

OVERVIEW
OF THE
2021-22 ADOPTED BUDGET
AND THE
2022-23 BUDGET PROCESS
FOR THE
NEIGHBORHOOD COUNCIL BUDGET ADVOCATES



NCBA Overview
September / October 2021

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Office of the City Administrative Officer

SUMMARY

- The Budget Documents
- Budget Overview
- Revenues: Levels, Changes, and Concerns
- Expenditures: Overview, Employee-Related Costs, and Concerns
- Financial Policies and Compliance
- Budget Control and 2020-21 Case Study
- Budget Development and Decisions Process
- How to Analyze a Budget Request
- Budget Analysis Resources



THE BUDGET DOCUMENTS

Proposed Budget Documents:

- [Mayor's Budget Summary](#). Prepared by the Mayor's Office to present a message from the Mayor, key investments, and summary data.
- [Proposed Budget Book](#). Technical information, including summary data, appropriations by line item and funding source, grant receipt estimates, and the distribution of funding by function.
- Detail of Departmental Programs (Blue Book), [Volume I](#) and [Volume II](#). Presents changes to each department by program, details of position authorities, contractual services, and detailed descriptions of selected non-departmental appropriations.
- [Revenue Outlook](#). Discussion of estimates and projections for all General Fund sources, and detail of departmental receipts.
- [Supporting Information for the Budget and Finance Committee](#). Detailed information, analysis, and summary data requested by the Budget and Finance Committee.

Adopted Budget Documents (2021-22 Adopted Budget and Budget Summary not yet published):

- [Adopted Budget](#). Produced and released by the Controller's Office. Contains the [Budget Resolution](#). Otherwise includes the same information as the Proposed Budget Book, updated for the Council's changes.
- [Budget Summary](#). A pamphlet presenting analytical information and summary data regarding the adopted budget.
- Detail of Department Programs: Supplement to the 2021-22 Adopted Budget (White Book), [Volume I](#) and [Volume II](#). Contains the same information as the Blue Book, but updated to reflect the changes made by the City Council.



BUDGET OVERVIEW

TOTAL 2021-22 CITY GOVERNMENT

	Appropriations (\$ Millions)	Authorized Positions
<u>I. Proprietary Departments</u>		
Airports	\$ 7,803.4	3,981
Harbor	\$ 1,710.2	999
Water and Power	\$ 10,045.7	12,989
<i>Total \$</i>	<i>19,559.3</i>	<i>17,969</i>
<u>II. General City Budget</u>		
General Fund	\$ 7,503.2	24,455*
Special Funds	\$ 3,977.1	12,278
<i>Total \$</i>	<i>11,480.3</i>	<i>36,733</i>
<u>Grants and other Non-Budgeted</u>		
<u>III. Funds</u>		
<i>Total \$</i>	<i>1,635.7</i>	<i>-</i>
<i>Grand Total \$</i>	<i>32,675.3</i>	<i>54,702</i>

*Sworn staff represents 56 percent of General Fund positions.



BUDGET OVERVIEW

Budget Component	Budget (\$ Millions)			Authorized Positions		
	City Budget 2020-21	Adopted 2021-22	Percent Change	City Budget 2020-21	Adopted 2021-22	Percent Change
General Fund	\$ 6,687.3	\$ 7,503.2	12.2%	24,632	24,455	-0.7%
Special Funds	\$ 3,844.0	\$ 3,977.1	3.5%	12,541	12,278	-2.1%
Total	\$ 10,531.3	\$ 11,480.3	9.0%	37,173	36,733	-1.2%



REVENUE LEVELS: MAJOR REVENUES

The major sources of General Fund revenue in 2021-22 include:

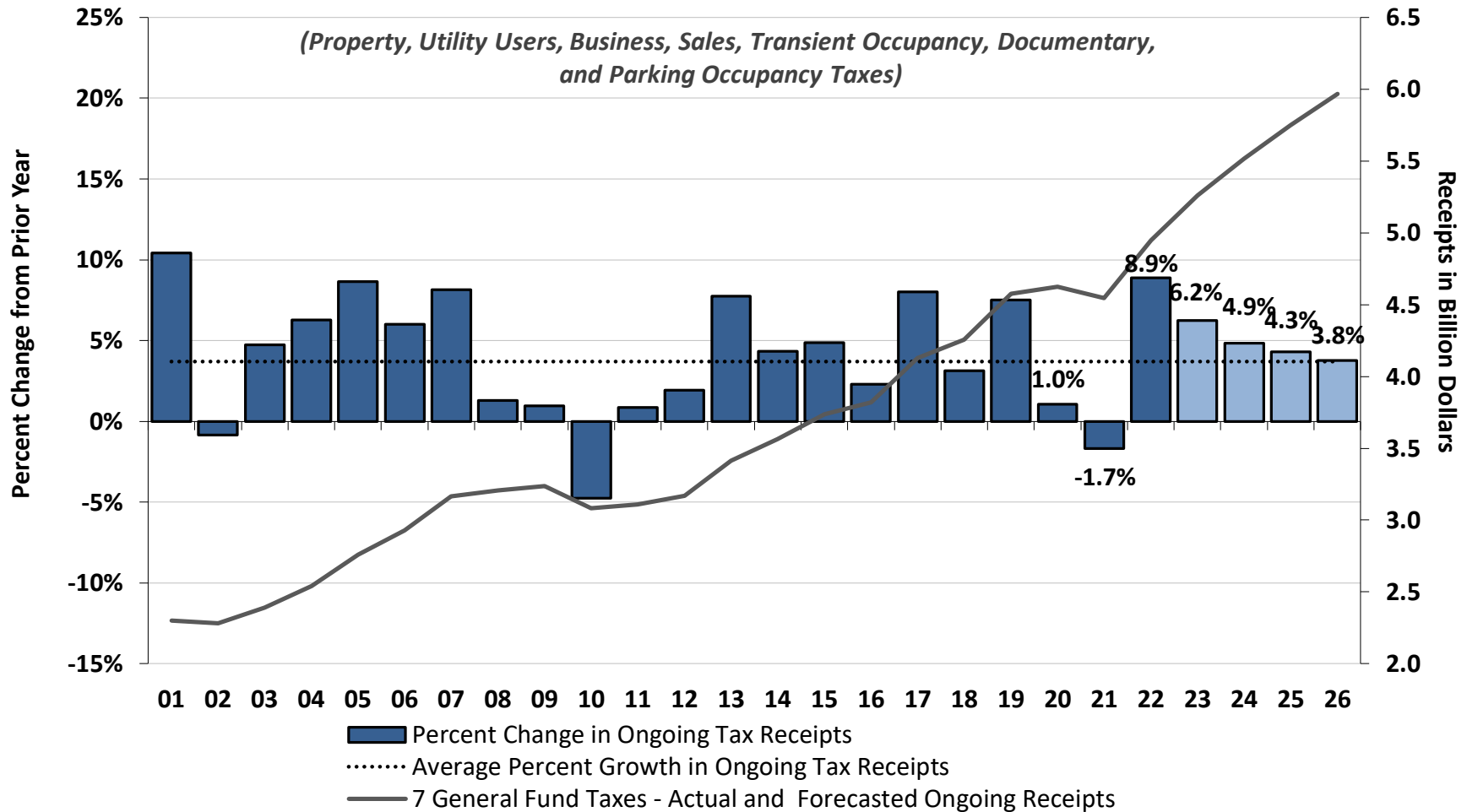
Source	Amount(M)	Calculation Considerations
Property Tax	\$2,512.2	Calculation is based on County's estimate of the growth in assessed value.
Departmental Receipts	\$1,244.8	Major components include related cost reimbursements, intergovernmental transfers, and from fees for service.
Business Tax	\$716.6	Gross receipts tax on businesses operating in the City. Calculation based on current receipts, as of early April.
American Rescue Plan	\$639.5	Used entirely as General Fund revenue.
Sales Tax	\$606.6	Calculated based on economic analyses projecting consumer spending in subsequent year.
Utility Users Tax	\$605.1	Communications, Electric, and Gas Users taxes.
Documentary Transfer Tax	\$227.0	Fee from property sales. Extremely volatile and unpredictable.
Power Revenue Transfer	\$225.8	Based on percentage of prior-year gross operating power revenue.
Transient Occupancy Tax	\$183.3	Hotel and short-term rental tax.
Parking Fines	\$123.6	Has been declining in recent years.
Parking Occupancy Tax	\$99.3	Levy on the rent of parking spaces.



