

**CITY OF LOS ANGELES**  
INTERDEPARTMENTAL CORRESPONDENCE

**DATE:** February 17, 2021

**TO:** Honorable Eric Garcetti, Mayor  
Honorable Members of the City Council

**FROM:** Crista Binder, Chief Deputy Controller   
Office of the LA Controller

**SUBJECT: GENERAL FUND AND RESERVE FUND UPDATE FOR FY 2020-21  
AS OF JANUARY 31, 2021**

As part of the Controller's Charter mandate to periodically report to the Mayor and Council regarding the condition of the City's finances, and in recognition of the uncertain times Los Angeles is experiencing, our Office is providing this report on the status of the City's General and Reserve Funds as of January 31, 2021. This report is intended to focus on the current status of these funds and not on projections or estimates of where we may end the fiscal year. It is intended that providing this information to the Mayor and City Council on a regular basis will support decision making in addressing our current fiscal challenges.

The Controller's Office is constantly monitoring the condition of the City's General and Reserve Funds. This involves analyzing historical patterns, regularly consulting with departments to identify and understand unexpected or unusual activity, and projecting revenues, expenditures and cash balances throughout the year. What makes this function of our Office unique in the City is that it looks at this data on a strictly cash basis; budgetary appropriations and shortfalls are separate and not part of this analysis.

