

BUDGET AND FINANCE COMMITTEE REPORT relative to the First Financial Status Report (FSR), and Addendum, for Fiscal Year (FY) 2015-16.

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. APPROVE the recommendations of the City Administrative Officer (CAO) as detailed in the First FSR for FY 2015-16 dated October 23, 2015 (attached to Council file [C.F.] No. 15-0600-S88).
2. APPROVE the recommendation of the CAO as detailed in the Addendum to the First FSR for FY 2015-16 dated October 26, 2015 (attached to C.F. 15-0600-S88).
3. AUTHORIZE the CAO to make technical corrections as necessary to all of the additional recommendations included in the Addendum to the First FSR for FY 2015-16, consistent with the intent of the Mayor and City Council; and, AUTHORIZE the Controller to implement such transfers/technical corrections.

Fiscal Impact Statement: The CAO reports that based on preliminary estimates, \$62.6 million in expenditure shortfalls and major unbudgeted expenses are identified in its report. Transfers, appropriations and other adjustments totaling approximately \$146 million are recommended in Sections 1, 2, 8, 9, and 10 of the CAO report. Included in these recommendations is re-authorization of \$85.4 million in Municipal Improvement Corporation of Los Angeles (MICLA) financing in accordance with the 2015-16 Adopted Budget. Appropriations and reappropriations from the Reserve Fund totaling approximately \$25.5 million are recommended for sidewalk and public safety-related items and to meet contractual obligations. Appropriations of approximately \$3.5 million are recommended from various line items in the Unappropriated Balance. No adjustment to budgeted revenue is recommended at this time.

Sufficient funds are available to cover the recommended actions as detailed in the Addendum to the First FSR for FY 2015-16. Adoption of these recommendations will reduce the Unappropriated Balance, Reserve for Mid-Year Adjustments Account by \$70,000.

Debt Impact Statement: The CAO reports that the issuance of MICLA bonds is a General Fund obligation. The re-authorization to use MICLA financing provided for in the Adopted Budget will cause the City to borrow approximately \$77.5 million (includes equipment, costs of issuance, and debt service reserve fund) at a 5 percent interest rate. The total estimated debt service is \$100.3 million which includes the borrowing amount and interest (\$22.8 million). During the life of the bonds, the estimated average annual debt service is \$10.03 million over 10 years.

Relative to the recommendations in the Addendum to the First FSR for FY 2015-16, the CAO further reports that the re-authorization to use MICLA financing provided for in the Adopted Budget will cause the City to borrow approximately \$860,000 (includes equipment, costs of issuance, and debt service reserve fund) at a 5 percent interest rate. The total estimated debt service is \$1.11 million which includes the borrowing amount and interest (\$254,000). During the life of the bonds, the estimated average annual debt service is

\$111,400 over 10 years. Actual interest rates may differ as rates are dependent on market conditions at the time of issuance. The CAO cannot fully predict what interest rates will be in the future.

With regards to the Police In-Car Video System, due to its short useful life, the repayment of debt will be over three years. The re-authorization to use MICLA financing (commercial paper only) provided in the Adopted Budget will cause the City to borrow approximately \$12 million at a short-term rate of 1.63 percent. The total estimated debt service is \$12.4 million which includes borrowing amount and interest (\$393,000). During the life of the commercial paper notes, the estimated average annual debt service is \$4.13 million.

Actual interest rates may differ as rates are dependent on market conditions at the time of issuance. The CAO advises that it cannot fully predict what interest rates will be in the future.

In accordance with the City's Debt Management Policy, the City has set debt ceilings to use as a guide in evaluating the affordability for future debt. The debt ceiling for non-voter direct debt service as percent of General Fund Revenues is 6 percent. The City is currently at 4.46 percent. The issuance of the debt from this re-authorization will not impact the City's debt capacity for nonvoter approved debt as the issuance of debt for routine capital equipment is already included in the debt ratio.

Community Impact Statement: None submitted.

SUMMARY

At its regular meeting of October 26, 2015, the Budget and Finance Committee considered the CAO's First FSR for FY 2015-16 dated October 23, 2015 and an Addendum to the FSR for FY 2015-16 dated October 26, 2015 (attached to C.F. No. 15-0600-S88). The CAO reports that the First FSR summarizes the closeout of the 2014-15 budget and provides an update on the current-year (FY 2015-16) budget deficit including the projected departmental deficits, early trends in revenue, the Reserve Fund, and current issues of concern and the potential impact to the City. The First FSR for FY 2015-16, includes a thorough discussion of the CAO's recommendations and other budget-related items.

The CAO and the CAO's budget and debt finance specialist provided the Committee with an introduction to the First FSR, highlighted the positive developments as well as the challenges ahead, and responded to related questions from the Committee.

Discussion of the FSR continued with representatives from the Fire, Personnel, Finance, Animal Services, Police, Zoo, and Housing departments addressing the Committee and responding to questions relative to the First FSR and their respective departments. Additionally, the Committee requested various reports in response to its questions to the departments, and instructed the departments to provide those reports by the time this matter is considered in Council.

After further consideration and after providing an opportunity for public comment, the Committee approved the recommendations by the CAO contained in the First FSR for FY 2015-16 and in the Addendum to the FSR for FY 2015-16. This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

BUDGET AND FINANCE COMMITTEE



MEMBER	VOTE
KREKORIAN:	YES
ENGLANDER:	ABSENT
KORETZ:	YES
BLUMENFIELD:	YES
BONIN:	YES

REW
10/26/15
FILE NO. 15-0600-S88

-NOT OFFICIAL UNTIL COUNCIL ACTS-