REVENUE LEVELS: ECONOMICALLY SENSITIVE REVENUES

GROWTH OF SEVEN GENERAL FUND TAXES

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



REVENUE: CHANGES

General Fund revenues increased by \$649.2 million from 2020-21 City Budget to the 2021-22 Adopted Budget. Major changes include:

Source	Amount (Millions)	
American Rescue Plan	\$639.5	Used entirely as General Fund revenue.
Property Tax	\$103.2	Assumes similar growth and delinquency rates as 2020-21. Growth rate based on assessed value growth of 5.9 percent.
Business Tax	\$30.1	Assumes non-cannabis growth is flat from revised, with strong growth in cannabis receipts.
Sales Tax	\$49.6	Assumes 17.5% growth when compared to estimated receipts in 2020-21.
Transient Occupancy Tax	\$(61.6)	Assumes 77% growth from 2020-21 receipts, but still well below prior budget levels.
Parking Occupancy Tax	\$(2.7)	Assumes 75% growth from 2020-21 receipts, but still just below prior budget levels.
Reserve Fund	\$85.1	The Adopted Budget required this transfer to balance.



REVENUE: CONCERNS

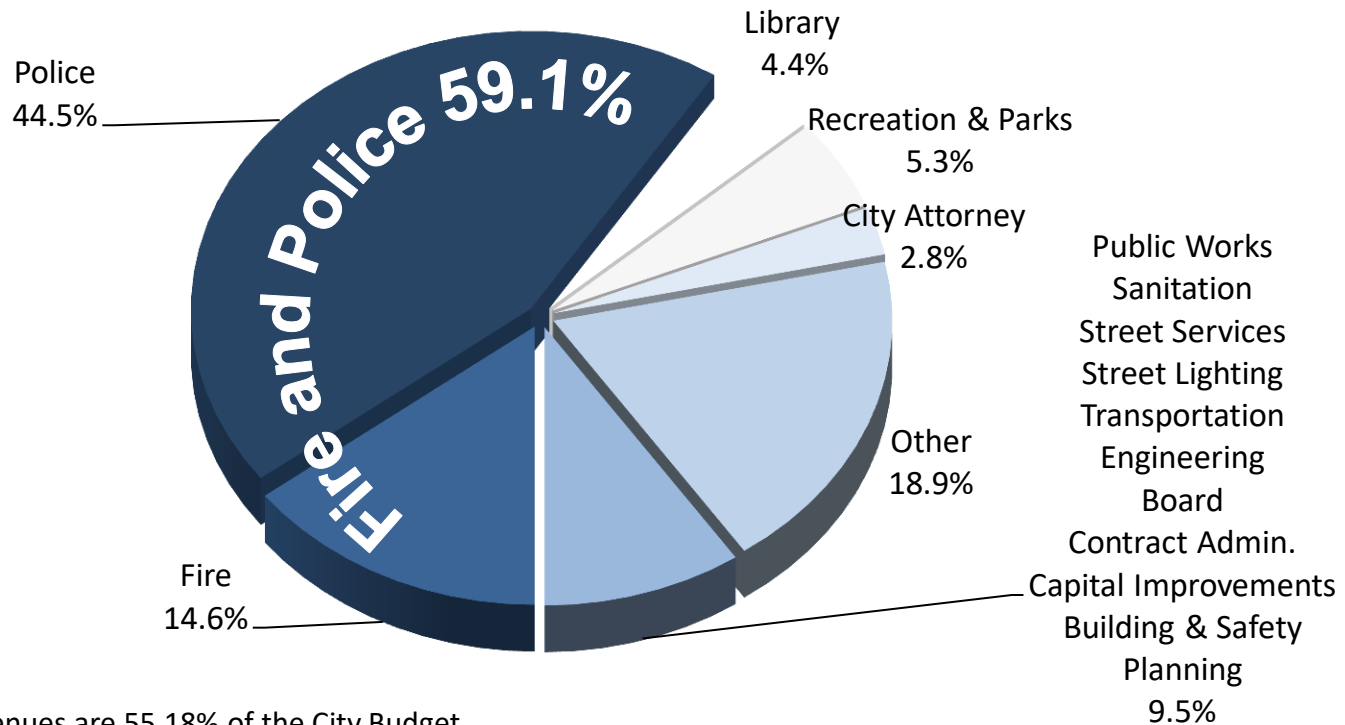
The General Fund revenue faces risk from the American Rescue Plan receipts, property taxes, and pandemic assumptions, and is heavily one-time in nature:

- American Rescue Plan projected \$640 million revenues in May 2021-22 require that the Treasury remits the second payment as it has stated that it would.
- Subsequent to the Budget's adoption, we learned that the assessed valuation of property within the City maybe closer to 4 percent that the projected 6 percent.
 - As a result, property tax could be between \$27 million and \$52 million below budget in 2021-22.
- Revenues generally based on an assumption:
 - That pandemic conditions would end around August 1, 2021 and the economy would grow after that time.
 - That, for some revenue sources, recovery would be rapid and strong once it begins.
- \$824 million in one-time revenues is an all time high and puts the 2021-22 spending level at risk in future years.



EXPENDITURES: OVERVIEW

2021-22 ADOPTED BUDGET UNRESTRICTED REVENUES (\$6.3 BILLION)



Unrestricted Revenues are 55.18% of the City Budget.
Restricted Revenues (44.82%) include those from grants, fee-supported and reimbursed programs, and special funds.



EXPENDITURES: OVERVIEW

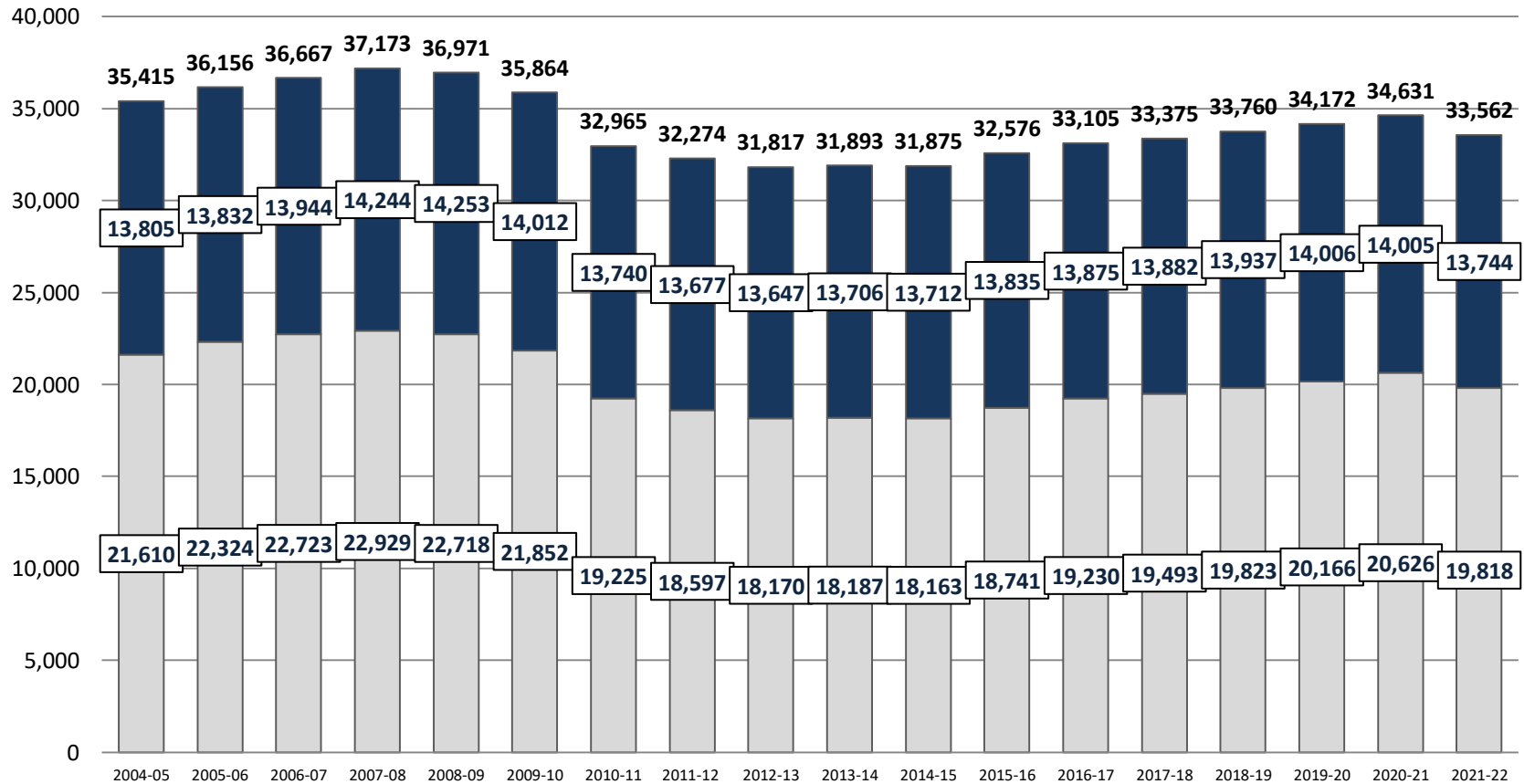
Significant expenditure changes include:

- Homelessness – Over \$800 million in new funding across all funding source and purposes, including tripling the General Fund commitment to \$225 million.
- Direct COVID Relief - \$114 million for support of residents, small businesses, seniors, and emergency response.
- Infrastructure - \$265 million in General Fund for facilities, public works projects, and technology projects.
- Liabilities and Obligations:
 - Fully funds departments to enable hiring again.
 - \$100 million for legal liabilities.
 - \$29 million to repay special funds for prior overpayments.
 - \$13 million to pay down debt.



