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“The Time for Bold Reform Is Now”: Controller Kenneth Mejia Releases Annual Comprehensive Financial Report for FY 2025

Revenue Shortfalls, Liability Payouts, Departmental Overspending Continued To Be Causes of City’s Budget Deficit for Second Year in a Row

LOS ANGELES – The Controller’s Office published the City of LA’s [Annual Comprehensive Financial Report \(ACFR\)](#) for the fiscal year ended June 30, 2025. The ACFR is the Controller’s Charter-mandated yearly report that provides a complete picture of the City’s finances.

This year’s ACFR found that **revenue shortfalls, liability payouts, and departmental overspending continued to be the cause of the City’s budget deficit for the second year in a row**. The deficit is a culmination of **decades of unsustainable budgeting**, whose tangible impacts include crumbling infrastructure and reduced City services.

“We’ve gone from record levels of General Fund Reserves of \$648 million two fiscal years ago to \$402 million,” said **Controller Mejia**. “In addition, four rating agencies (S&P, Fitch, Moody’s and Kroll), have given the City a ‘negative outlook’ with the same concerns that we have been raising over the past three years coupled with the potential liabilities and damages from the Palisades Fire. The time for bold reform is now.”

Councilmember Eunisses Hernandez said, “The Controller’s Annual Comprehensive Financial Report reaffirms what I’ve been calling for since before I even joined the Budget and Finance Committee: Los Angeles cannot keep relying on short-term fixes while structural deficits grow. Years of draining reserves, soaring liability payouts, and underinvestment in infrastructure have left us in a perilous financial position that our communities are now forced to absorb. We need transparent, multi-year budgeting rooted in long-term planning and fiscal responsibility. I am grateful to Controller Mejia for his leadership and join his call for structural reforms that will put our City on stable, equitable footing.”

“I appreciate Controller Mejia’s diligence in forecasting revenues and anticipating trends that will impact our budget outlook in the next fiscal year,” said **Mayor Karen Bass**. “While there are promising trends – like increasing property tax and business tax revenues – we must continue to identify solutions to address longstanding City Hall inefficiencies and reduce costs that we can control while continuing our momentum to reduce street homelessness, lower crime, clean City streets and fix broken street lights, and enhance the vitality of our neighborhoods as we prepare to welcome the world for upcoming major events. I look forward to continuing to work in partnership with Controller Mejia on these priorities as we proceed into 26-27.”

FY 2025 GENERAL FUND HIGHLIGHTS:

Compared to Budget (Budgetary Cash Basis):

- **Revenues came in \$160 million below budget**
 - The City **tapped the Reserve Fund** to make up for the revenue shortfall
- **Top area of overspending: Liability Claims**
 - **Exceeded the \$87 million annual budget by \$199 million, or 228%**, totaling a **record \$287 million** for the year
 - Top three areas: Police (\$152 million), Street Services (\$44 million), Transportation (\$20 million)
- **Top area of underspending: Capital Improvement Projects**
 - The City **only spent \$25 million (19%) of the \$131 million budget**

Compared to the Prior Year (Modified Accrual Basis)

- **Revenues increased by \$234.9 million, or 3.4%** from FY 2024 mainly due to increased property taxes and business taxes
- **Expenditures increased by \$63.8 million or 0.9%** from FY 2024 mainly related to increased salaries and employee benefits.

Controller Mejia issued a warning for the current fiscal year (FY 2026) and the City's prolonged overspending: "Although we are halfway through the current fiscal year, the City continues to have General Fund budget challenges. The current fiscal year's budget assumes modest revenue growth, however revenue has been relatively stable during the first half of the year.

"Of more concern, unchecked overspending and liability claims continue to be a major cause of financial troubles. While departments are expected to absorb or manage remaining costs, many departments are unlikely to be able to. This could result in the use of the Reserve Fund and in future fiscal years, more furlough days and the risk of more layoffs."

To guide the City onto a long-term sustainable fiscal path, the Controller's Office continued to recommend:

- A two-year budget
- A real capital infrastructure program
- Honest and transparent budgeting that includes:
 - Tackling and honestly addressing the structural deficit
 - Having more realistic revenue projections
 - Accurately budgeting for liability payouts and increased costs
- Revenue generation by growing our tax base, not just increasing sales taxes (e.g. vacancy tax and taxing rideshares/autonomous vehicles)
- Accountability for overspending and liability claims
- Performance based budgeting
- Participatory budgeting

- Empowering department heads with their budget

“Guiding the City back to fiscal health will not be easy, but we can do it. I know we can. It will only get harder the longer we wait,” the Controller said.

Read the full report:

pafr25.lacontroller.app