



Fwd: Updated PFR

Wendy Greuel <wendy.greuel@lacity.org>

Thu, Sep 27, 2012 at 7:41 AM

To: John Shallman [REDACTED], Rose Kapolczynski <rose@rosekconsulting.com>, Dave Jacobson [REDACTED]

Sent from my iPad

Begin forwarded message:

From: Claire Bartels <claire.bartels@lacity.org>

Date: September 27, 2012 6:10:32 AM PDT

To: Wendy Greuel <wendy.greuel@lacity.org>

Subject: Fwd: Updated PFR

I finally managed to send the revised copy to Shannon (only) and am now forwarding to you! Wacky technology thing is all I've figured! Either that or we will all have 40 copies suddenly go through!!

Sent from my iPad

Begin forwarded message:

From: Claire Bartels <claire.bartels@lacity.org>

Date: September 27, 2012 6:06:11 PDT

To: Shannon Murphy <shannon.murphy@lacity.org>

Subject: Re: Updated PFR

September 27, 2012

Honorable Antonio R. Villaraigosa, Mayor
Honorable Members of the Los Angeles City Council

SUBJECT: PRELIMINARY FINANCIAL REPORT FISCAL YEAR 2011-12

Today, I am submitting my Preliminary Financial Report for the City of Los Angeles for the fiscal year 2011-12, which provides detailed information regarding the fiscal year-end closing results for the Reserve Fund along with the status of the General Fund and the city's bonded indebtedness. My report shows that the City still has a lengthy road to long-term fiscal recovery. Similar to prior years' Preliminary Financial Reports, this report includes recommended Mayor and Council actions specifically concerning the Reserve Fund and prior-year encumbrances.

At the end of fiscal year 2011-12 (June 30, 2012), the Reserve Fund cash balance was \$242.3 million and the General Fund receipts totaled \$4.39 billion. This Reserve Fund cash balance as a percentage of actual General Fund receipts, was equal

to 5.52 percent. However, this does not reflect departmental adjustments that impacted the total amount in the Reserve Fund.

After applying Reserve Fund adjustments that were initiated in the prior year and those included in the fiscal year 2012-13 adopted budget, the Reserve Fund cash balance decreased to \$224.9 million (July 1, 2012). The largest contributing factor in the adjustment was due to re-appropriations of funds, which totaled \$39.5 million. As a result of these re-appropriations, the adjusted Reserve Fund cash balance as a percentage of the fiscal year 2012-13 anticipated General Fund receipts of \$4.55 billion, is equal to 4.94 percent.

Once these adjustments are taken into account, the adjusted Reserve Fund cash balance is \$6.9 million more than originally anticipated in the 2012-13 adopted budget, but \$2.6 million less than the 5 percent (\$227.5 million) prescribed by the City's Reserve Fund Policy. As I have repeatedly emphasized in recent years, the City must continue efforts to maintain and grow the Reserve Fund to at least 5 percent.

I would like to highlight that given the City's current practices, the adjusted Reserve Fund cash balance could have been higher if, either, re-appropriations were less or more unused prior-year encumbrances were disencumbered. As of August 31, 2012, after urging all departments to disencumber any unused funds, General Fund No. 100 prior-year encumbrances still totaled \$113.7 million. This practice needs to change. My Office continues to work with the CAO and labor representatives to review prior-year encumbrances and we are working towards the development of a prior-year encumbrance policy to make more funds available to increase reversions at year end.

In the interim, departments need to make every effort to expend funds in the most transparent manner and regularly review encumbrances for current year use. As a reminder, departments should also comply with my Office's past audit recommendation to ensure that funds not be encumbered without valid City obligations or work orders corresponding to a given appropriation's budget fiscal year. Further, departments should adhere to a Council approved instruction in last year's preliminary financial report for departments to disencumber unwarranted items to increase reversions whenever possible.

Soon the Council will be faced with finding revenue to avoid layoffs during this fiscal year. In addition, the most recent Budget Outlook anticipates a budget gap of \$215.9 million in fiscal year 2013-14. It should be noted that next year's budget gap already assumes new ongoing General Fund revenues of approximately \$37 million from the Special Parking Revenue Fund and Property Tax-CRA Increment monies. Further, the budget gap is subject to change if unanticipated revenue shortfalls or potential new contingency expenditures occur. Steps should be taken immediately towards addressing these problems, including a full implementation of Performance Based Budgeting which I put forth last year to increase transparency and accountability of departments for every dollar spent.

In previous reports, I have warned that the continued policy of reducing or eliminating overtime cash payments by increasing banked hour limits would likely result in larger banked hour balances across fiscal years if not properly managed. In July 2009, for example, the banked overtime hours for sworn personnel totaled an estimated payout value of \$48.0 million. As of the first pay period of the current fiscal year, the banked overtime hours for sworn personnel totaled 2.2 million hours with an estimated payout value of \$103.1 million. Therefore City managers must minimize banked compensated absences by year-end, rather than deferring an even larger liability to be paid out in future years.

It should also be noted that, although the City recently initiated steps towards pension reform, the budgetary impact of that decision will be far greater in the future than it can possibly affect today's financial status. Therefore, the city will have to find additional measures to address the continuing structural deficit going forward.

Please note that the attached report also serves as the starting point for the preparation of the City's fiscal year 2011-12 financial statements, which will be included in the 2011-12 Comprehensive Annual Financial Report (CAFR) along with other required supplementary information. Preparation of the CAFR will require participation from all City departments, and appropriate resources are critical for its timely completion. The CAFR will be prepared in conformity with generally accepted accounting principles (GAAP) for governmental units and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The CAFR is a critical component of the City's debt issuance process.

My staff and I express our appreciation to all City departments and offices for their assistance and cooperation in the preparation of the attached report and for a successful year-end closing accomplished despite exceedingly difficult times which may continue to prove challenging for the foreseeable future.

Sincerely,

Sent from my iPad

Sent from my iPad

On Sep 26, 2012, at 22:41, Shannon Murphy <shannon.murphy@lacity.org> wrote:

Sounds good

Shannon Murphy
[REDACTED]

Sent from my iPhone

On Sep 26, 2012, at 10:25 PM, Claire Bartels
<claire.bartels@lacity.org> wrote:

Timing issue for tomorrow. If Elaine handles at 8:30, it should be ready at 10am.

Sent from Claire's iPhone

Begin forwarded message:

From: Matias Farfan
<matias.farfan@lacity.org>
Date: September 26, 2012, 5:26:32 PM
PDT
To: Claire Bartels

City of Los Angeles Mail - Fwd: Update...
<claire.bartels@lacity.org>

Subject: Re: Updated PFR

Looks great to me! I just have minor take it or leave it suggestions on the attached.

Please note that staff will need a couple of hours after receipt of the signed letter to assemble the final report for distribution to Mayor, Council, City Clerk and others.

I don't know if this will affect the time of the press release.

Matias

On Wed, Sep 26, 2012 at 4:59 PM, Claire Bartels <claire.bartels@lacity.org> wrote:

*Claire Bartels
Chief Deputy Controller
Office of Controller Wendy Greuel*

*213/978-7200
200 N. Main Street, Suite 300
Los Angeles CA 90012*

<http://www.lacity.org/ctr/>

<Preliminary Financial Report 2012 MF.pdf>

<Preliminary Financial Report 2012 MF.doc>