EXPENDITURES: EMPLOYEE-RELATED COSTS

AUTHORIZED CITY STAFFING* (Not Including Proprietary Departments)



* Regular Positions

☐ All Others ■ Police (Sworn and Civilian)



EXPENDITURES: RETIREMENT COSTS

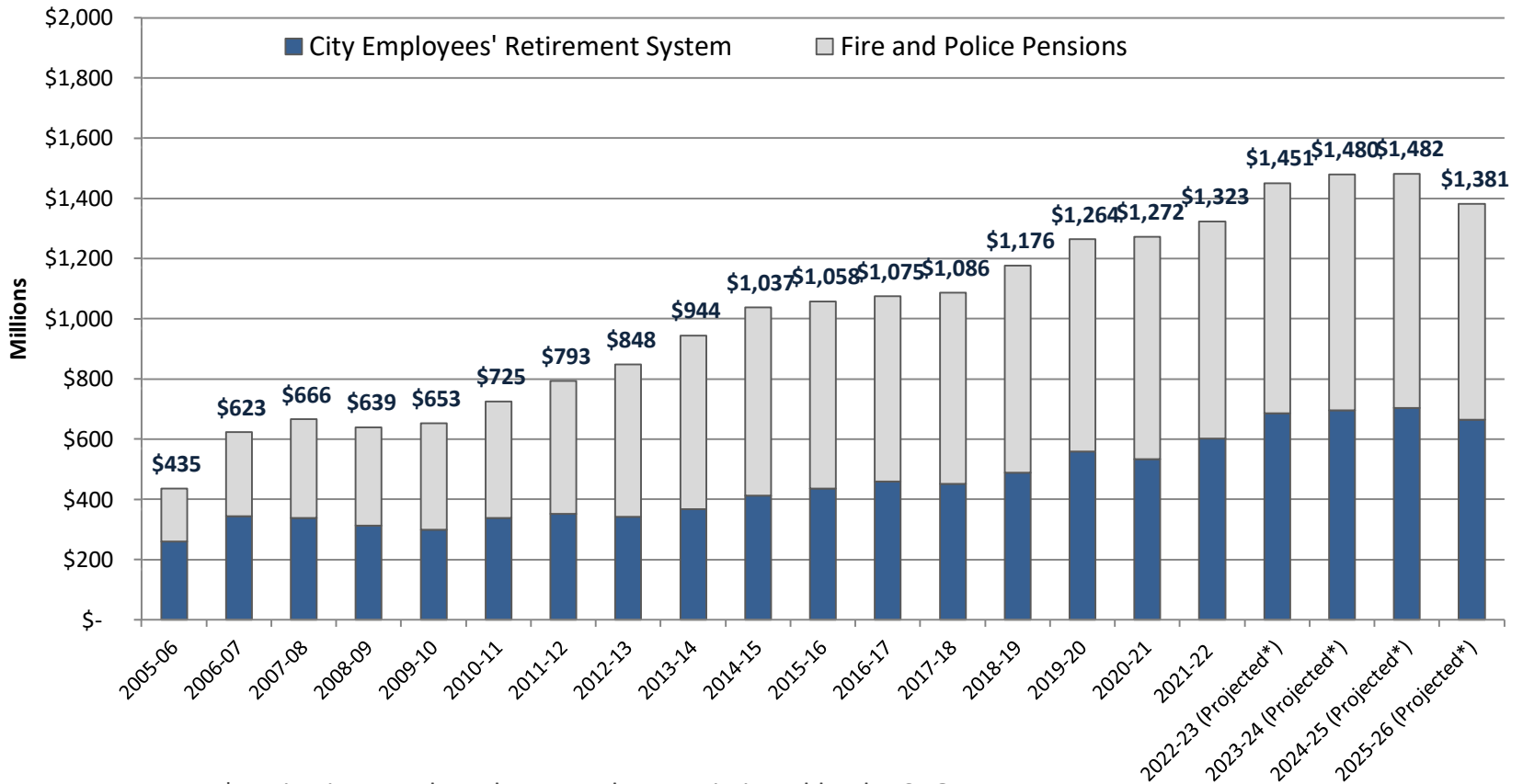
- City contribution is based on the need and commitment to fully fund the two retirement systems.
- Calculation is based on analysis by an independent actuary of:
 - The need for funding for the system, based on demographic and economic projections, including projections for the cost of the City payroll.
 - The value of investments.
- How can we control pension costs?
 - Pension reform, including adding new tiers, increasing employee contribution.
 - Managing the size and cost of the City payroll.



EXPENDITURES: RETIREMENT COSTS

GENERAL FUND CONTRIBUTIONS TO LACERS AND LAFPP

(Actual Amounts 2005-21; Proposed, 2021-22, Projected 2023-26*)

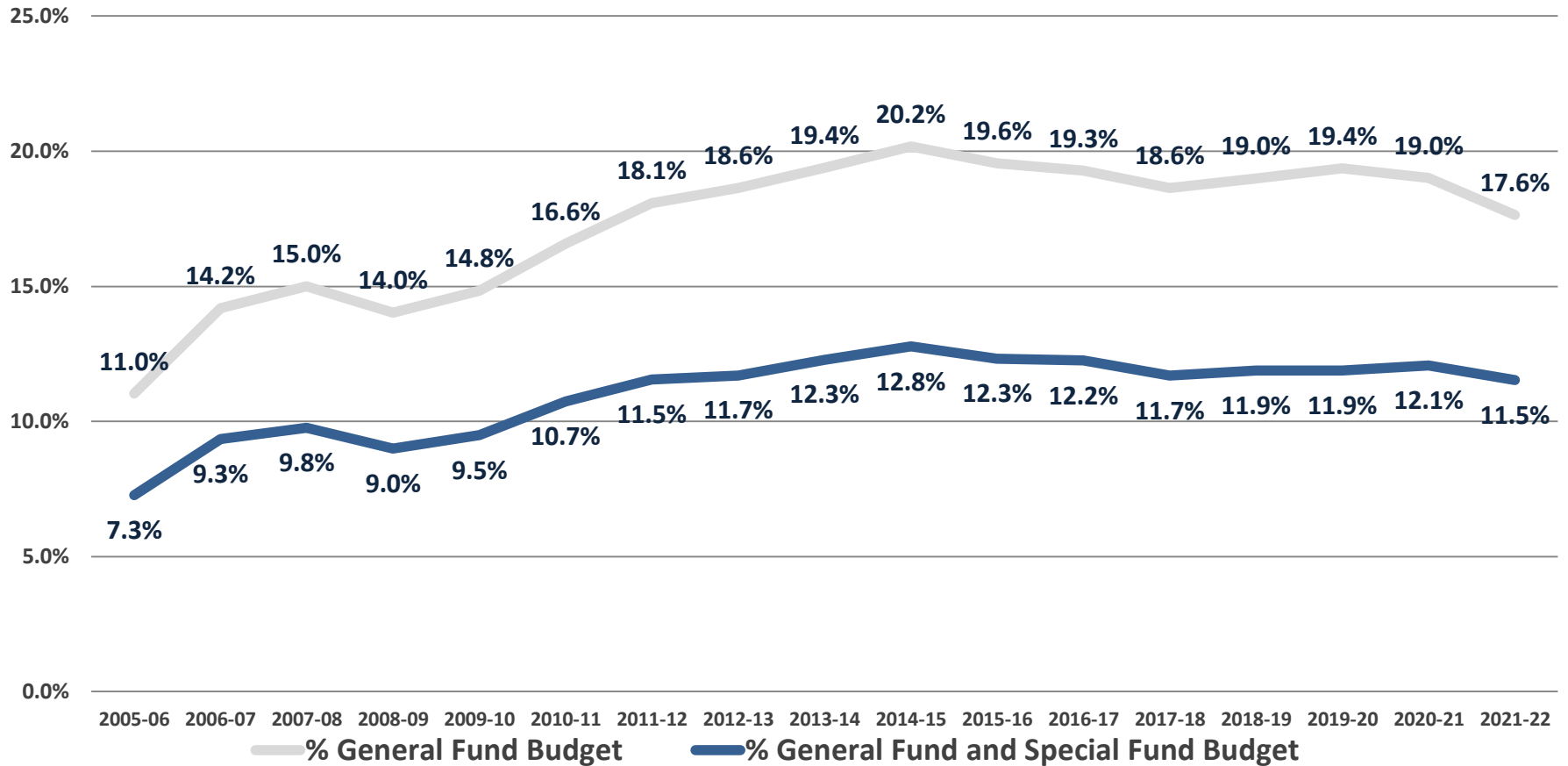


* Projections are based on a study commissioned by the CAO.



