

# OVERVIEW OF THE 2019-20 PROPOSED BUDGET



**2019-20 Proposed Budget**  
**April 30, 2019**

**Richard H. Llewellyn, Jr.**  
**City Administrative Officer**

# SUMMARY

- Budget Overview
- Revenues
  - Major General Fund Changes
  - Growth Trends
  - Caveats and Estimate Limitations
- Expenditures
  - Appropriation of Unrestricted Revenue
  - Highlights
  - Staffing
  - Pensions and Other Retiree Benefits
  - Areas for Consideration
- Financial Policy Compliance
- Four-Year Budget Outlook
- Ratings



# BUDGET OVERVIEW

## TOTAL 2018-19 CITY GOVERNMENT

	Appropriations (\$ Millions)	Authorized Positions
<b><u>I. Proprietary Departments</u></b>		
Airports	\$ 8,116.6	\$ 3,908
Harbor	\$ 1,597.8	\$ 999
Water and Power	\$ 9,335.2	\$ 11,263
<i>Total</i>	<i>\$ 19,049.6</i>	<i>\$ 16,170</i>
<b><u>II. General City Budget</u></b>		
General Fund	\$ 6,530.1	\$ 24,434 *
Special Funds	\$ 4,117.9	\$ 12,367
<i>Total</i>	<i>\$ 10,648.0</i>	<i>\$ 36,801</i>
<b><u>III. Grants and other Non-Budgeted Funds</u></b>		
<i>Total</i>	<i>\$ 1,612.0</i>	<i>-</i>
<b><i>Grand Total</i></b>	<b><i>\$ 31,309.6</i></b>	<b><i>\$ 52,971</i></b>

\*Sworn staff represents 56 percent of General Fund positions.



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# BUDGET OVERVIEW

Budget Component	Budget (\$ Millions)			Authorized Positions		
	Adopted 2018-19	Proposed 2019-20	Percent Change	Adopted 2018-19	Proposed 2019-20	Percent Change
General Fund	\$ 6,190.6	\$ 6,530.1	5.5%	24,101	24,434	1.4%
Special Funds	\$ 3,709.2	\$ 4,117.9	11.0%	12,059	12,367	2.6%
<b>Total</b>	<b>\$ 9,899.8</b>	<b>\$ 10,648.0</b>	<b>7.6%</b>	<b>36,160</b>	<b>36,801</b>	<b>1.8%</b>



# REVENUES: MAJOR GENERAL FUND CHANGES

General Fund revenues increased by \$339.5 million (5.5%) from the 2018-19 Adopted Budget to the 2019-20 Proposed Budget. Major changes include:

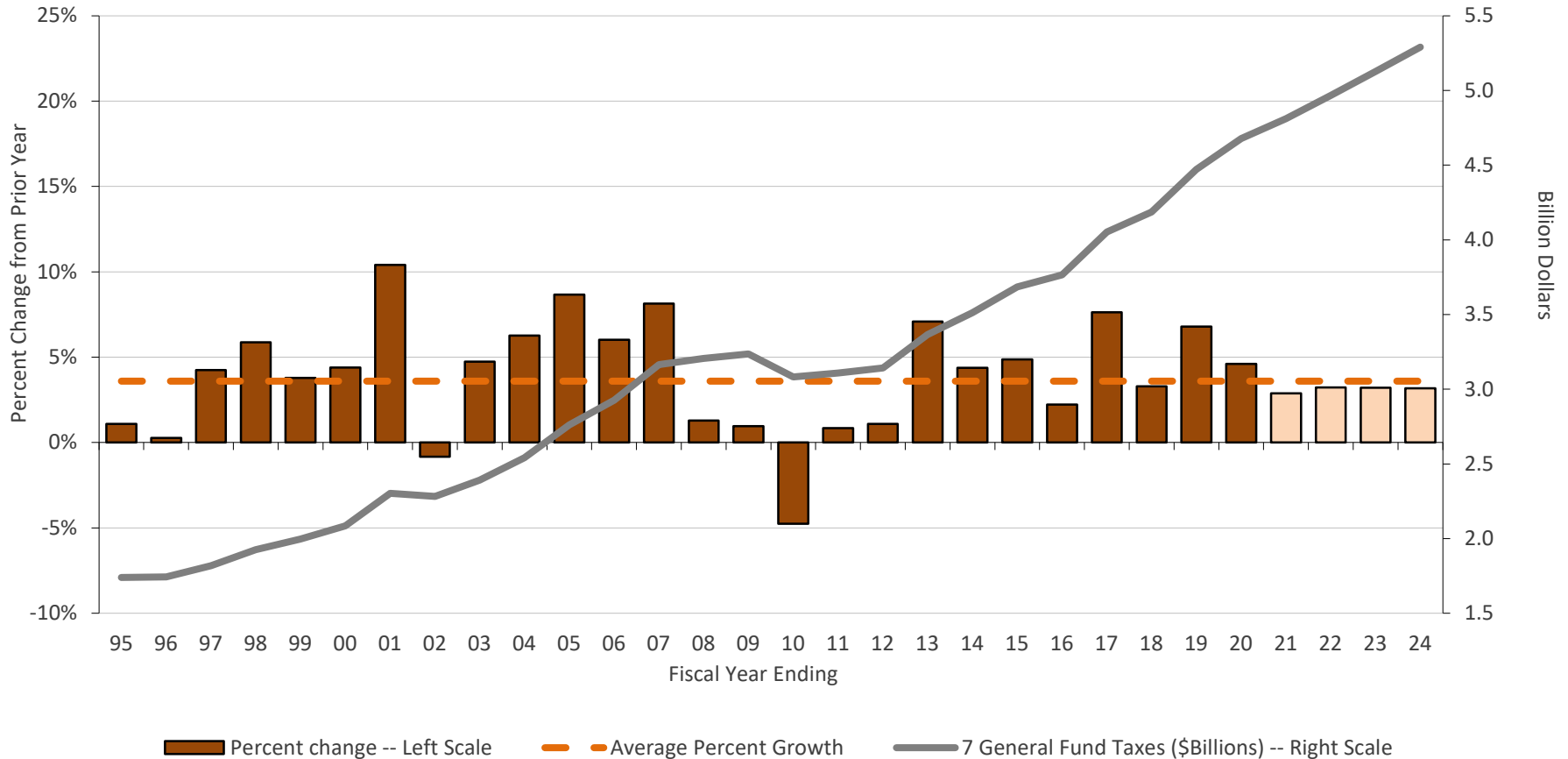
Source	Amount (Millions)	
Property Tax	\$152.1	Assumes 6.0% growth
License, Permits, Fees, and Fines	\$58.8	From increased special fund reimbursements, increased LAPD/MTA reimbursements, and new or increased tobacco, ambulance, and e-payable receipts.
Electricity Users Tax	\$35.8	Based on DWP estimates, adjusted to reflect uncollectable receipts.
Communications Users Tax	(\$25.2)	Continued decline due to loss of subscriptions and price competition
Sales Tax	\$33.5	Continued 3.7% growth, with additional increases from cannabis and a court decision on out-of-state e-sales.
Business Tax	\$64.9	4.2% growth, bolstered by \$64.4 million in total receipts from cannabis, of which \$14.2 is one-time.
Transient Occupancy Tax	\$4.5	\$2.1 growth from hotels; \$2.4 growth in short-term rentals, which assumes continued growth tempered by implementation of the new Home-Sharing Policy.
Documentary Transfer Tax	(\$2.6)	While this can be highly volatile, we expect stability next year.
Parking Fines	(\$18.1)	Parking fines continue to decline.



