



RON GALPERIN  
CONTROLLER

March 1, 2018

Honorable Eric Garcetti, Mayor  
Honorable Members of the City Council

**SUBJECT: REVENUE FORECAST REPORT**

In accordance with City Charter Section 311(c), I am submitting a current and updated revenue estimate for fiscal year 2017-18 and revenue projections for fiscal year 2018-19. Also included are the 2018-19 debt service and General Fund cash flow borrowing requirements.

The City's adopted budget for 2017-18 is \$9.3 billion. Two thirds of this (\$5.8 billion) is General Fund monies; the remainder (\$3.5 billion) is from special fund revenues and some special fund existing balances. The special fund monies come from a variety of fees, grants, and other restricted funding sources - and may be used for specific purposes.

In order to develop our forecast, the Controller's Office collected revenue projections from City departments, reviewed recent economic reports and projections, and met with a number of local economists, including those from Beacon Economics, Krueger Economics, and the UCLA Anderson School of Management. While forecasts necessarily involve some uncertainty, this forecast represents our best estimates based on the information available. Seeking to promote responsible fiscal policy, we provide a relatively conservative forecast of revenues.

General Fund receipts for the current year are estimated to be \$5.8 billion, a 2.9 percent increase from 2016-17 revenue, but \$35 million less than the City's Adopted Budget. Higher than anticipated revenues from property and business taxes are offset by less-than-budgeted Documentary Transfer Tax and Utility Users Tax revenues. In addition, anticipated new revenue streams from billboards and the recently adopted affordable housing linkage fee have yet to materialize.

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For 2018-19, we project General Fund revenues to be \$6.0 billion, \$170 million (2.9 percent) more than the current projected revenues for 2017-18. Growth in Property Tax, Franchise Income, and Licenses, Permits, Fees & Fines, along with implementation of the linkage fee, is expected to be offset by potentially lower revenues such as Telephone Users Tax, and by projected spending increases.

While 2.9 percent projected growth in the General Fund may sound relatively positive, when compared to expenditure growth that has averaged 4.8 percent annually each of the last five years, it is clearly not enough. While short-term fixes and small adjustments can balance these in the short run, this situation offers no protection against unanticipated economic stress.

In order to meet its needs, the City must work diligently to maximize its existing revenue streams as well as identifying new sources. Cannabis revenues are a notable example. The City is projected to generate funds from Cannabis-related licensing fees and business taxes of at least \$20 million. Cannabis-related sales taxes are somewhat more difficult to project; the sums that the City realizes will depend on an effective and efficient licensing and enforcement process.

Over the past decade, the City has grown the Reserve Fund, which reached a high of 8.2 percent of the General Fund in 2015. Currently, the Reserve Fund balance is \$377 million, 6.5 percent of the 2017-18 General Fund. This is a healthy amount. However, while the City Charter dictates a 5 percent Reserve Fund Policy, it's important that we continue to build our reserves to weather any economic slowdown.

Special fund revenue (including monies from bond sales) is estimated to be \$2.6 billion, which is \$176 million (7.2 percent) more than 2016-17, but \$140 million less than the City's Adopted Budget. This is attributable to the City issuing less Sewer Construction and Maintenance Fund bonds than originally anticipated in the budget. For 2018-19, special fund revenue is projected to grow by \$189 million (7.2 percent) to a total of \$2.8 billion, led by strong growth in Gas Tax, Measure M Local Return, and Solid Waste Resources Fund receipts.

Special fund revenues have been growing faster than General Fund revenues for years. As a result, the cash balances in the City's many special funds have also been growing. There remains a clear need for the City to address the issue of special funds and its many

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priorities. With the resources allocated in the 2017-18 budget, my Office is researching these funding opportunities, and will work with the Mayor and Council over the coming months to identify the best options for inclusion in the 2018-19 budget.