EXPENDITURES: RETIREMENT SHARE OF BUDGET

PERCENT OF BUDGET USED FOR LACERS/LAFPP CONTRIBUTION



EXPENDITURES: CONCERNS

- Based on CAO analysis, \$691 million of General Fund expenditures in the Adopted Budget are one-time:
 - Thus, \$133 million in ongoing spending is being paid in the Adopted Budget with one-time revenues calling into question whether even the base level of services is sustainable.
 - Many of the proposed new programs are designated as one-time, but there may be a desire to continue some of them, such as:
 - Basic Income Guaranteed (\$29 million GCP)
 - Various Restaurant and Small Business Assistance Programs (\$50 million)
 - Additional Homeless Services (\$79 million)
 - Homeless Prevention and Eviction Defense (\$10 million)
 - Universal Broadband for Disadvantaged Communities (\$10 million)
- The ongoing *LA Alliance* lawsuit against the City is a source of spending risk if the demands that the Court places on the City exceed the capacity of state and federal funds currently dedicated to meeting these obligations.



FINANCIAL POLICIES

- At the request of the City Council, the CAO prepared and proposed revisions to all of the [Financial Policies for the City of Los Angeles](#), which Council approved in 2020.
- Policies include:
 - Fiscal
 - Capital and Technology Improvement
 - Pension
 - General Fund Reserves
 - General Fund Encumbrances
 - Debt.
- The City tracks seven primary budget-related policies annually, but there are many others that also impact the City's budget, budget documents, and financial decisions.

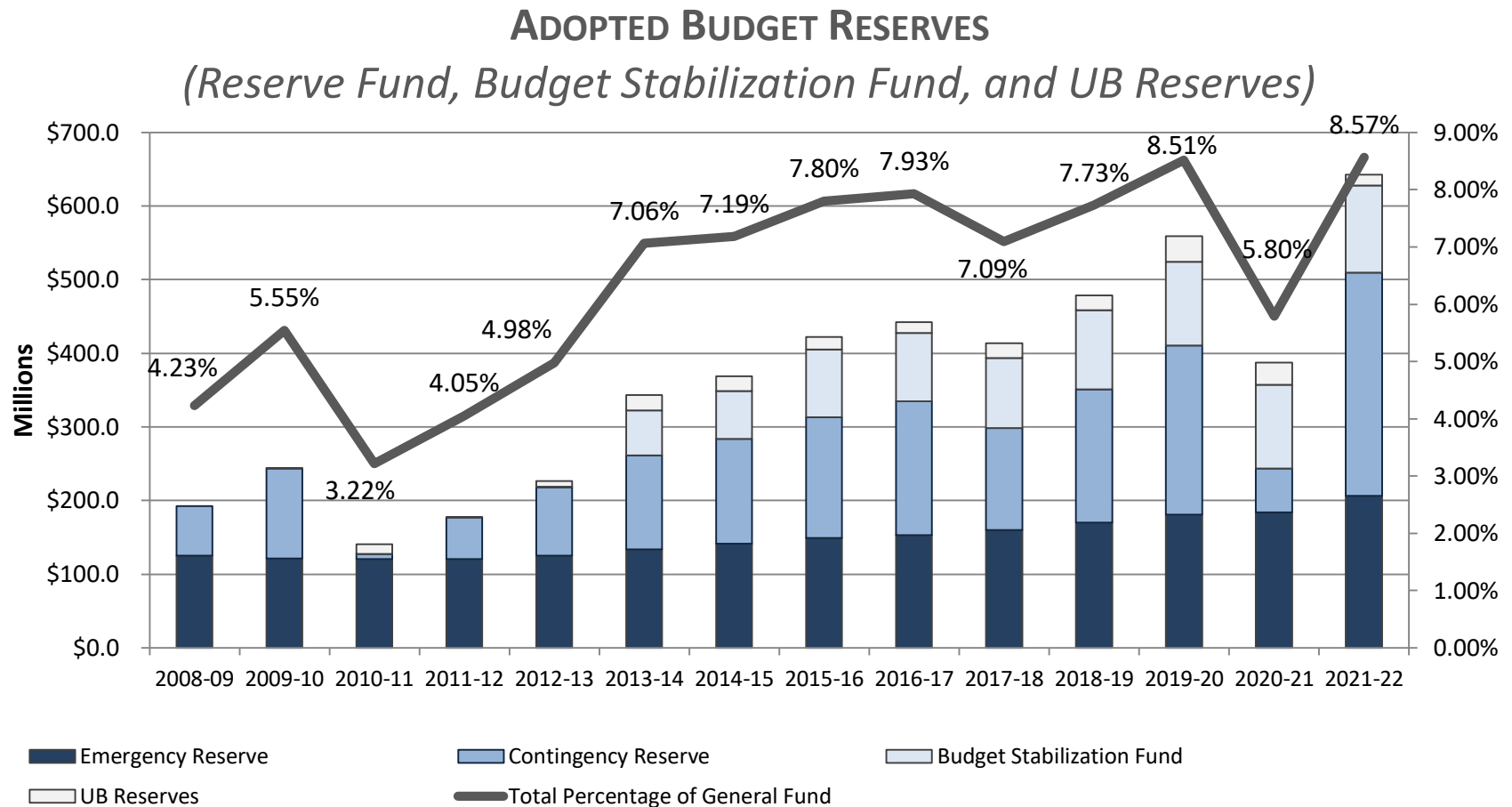


FINANCIAL POLICIES: COMPLIANCE

Policy		Compliance
Reserve Fund at least 5% of General Fund revenues	✓	July 1 at \$510 million, or 6.80%
Budget Stabilization Fund	✓	3.7% in growth is under 4.1% growth threshold. At this level, the ordinance does not permit a withdrawal and there is none.
General Fund reserves goal: 10% of General Fund revenues	✗	8.57% or \$643 million: \$510 million Reserve Fund; \$118 million Budget Stabilization Fund; \$15 million UB – Reserve.
Capital and technology investment at 1.5% of General Fund revenues	✓	Investment of 3.5% or \$266 million
All one-time revenues used for one-time expenditures	✗	\$824 million in one-time revenues for \$691 million in one-time expenditures
Debt service as percent of general receipts: No more than 6% for non voter-approved and 15% for non voter-approved and voter-approved	✓	<ul style="list-style-type: none"> • 3.43% for non voter-approved • 5.01% for non voter-approved and voter-approved • Projected to remain below limits until at least 2028-29
Achieve structural balance	✗	Four-Year Outlook projects budget gaps through 2024-25 ranging from \$47 million to \$261 million; \$157 million surplus in 2025-26.