# REVENUES: GROWTH TRENDS

## GROWTH OF SEVEN GENERAL FUND TAXES

(Property (includes VLF), Utility Users, Business, Sales, Transient Occupancy, Documentary, and Parking Occupancy)



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# REVENUES: CAVEATS AND ESTIMATE LIMITATIONS

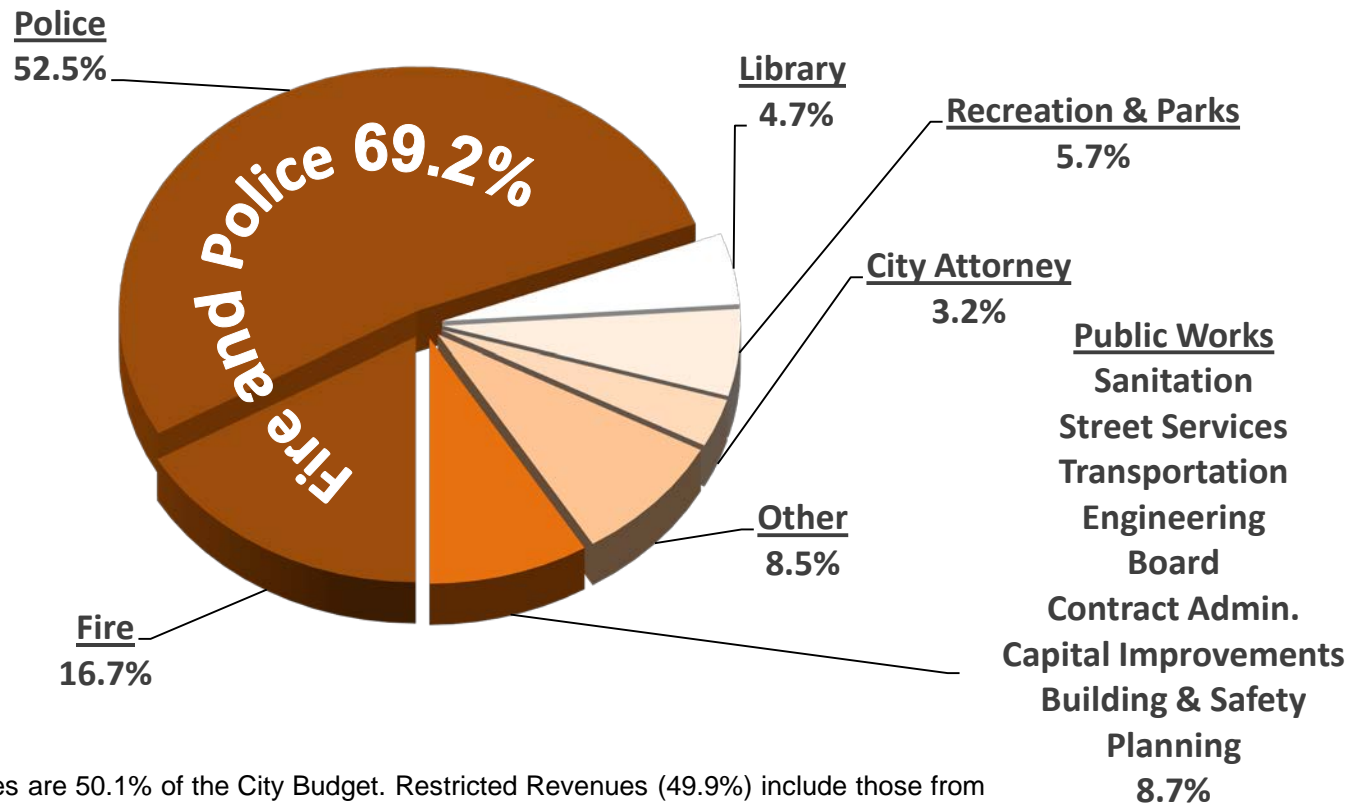
Estimates for the following revenue sources are based on our best estimates, but are uncertain:

- Cannabis receipts, in both Business and Sales Tax – Due to the lack of historical data.
- Short-Term Rentals – Due to the unknown impact of the implementation of the Home-Sharing Policy in July 2019.
- Gas Tax – Short in 2018-19 and continues to be unpredictable.



# EXPENDITURES: APPROPRIATION OF UNRESTRICTED REVENUE

## UNRESTRICTED REVENUES\* (\$5.3 BILLION)



\*Unrestricted Revenues are 50.1% of the City Budget. Restricted Revenues (49.9%) include those from grants, fee-supported and reimbursed programs, and special funds.





