

BUDGET AND FINANCE COMMITTEE REPORT relative to the First Financial Status Report (FSR), and Addendum, for Fiscal Year (FY) 2016-17.

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 2016-17 dated October 28, 2016 (attached to Council file [C.F.] No. 16-0600-S167), with the exception of Recommendation No. 42a.
2. APPROVE the recommendations of the CAO as detailed in the Addendum to the First FSR for FY 2016-17 dated October 28, 2016 (attached to C.F. No. 16-0600-S167).
3. CLARIFY that Recommendation Nos. 1, 2, and 3 in the Addendum to the First FSR for FY 2016-17 are in reference to Fund 100, and insert Fund 100 before Department 59.
4. APPROVE Recommendation No. 42b of the First FSR for FY 2016-17 as amended, to INSTRUCT the CAO, relative to the distribution of pipeline revenues, to identify offsetting expenditure reductions when the Council and Mayor consider an Ordinance change deleting all references to the word "oil" from Los Angeles Administrative Code (LAAC) Section 5.500 (Council District Real Property Trust Funds) as referenced in C.F. No. 15-0387.
5. INSTRUCT the Office of Finance to report to the Budget and Finance Committee on whether City departments charge merchant services fees and the rationale for those departments that currently do not charge such fees.
6. ADD a footnote to the 2016-17 General City Purposes budget to AUTHORIZE the Controller to expend funds allocated for the Contract Cities Association and the Independent Cities Association on dues, conferences, meetings, and travel.
7. AUTHORIZE the CAO to make technical corrections as necessary to those transactions included in the First FY 2016-17 FSR and Addendum to implement Mayor and Council intentions.

Fiscal Impact Statement: The CAO reports that a total of \$15.73 million in expenditure shortfalls and unbudgeted expenses are identified in this First FSR for FY 2016-17. Transfers, appropriations, and other adjustments totaling approximately \$120.63 million are recommended in Sections 1, 2, 7, and 8. Included in these recommendations is reauthorization of approximately \$61.3 million in Municipal Improvement Corporation of Los Angeles (MICLA) financing in accordance with the 2016-17 Adopted Budget. Appropriations of approximately \$4.5 million are recommended from various line items in the Unappropriated Balance. In addition, a Reserve Fund loan of \$3.03 million is recommended to pay the U.S. Housing and Urban Development Department (HUD) for ineligible costs associated with two projects funded with the Community Development Block Grant - American Recovery and Reinvestment Act. No adjustment to budgeted revenue is recommended at this time.

Additionally, relative to the Addendum to the First FSR for FY 2016-17, the CAO reports that an

appropriation of \$45,789,960.62 is recommended from the Unappropriated Balance to the Miscellaneous Liability Payouts account pursuant to the terms of a court-approved settlement. There is no impact to the General Fund as a result of this action as the funds were previously re-appropriated for this purpose by prior Council and Mayor action (C.F. No. 15-0600-S102). However, there will be a General Fund impact if the total amount required to pay all validated refund claims and administrative expenses are greater than \$27,289,960.62. The City will address this impact, should one arise, in a subsequent FSR.

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 2016-17 Adopted Budget will cause the City to borrow approximately \$61.3 million at a 5.0 percent interest rate. The total estimated debt service is \$79.45 million which includes the borrowing amount and interest (\$18.1 million). During the life of the bonds, the estimated average annual debt service is \$7.94 million 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. 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-voted direct debt service as a percentage of General Fund revenues is 6.0 percent. The City is currently at 4.12 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 a regular meeting held on October 31, 2016, the Budget and Finance Committee considered the CAO's First FSR for FY 2016-17 dated October 28, 2016 and an Addendum to the FSR for FY 2016-17 dated October 28, 2016 (attached to C.F. No. 16-0600-S167). The CAO reports that the First FSR summarizes the closeout of the 2015-16 budget and provides an update on the current-year (FY 2016-17) budget, 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 2016-17, includes a thorough discussion of the CAO's recommendations and other budget-related items. The Addendum to the First FSR discusses necessary expenditures and recommendations relative to settlement in the case entitled Ardon v. City of Los Angeles.

The CAO and the CAO's budget and debt finance specialist provided the Committee with an introduction to the First FSR, highlighted positive developments such as upgrade in the City's bond ratings and discussed areas of concern such as revenue tracking slightly behind projections, expenditure shortfalls, and a decline in the Reserve Fund due to higher than estimated litigation costs. As a result, the CAO recommended that Council take a cautious approach relative to the budget and approval of any new expenditures that would impact the General Fund.

During further discussion, the Committee inquired about cost recovery of merchant services fees by City departments and whether there was a Citywide policy. A representative of the Office of Finance advised the Committee that it is left up to each department to determine whether to pursue cost recovery. The Committee requested that the Office of Finance report back on which

departments are charging merchant services fees and the rationale for those departments that do not. Additionally, the Committee discussed the issue of pipeline franchise revenue. The CAO reported that the proposed deletion of the word "oil" from LAAC Section 5.500, as part of the instructions to the City Attorney to draft an ordinance relative to establishing an Office of Petroleum and Natural Gas Administration and Safety, would result in a reduction to the General Fund of approximately \$7.3 million for FY 2016-17 and forward. The Committee approved Recommendation No. 42b of the First FSR for FY 2016-16 that instructs the CAO to identify offsetting expenditures at the time the Council and Mayor consider the ordinance.

Lastly, representatives from the City Attorney, Los Angeles Department of Transportation, and Personnel Department addressed the Committee and responded 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.

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 2016-17, and in the Addendum to the FSR for FY 2016-17, as amended above. This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

BUDGET AND FINANCE COMMITTEE



| <u>MEMBER</u> | <u>VOTE</u> |
|---------------|-------------|
| KREKORIAN: | YES |
| ENGLANDER: | YES |
| MARTINEZ: | ABSENT |
| BLUMENFIELD: | YES |
| BONIN: | YES |

REW
10/31/16
FILE NO. 16-0600-S167

-NOT OFFICIAL UNTIL COUNCIL ACTS-