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Amid City's Financial Crisis, Controller Kenneth Mejia Releases Annual Comprehensive Financial Report for FY 2024, Urges Collaboration and Long-Term Financial Planning

Lower than expected revenues, overspending, and austerity measures marked FY 2024

LOS ANGELES – The Controller's Office published the City's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024. The ACFR is a yearly report that provides a complete picture of the City's finances.

The FY 2024 ACFR found that the City ended the year in deficit. General Fund revenues lagged while expenditures jumped exponentially, prompting unsustainable short-term fixes and bringing the City to the brink of needing to officially declare a "fiscal emergency".

"As we are all painfully aware, revenue shortfalls, liability payouts, and departmental over-expenditures caused the City to draw down nearly half the City's General Fund Reserves," Controller Kenneth Mejia stated. "Because of the City's revenue shortfall and overspending, this led to austerity measures that adversely impacted City departments and City services including in critical areas related to infrastructure, public works, animal services, accounting, and payroll."

FY 2024 cash-basis highlights include:

- **General Fund revenues short $222.1 million** compared to adopted budget
- **Various spending over adopted budget -** Top areas included:
    - **Liability Claims over by $153 million** (largest shares included the Police category at $75.1 million and Miscellaneous category at $71.6 million)
    - **Police over by $127 million**
    - **General Services over by $105 million**
- **Reserve Fund balance depleted to $330.6 million** (**below the City's 5%** of General Fund revenues reserve fund policy target and **$317.7 million less than the year before**)

Short-term budget balancing in FY 2024 resulted in hiring freezes and the elimination of 1700 then-vacant positions, a majority of which weren't vacant for very long. The City is now experiencing the impact of these cuts as departments scramble with severely diminished capacities to address undiminished (and even growing) needs.

In addition, the recent devastating damage and disruptions from the firestorm disaster has the City estimating initial damages at $358 million related to emergency response, infrastructure/structural damages and debris removal through January 10, 2025.

The City's credit ratings are at risk. In January 2025, three rating agencies, S&P, Fitch, and Kroll, placed the City's ratings on negative watch status, indicating that the City's ratings are under review and that there is meaningful potential for a negative rating change. Additionally, Moody's Ratings revised the outlooks on the City's issuer rating for wastewater revenue bonds rating from stable to negative. The actions reflect the risk and potential exposure of the City's General Fund to wildfire liability claims and the potential impact of recovery and response on the City's unbudgeted expenditures and available liquidity.

Controller Mejia said, "We continue to advocate for the Mayor and Council to develop a strategic five-year plan to fix our City's finances. Without a long-term approach to putting our fiscal house in order, short-term decisions will doom Los Angeles to an inexorable decline in public services, undermining our quality of life and the economic prospects of our residents. I strongly commend the Mayor's capital infrastructure vision outlined in her Executive Directive No. 9. It's the kind of strategic approach we need to the City's overall fiscal challenges.

"Our Office is eager to collaborate with the Mayor, Council and greater community to reform the City's budgeting process and priorities. This must be a long-term commitment because the problems are long-standing and will require a phased approach to solving. Budget reform and accountability are vital to minimizing abrupt service cuts, which disproportionately hurt our most vulnerable."

Other key findings:

● The 3.0% increase over FY23 in General Fund revenues nevertheless falls **below** both average historical growth and the rate of growth in expenditures.

● While property taxes (which represent 40.2% of General Fund revenue) increased by $136.4 million (5.1%), **economy-sensitive revenues declined overall** versus prior year:

> ● The ongoing inflation, higher interest rates, and the impacts of the entertainment industry strike negatively affected local economic activities in FY24, resulting in Sales tax decreasing by $28.2 million (4.0%) and Business tax falling by $35.2 million (4.3%).
> ● Utility users' tax (which comprise gas, electric and communication users' taxes) revenues posted a decrease of $21.5 million (3.0%) primarily due to a drop in gas users tax receipts, after a return of previously high natural gas prices to normal levels.
> ● Other tax revenues decreased by $66.2 million or 8.1%. There were reductions in both Franchise Income ($30.1 million) and in Documentary Transfer Tax revenue ($49 million), the latter reflecting the slump in real estate sales. Intergovernmental revenues decreased by $11.1 million due to a reduction in State and Federal grant receipts.

● While revenues lagged, General Fund **expenditures jumped to $6.8 billion**, an $841 million (14.0%) increase over FY23, primarily due to the following:

- Salaries and Benefits increased by $343.6 million (11.2%) with increases for sworn and civilian employees from new labor agreements as well as increased sworn overtime for the Police and Fire Departments and large retirement and sick payouts for the Fire Department.
- Liability payouts for legal claims rose by $246.6 million, well beyond the $82 million budgeted.
- Capital outlays increased by $68.2 million, although capital expenditures still fall far short of the unfunded needs for street, sidewalk, street light and other vital infrastructure repair and replacement.
- Contractual services, operating equipment, and supplies rose by $138.8 million (12.6%) due to increased costs for homelessness programs, solid waste activities, fleet maintenance and repair, auto parts and equipment, fuel and energy, human resources management project, and outside legal counsel.
- The combined expenditures for retirement contributions and workers' compensation rose by $31.7 million. Additionally, interest payments for debt service increased by $10.7 million, primarily due to higher interest payments for Tax and Revenue Anticipation Notes (TRAN) borrowing that has been used to earn a discount on the City's pension payments.

Read the full report:
controller.lacity.gov/reports/pafr24