# EXPENDITURES: HIGHLIGHTS

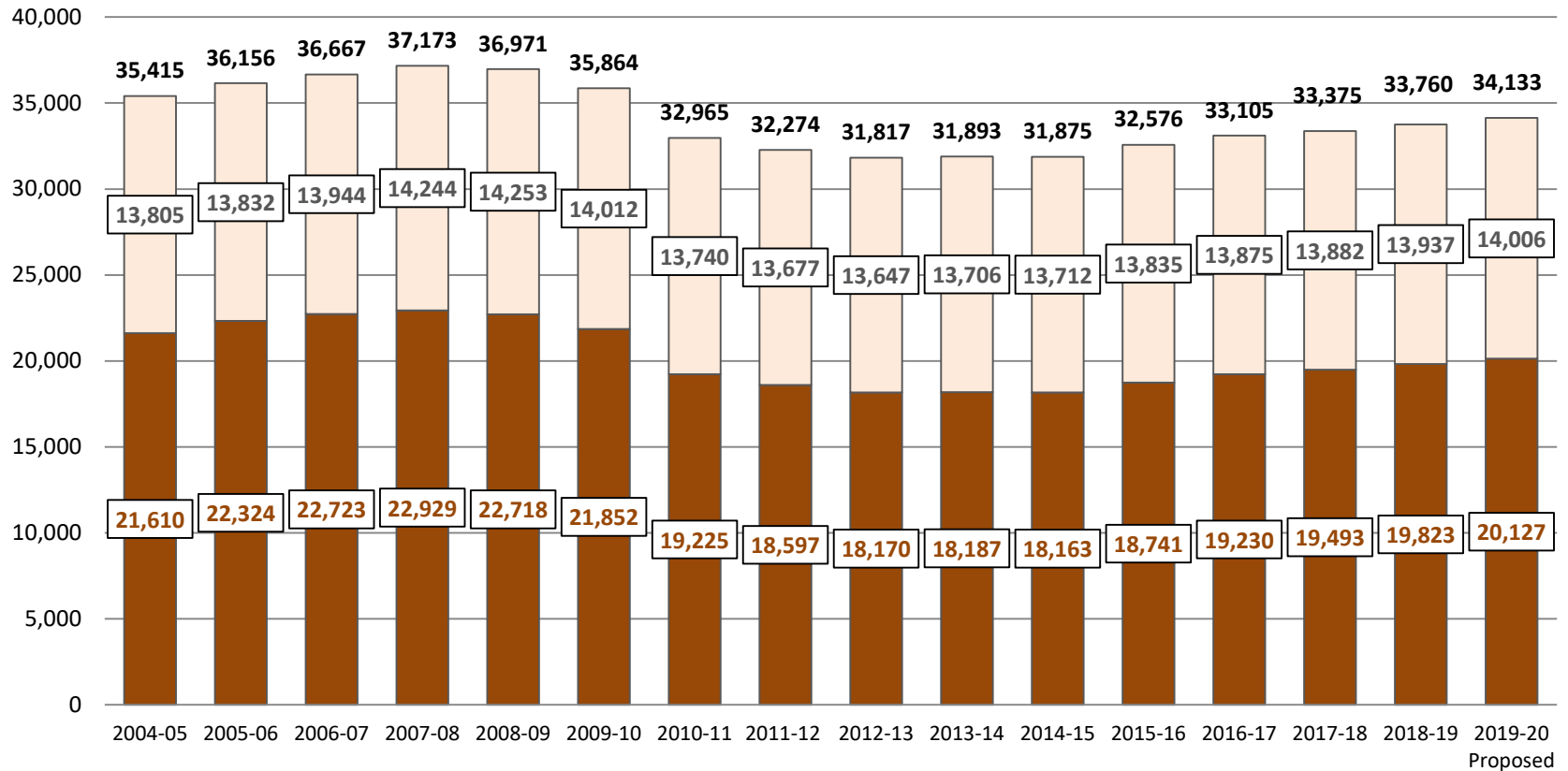
The proposed expenditure levels address some recurring spending challenges and increase key investments:

- Liability Claims – Continued at \$100 million (\$80 million in the Account, \$20 million in the UB), meeting anticipated spending.
- Police Overtime – Increased by \$47 million in the LAPD (\$3.5 for A Bridge Home and \$10 million for cannabis enforcement). An additional \$5 million in the UB for A Bridge Home sites.
- Infrastructure: Increased investment driven by Measure M (\$37.5 million), Measure W (\$42.8 Measure W), and full-year funding for SDRF (\$70.5 million). The General Fund appropriation is down \$27 million.
- Homelessness – Total spending increase of \$43 million to \$422 million driven by HEAP (\$36 million), Proposition HHH projects (\$6 million), and the General Fund (\$3.5 million).



# EXPENDITURES: STAFFING

## AUTHORIZED CITY STAFFING\* (Not Including Proprietary Departments)



\* Regular Positions

■ All Others    □ Police (Sworn and Civilian)

