

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: April 5, 2010

TO: Antonio R. Villaraigosa, Mayor City of Los Angeles
Eric Garcetti, President Los Angeles City Council
Bernard Parks, Chair Budget and Finance Committee
Los Angeles City Council

FROM: Wendy Greuel, City Controller *Wendy Greuel*

SUBJECT: URGENT CASH FLOW UPDATE

In my role as City Controller, I have given you an independent review of the City's fiscal status as we've dealt with the current budget deficit. As Controller, I am also responsible for General Fund cash flow to ensure that sufficient cash is available to meet all General Fund expenditure needs. I am writing to you now with my most urgent warning about the City's financial situation.

My most recent cash flow report, which showed the City with an approximately \$200 million deficit, assumed a Power Revenue Transfer from the Department of Water and Power (DWP) to the General Fund of \$220 million. Unfortunately, the warning from my letter in February has come true and we now have written confirmation from the DWP that they will only be transferring \$147 million, which will leave the General Fund \$73 million short of its target.

As we work to address the budget crisis, the question I have been asked most often is "When will the City run out of money?" Unfortunately, we finally have the answer. Without the full Power Revenue Transfer I now project that if the City remains on its current path, the **City's General Fund will be out of money – in fact it will be negative \$10 million – on May 5th, 2010.**

The most recent Financial Status Report from the CAO had the Reserve Fund being drained down to \$30 million at the end of the fiscal year to balance the budget. While we are still analyzing the full impact of the actions taken – some tangible, some merely visual - to address the budget crisis, none of them have been successful in balancing the budget so far. Without the full Power Revenue transfer, the City might not have enough money to balance the budget and **the Reserve Fund balance could be anywhere from \$0 to negative \$43 million on June 30th, 2010, which would leave us no room to cover any additional shortfalls or unexpected emergencies.**

This is the most urgent fiscal crisis that the City has faced in recent history, and it is imperative that you act now. The Charter authorizes the Controller to borrow funds but only for tardy receipt of revenue, not in the case where there is no anticipated repayment. The Charter also grants the Controller authority, with Council approval, for inter-fund borrowing, but only until April 26th, 2010. **Thus I am asking you to immediately transfer \$90 million from the City's**

Reserve Fund to the General Fund so I can continue to pay the City's bills, and to ensure the fiscal solvency of the City.

With the City facing a massive budget deficit this year and a deficit twice as large next year, the time for talk is over, the time for action is upon us. As you know, City employees are paid two weeks in arrears and we cannot legally permit them to work when there are not sufficient funds to pay them. That is why I am alerting you that, unless you take action to transfer \$90 million from the Reserve Fund, beginning April 19th, 2010, my office may not be able to pay the salaries of all City employees and/or make payments to vendors. We have two weeks to address this crisis, which is why you must act immediately.

I cannot be more clear that urgent action is needed. I am ready and willing to assist in any possible way to help solve our current crisis.

If you have any questions please contact me or Bill Lamb, my Director of Financial Analysis and Reporting at 978-7200.

cc: Ray Ciranna, Acting City Administrative Officer
Gerry F. Miller, Chief Legislative Analyst