



FOR IMMEDIATE RELEASE
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The Office of Controller Kenneth Mejia Releases Preliminary Financial Report for Fiscal Year 2022-2023

Each year at this time, the Controller's Office submits the Preliminary Financial Report (PFR) to review the City of Los Angeles' financials for the prior fiscal year. The report is the City's primary look back at municipal finances after the close of the fiscal year, providing an overview and analysis of revenues, expenditures, reserves and bonded indebtedness. Accompanying this report online are interactive visualizations with 10 years of data, including information on special fund balances and uses, historic Reserve Fund balances, and other budgetary information: <https://controller.lacity.gov/reports/pfr23>

REPORT HIGHLIGHTS

General Fund revenues totaled \$7.6 billion, a 10.1% growth compared to the prior year, and \$135.7 million or 1.8% above the budget.

While civilian job vacancies resulted in \$118 million in savings, Police and Fire salaries were \$29 million over their budgeted amount.

Liability pay-outs of \$172.5 million exceeded budget by nearly 100%.

Last fiscal year saw solid growth. Many General Fund revenue sources outperformed projections and exceeded the previous fiscal year's revenues. Post-pandemic revenue growth has been strong. But efforts to control inflation will likely reduce economic growth & lead to recession.

Overall, all City spending for all budgeted funds (including the General Fund) was \$1.2 billion below the level in the Adopted Budget. Special purpose funds accounted for nearly \$600 million of those savings, along with \$316 million in underspending on capital projects.

The combination of higher than anticipated revenues and lower than expected total expenses saw the City's General Fund begin this fiscal year (7/1/23) with General Fund reserves at a record-high \$876.3 million - or 11.1% of the General Fund, exceeding the City's goal of 10% reserves.

Total revenues in budgeted funds were \$10.9 billion:

- 6.5% increase over the prior year
- 0.3% less than budget projections

General Fund revenues were \$7.6 billion:

- 10.1% growth over the previous fiscal year
- 1.8% more than budget projections

General Fund budgetary department's actual expenditures:

- Increased by 6.6% over the previous fiscal year
- Exceeded adopted budget by nearly \$200 million, but was offset by savings of \$120 million in the Unappropriated Balance and \$155 million in General City Purposes spending.

Revenue in budgeted special revenue funds was \$3.2 billion

- 1.1% decrease from prior year
- 4.8% below budget projections

HARD CHOICES LIE AHEAD

Despite widespread staff vacancies, General Fund departmental spending actually exceeded last year's adopted budget by nearly \$200 million, meaning that rebuilding the City's workforce will make it more difficult to balance the General Fund budget in the future.

- Major contributors to the strong revenue increase include Utility Users Tax revenue (\$93 million above budget) primarily from higher natural gas and electric prices; franchise income (\$53.7 million above); Transient Occupancy (Hotel) Tax \$46.8 million above); and Business Tax (\$38.9 million above).
- The contract for rank and file police staff 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 and the larger civilian workforce. All by themselves, these adjustments tilt future budgets into structural deficits.
- As the Controller's Office has consistently pointed out, pension debt and citywide deferred maintenance of vital infrastructure require urgent attention. Last year's underspending of \$316 million in budgeted capital expenditures underscores that the City continues to fall behind – which means even higher costs in the long run.
- Again, as the Controller's Office has warned, staff shortages and underinvestment in the training, technology, equipment and facilities for the City workforce hobbles productivity and shortchanges LA's residents. All these pressures will tempt decision-makers to utilize the City's reserves for short-term fixes, dashing the hard-won gains of fiscal prudence for maintaining those funds to protect against genuine emergencies and maintain strong credit ratings to minimize the cost of capital bonding.

To address these sobering concerns, the Controller's Office continues to advocate for reform of the City's outmoded budget practices. A transition to a two-year cycle would save enormous staff time, give greater opportunity for meaningful community participation and allow for a more strategic approach to the City's Finances. The City also needs a transparent Capital Improvement Program beyond the current wish list of billions of dollars in unfunded projects. Participatory budgeting, expanded beyond its current experimental pilot, would offer greater citizen engagement in the City's fiscal health.

The City should also break with the opaque process where annual departmental budgets are simply marginally adjusted (up or down) without fundamentally altering the long-standing budgetary status quo. Given the daunting financial realities, the City needs to undertake a strategic reallocation of resources to what matters most to the long-term wellbeing of all of our residents. Budgets are not just numbers, they are a statement of values. As our city changes, so should our financial priorities.

By taking the long view and reforming our budgeting practices, the City can better serve everyone in our community. Budget reform and more accountable stewardship of the public's resources can also minimize abrupt service cuts (which disproportionately hurt our most vulnerable) if economic conditions deteriorate.

This report is meant to help City leaders understand and assess the health of the City's finances – as well as address future challenges. In January 2024, the Controller's Office will follow up by issuing the Annual Comprehensive Financial Report for 2022-2023, which is prepared in accordance with Generally Accepted Accounting Principles and audited by an independent firm of certified public accountants.