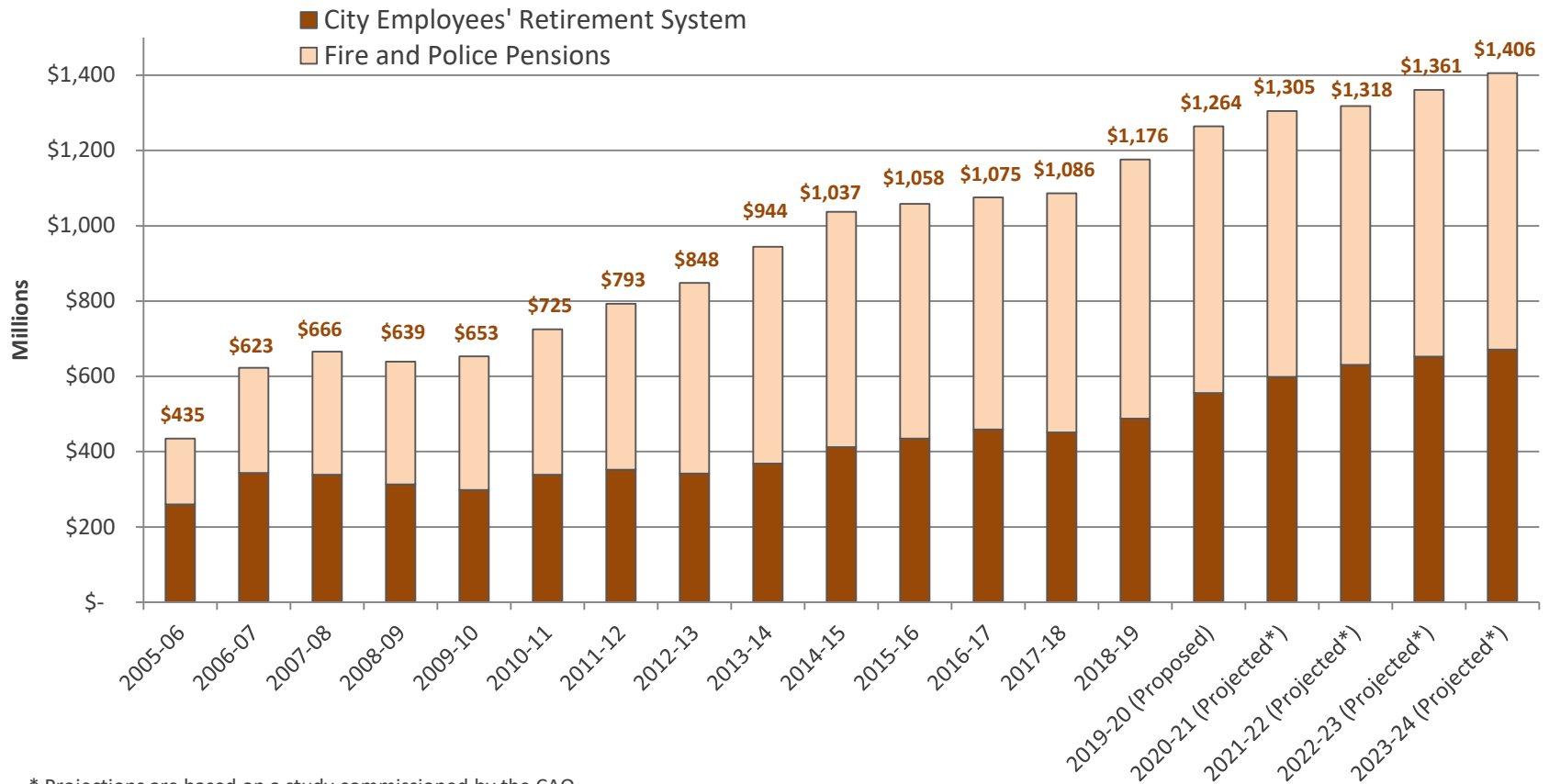


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# EXPENDITURES: PENSIONS AND OTHER RETIREE BENEFITS

## GENERAL FUND CONTRIBUTIONS TO LACERS AND LAFPP

(Actual Amounts 2005-18; Adopted 2018-19, Proposed 2019-20, Projected 2020-24\*)



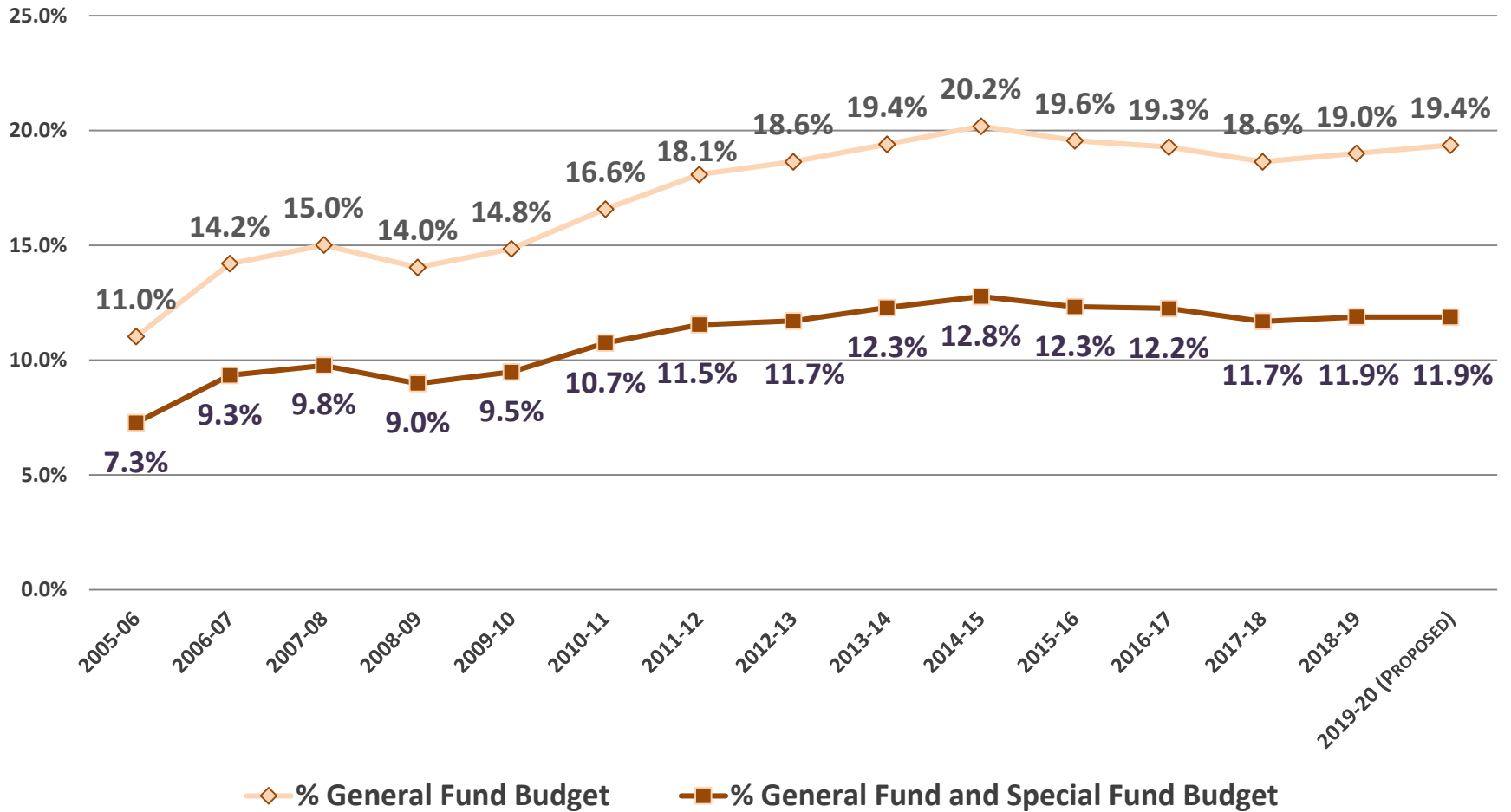
\* Projections are based on a study commissioned by the CAO.



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# EXPENDITURES: PENSIONS AND OTHER RETIREE BENEFITS

## PERCENT OF BUDGET USED FOR LACERS/LAFPP CONTRIBUTION



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# EXPENDITURES: AREAS FOR CONSIDERATION

## Potential Areas of Expenditure Risk:

- No funding is included for either sworn or civilian employee compensation adjustments if they are approved through ongoing negotiations.
- Infrastructure needs exceed available funds, even as the budget complies with the capital policy and adds special funding for clean water and mobility projects.
- \$31 million in departmental reductions require department heads to manage within budget.