FINANCIAL POLICIES: GENERAL FUND RESERVES



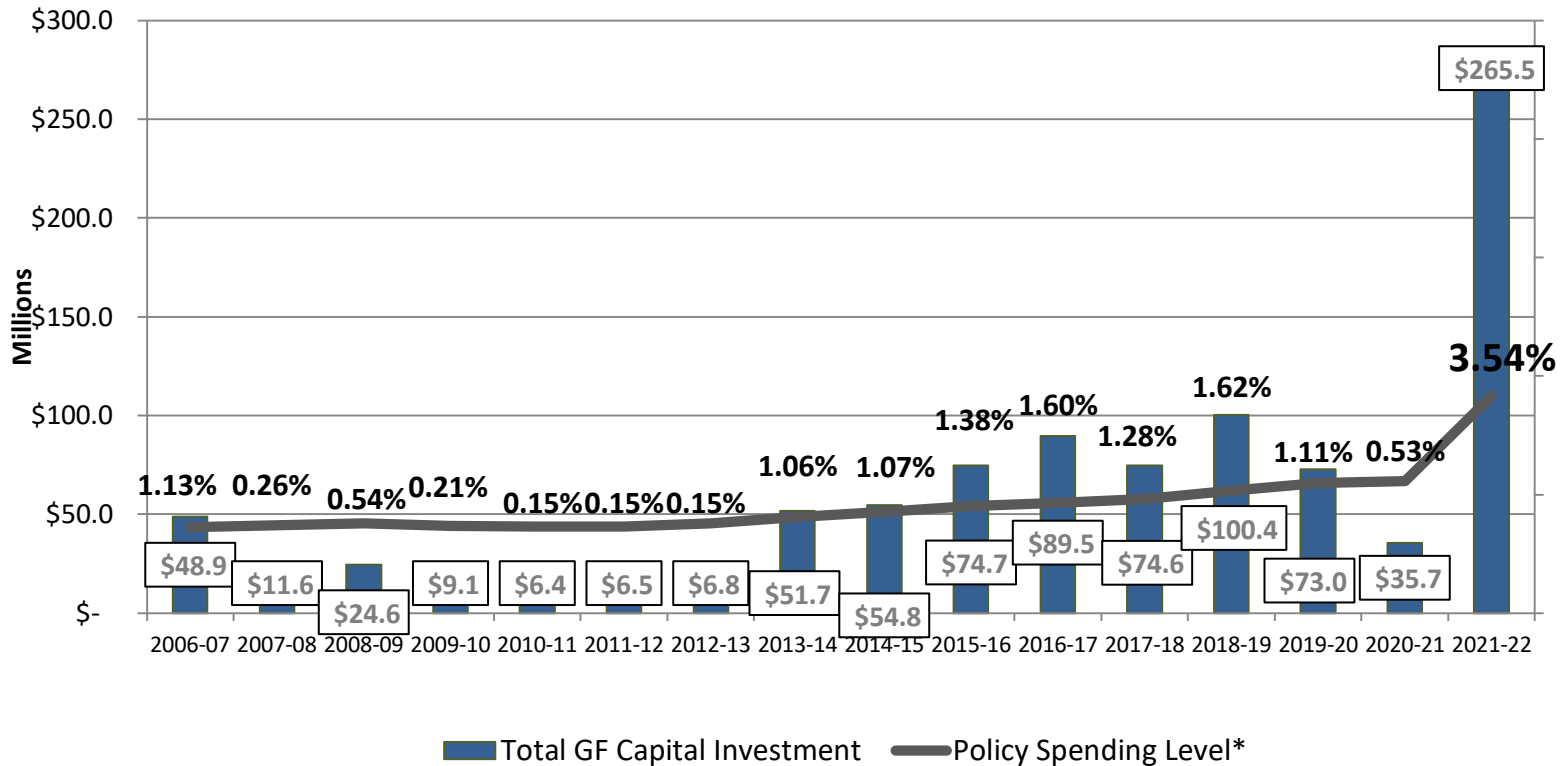
FINANCIAL POLICIES: GENERAL FUND RESERVES

- Prepares the City for unexpected financial challenges.
- Reserve Fund:
 - Emergency Reserve: 2.75% of General Fund receipts; Intended to be used to address significant economic downturn, disaster, or other unanticipated events.
 - Contingency Reserve: Balance of Reserve Fund; Intended to be used for unanticipated expenditures or revenue shortfalls.
- Budget Stabilization Fund: Intended to provide a soft landing if tax revenues fall and to prevent overspending if they increase.
- Unappropriated Balance Reserve: First line of defense for expenditure shortfalls or required new appropriations during the fiscal year.



FINANCIAL POLICIES: CAPITAL INVESTMENTS

CAPITAL AND INFORMATION TECHNOLOGY INVESTMENT AS PERCENTAGE OF GENERAL FUND REVENUE



* Policy is 1.5% of General Fund revenues in 2021-22 and 1% prior to that.



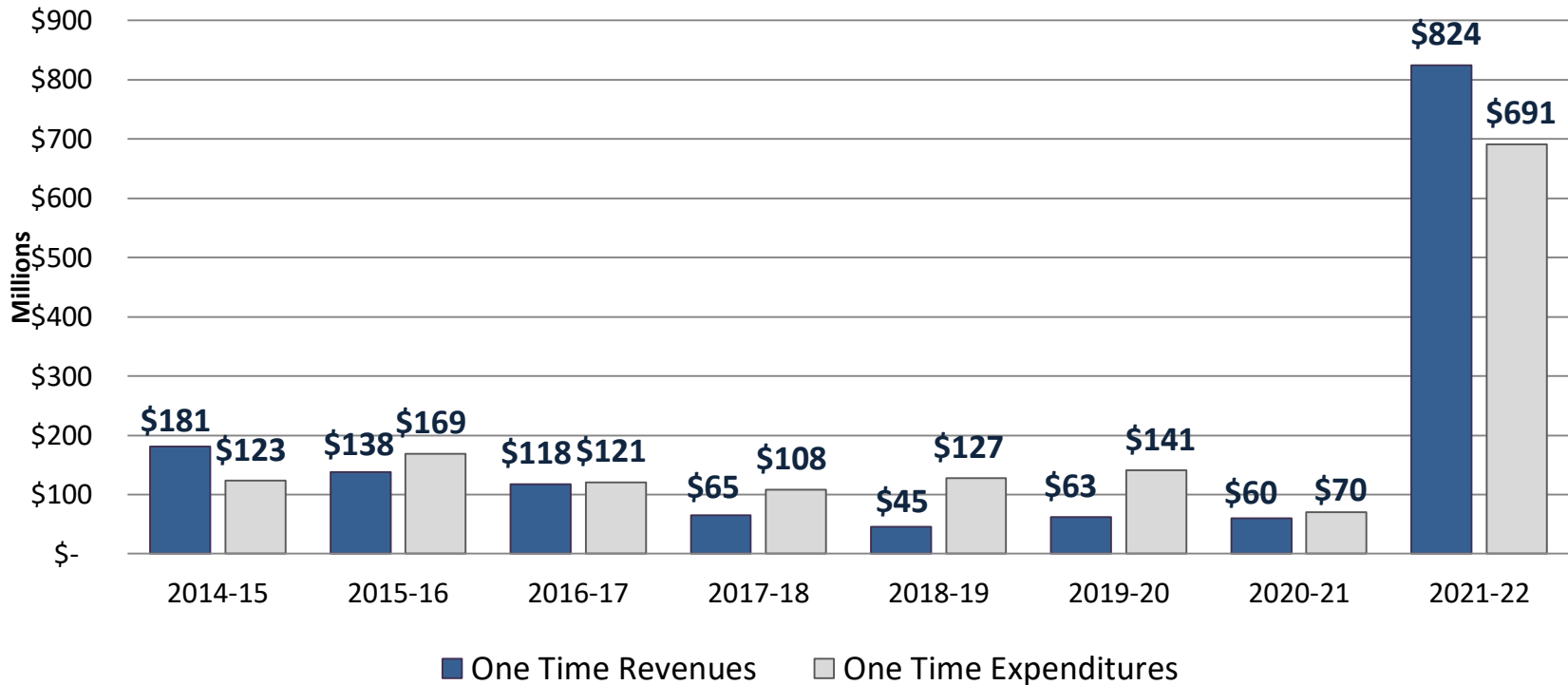
FINANCIAL POLICIES: CAPITAL AND TECHNOLOGY

- Encourages investment in the City's critical infrastructure by establishing a minimum spending target of 1.5 percent of General Fund revenues.
- Requires the City to establish a five-year capital and technology spending plan and establishes a process to develop that plan and criteria for prioritizing projects.
- This policy only applies to General Fund expenditures and does not take into consideration the significant special funded capital investment.
- Detail of the expenditures included as part of the capital investments expenditures can be found on pages 16-17 of the [Proposed Budget Supporting Information](#) book. This table is not updated as part of the adopted budget.
- Major components of the \$265.5 million include:
 - \$28 for municipal facilities (City-owned buildings).
 - \$25 million for street resurfacing and repair.
 - \$23 million for sidewalks.
 - \$51 million for technology projects.
 - \$75 million for deferred maintenance at Recreation and Parks facilities.
 - \$30 million for renewable energy projects, including solar, energy storage, and EV charging stations.



