

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 19, 2015

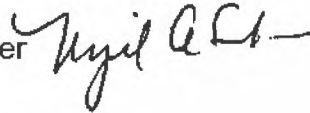
CAO File No. 0590-0098-4821

Council File No. --

Council District: --

To: Eric Garcetti, Mayor
Herb J. Wesson, Jr, City Council President
Paul Krekorian, Chair Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer



Subject: **ANNUAL RESERVE FUND LOAN REVIEW**

SUMMARY

The City Council instructed the Office of the City Administrative Officer (CAO) to annually review the status of Reserve Fund loans and recommend loan write-offs (C.F. 99-1794-S1). Our Office reviewed a total of 83 loans valued at approximately \$18.8 million that were on the City's books as of May 31, 2015. Of these, 77 remain unpaid or partially paid as of September 30, 2015. Loans made after May 31, 2015 are not part of this study.

The CAO worked with departments and special fund administrators to determine the status and estimated repayment dates of each loan and to identify uncollectible loans. The result of this study, as detailed on Attachment 1, is summarized as follows:

Outstanding Reserve Fund Loans	Amount (in millions)
Long-term Loans	\$8.1
Loans to be repaid by 6/30/16	1.4
Loans recommended to be written off	4.2
Loans requiring further analysis	4.3
Total	\$18.0

The Controller reports that the preliminary June 30, 2015, Reserve Fund cash balance was approximately \$575.7 million. After return of short-term loans made by the Controller at year-end and adjustments initiated in the prior year and included in the 2015-16 Adopted Budget, the July 1, 2015, Reserve Fund Available Balance was approximately \$442.5 million, representing 8.18 percent of the General Fund budget.

BACKGROUND

In general, a majority of Reserve Fund loans serve to front-fund and cash-flow departments for salaries and expenses related to County, State, or Federal grants where expenditures are reimbursed only upon submission of invoices according to grantor schedule and timeline. These grant awards are approved by the Mayor and Council on a case-by-case basis. Payments to the Reserve Fund are processed as soon as the grantors reimburse departments. However, timing of reimbursement receipts is often difficult to predict depending on workload and capacity of the grantor. Further, in order to repay Reserve Fund loans in a timely fashion, departments must prioritize preparation and submission of expense reports for grant reimbursement.

Reserve Fund loans are processed by the Controller during year-end closing to comply with Charter Section 261(i) for unfunded encumbrances and expenditures. Unfunded encumbrances represent a technical adjustment at year-end and are reversed on July 1st of the new fiscal year. Advances for unfunded expenditures become necessary when special and bond fund receipts are below budget or delayed. These advances can also be triggered by a delay in accounting, reporting, and approval of expenditures by departments and special or bond administrators.

There are 22 loans either partially or fully recommended for write-off for a total of \$4.2 million. Of significance are the following:

- Unappropriated Balance (UB): In June 2012, the Council authorized a transfer of \$2 million from the Reserve Fund to the UB for the establishment of a new economic development structure. At that time, the Council instructed the CAO to identify either excess 2011-12 reversions to the Reserve Fund above 2012-13 budget and/or revenue from Transit Occupancy Tax (TOT) or sales tax above 2012-13 to repay the \$2 million loan.

In October 2013, the CAO reported that actual General Fund receipts were 2.6 percent (\$116.7 million) above the 2012-13 adopted budget of \$4.55 billion (C.F. 13-0600-S146). Included in the \$116.7 million actual receipts were \$10 million in TOT receipts above the adopted TOT budget of \$157.8 million. Since the Reserve Fund already received this additional revenue, it is recommended that the \$2 million Reserve Fund loan be written off.

- Los Angeles Fire Department (LAFD): approximately \$2.03 million in loans to meet payroll needs at the end of Fiscal Years (FYs) 2012-13 and 2013-14. According to Fire, there was enough surplus in various other departmental accounts to cover these payroll deficits, but LAFD was unable to meet the Controller's year-end deadline for transfer of funds. Consistent with LAFD's claims, its 2012-13 and 2013-14 Reversion Worksheets reported approximately \$2.4 million and \$5.3 million respectively in total surpluses in various appropriation accounts that reverted to the Reserve Fund.
- Various: 14 unfunded expenditures and advances of approximately \$104,000. In accordance with Charter Section 261(i), the Controller transfers funds from the Reserve Fund to cover expenditures yet to be reimbursed by special funds either due to a lag in receipts or billing delays. A majority of these are uncollectible primarily because actual

expenses eligible for reimbursement by special funds were lower than year-end estimates. Other reasons for non-payment include: departments submitted disallowed costs; special fund actual receipts were below projections or have inadequate funds; and, departments were unable to verify payment to the Reserve Fund due to age of the loans. Departmental requests to write-off loans are provided in Attachment 2.

At the time of this report, departments were unable to provide definitive repayment information for approximately \$4.3 million. Most of these are for special fund expenditures that require submission of cost reports and invoices prior to reimbursement. Although these loans may need to be written off, the CAO defers such recommendation pending further reconciliation between departments. Our Office will continue to monitor and work with departments to expedite repayment of Reserve Fund advances.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Write off \$4,232,359.97 in Reserve Fund loans and advances listed on Attachment 1;
2. Instruct departments with pending billings to work with the special fund administrators and report back to the Office of the City Administrative Officer in 90 days on the status of loans listed on Attachment 1 as requiring further analysis;
3. Instruct departments to continue to submit invoices as soon as possible to the appropriate City department(s) in order to recover Reserve Fund loans made for special fund expenditures; and,
4. Authorize the City Administrative Officer to make technical corrections as necessary to those transactions included in this report to implement Mayor and Council intentions.

FISCAL IMPACT STATEMENT

There is no General Fund impact resulting from the actions recommended within this report as the 2015-16 Budget does not assume the repayment of these loans. Additionally, these actions will not impact the current status of the Reserve Fund.

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Attachments