# FINANCIAL POLICY COMPLIANCE

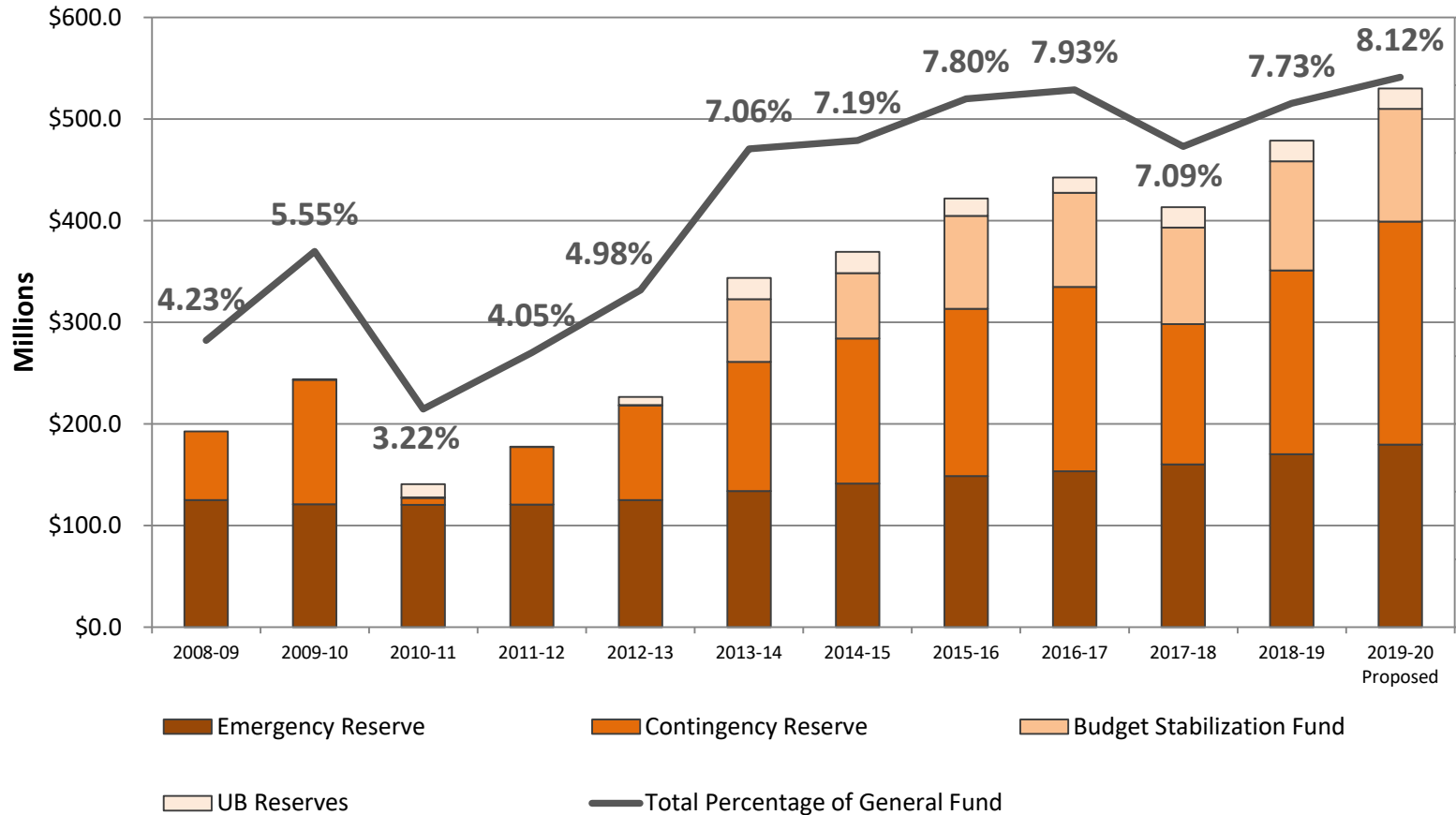
Policy		Compliance
Reserve Fund at least 5% of General Fund	✓	July 1 at \$399 million, or 6.11%
Budget Stabilization Fund contribution if growth of seven economically sensitive taxes is over 3.4%		5.9% in growth offset by \$77 million, \$4 million contribution to Fund and \$73 million for capital investment. <ul style="list-style-type: none"> <li>• Non-compliant if growth threshold is 3.4% (\$111 million)</li> <li>• Compliant if growth threshold is 4.5% (\$62 million)</li> </ul>
Capital investment at 1% of General Fund	✓	Investment of 1.12% or \$73 million
All one-time revenues used for one-time expenditures	✓	\$56 million in one-time revenues for \$119 million in one-time expenditures
Debt service ceiling: 6% for non-voter approved and 15% for non-voter and voter approved of general receipts	✓	<ul style="list-style-type: none"> <li>• 3.94% for non-voter approved</li> <li>• 5.93% for non-voter and voter approved</li> <li>• Projected to remain below limits until at least 2026-27</li> </ul>