An online interactive tool for exploring the forecast, with 10 years of data including exhibits and schedules can be found at [lacontroller.org/revenue](http://lacontroller.org/revenue). Open data for all City financials is available online at [ControlPanelLA](http://ControlPanelLA). Should you have any questions, or require additional information, please contact Matthew Crawford, Director of Financial Analysis and Reporting, at (213) 978-7203 or [matthew.crawford@lacity.org](mailto:matthew.crawford@lacity.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Galperin". The signature is fluid and cursive, with a long horizontal stroke at the end.

RON GALPERIN  
Los Angeles Controller

Attachment

cc: Sharon M. Tso, Chief Legislative Analyst  
Richard H. Llewellyn, City Administrative Officer

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# SUMMARY

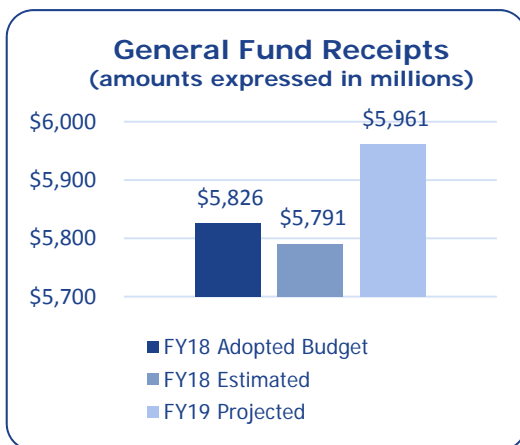
This Revenue Forecast Report for the City of Los Angeles forecasts fiscal years 2017-18 and 2018-19 revenue in advance of the upcoming budget process. Also included are the estimated requirements for debt service and General Fund cash flow borrowing. The Forecast is issued pursuant to the Controller's City Charter mandate to monitor and report on all matters relating to the City's fiscal health, to keep the City's official financial records, and to supervise expenditures of the City.

An online interactive tool for exploring the forecast, with 10 years of data including exhibits and schedules is found at [lacontroller.org/revenue](http://lacontroller.org/revenue). Open data for all City financials is available online at ControlPanelLA ([ControllerData.LACity.org](http://ControllerData.LACity.org)), including monthly updated information on General and Special Fund revenues. Economic presentations provided by local economists to the Controller in the development of this Financial Forecast Report are also available at LAController.org.

## Financial Outlook

Local economists, with whom we consulted, project that economic growth in Los Angeles will be moderate in 2018 with slightly slower growth in 2019. No recession is predicted, though some signs of stress, especially in the housing market, are cause for long-term concern.

As household employment has grown above pre-recession levels, unemployment is the lowest in years, declining to 4.4 percent in November 2017. Recent trends indicate that job growth is slowing down as the Los Angeles labor market tightens. Because of the strong labor market, personal wages and incomes have risen, with a concurrent rise in taxable sales.



The forecast expects the local economy to benefit from the reduction of marginal Federal tax rates in the short run. However, limits placed on state and local income and mortgage interest deductions will likely have a negative impact on the housing market given the high cost of real estate in the City. Median home prices, which have grown steadily in recent years, are expected to increase at a slower pace than prior years.

With this environment and assumptions in mind, the City is currently estimated to realize General Fund revenues in the current fiscal year of approximately \$5.791 billion, \$35 million or 0.6 percent lower than the 2017-18 Adopted Budget total General Fund revenue of \$5.826 billion, but \$163 million more than 2016-17. Total 2018-19 revenues are projected to \$5.961 billion, \$170 million or 2.9 percent more than the current year estimate.

## Debt

The estimated City debt service requirement for 2018-19 is \$585.2 million, \$21 million more than 2017-18, excluding debt service on the TRAN. \$119.2 million of this amount is for principal and interest payments on the City's \$843.8 million in outstanding General Obligation Bonds (GOB). GOBs are general obligations of the City payable from ad valorem taxes levied on all of the taxable property of the City. The remaining debt service covers the Municipal Improvement Corporation of Los Angeles (MICLA); and Wastewater, Solid Waste Resources, Site-Specific Tax, and Judgment Obligation Bonds.

In total, debt service is projected to be 5.72 percent of projected 2018-19 General Fund receipts, well under the 15 percent limit set by the City's Debt Policy.