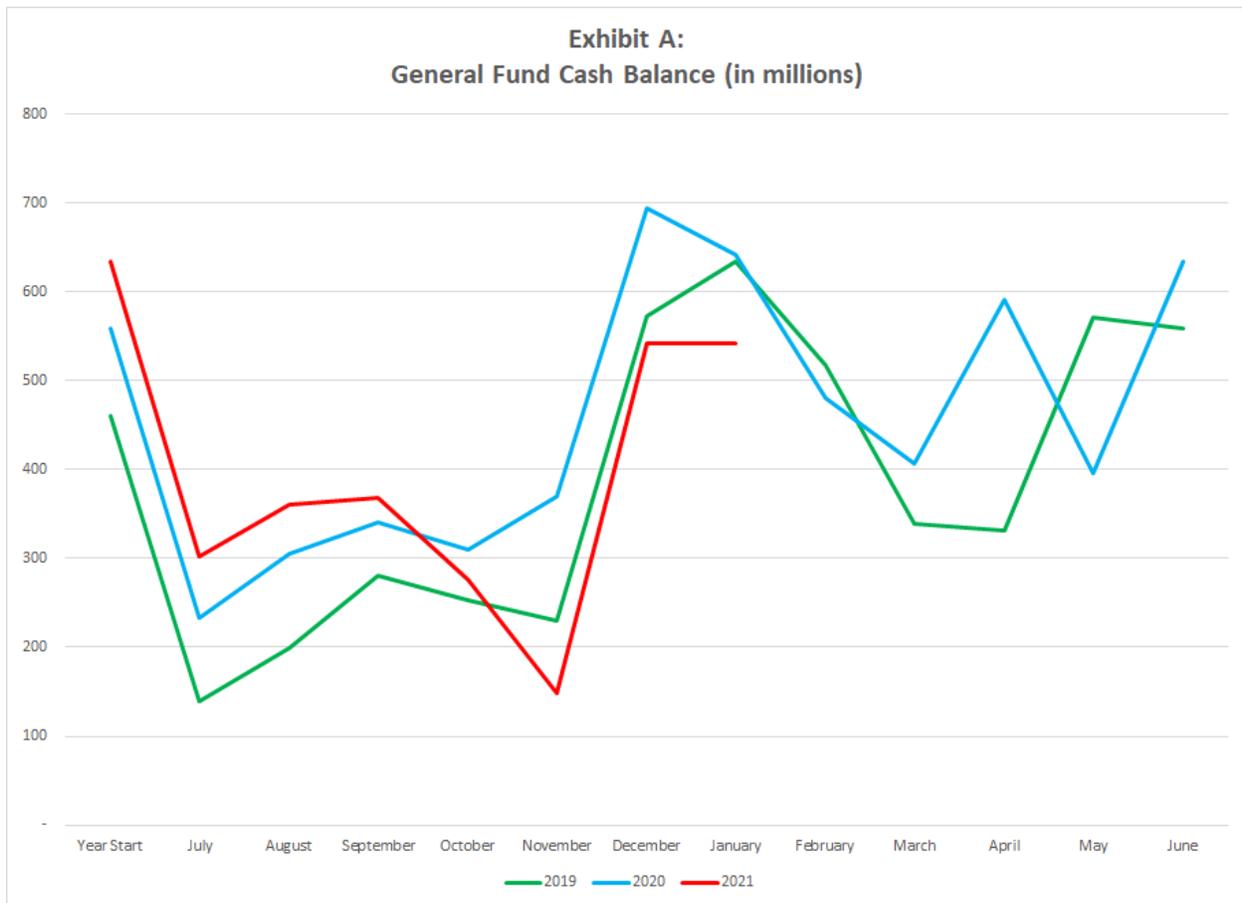
**General Fund**

As of January 31, 2021, the General Fund held a cash balance of **\$541.3 million**. This amount is \$93.7 million less than the beginning of the fiscal year, which is counter to the normal pattern for the City's General Fund cash flow. The first half of the fiscal year reflects lower revenues — yet salaries, benefits and a number of other expenses continued at their normal pace. However, by the end of January the City has generally received more than half of the annual Property Tax revenue and is at its highest point in the fiscal year. This year, even a record-high December Property Tax remittance of \$634 million was not enough to overcome the reduced revenues of the first half of the fiscal year

Exhibit A reflects a typical cash flow pattern (represented by FY 18-19 and the first 10 months of FY 19-20) and then the disruption caused by the pandemic, first expressly evident in May 2020. If typical patterns were to remain for the rest of the fiscal year, we do not anticipate any cause for concern. However, given that revenues have been

trending an average of \$40 million per month below last year, and expenditures are still above prior year levels, the standard pattern may not occur.

It should also be noted that these figures do not include the Reserve Fund and Budget Stabilization Fund transfers contemplated in the Second Financial Status Report, nor any additional transfers from the COVID-19 Federal Relief Fund that may be made pursuant to City Council instructions.



The City utilizes short-term debt, known as Tax and Revenue Anticipation Notes (TRAN), to bolster the General Fund during the summer and fall when cash tends to be lower, and then begins setting aside money to pay the TRAN beginning in January. This fiscal year, the City issued \$550 million for cash flow borrowing, \$100 million more than in FY 19-20.

Typically, the lowest point for the General Fund cash balance is in mid-December, right before the first Property Tax payment is remitted from the County. This fiscal year saw a similar pattern, as the cash balance fell to approximately \$75 million just prior to receiving the first Property Tax payment on December 21. This balance would have

been lower had the City Council not authorized the Controller to perform interfund borrowing as permitted by Charter Section 340 to maintain sufficient cash flow. While this Office requested up to \$125 million for interfund cash flow borrowing, only \$25 million was deemed necessary at that time. That amount, which was provided from the Building and Safety Enterprise Fund, was borrowed for less than two weeks and was repaid before the end of December.

There is still much uncertainty about the City's cash position for the remainder of FY 20-21. It seems likely that this Office will need to undertake additional interfund borrowing this fiscal year in order to maintain sufficient General Fund cash flow. While no additional approval is needed at this time, we will continue to report periodically on General Fund cash flow and any required borrowing.

