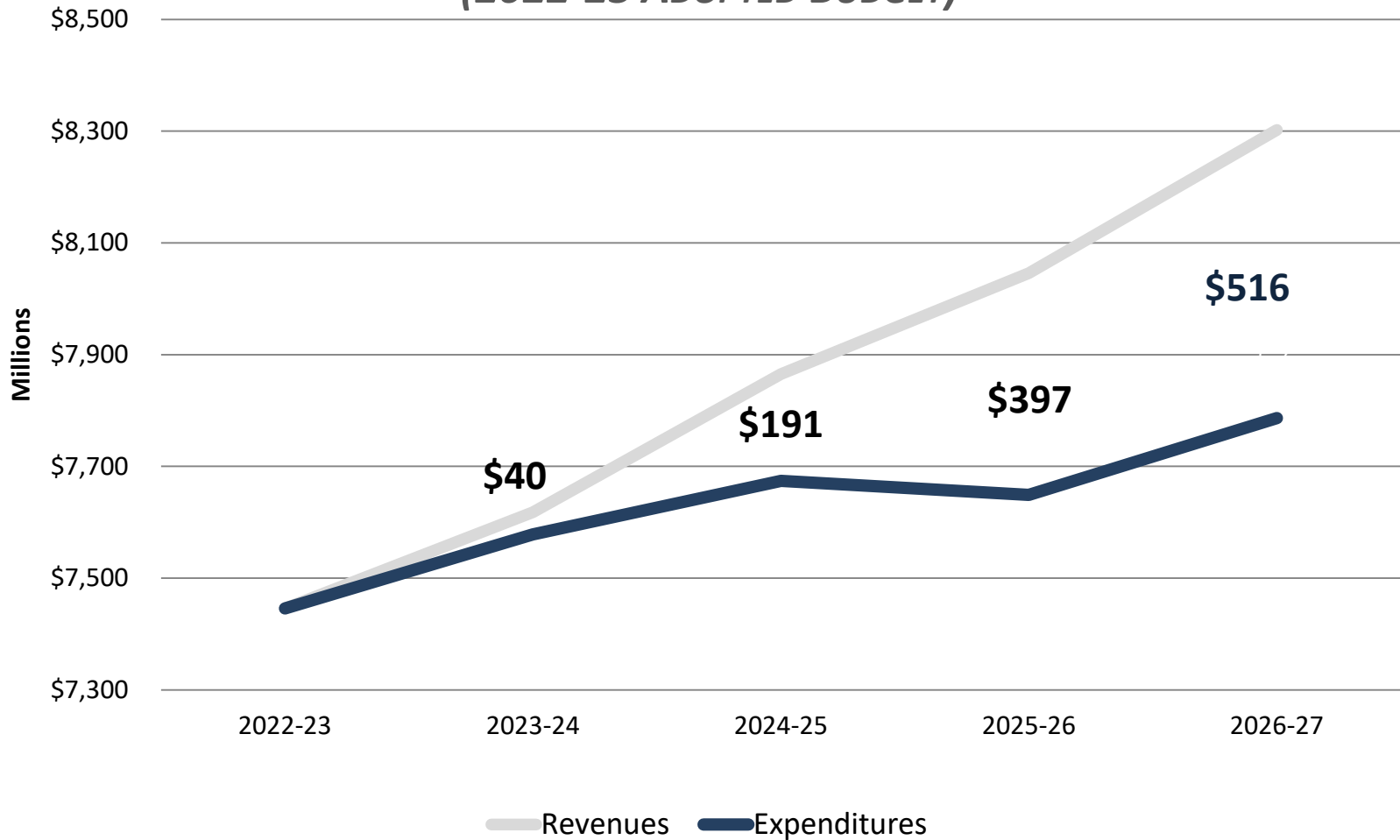
FINANCIAL POLICIES: FOUR-YEAR BUDGET OUTLOOK

- The City's financial policies require the City to:
 - Achieve structural balance, which is necessary to ensure that the City can maintain current services and potentially add new ongoing services in future years.
 - Prepare four-year projections of revenues and expenditures.
- The Outlook, the CAO's forecast of the state of the budget for the subsequent four years, addresses these policies.
- Proposed Budget Outlook is found on pages 27-31 of the [Supporting Information](#) book.
- Adopted Budget Outlook is found on pages A-14 through A-17 of [Appendix A](#), the City's disclosure document approved with any debt issuance.