# FINANCIAL POLICY COMPLIANCE

## ADOPTED BUDGET RESERVES

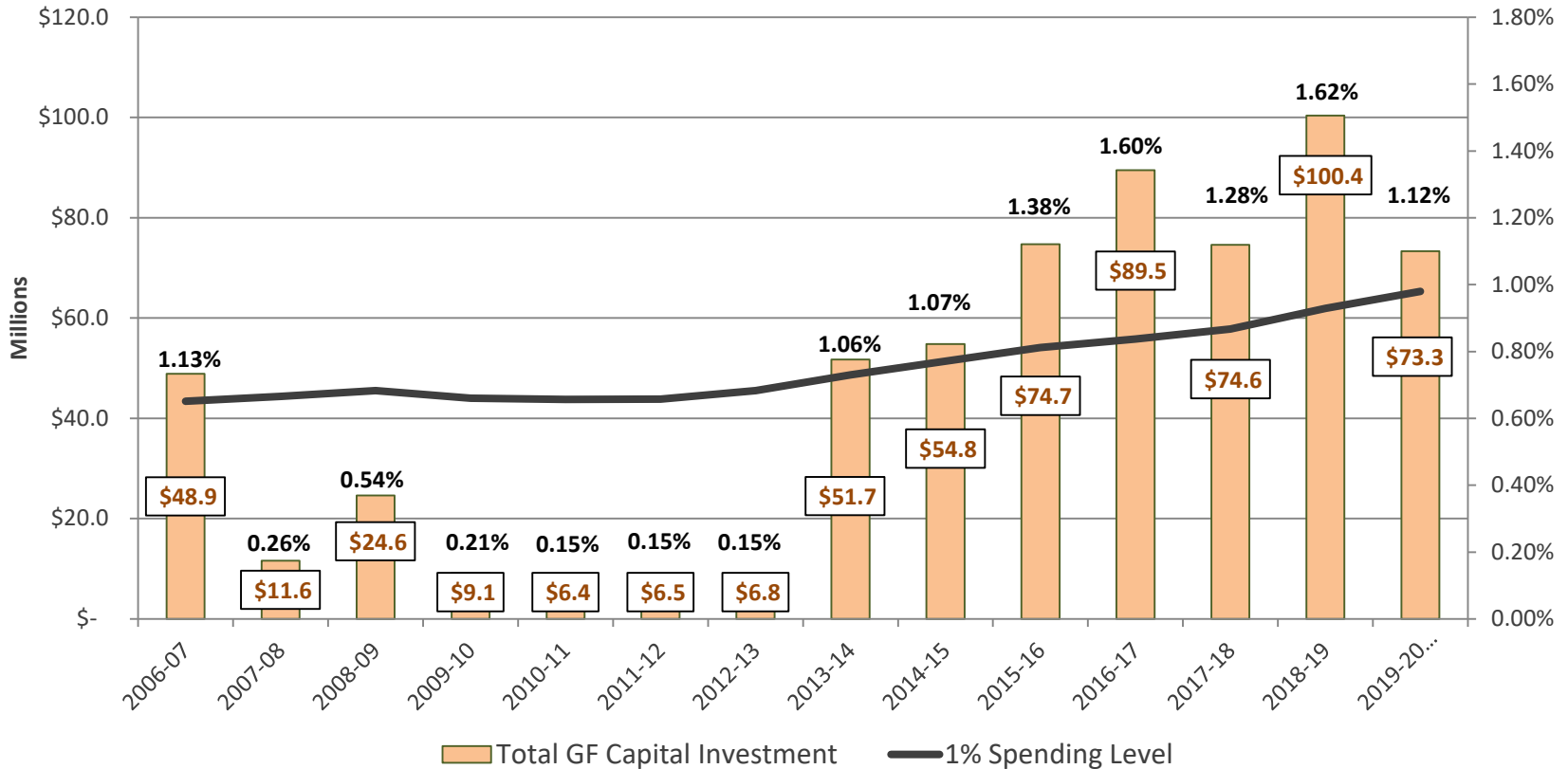
*(Reserve Fund, Budget Stabilization Fund, and UB Reserves)*



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# FINANCIAL POLICY COMPLIANCE