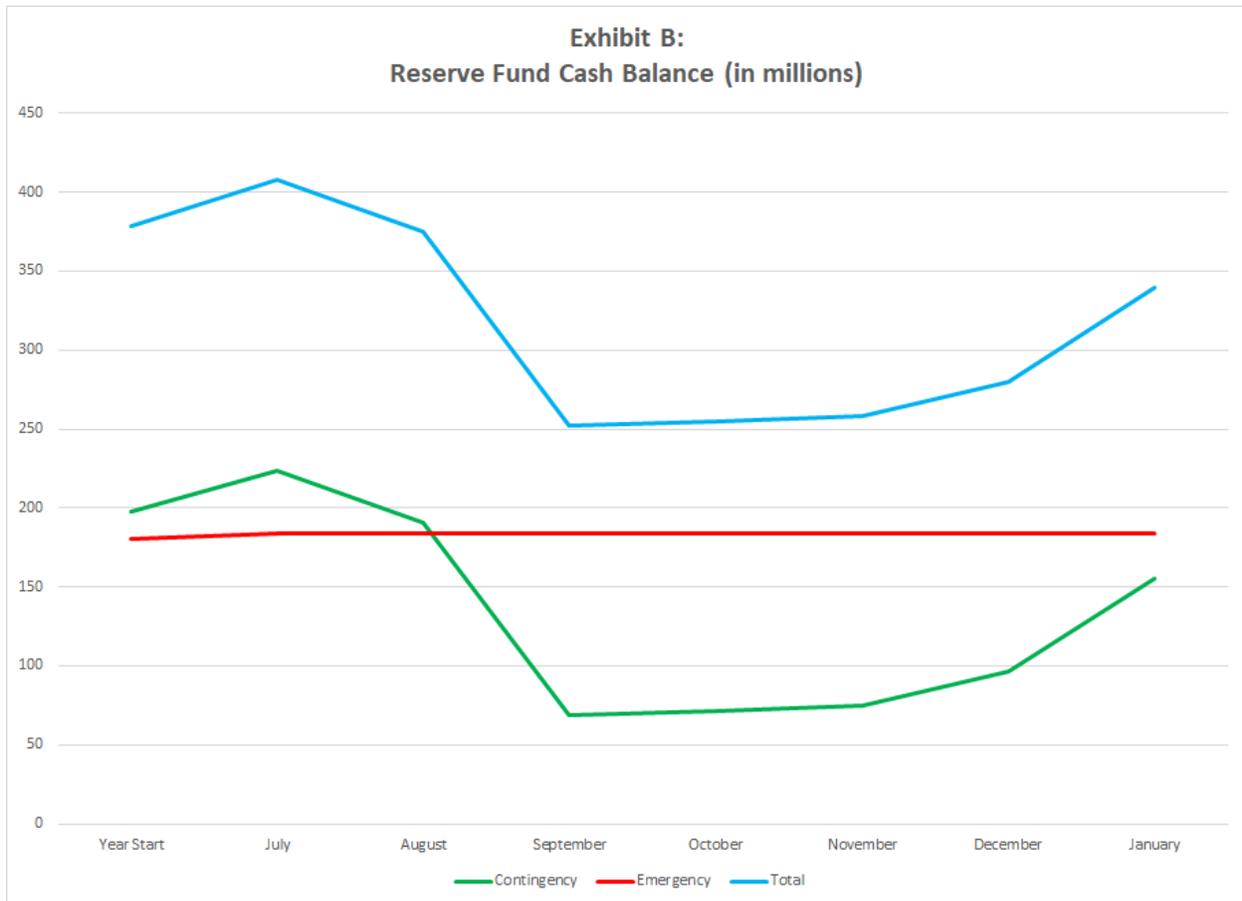
Revenue over the first seven months of FY 20-21 has been significantly lower than the same period last fiscal year — down \$219 million or 7.3%. This negative impact is dominated by the collapse in a number of revenue sources including Transient Occupancy Tax (down \$123 million or 72%), Parking Users Tax (down \$39 million or 59%), Parking Fines (down \$26 million or 39%), and Licenses, Permits, Fees, and Fines (down \$49 million or 10%). Other revenue sources have experienced smaller decreases, but the City's two largest sources, Property Tax and Business Tax, are primarily received in the second half of the year, and therefore substantive estimates are not available at this time. Property Tax through January was on target, and the February remittance does not reflect any significant concerns for the rest of the fiscal year.