FINANCIAL POLICIES: FOUR-YEAR BUDGET OUTLOOK

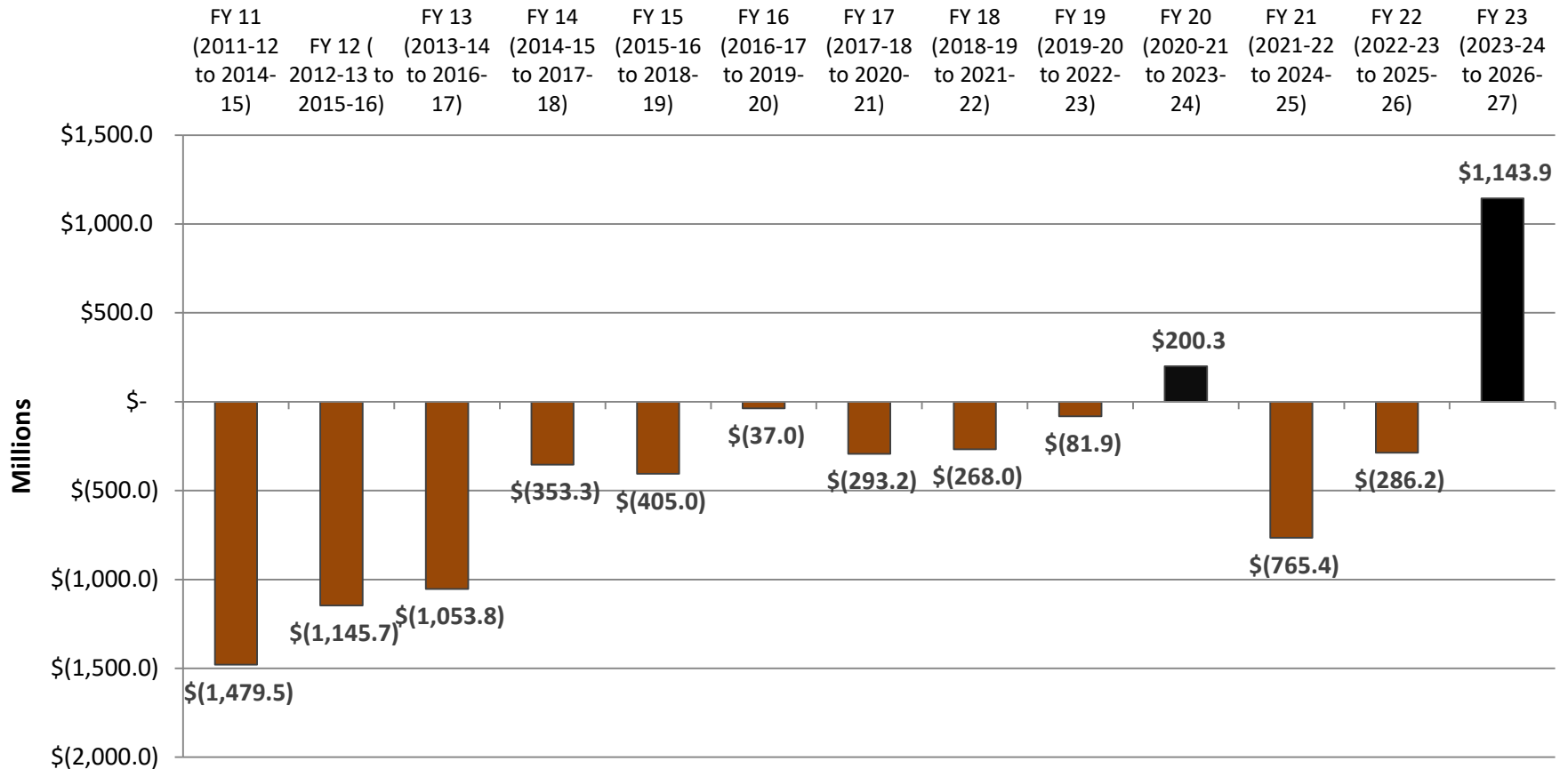
FOUR-YEAR BUDGET OUTLOOK (2022-23 ADOPTED BUDGET)



FINANCIAL POLICIES: FOUR-YEAR BUDGET OUTLOOK

CUMULATIVE FOUR-YEAR DEFICIT BY YEAR OF OUTLOOK

(Fiscal Years Included in Outlook)



FINANCIAL POLICIES: FOUR-YEAR BUDGET OUTLOOK

- Revenue and expenditure projections are based on the following general assumptions:
 - Revenues Projections: Based on historical growth.
 - Expenditure Projections: Based on known changes in future years.
- This Outlook does not take into account:
 - Any revenue downturn in the event of a recession.
 - MOUs that are beyond the current contract periods.
 - The negative 7 percent investment returns the retirement systems achieved in 2021-22.
 - Potential costs associated with major infrastructure projects are included (LA Street Civic Building and the LA River).



