



RON GALPERIN
CONTROLLER

March 1, 2019

Honorable Eric Garcetti, Mayor
Honorable Members of the City Council

Re: Revenue Forecast Report

In accordance with City Charter Section 311(c), I submit my revenue forecast for fiscal years 2018-19 and 2019-20. Also included are the 2019-20 debt service requirements.

The City's adopted budget for 2018-19 totals \$9.9 billion. Two-thirds, or \$6.19 billion, is General Fund revenue, while the balance, \$3.71 billion, is special purpose funds revenue. The forecast provides updated revenue estimates for the current fiscal year, and projects them for the next, so as to better inform the City's budget decisions.

To develop our forecast, the Controller's Office collected revenue projections from City departments, reviewed recent economic reports and projections, and met with local economists from Beacon Economics and UCLA Anderson School of Management. Although forecasts necessarily involve a modicum of uncertainty, this report represents our best estimates based on the totality of the information available to us. Seeking to promote responsible budgeting in the year ahead, this report aims to provide modest revenue forecasting.

Unlike previous reports, we present this forecast in the form of ranges — giving each category of revenue both a more conservative and a more optimistic estimate. This is consistent with best practices for revenue forecasting and provides a more nuanced approach to predicting the City's likely receipts. We believe this also introduces another layer of context to our analysis.

Projected expenses to outpace revenue growth

General Fund receipts for the current year are estimated to be between \$6.14 and \$6.21 billion, a 5.5 to 6.7 percent increase over 2017-18. Higher than anticipated revenues from the property and business taxes are offset, however, by projected shortfalls in the hotel tax, the telephone users tax and parking fines. Receipts from billboards anticipated in the current budget have not materialized as the City has yet to act on a revised policy.

For fiscal year 2019-20, General Fund receipts are projected to be between \$6.29 and \$6.39 billion, 2.4 to 2.9 percent more than 2018-19. The revenues driving the current year's growth should continue to increase, but be partially offset again by reductions in the telephone users tax and parking fines.

While the projected General Fund growth will continue next year, it likely will be eclipsed by the estimated 4.4 percent increase in expenditures in 2019-20, which is mainly attributable to the cost of employee salaries and benefits. Short-term fixes and small adjustments can bolster the City's bottom line now; however, any unanticipated economic stress would put L.A. in a much more precarious financial situation going forward.

In order to strengthen the overall balance sheet, the City must work diligently to boost and diversify its revenue. City leaders need to deliver on promised revenue streams, such as from billboards, while carefully considering the implications of policy actions that may result in greater General Fund spending.

One new revenue source stems from the statewide legalization of cannabis and the development of a local regulatory structure. In the current year, cannabis businesses are projected to remit almost \$40 million in business taxes to Los Angeles, in addition to sales tax receipts. This amount could potentially expand, if the City is able to move forward more expediently in its efforts to permit new cannabis businesses and better enforce against illegal sales.

Need for budgetary restraint

A noteworthy concern highlighted in this report is the City's regular use of the Reserve Fund to balance the budget. As a matter of practice, my office's revenue forecasts do not contemplate using the Reserve Fund in this manner, although the City has done so in 15 of the last 20 years. We urge the City not to employ this strategy on a consistent basis, as it does not comport with sound fiscal policy. More than a decade after the Great Recession began, the Reserve Fund has increased significantly to more than \$350 million. But using the City's reserves to balance the budget in growth years means that less money will be available when the economy contracts.

My report also raises the issue of special purpose funds, as most recently detailed in our February 13, 2019, [report](#). This fiscal year, special fund revenue is estimated to be \$2.81 billion, \$250 million higher than last year. For 2019-20, we project that special fund revenue will continue to grow by \$383 million — a 13.7 percent increase — to \$3.19 billion overall, led by strong growth in Sewer Construction and Maintenance, Proposition A and Solid Waste Resources Fund receipts.

Growth is also notable in the Street Damage Restoration Fee Fund, which was the subject of a 2014 audit by my office. We discovered that the City needed to update its fee calculations to better recover the cost of damages from cuts and excavations utility companies make to City streets. Because of changes made through our partnership with the City Council, Street Damage Restoration Fee Fund receipts are projected to grow to \$40.2 million this year and \$70.5 million next year — 10 times the revenue L.A. recovered for the fee in 2018.

Overall, special fund receipts have been increasing faster than General Fund receipts for years. As a result, the funds' cash balances have swelled. This gives the City an opportunity to address at least some of its most pressing priorities using special funds, instead of the General Fund. With resources allocated in the budget, which we believe should be aided by new special funds management policies, my office is researching ways to access and utilize available special funds, and will continue to work with the Mayor and Council to identify the best options for including them in the 2019-20 budget.

An online interactive tool for exploring the revenue forecast, with 10 years of data, can be found at lacontroller.org/revenue. Open data for all City financials is available online at ControlPanelLA.

Should you have any questions or require additional information, please contact Matthew Crawford, Director of Financial Analysis and Reporting, at (213) 978-7203 or matthew.crawford@lacity.org.

Sincerely,



RON GALPERIN
L.A. Controller

Attachment

cc: Sharon M. Tso, Chief Legislative Analyst
Richard H. Llewellyn, City Administrative Officer