FINANCIAL POLICIES: ONE-TIME REVENUES

ONE-TIME REVENUES VS. ONE-TIME EXPENDITURES ADOPTED BUDGETS



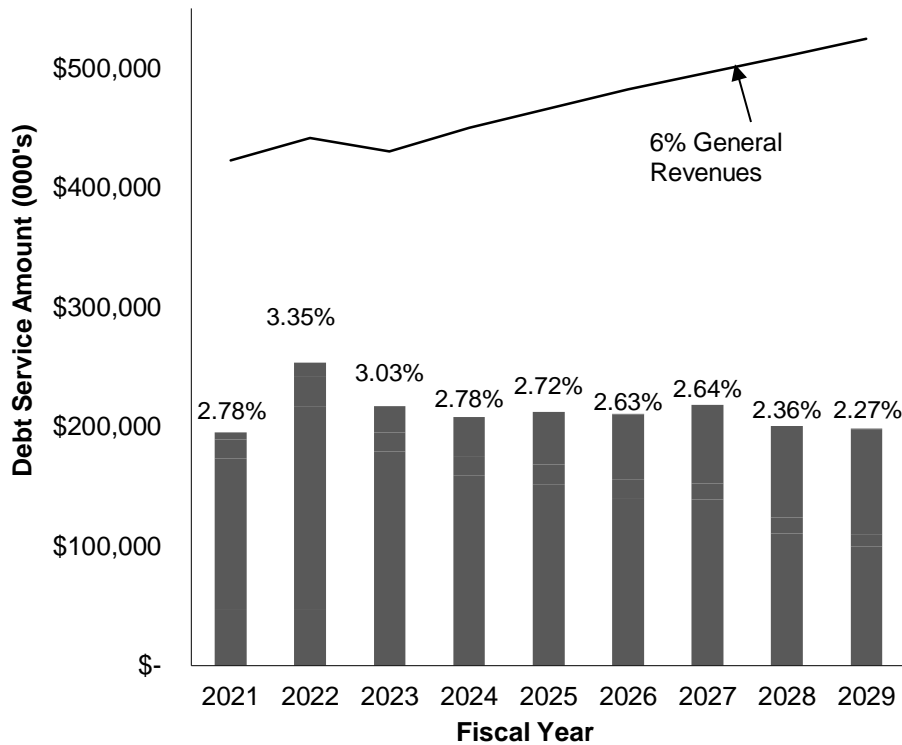
FINANCIAL POLICIES: ONE-TIME REVENUES

- Supports structural balance.
- Adopted Budget used \$824 million in one-time revenues for \$691 million in one-time expenditures, meaning that \$133 million in one-time revenues are being used for ongoing expenditures.
- Detail of the items can be found on page 18-20 of the [Proposed Budget Supporting Information](#) book. This table is not updated as part of the adopted budget.
- Significant one-time revenues include:
 - American Rescue Plan Act, State and Local Fiscal Recovery Funds (\$640 million).
 - Reserve Fund (\$85 million).
 - Federal Emergency Management Agency reimbursements (\$74 million).
- Significant one-time expenditures include:
 - Separation Incentive Program payouts (\$44 million).
 - Genera City Purposes – Additional Homeless Services (\$79 million).
 - Unappropriated Balance – Maintenance of Recreation and Parks facilities (\$75 million).
 - Unappropriated Balance – Renewable Energy (\$30 million).
 - Basic Income Guaranteed Program (\$29 million).
 - Neighborhood Service Enhancements (\$30 million).
 - Unappropriated Balance – COVID-19 Emergency Response (\$25 million).
 - Restaurant and small business assistance programs (\$50 million).
 - Repay the Sewer Construction and Maintenance Fund for related cost overpayments (\$26 million).
 - Fire Department Self-Contained Breathing Apparatus (\$21 million).

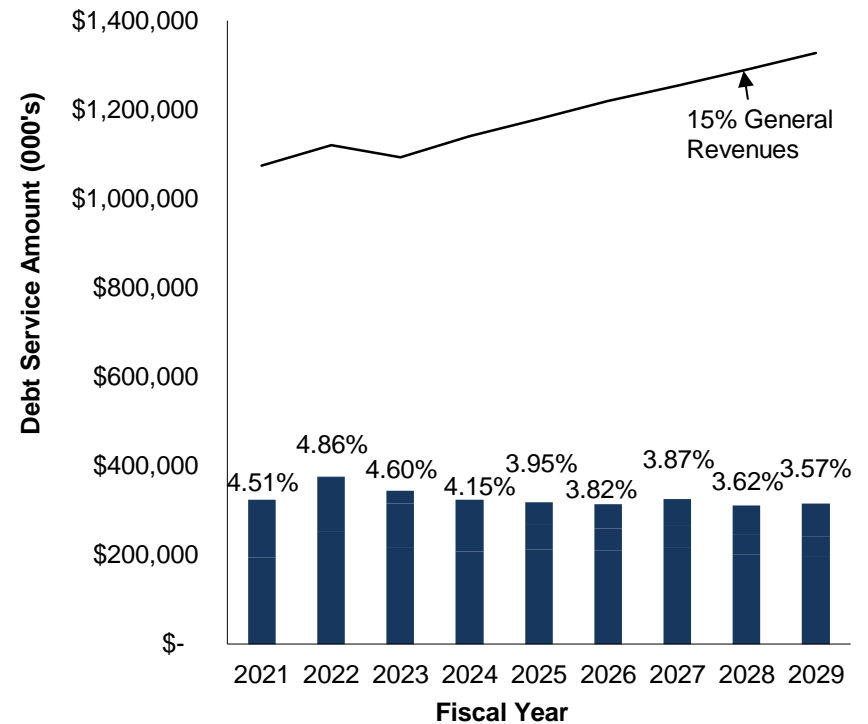


FINANCIAL POLICIES: DEBT LIMITS

NON VOTER-APPROVED DEBT



VOTER-APPROVED AND NON VOTER-APPROVED DEBT



FINANCIAL POLICIES: DEBT LIMITS

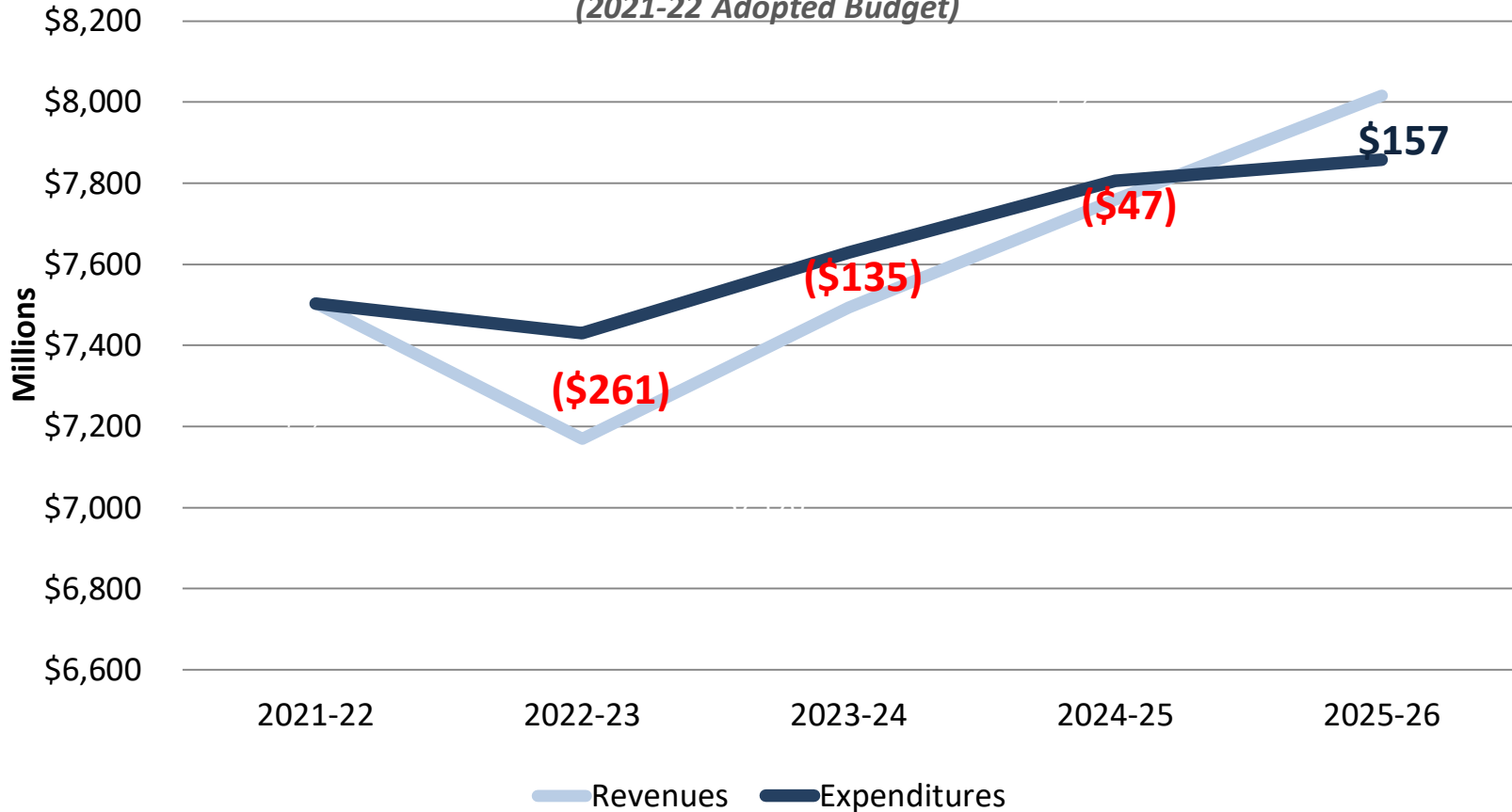
- Illustrates whether the City's debt burden is manageable.
- These charts illustrate compliance with our debt policies:
 - Non voter-approved debt cannot exceed 6% of the revenues that pay for debt.
 - Voter-Approved and non voter-approved debt cannot exceed 15% of those revenues combined.
- Non Voter-Approved debt is comprised of MICLA and JOB.
- General revenues include those revenues that are used to pay MICLA and JOB debt service, and include the General Fund and special funds such as Sewer Construction and Maintenance, Building and Safety Building Permit Enterprise Fund, and Special Parking Revenue Fund.
- Non voter-approved debt is detailed in the Capital Finance Administration Fund budget.
- MICLA is limited to:
 - Capital equipment and property .
 - Investments with a useful life of at least six years.
 - Preferably, high value items.
 - Items that cannot be easily moved or hidden.
- Voter-approved debt must comply with requirements of the authorizing ballot measure and is often handled off-budget.
- The only types of debt not included in these two categories are revenue bonds (e.g. solid waste, wastewater) and debt issued by proprietary departments.