Expenditures are slightly higher to date, \$74 million or 1.7% greater than last fiscal year through January. Salaries are up 2.4%, reflecting pay increases that became effective late last fiscal year, while supplies, expenses and equipment are down 6.3%. Health and dental insurance subsidies are up 7.2%, which also reflects the new MOUs. It must be noted that the City must also set aside \$110 million each month from January to May to pay off the cash flow portion of the TRAN, which, while it does not get recorded as expenditures, does create downward pressure on the General Fund cash balance.

### **Reserve Fund**

As of January 31, 2021, the Reserve Fund reflected a cash balance of **\$339.3 million**, with \$155.4 million in the Contingency Account and \$183.9 million in the Emergency Account. Combined, this is **5.1% of budgeted General Fund receipts**. This amount is noticeably higher than amounts from earlier in the year due to repayment of various Reserve Fund advances to special funds and a \$64 million transfer from the Coronavirus Relief Fund.

Exhibit B shows how the balance in the Reserve Fund has changed over the first seven months of the fiscal year. This pattern is relatively common, though more dramatic this year than in past years.



These figures do not take into account the transfer from the Reserve Fund to the General Fund contemplated in the Second Financial Status Report and the subsequent update released by the CAO on February 5. That transfer would move the entire balance of the Contingency Reserve into the General Fund for budget balancing. The estimate in the CAO's most recent report is \$157 million, which assumes the current balance plus additional funds identified for transfer into the Reserve in that report.

### Recommendations

In consideration of the aforementioned General Fund cash flow and Reserve Fund challenges, our office recommends the following actions to improve the condition of the City's finances during this difficult time:

1. **Delete prior year encumbrances.** Departments' responsibilities to review and close prior-year encumbrances are included in the City's Financial Policies, which specifically state that all General Fund encumbrances more than one year old are liquidated unless a current obligation exists. Over the years this policy has been in place, the encumbrances that remain on the books beyond the one-year limit has grown to more than \$57 million. As of January 31, 2021, there are \$140 million in prior-year encumbrances. Approximately 60 percent of this amount is from FY 19-20, but approximately \$53.5 million is from earlier fiscal years. Some work has already been done in this area, but the City Council may wish to:
  - a. **INSTRUCT** the City Administrative Officer to report to the Council and Mayor in the Mid-year Financial Status Report with a critical review of these older encumbrances and with recommendations which would delete prior year encumbrances sooner and limit exceptions to only those with documented current obligations. The deletion of these encumbrances would ease pressure on the General Fund both this fiscal year and next.
  
2. **Demand repayment of Reserve Fund loans.** As of January 31, 2021, there were \$60 million in outstanding Reserve Fund loans, of which \$24 million is from advances under Charter Section 261(i) which are classified as loans issued to cover unfunded expenditures. These loans are triggered when departments make expenditures from a Special Fund but the cash has not been transferred before the close of the fiscal year. This is often due to delays in receipt of grant reimbursements or delays in inter-departmental invoicing. Each fiscal year, the City Council instructs Departments to complete these transactions in a timely manner, though loans tend to remain on the books for several years.
  - a. The City Council may wish to:
    - i. **INSTRUCT** all Council-controlled departments to analyze these loans to determine if they can be repaid before the end of the fiscal year and in the event they cannot be repaid this fiscal year, require each Department to report back to Council and justify why loans cannot be repaid.
  - b. The other category of Reserve Fund loans are City Council-approved advances. These are loans to funds often provided as front-funding of reimbursable expenditures, which are to be paid in the future based on anticipated funding availability. There are currently \$35 million in outstanding loans of this type. As the end of the fiscal year approaches, Council may wish to:
    - i. **INSTRUCT** all Council-controlled departments to repay all of these loans in June and consider re-issuing them, if necessary, in the

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following fiscal year. This would move needed cash to the Reserve Fund to better facilitate year-end closing.

If you have questions or wish to discuss this information further, please contact Matthew Crawford, Director of Financial Analysis and Reporting, at [matthew.crawford@lacity.org](mailto:matthew.crawford@lacity.org) or 213-978-7203.

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