

BUDGET AND FINANCE COMMITTEE REPORT relative to the Mid-Year (Third) Financial Status Report (FSR) 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 Mid-Year (Third) FSR for FY 2016-17 dated March 16, 2017 (attached to Council file [C.F.] No. 16-0600-S173).
2. APPROVE the revised Attachment 5 of the Mid-Year FSR (attached to C.F. No. 16-0600-S173) to implement a technical correction to move \$639,000 of the original \$2,740,644 transfer with the Building and Safety Permit Enterprise Fund No. 48R/08 to the Training Account, as opposed to the Expense and Equipment Account.
3. TRANSFER \$700,000, to align with current expenditure patterns, from Council Fund No. 100/28, Account No. 1010 - Salaries General as follows:
 - a. \$300,000 to Account No. 2120 - Printing and Binding.
 - b. \$400,000 to Account No. 6010 - Office and Administrative Expenses.
4. TRANSFER \$2,323.56 from the Unappropriated Balance line item Off-site Council and Committee (Account No. 580160) to Information Technology Agency Fund No. 100/32, Account No. 1090, Salaries Overtime for various off-site/evening meetings, including the Health Commission.
5. INSTRUCT the CAO and the Chief Legislative Analyst (CLA) to work together to identify the \$1,139,374 necessary to bring the Reserve Fund balance back to 5 a full five percent (of the City's Adopted General Fund budget and policy goal). Additionally, look at downwardly adjusting general fund revenues for the current year to reflect the Controller's March 1, 2017 report (C.F. No. 17-0234) prediction of a 0.5 percent revenue shortfall. This action would then have a requisite effect on the Reserve Fund - requiring a lower dollar amount to achieve 5 percent.
6. INSTRUCT the Los Angeles Fire Department to report by the Year-End FSR with a proposal to complete the final phase of linking the Automated Vehicle Location System with the Computer Aided Dispatch platform.
7. INSTRUCT the Los Angeles Department of Transportation to report relative to the anticipated decline in taxicab franchise fee revenue.
8. INSTRUCT the Bureau of Sanitation, with the assistance of the City Administrative Officer and the Chief Legislative Analyst, to report prior to April 1, 2017 relative to exploring the use of special funds for the continuation of Clean Streets Los Angeles and Operation Healthy Streets programs and services.
9. INSTRUCT the Bureau of Sanitation to report to the Energy and Environment Committee,

prior to April 1, 2017, relative to the amount of overtime, the number of strike teams, and other resources necessary to continue the Clean Streets Los Angeles and Operation Healthy Streets programs through the current fiscal year.

Fiscal Impact Statement: The CAO reports that a total of \$57.33 million in expenditure shortfalls and unbudgeted expenses are identified in this Mid-Year (Third) Financial Status Report. Transfers, appropriations, and other adjustments totaling approximately \$391.48 million are recommended in Sections 1, 2 and 6. This includes \$25.91 million in transfers to the Unappropriated Balance, 2016-17 Budgetary Shortfalls account and \$239.4 million in reductions in Proposition A Local Transit Assistance Fund appropriations to reconcile budgetary appropriations with available cash.

Community Impact Statement: The CAO reports that the issuance of Municipal Improvement Corporation of Los Angeles (MICLA) Bonds is a General Fund obligation. The re-authorization to use MICLA financing for the Bureau of Street Services' Tree Trimming vehicle and equipment and Mechanized Tree Crew vehicle and equipment provided for in the FY 2016-17 Adopted Budget would cause the City to borrow approximately \$2.30 million at a 5.5 percent interest rate. The total estimated debt service is \$3.06 million which includes the borrowing amount and interest (\$760,000). During the life of the bonds, the estimated average annual debt service is \$306,000 over 10 years.

Actual interest rates may differ as rates are dependent on market conditions at the time of issuance. We cannot fully predict what interest rates will be in the future. In accordance with the City's Debt Management Policy, the City has an established debt ceiling to guide in evaluating the affordability for future debt. The debt ceiling for non-voted direct debt 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 non-voted approved debt.

SUMMARY

At its regular meeting held on March 20, 2017, the Budget and Finance Committee considered the CAO's Mid-Year (Third) FSR for FY 2017-17 dated March 16, 2017 (attached to C.F. No. 16-0600-S173). The CAO reports that the Third FSR provides an updated on the current-year budget – including changes to projected departmental deficits, trends in revenue, the Reserve Fund, and current issues of budgetary concern and their potential impact to the City. Recommendations totaling approximately \$391.48 million for appropriations, transfers, and other budgetary adjustments are included in its report.

The Interim CAO, the Assistant CAO, and the CAO's Budget and Debt Finance Specialist provided the Committee with a brief overview of the Mid-Year FSR, and responded to related questions. The CAO discussed the current-year shortfall of \$57.3 million and the recommendations in the FSR that reduce it to \$24 million, as well as identification of savings generated through 5 percent General Fund reduction exercises across departments, and other sources, that further reduce the shortfall to \$9.75 million. Additionally, the CAO reported that revenues have improved, however a revenue shortfall is still expected by year-end but cannot be quantified at this time since the City is still awaiting the remittance of business tax receipts. The CAO also reported that the Reserve Fund has been reduced to under 5 percent of the City's policy threshold, however the anticipated issuance of a Judgment Obligation Bond and the subsequent reimbursement to the Reserve Fund from the bond should restore the Fund back to

a level above 5 percent. Until then the CAO urged the utmost restraint in using the Reserve Fund for any new expenditures or to offset shortfalls.

The CAO submitted into the record a revised Attachment 5 to its Mid-Year FSR that moves \$639,600 of the original \$2,740,644 transfer within the Building and Safety Building Permit Enterprise Fund No. 48R/08 to the Training Account as opposed to the Expense and Equipment Account. The CLA also submitted an amendment into the record that transfers \$700,000 from Council Fund 100/28, Account 1010 - Salaries General to Account 2120 Printing and Binding (\$300,000) and to Account 6010 (Office and Administrative Expenses (\$400,000) and a transfer of \$2,323.56 from the Unappropriated Balance to ITA Fund No. 100/32 Account No. 1090 Salaries Overtime for various off-site/evening meetings, including the City's Health Commission.

Lastly, representatives from the following agencies and departments addressed the Committee and responded to questions relative to the Mid-Year FSR and their respective departments: Los Angeles Homelessness Services Authority, Fire, Police Transportation, Street Services, Sanitation, Personnel, and Economic and Work Force Development. The Committee requested several of the departments to provide various reports in response to its questions as indicated in the recommendations above.

After further consideration, and after providing an opportunity for public comment, the Committee approved the recommendations by the CAO contained in the Mid-Year (Third) FSR for FY 2016-17, as amended. 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:	YES
BLUMENFIELD:	YES
BONIN:	ABSENT

REW
3/20/17
FILE NO. 16-0600-S173

-NOT OFFICIAL UNTIL COUNCIL ACTS-