## CAPITAL INVESTMENT AS A PERCENTAGE OF GENERAL FUND REVENUE

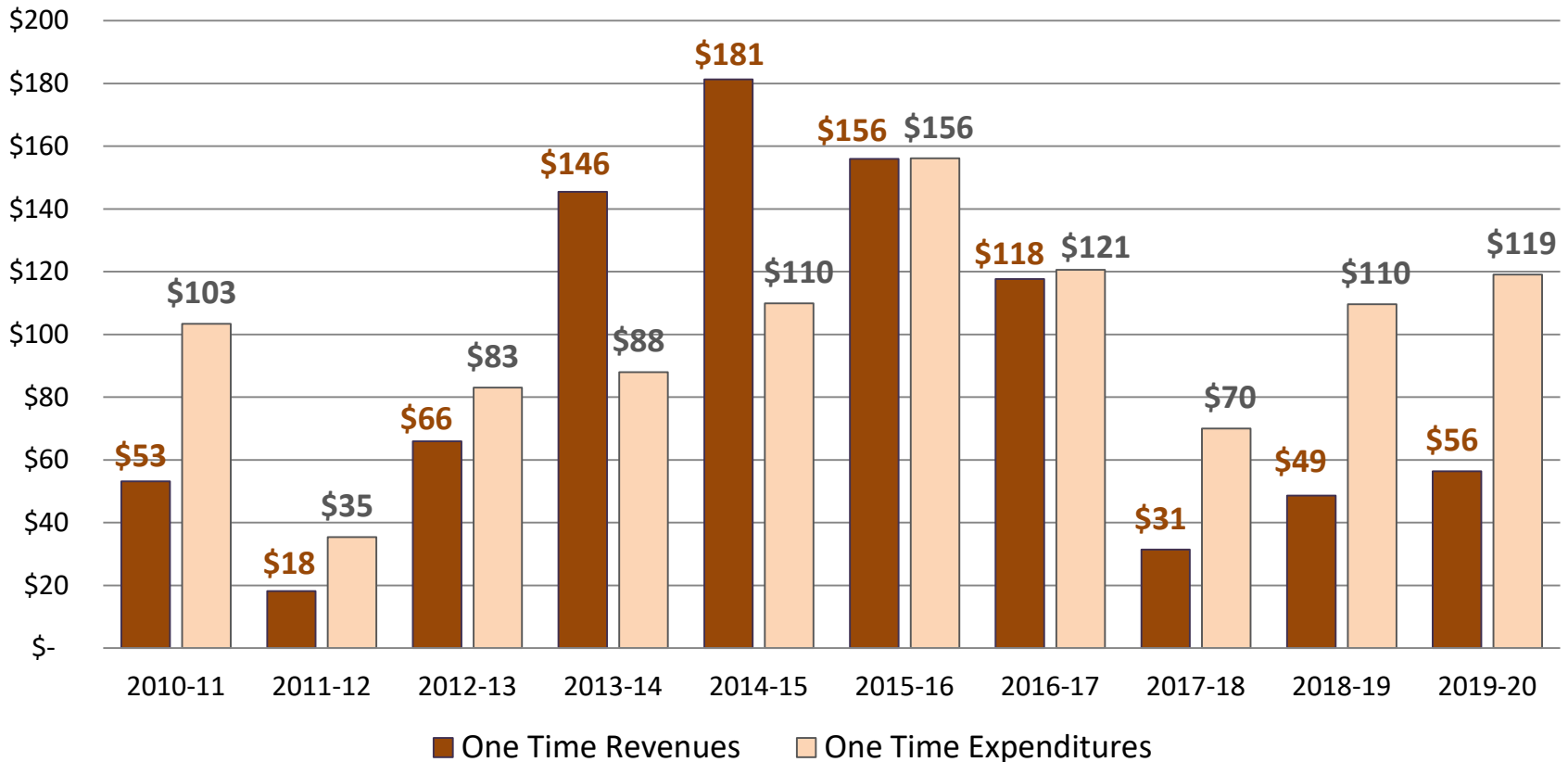


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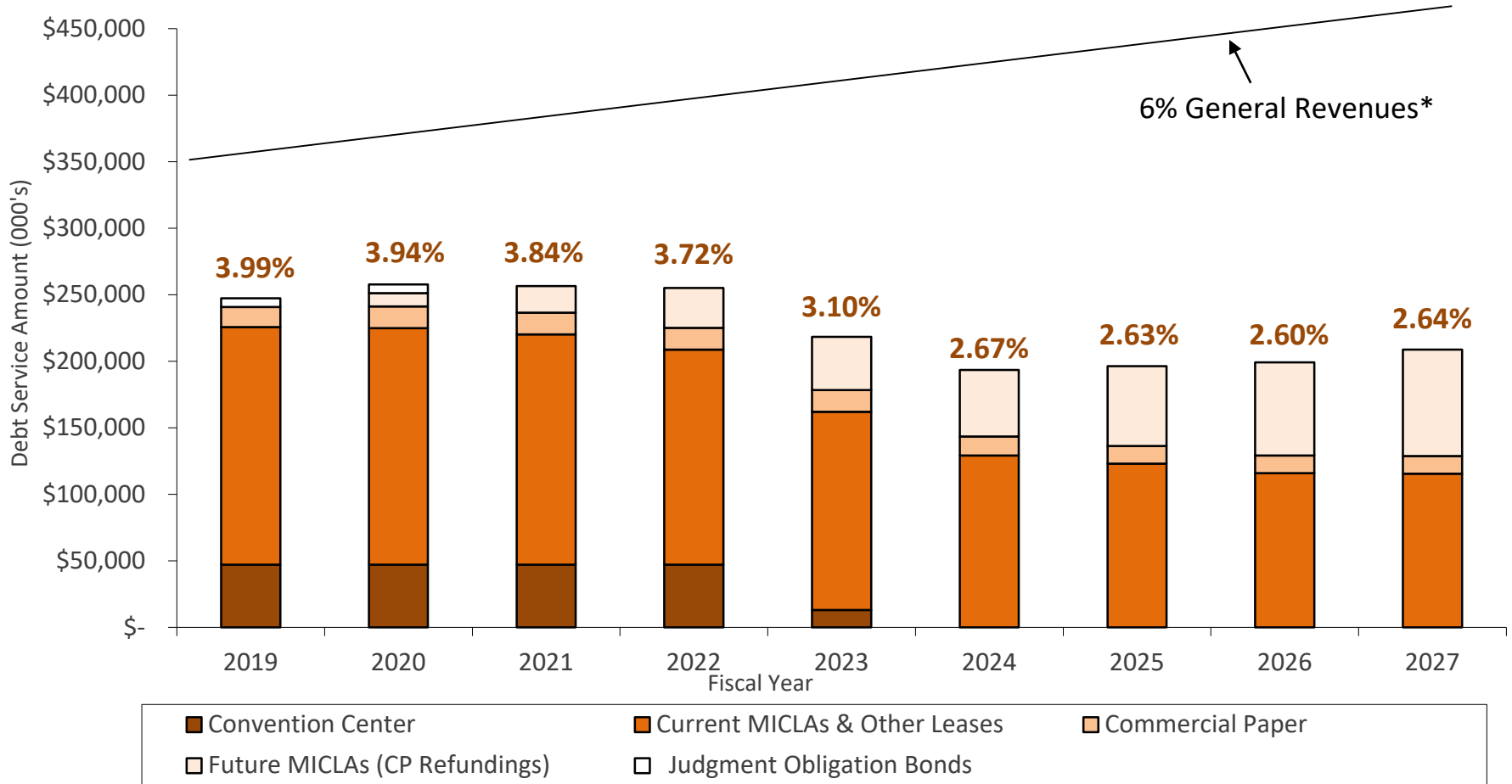
# FINANCIAL POLICY COMPLIANCE

## ONE-TIME REVENUES VS. ONE-TIME EXPENDITURES PROPOSED BUDGETS



# FINANCIAL POLICY COMPLIANCE

## NON-VOTER APPROVED DEBT



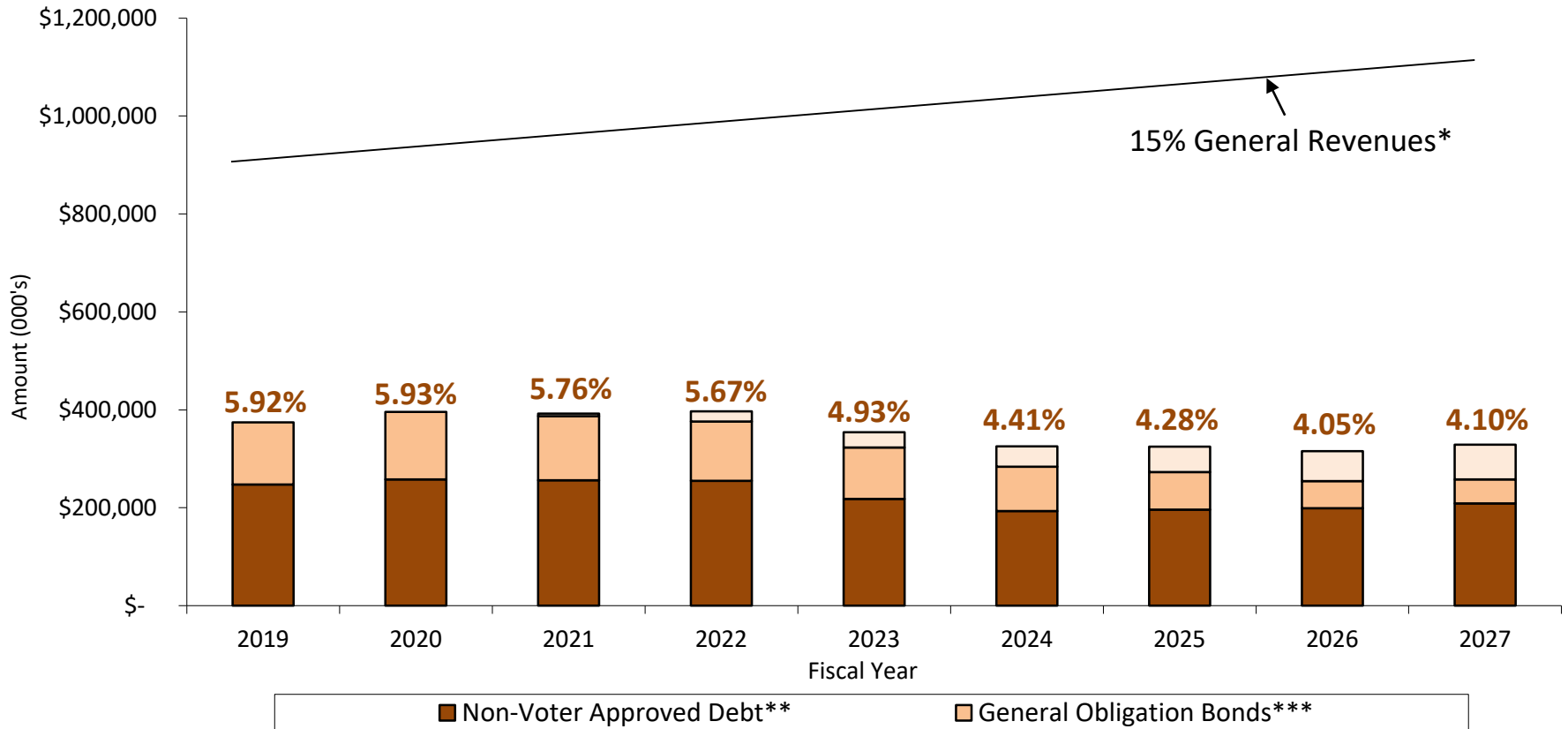
\*Projected revenue growth from 2020-21 through 2023-23 is 2.2%, 2.7%, 2.9%, and 2.8% respectively. Projected revenue growth from 2024-25 through 2026-27 is 2.9%.