FINANCIAL POLICIES: FOUR-YEAR BUDGET OUTLOOK

FOUR-YEAR BUDGET OUTLOOK

(2021-22 Adopted Budget)



FINANCIAL POLICIES: FOUR-YEAR BUDGET OUTLOOK

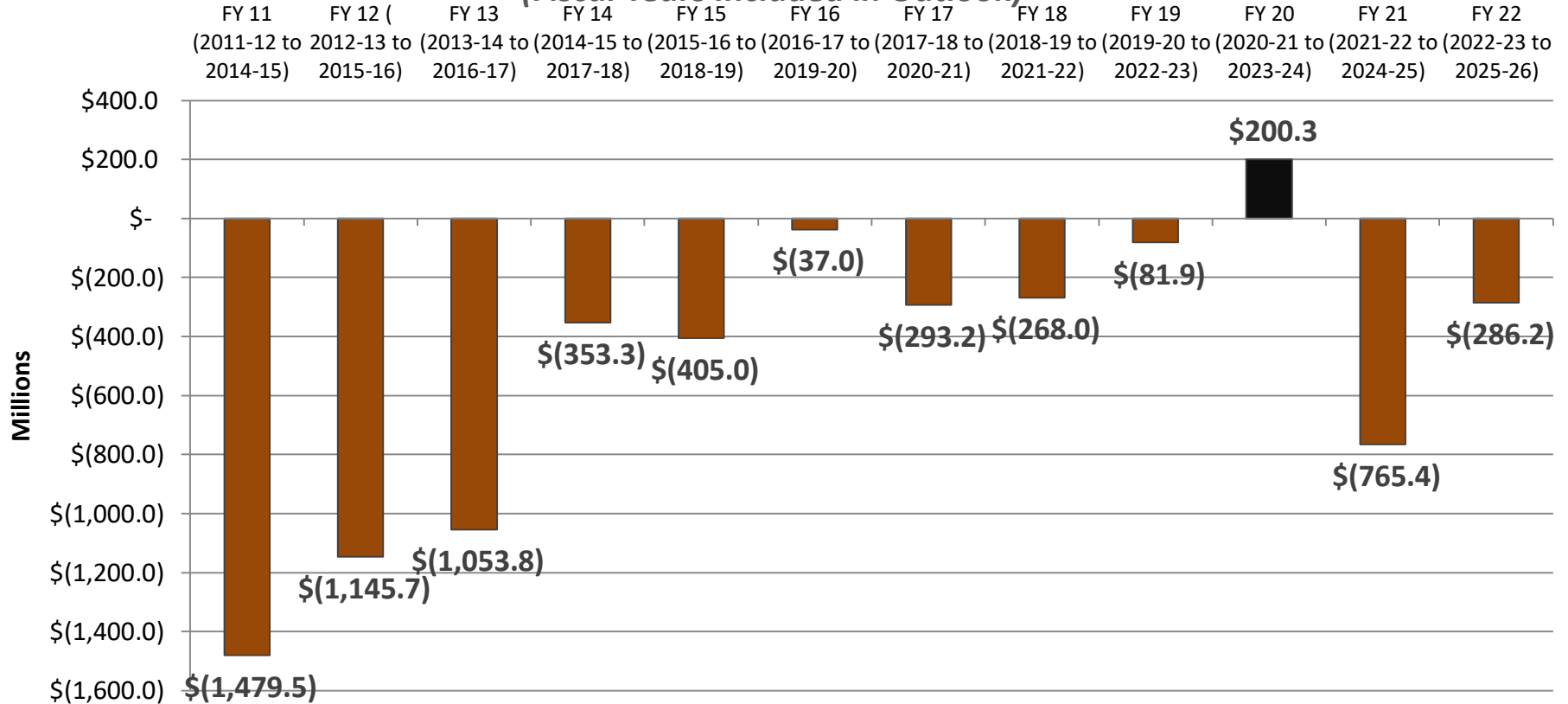
- The City's financial policies require the City to:
 - Achieve structural balance, which is necessary to ensure that the City can maintain current services and potentially add new ongoing services in future years.
 - Prepare four-year projections of revenues and expenditures.
- The Outlook, the CAO's forecast of the state of the budget for the subsequent four years, addresses these policies.
- Proposed Budget Outlook is found on pages 24-28 of the [Supporting Information](#) book.
- Adopted Budget Outlook is found on pages A-15 through A-18 of [Appendix A](#), the City's disclosure document approved with any debt issuance.
- Revenue and expenditure projections are based on the following general assumptions:
 - Revenues Projections: Based on historical growth.
 - Expenditure Projections: Based on known changes in future years.
- This Outlook does not take into account:
 - MOUs that are beyond the current contract periods.
 - The above average investment returns the retirement systems achieved in 2020-21.
 - Potential costs associated with major infrastructure projects are included (LA Street Civic Building, Convention Center, LA River).
 - The possibility that City leaders may want to continue one-time programs initiated in 2021-22.



FINANCIAL POLICIES: FOUR-YEAR BUDGET OUTLOOK

CUMULATIVE FOUR-YEAR DEFICIT BY YEAR OF OUTLOOK

(Fiscal Years Included in Outlook)



FINANCIAL POLICIES: OTHER POLICIES OF INTEREST

- Discourage interim appropriations for new programs.
- Encourage new and diverse revenues and preserve existing unrestricted revenues unrestricted.
- Seek full cost recovery for special funded, fee-supported, and grant programs, and report on subsidies.
- Requires elements of performance budgeting, including the development of strategic plans and reporting of data that informs budget decisions.
- Support transparency by requiring the City to present clear and accurate budgetary and financial information and fiscal impact statements for proposed actions.
- Requires City to fully fund retirement systems based on actuarial cost analyses.



BUDGET CONTROL

- The budget must be continually reviewed and adjusted throughout the fiscal year to address:
 - Expenditure shortfalls
 - Revenue shortfalls
 - Need for interim funding
 - Appropriations of contingent funding
- City Charter Sections 342 and 343 limit budget adjustments that can be performed without approval of the Mayor and Council.
- Primary tool for making budget adjustments is the [Financial Status Report](#):
 - Reporting requirement is a Financial Policy.
 - Requested as part of budget by City Council each year.
 - Departments, through the CAO, report with expenditure and revenue projections
 - CAO analyzes departmental submissions and provides updates on City reserves and revenues and raises any issues of concern.



BUDGET CONTROL: CASE STUDY, 2020-21

- The 2020-21 Budget was developed at the onset of the COVID-19 pandemic, at the height of uncertainty.
- By early September, it was clear that the City would not meet revenue projections.
- At one point, the CAO projected that General Fund revenues would fall \$600 million short – close to 10% of the General Fund budget.
- Under the leadership of the Budget and Finance Committee, as based on recommendations that the CAO developed, the City Council and Mayor adopted a budget balancing plan that included:
 - \$158 million in spending reductions through a hiring freeze, retirement incentives, capital project deferrals, and cutting contracts and other expenditures.
 - \$104 of available federal relief funds.
 - \$294 million of the City’s General Fund Reserves, or all but 2.75% (the Charter emergency minimum).
 - \$133 million in deficit borrowing.
 - \$23 million in labor cost reductions from unpaid days for City workers and deferring compensation adjustments.
- If enacted, this plan would have allowed the City to persevere through the fiscal year, but it would have been in a weakened position, with dangerously low reserves and severely curtailed services.

