January 31, 2018

Honorable Mayor Eric Garcetti
Honorable Members of the Los Angeles City Council
All Angelenos

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR
FISCAL YEAR 2017

I respectfully submit the City of Los Angeles' Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2017. The CAFR presents the City's financial position and activities for the previous Fiscal Year, consistent with Generally Accepted Accounting Principles, and has been audited by Macias, Gini & O'Connell, a firm of independent certified public accountants.

In addition to the government-wide financial statements, the CAFR also includes:

- Revenue and expenditure reports;
- Extensive information about pension benefits, contributions, and funding;
- Fund balances;
- Debt and debt capacity;
- Enhanced operating indicators, metrics and graphs; and
- Information on tax abatement agreements as required by the Government Accounting Standards Board - an important step toward a greater degree of transparency and a first for 2017.

The CAFR, along with the City's Annual Budget and the City Administrative Officer's financial status reports, is a key for consideration of the City's financial challenges and opportunities.
Since the Great Recession, the City has experienced relatively strong economic growth, which has generated upticks in revenues. However, growth may be plateauing due to a more stable economy. After averaging more than 4% over the past five years, total City revenue increased by just under 2% in FY 2017.

In 2017, the City’s total net position - essentially defined as assets less liabilities - increased by more than $1 billion to $21 billion. The City’s assets and deferred outflows increased by $4 billion to $67.5 billion, while liabilities and deferred inflows increased by $3 billion to $46.5 billion.

More than three quarters of the value of the City’s $67.5 billion in assets is in capital assets such as land, infrastructure, and heavy equipment; the largest single category of liabilities is the net pension liability, which totaled more than $10 billion across the City’s three retirement systems. However, the City’s pension systems all reported improvements in their funding levels due to investment earnings over the past year. While pointing to a somewhat improved situation, it bears remembering that significant gains in the pensions’ investment portfolios would be impacted by any stock market dips.

An important trend my office has been examining, shown in this CAFR, is the growth in special fund balances. At the close of FY 2017, the total balance in the City’s governmental funds (not including enterprise funds or pensions) had grown by $127 million over the prior year, to $4.9 billion. This growth was fueled by an increase in special fund balances of $269 million - to a total of $4.1 billion at the close of FY 2017. In contrast, at the close of FY 2017, the General Fund balance had decreased by $142 million from the prior year, to $886 million.
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There remains a clear need to examine our many special funds to determine how they can best be utilized to achieve the City’s priorities, such as investing in vital infrastructure projects my office has previously highlighted.

Our City’s fiscal state is stable but not without its share of challenges. These can be addressed and I remain optimistic that with strong leadership, and innovative solutions, we can continue the progress we have made.

To explore the CAFR and the interactive Community Financial Report, visit cfr.operpanel.la.

Respectfully,

RON GALPERIN  
City Controller

Enclosure