

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 30, 2013

CAO File No. 0590-0098-4481

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 284 loans, approximately \$45.2 million, on the City's books as of June 30, 2013, of which 252 were either partially paid or remain unpaid as of September 30, 2013. Loans made after June 30, 2013 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 | \$7.1 |
| Loans to be repaid by 6/30/14 | 25.4 |
| Loans recommended to be written off | 7.3 |
| Loans requiring further analysis | 1.9 |
| Total | \$41.7 |

The Controller reports that the preliminary June 30, 2013, Reserve Fund cash balance was approximately \$352.2 million. After return of short-term loans made by the Controller at year-end, and adjustments initiated in the prior year and those included in the 2013-14 Adopted Budget, the July 1, 2013, Available Balance was approximately \$326.6 million, representing 6.71 percent of the General Fund Budget.

As of October 23, 2013, the Reserve Fund cash balance was approximately \$329 million. This amount takes into account the \$2.4 million loans and transfers approved through the First Financial Status Report.

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 difficult to predict depending on workload and capacity of the grantor. Consultation with departments indicates that periodic and regular Controller and CAO follow-up of Reserve Fund loan repayment reinforces the need to 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 in cases such as when special and bond fund receipts are below budget or delayed, or because of a delay in accounting, reporting, and approval of expenditures by departments and special or bond administrators.

There are 76 loans either partially or fully recommended for write-off for a total of \$7.3 million. Of significance are the following:

- General City Purpose: approximately \$1.47 million related to the Children's Museum of Los Angeles. The City no longer has the ability to collect on this debt as the borrower, the former non-profit operator for the Children's Museum, declared bankruptcy in April 2009 and no longer exists.
- Los Angeles Fire Department (LAFD): approximately \$1.25 million loan to LAFD to meet payroll needs at the end of Fiscal Year (FY) 2011-12. According to Fire, there were enough surpluses in various departmental accounts to cover the deficit. However, the LAFD was unable to meet the Controller's year-end deadline for transfer of funds. LAFD's FY 2011-12 Reversion Worksheet reported approximately \$2.7 million in total surpluses in various appropriation accounts that reverted to the Reserve Fund.
- Los Angeles Police Department (LAPD): approximately \$1.2 million loan to LAPD to meet payroll needs at the end of Fiscal Year (FY) 2010-11. According to LAPD, there were enough surpluses in various departmental accounts to cover the deficit. However, LAPD was unable to meet the Controller's year-end deadline for transfer of funds. LAPD's FY 2010-11 Reversion Worksheet reported approximately \$4.3 million in total surpluses in various appropriation accounts that reverted to the Reserve Fund.

- Public Works – Bureau of Street Services (BSS): approximately \$1.39 million loan to BSS due to unanticipated Traffic Safety Fund (TSF) revenue shortfall in FY 2009-10. According to BSS, the Bureau's Preliminary Reversion Worksheet reported full expenditure of appropriations provided from TSF. Subsequently, BSS was informed of a shortfall in TSF revenue. To avoid a Reserve Fund loan, BSS revised its Reversion Worksheet by decreasing the expenditures assigned to TSF and shifting them to the General Fund. Unfortunately, these adjustments were not implemented as they required Council approval, which did not occur. At this time, the Reserve Fund loan can only be resolved through a write-off.
- Various – 58 unfunded expenditures and advances of approximately \$2 million. 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: reimbursement from special funds were inadvertently made to the General Fund; departments submitted disallowed costs; special fund actual receipts were below projections or have inadequate funds; and, departments were unable to verify payment to 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 \$1.9 million, mostly 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 \$7,275,895.54 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 2013-14 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