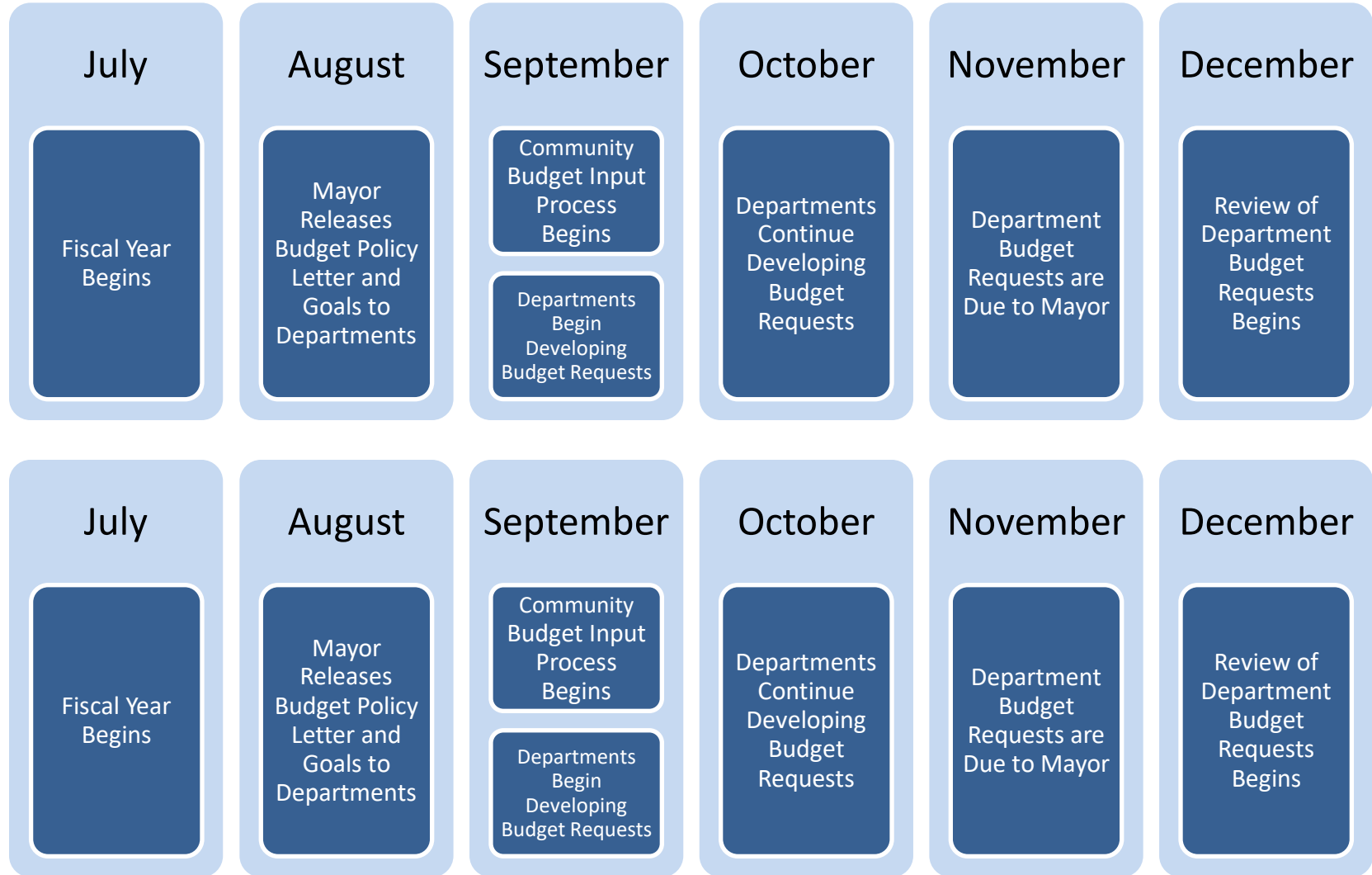


BUDGET CONTROL: CASE STUDY, 2020-21

- The approval of the American Rescue Plan allowed the City to balance the 2020-21 Budget without executing its full budget balancing plan, discussed above.
- The City received a \$640 million award in May 2021:
 - Used as General Fund revenue to balance the 2020-21 Budget, replacing revenue lost due to the pandemic.
 - Allowed the City to not use its General Fund reserves or deficit borrow to close the 2020-21 budget gap.
- The City will receive a second and final \$640 million in 2021-22:
 - Used as General Fund revenue, enabling the City to adopt a General Fund budget of \$7.50 billion, 12.2% above the 2020-21 amount.
 - Allowed the budget to maintain City services and initiate many new programs.



BUDGET DEVELOPMENT: PROCESS



BUDGET DEVELOPMENT: HOW ARE DECISIONS MADE?

- Revenues and Expenditures must be equal for all funds.
 - General Fund revenues are not finalized until early April.
 - Mayor’s team will have a list of Mayor’s priorities, and include expenditures accordingly.
- The number and cost of high priority items always exceeds capacity in revenue.
- Mayor makes decisions taking into account his own priorities and input from variety of sources, including departments, the public, the NCBA, and the City Council.
- Budget and Finance Committee receives, reviews, and hold hearings on the Proposed Budget and requests for additional funding, including many of the items that the Mayor could not fund.
 - Requests from departments, NCBA, the public, and other Council members.
 - Since expenditures must equal revenues, Committee can only recommend adding items by finding new or increased revenue or cutting existing appropriations.
- Budget and Finance recommends adjustments to the budget, and sends it to Council. In recent years, Council has made only limited adjustments, due in part to the difficulty of finding new revenues or cutting existing appropriations.



BUDGET DEVELOPMENT: THE ROLE OF THE CAO

- Design the budget process in such a way to reflect the Mayor's desired approach.
- Support departments as they prepare their budget documents.
- Review budget requests and make recommendations to the Mayor's Office.
- Track and analyze broad budget data to advise on analytics such as budget balancing needs and compliance with Financial Policies.
- Produce all required budget documents for publication.
- Following release of the budget, staff the Budget and Finance Committee and prepare reports in response to its questions.
- Upon approval by City Council, prepare the [Budget Resolution](#) together with the City Attorney.



HOW TO ANALYZE A BUDGET REQUEST

- Goal – Make a Recommendation or Decision
- Steps:
 - Step 1: Identify the Problem
 - Step 2: Describe the Proposed Solution
 - Step 3: Conduct Independent Analysis
 - Step 4: Identify Funding Options
- Budget Analysis Resources



HOW TO ANALYZE A BUDGET REQUEST: GOAL

- The goal of budget analysis is to make a recommendation or decision on whether to fund a specific item.
- Recommendations / decisions include:
 - Fund
 - Not Fund
 - Alternative Proposal
- If not enough information is available to make a recommendation or decision, identify additional information that is necessary to do so.



HOW TO ANALYZE A BUDGET REQUEST:

STEP 1, IDENTIFY THE PROBLEM

What is the problem that the budget proposal is attempting to solve?

- To meet the need for an enhanced or new service?
- To address a priority of the public, Mayor, Council, or department?
- To satisfy a legal, policy, or other requirement?
- To continue an ongoing project?



HOW TO ANALYZE A BUDGET REQUEST:

STEP 2, UNDERSTAND THE PROPOSED SOLUTION

Once you understand the problem, you need to understand to proposed solution.

- What is the approach?
- What is the requested cost of this approach? Identify and validate the resources requested.



HOW TO ANALYZE A BUDGET REQUEST:

STEP 3, CONDUCT INDEPENDENT ANALYSIS

Answer the question, “Should the City use its resources to solve this problem?”

- Is this a problem?
- Should the City solve this problem?
- Is this the best approach to solve the problem? If not, suggest alternatives.
- Are these the right resources to solve the problem? If not, suggest alternatives.
- In what way and to what extent will the proposed approach impact the problem? Consider and validate metrics, if they are available.
- Based on this analysis, are the anticipated outcomes from the proposal worth the cost?
- How does this approach compare to best practice, other jurisdiction’s experiences, and industry standards?
- Where does this problem rank among departmental or City priorities?
- Has the department demonstrated past accomplishments in the area?



HOW TO ANALYZE A BUDGET REQUEST:

STEP 4, IDENTIFY FUNDING OPTIONS

- What funding source(s) can be used?
 - General Fund?
 - Special funds?
 - Grants?
 - Fees?
 - Reimbursements?
 - Other?
- Are the revenue projections valid?
- If there are future-year costs:
 - What are they?
 - How will they be funded?
- If the service is already being performed, how has the department funded it in the past?



BUDGET ANALYSIS RESOURCES

- Legislative history:
 - [Council Files](#)
- Financial Information
 - [FSRs](#)
 - [Appendix A \(Disclosure Document\)](#)
- Past budget documents:
 - [2021-22 Budget Council File](#)
 - [Budget Memos](#)
 - [Neighborhood Council Budget Advocates White Paper](#)

