FOR IMMEDIATE RELEASE
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Controller Kenneth Mejia Releases Latest March Revenue Forecast Report, Projects $140M Revenue Shortfall for Current Fiscal Year, Decreased Revenues Next Year

Revenues expected to decrease for second year in a row

LOS ANGELES – The Office of City Controller Kenneth Mejia last Friday published its annual **Revenue Forecast Report**, which covers updated revenue estimates for the remainder of the current fiscal year and projections for the upcoming fiscal year. The report spans the current fiscal year, FY 2024-25 ending June 30, 2025, and next fiscal year, FY 2025-26.

Projections for the remainder of this fiscal year, FY 2024-25:

- **General Fund revenue will end at $7.9B, an estimated $140M shortfall** to the current adopted budget, **but $212M higher than prior fiscal year (FY 2023-24).**
- **Special Fund revenue is estimated to end at $4B or 1.4% above** the current adopted budget, **and higher than prior fiscal year by $400M. $93M** of this increase is from **Measure ULA** and **$172M** of this increase is from the **Disaster Assistance Trust Fund.**
- **Sales Tax and Business Tax (Economy-Sensitive Revenues)** combined are projected to be **$92M below budget** and **$22M lower than prior fiscal year.**

Projections for next fiscal year, FY 2025-26:

- **General Fund revenue is projected to decrease by $73M or 0.9% lower than FY2024-25 estimates, primarily due to a projected decrease of $198.5 million in Grant Receipts.**
- **General Fund revenue is projected to be $7.8B**, which falls well short of the sharp rise in City expenses due to liability payouts, negotiated labor agreements, and other cost increases.
- The **largest revenue surge** is projected to come from a **$89M (3.2%) increase in Property Taxes (including VLF replacement).**
- **Sales Tax and Business Tax combined** are expecting a slight **increase of $21M**
- **Special Fund revenue** is expected to be **$219M better than** FY2024-25 estimates.

Reasons FY 2025-26 revenues are expected to be essentially flat:

- **Uncertainty generated by the new Presidential Administration's radical policies** on tariffs, Federal spending cuts and immigration have triggered **sharp drops in all three national indexes of consumer confidence** last month. Households in the bottom half of earnings have cut back on their spending after a strong surge during and immediately after the COVID pandemic.
- The **regional economic outlook** is dampened by the **pullback in entertainment industry spending** as production has fallen and Southern California's share has been reduced. **Tariffs** also may impact the region's goods movement sector if imports shrink.
- **Continued inflationary pressures** decrease consumer spending and may prevent further decreases in interest rates, hampering any rebound in the real estate market and

housing production, even as housing demand increases due to the recent catastrophic fires.
- While fire damage and recovery have traditionally spurred a counter-intuitive boost to economic activity (increased hotel stays for displaced residents, spending to make up for lost goods as well as spending on clean-up and rebuilding), the **scale of economic losses in the region** will likely offset this stimulus.
- The **cost of insurance for businesses and residents may soar** in the wake of regional and global strains on the industry in the face of larger and more frequent megadisasters, reducing spending power for consumers and businesses.
- The impact of remote work, automation, artificial intelligence and online sales will continue to **erode traditional sources of City tax revenue**.
- **Federal grants (which significantly increased under the last Administration) are expected to drop** given the winding down of previous COVID recovery funds and the uncertainty regarding federal funds from the new Administration. (Both the previous and current Administration have committed to cover 100% of the disaster response costs for the Los Angeles wildfires for 180 days)

Additional key points:
- This fiscal year, for the second year in a row, the City Administrative Officer (CAO) is projecting another budget deficit. **Last year's deficit required the City to draw on $358 million from the City's General Fund reserve, to implement a hiring freeze, and to halt other city spending.**
- Last week, the CAO's Financial Status Report projected that for the current fiscal year, the City will overspend by $300.54 million beyond the adopted budget. While cost saving measures may reduce this estimate by year-end, the **projected revenue shortfall means another year of significant deficit spending**.
- If the CAO's current recommendations to partially offset overspending are approved, the General Fund **Reserve will drop to $263.54 million, down from a record $648 million** less than two years ago. Paying for pending legal settlements and judgments will **further reduce the Reserve to just 3.22%** of General Fund receipts. City policy states the Reserve Fund **should contain at least 5%**. **If the Reserve drops below 2.75%, the City Council would be required to declare an "urgent economic necessity"** by a two-thirds vote in order to draw from the Reserve.

Controller Mejia stated: "The Controller's Office continues to advocate for a long-term, strategic approach to achieving fiscal sustainability. Our short-term focus on year-to-year balance neglects the need for a multi-year transition to service models that allow the City to live within its means.

We also continue to advocate for participatory budgeting. Budgets are a statement of values. In tough times, getting the community involved can ensure residents support the difficult choices ahead."

Visit the full report