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Controller Kenneth Mejia Urges Long-term Fiscal Reform Amid Grim Figures Published in FY23 Annual Comprehensive Financial Report

LOS ANGELES – New figures from the City’s recently published [Annual Comprehensive Financial Report \(ACFR\)](#) demonstrate the urgent need for long-term fiscal reform, according to City Controller Kenneth Mejia. The City’s ACFR reflects the audited financial results of the fiscal year that ended last June 30.

The ACFR showed that while revenues were up 8.4% across all City funds (including the General Fund, Airports, Harbor and Department of Water and Power), they were not enough to match the increase in expenses, which jumped by 18.2%.

In the current fiscal year, that trend has accelerated, opening up a growing General fund budget shortfall that recently led the Council to vote for a hiring freeze affecting thousands of vacancies related to vital City services.

The estimates of the City Administrative Officer in his recent January statement point to a budget shortfall of over \$143 million, to be addressed by a partial hiring freeze and tapping the City’s Reserve Fund. The shortfall could swell to as much as \$400 million next year, according to the CAO.

In his ACFR cover letter, Controller Mejia pointed out that warning signs of economic trouble for the City have gone unaddressed:

- As previously reported in the Controller’s [Preliminary Financial Report](#) from last fall, despite salary savings due to widespread staff vacancies, General Fund departmental spending actually exceeded last year’s adopted budget by nearly \$200 million. Had there not been as many staff shortages, spending would have been even greater, and the budget would have been in the red.
- Last year, the City underspent what was budgeted for maintaining vital infrastructure by \$316 million. The City consistently falls behind on this, setting itself up for higher long-term costs.
- Staff shortages and long-term underinvestment in the training, technology, equipment and facilities for the City workforce hobbles productivity and shortchanges residents. The homelessness crisis and climate change put even further strain on City resources.

The contract for rank-and-file police staff ratified last fall will add nearly a billion dollars in additional costs over the next four years, with the likelihood of commensurate increases in compensation for police management. The new five-year contracts negotiated with civilian

bargaining units will have an even larger budget impact, putting budget projections deeply in the red for the next five years.

Controller Mejia spelled out specific proposals for reforming the City's broken budgeting:

- Create a strategic, five-year, long term plan to fix the City's finances.
- Shift to a two-year budget cycle to save enormous staff time, give greater opportunity for meaningful community participation, and allow for a more strategic approach to the City's Finances.
- Establish a transparent Capital Improvement Program beyond the current wish list of billions of dollars in unfunded projects.
- Expand Participatory Budgeting, which educates and empowers residents to have input into the City's budget priorities and a long-term approach to restoring fiscal health.
- Scrap the opaque process where annual departmental budgets are simply marginally adjusted (up or down) without fundamentally altering the long-standing budgetary status quo. Instead, the City needs to undertake a strategic reallocation of resources to what matters most to the long-term wellbeing of all of our residents.

Controller Mejia concluded his recommendations with the reminder that "Los Angeles is a vibrant, dynamic center of one of the world's most diverse and influential regions. Our City has the potential to restore fiscal health, improve vital City services, and lead the world in confronting climate change, housing insecurity, and a changing economy. It would be tragically short-sighted not to tackle the City's fiscal challenges to capture that potential. We must put our City on the path to fiscal sustainability so we can do the job our residents expect us to do."

Read the full report:
controller.lacity.gov/reports/pafr23