FINANCIAL POLICIES: OTHER POLICIES OF INTEREST

- Discourage interim appropriations for new programs.
- Encourage new and diverse revenues and preserve existing unrestricted revenues unrestricted.
- Seek full cost recovery for special funded, fee-supported, and grant programs, and report on subsidies.
- Requires elements of performance budgeting, including the development of strategic plans and reporting of data that informs budget decisions.
- Support transparency by requiring the City to present clear and accurate budgetary and financial information and fiscal impact statements for proposed actions.
- Requires City to fully fund retirement systems based on actuarial cost analyses.



BUDGET CONTROL

- The 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](#):
 - Reporting requirement is a Financial Policy.
 - Requested as part of budget by City Council each year.
 - 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.



BUDGET CONTROL: CASE STUDY, 2020-21

- The 2020-21 Budget was developed at the onset of the COVID-19 pandemic, at the height of uncertainty.
- By early September, it was clear that the City would not meet revenue projections.
- At one point, the CAO projected that General Fund revenues would fall \$600 million short – close to 10% of the General Fund budget.
- Under the leadership of the Budget and Finance Committee, as based on recommendations that the CAO developed, the City Council and Mayor adopted a budget balancing plan that included:
 - \$158 million in spending reductions through a hiring freeze, retirement incentives, capital project deferrals, and cutting contracts and other expenditures.
 - \$104 of available federal relief funds.
 - \$294 million of the City’s General Fund Reserves, or all but 2.75% (the Charter emergency minimum).
 - \$133 million in deficit borrowing.
 - \$23 million in labor cost reductions from unpaid days for City workers and deferring compensation adjustments.
- If enacted, this plan would have allowed the City to persevere through the fiscal year, but it would have been in a weakened position, with dangerously low reserves and severely curtailed services.



BUDGET CONTROL: CASE STUDY, 2020-21

- The approval of the American Rescue Plan allowed the City to balance the 2020-21 Budget without executing its full budget balancing plan, discussed above.
- The City received a \$640 million award in May 2021:
 - Used as General Fund revenue to balance the 2020-21 Budget, replacing revenue lost due to the pandemic.
 - Allowed the City to not use its General Fund reserves or deficit borrow to close the 2020-21 budget gap.
- The City received a second and final \$640 million in 2021-22:
 - Used as General Fund revenue, enabling the City to adopt a General Fund budget of \$7.50 billion, 12.2% above the 2020-21 amount.
 - Allowed the budget to maintain City services and initiate many primarily new one-time programs.



BUDGET DEVELOPMENT: PROCESS



BUDGET DEVELOPMENT: 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 priorities and input from variety of sources, including departments, the public, the NCBA, and the City Council.
- Budget and Finance Committee receives, reviews, and holds hearings on 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 DEVELOPMENT: THE 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.
- 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.
- Following adoption, prepare the Adopted Budget documents, including the budget itself for the Controller to publish, the White Book, and the Budget Summary pamphlet.



HOW TO ANALYZE A BUDGET REQUEST

- Goal – Make a Recommendation or Decision
- Steps:
 - Step 1: Identify the Problem
 - Step 2: Describe the Proposed Solution
 - Step 3: Conduct Independent Analysis
 - Step 4: Identify Funding Options
- Budget Analysis Resources



HOW TO ANALYZE A BUDGET REQUEST: GOAL

- The goal of budget analysis is to make a recommendation or decision on whether to fund a specific item.
- Recommendations / decisions include:
 - Fund
 - Not Fund
 - Alternative Proposal
- If not enough information is available to make a recommendation or decision, identify additional information that is necessary to do so.



HOW TO ANALYZE A BUDGET REQUEST:

STEP 1, IDENTIFY THE PROBLEM

What is the problem that the budget proposal is attempting to solve?

- 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?



HOW TO ANALYZE A BUDGET REQUEST:

STEP 2, UNDERSTAND THE PROPOSED SOLUTION

Once you understand the problem, you need to understand to proposed solution.

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



HOW TO ANALYZE A BUDGET REQUEST:

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 solve the problem? If not, suggest alternatives.
- Are these the right resources to solve the problem? If not, suggest alternatives.
- In what way and to what extent will the proposed approach impact the problem? Consider and validate metrics, if they are available.
- Based on this analysis, are the anticipated outcomes from the proposal worth the cost?
- 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?



HOW TO ANALYZE A BUDGET REQUEST:

STEP 4, IDENTIFY FUNDING OPTIONS

- What funding source(s) can be used?
 - General Fund?
 - Special funds?
 - Grants?
 - Fees?
 - Reimbursements?
 - Other?
- If there are potential revenues associated with the proposal, 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?



BUDGET ANALYSIS RESOURCES

- Legislative history:
 - [Council Files](#)
- Financial Information
 - [FSRs](#)
 - [Appendix A \(Disclosure Document\)](#)
- Past budget documents:
 - [2022-23 Budget Council File](#)
 - [Budget Memos](#)
 - [Neighborhood Council Budget Advocates White Paper](#)

