



RON GALPERIN
CONTROLLER

January 31, 2019

Honorable Mayor Eric Garcetti
Honorable Members of the Los Angeles City Council
All Angelenos

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT, FISCAL YEAR 2018

I respectfully submit the City of Los Angeles' Comprehensive Annual Financial Report (CAFR) for fiscal year 2018. The CAFR presents the City's financial position and activities for the previous fiscal year, consistent with Generally Accepted Accounting Principles, and has been audited by Macias, Gini & O'Connell, a firm of independent certified public accountants.

In addition to the government-wide financial statements, the CAFR also includes:

- Revenue and expenditure reports;
- Extensive information about pension and retiree benefits, contributions and funding;
- Fund balances;
- Debt and debt capacity;
- Operating indicators, metrics and graphs; and
- Information on tax abatement agreements as required by the Government Accounting Standards Board - an important step toward greater transparency.

The CAFR, along with the City's Annual Budget and the City Administrative Officer's financial status reports, is central to understanding the City's financial opportunities and challenges.

Since the Great Recession, the City has experienced relatively strong economic growth and a general uptick in revenues. In FY18, revenue increased by 4.6 percent, an improvement over the smaller 1.9 percent increase in the year prior. Overall expenses increased by less than one percent in FY18.

More than three quarters of the value of the City's \$68.7 billion in assets is in capital assets, such as land, infrastructure and heavy equipment. The largest single category of liabilities is the net pension liability, which totaled \$8.4 billion - down from \$10 billion the year prior - across the City's three retirement systems. However, the City's pension systems again reported improvements in their funding levels due to robust investment earnings over the past year. While pointing to an improved situation, gains in the pensions' investment portfolios are impacted by stock market volatility.

This CAFR is the first to detail the long term liability of retiree healthcare benefits on the City's balance sheet. The total liability for retiree healthcare is nearly \$9 billion, but because of the City's longtime strategy of pre-funding these benefits, the net liability is the significantly lesser sum of \$2.8 billion. Net liability is defined as total future costs minus current system assets. Unlike most other retiree healthcare benefits systems across the United States, which use the pay-as-you-go model, the City's 68 percent funding ratio is a good example of the City's sound approach to financial management.

An important trend my office has examined before, also shown in this CAFR, is the growth in special fund balances. At the close of FY18, the total balance in the City's governmental funds (not including enterprise funds or pensions) had grown by \$400 million over the prior year, to \$5.3 billion. This growth was fueled by an increase in special purpose fund balances of \$200 million, to a total of \$4.1 billion at the close of FY18. In contrast, the General Fund balance had increased by only \$43.2 million over the previous year to \$929.2 million at the close of FY18.

There remains a clear need to examine our many special purpose funds to determine how they can best be managed to achieve the City's priorities, such as investing in vital infrastructure projects, including affordable housing, new parks and more. My office is committed to continuing our work to address the complex issue of special purpose funds and will be providing a report in the near future on how the City can better manage them.

Our City's fiscal state is stable, but challenges remain and we must remain prudent going forward. I am optimistic that with strong leadership and innovative solutions we can continue the progress we have made in recent years.

To explore the CAFR and the interactive Popular Annual Financial Report, visit lacontroller.org/cafr2018.

Respectfully,



RON GALPERIN
L.A. Controller