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# FINANCIAL POLICY COMPLIANCE

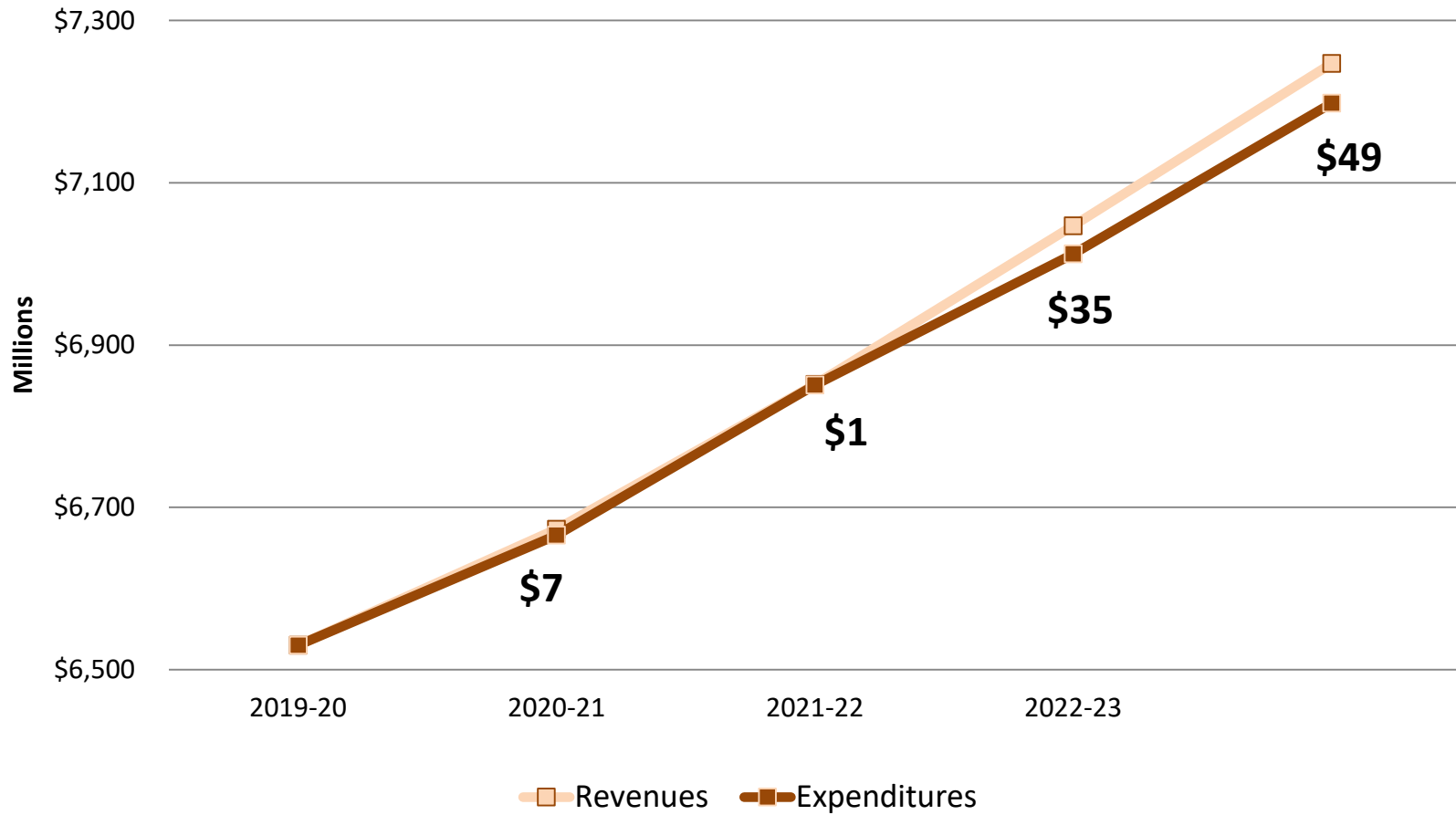
## VOTER APPROVED AND NON-VOTER APPROVED DEBT



\*Projected revenue growth from 2020-21 through 2023-23 is 2.2%, 2.7%, 2.9%, and 2.8% respectively. Projected revenue growth from 2024-25 through 2026-27 is 2.9%.  
 \*\*Includes Judgment Obligation Bonds, Convention Center, MICLA bond issuances, and MICLA Commercial Paper and refundings.  
 \*\*\*Voter approved debt.



# FOUR-YEAR BUDGET OUTLOOK



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# RATINGS

Rating Agency	Rating Action	Date of Action
Fitch Ratings	AA- to AA	April 2019
Kroll Bond Rating Agency	AA to AA+	April 2019
Moody's Investors Services	Aa2 Affirmed	June 2018
S&P Global Ratings	AA Affirmed	June 2018

## Fitch and Kroll's recent upgrades:

- Fitch: "The upgrade...reflects the city's strengthened operating performance, resulting from some years of solid revenue growth largely outpacing managed expenditure growth. The city also benefits from a moderate debt burden and the highest level of gap-closing capacity."
- Kroll: The City's "experienced leadership team, well-established financial management practices, and demonstrated history of proactive fiscal controls are evidenced by consistent financial strength, stable reserves, and strong liquidity."

