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September 7, 2018

Council File 18-0600-S110
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Honorable Members of the
Los Angeles City Council
c/o Office of the City Clerk
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ANNUAL BUDGET: REPORT BACK ON PROPOSED NEIGHBORHOOD COUNCIL (NC) FUNDS \$100K ROLLOVER POLICY

SUMMARY

As part of the Fiscal Year 2018-19 budget, the City Council through an Adopted Budget Recommendation (ABR), instructed the Office of the City Clerk to report on a rollover policy for Neighborhood Council (NC) funds that would allow NCs to accumulate up to \$100,000 to fund outreach, Neighborhood Purpose Grants (NPGs) and Community Improvement Projects (CIPs) (C.F. 18-0600-S110).

The NC system has been afforded an opportunity in the past to roll over funds and accumulate up to \$150K each. However, the budget required each year to maintain that policy, and the associated workload to track those funds, made it too challenging to manage. Today, many of the same issues exist and other alternatives are being sought to allow the NCs to retain some funding each year without overburdening the budget or accounting process.

Several NC system reforms are being considered as part of a Motion presented by Councilman Ryu on May 25, 2018. One reform in the Motion includes the process to roll-over a non-cumulative maximum of \$10K in any given fiscal year. The Office of the City Clerk has been instructed to provide a report back on that policy to the Health, Education and Neighborhood Councils Committee meeting. NCs have been submitting Community Impact Statements on the issue.

RECOMMENDATION

Request that the City Council:

1. NOTE and FILE this report dated, September 7, 2018, as it is provided for informational purposes only and no Council action is necessary.

BACKGROUND

In prior years, NC roll over funds were allowed to accumulate up to \$150K until that process was halted in 2011 due to the City's budget deficit at that time. There was also a high under-expenditure rate and a lack of strategic planning for the use of excess funds. In addition, allowing funds to be carried into a future fiscal year significantly affected the Department of Neighborhood Empowerment's (DONE) accounting workload by creating additional fund maintenance, tracking, monitoring and reconciling responsibilities. The propensity for fraud, waste and abuse was also magnified due to the amount of funding available to the system and an inability to adequately monitor and track expenditures with minimal staffing.

Some of these accounting issues have been resolved by adding an online banking portal available to the NCs, City Clerk staff and the public. DONE staff have been reassigned to the Office of the City Clerk where an entire section now works exclusively on the administration of NC funds. In addition, a contract has been established with Union Bank which alleviates the use of the City's Financial Management System (FMS) for regular, daily banking operations. However, if roll over funds are allowed to accumulate annually, new special fund accounts will need to be created in FMS and reconciliation issues will again be created due to the need to track multiple fiscal years at the same time.

The use of roll over funds is also problematic when considering large scale community improvement projects. The Office of the City Clerk cannot responsibly establish contracts, validate project deliverables, or pay invoices for construction projects due to its lack of construction and engineering expertise. These projects will need to be funded through a more appropriate City agency that may or may not be able to take on the additional workload.


Councilman Ryu has recently created a list of reforms for the NC System to consider that include a roll over policy of no more than \$10K per year on a non-cumulative basis. This subject has been discussed at NC meetings across the City and is expected to be heard at a Health, Education, and Neighborhood Councils Committee meeting in October 2018.

The \$10K roll over allowance being considered inherently avoids many of the accounting pitfalls noted above, versus a roll over policy where each NC can accumulate up to \$100K. The Office of the City Clerk has been instructed to report back to the Health, Education and Neighborhood Council Committee with recommendations on a process to implement a \$10K roll-over policy.

FISCAL IMPACT

Allowing NCs to accumulate up to \$100K each will significantly increase the amount of a general fund subsidy required each year. The NC System is currently budgeted at \$4.1M. An accumulated roll over will more than double the annual NC System budget to up to \$9.8M. The need for additional funds will increase even further as the system continues to add NCs each year as a result of NC subdivisions. Additional staffing may also be required to implement said policy.

Respectfully submitted,


Holly L. Wolcott
City Clerk