## General Fund Cash Flow

Annually, the Controller estimates an amount of borrowing needed to meet City short-term cash flow requirements in the first half of the next fiscal year. Based on revenue and expenditure patterns, the likely cash flow borrowing requirement in 2018-19 is between \$400 million to \$450 million.

In addition to the TRAN, the Controller is authorized to enter into short-term borrowing from the Reserve Fund when cash flow is needed. However, this can cause concern when the Reserve Fund balance is close to the five percent target set by the City's financial policies. In order to balance this concern against cash flow needs and legal caps on the TRAN, the Controller's Office will work closely with the City Administrative Officer to determine the most appropriate amount to borrow.

# DISCUSSION

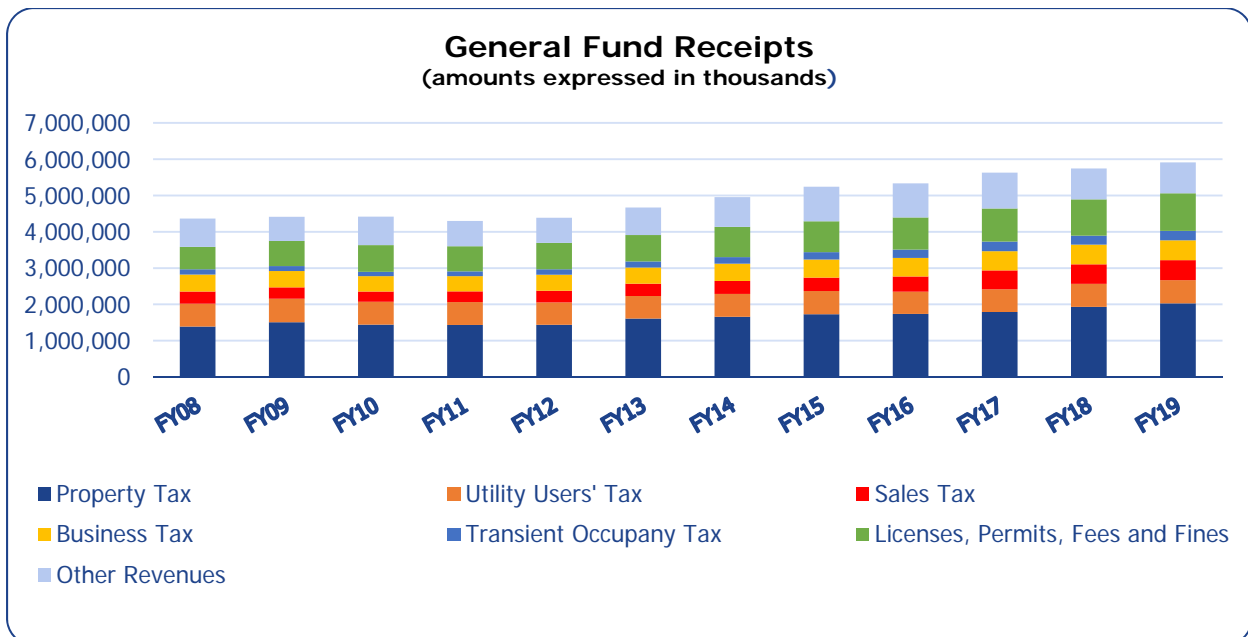
## General Fund Revenue Projections for 2017-18 and 2018-19

### EXHIBIT 1

#### TOTAL GENERAL FUND REVENUE (dollar amounts expressed in thousands)

	Adopted Budget	Controller's March 1, 2018		% Change		
		Estimated Receipts		2017-18 Estimate/ 2017-18 Budget	2018-19 Projected/ 2017-18 Estimate	2018-19 Projected/ 2017-18 Budget
		2017-18 (a)	2017-18 (b)			
General Fund Revenue	\$ 5,826,456	\$ 5,791,442	\$ 5,961,204	-0.60%	2.93%	2.31%

The City's General Fund revenue comes from a wide variety of sources. The largest single source is Property Tax, which represents just under one third of all General Fund revenue. Other major revenue sources include Utility Users' Tax, Sales Tax, Business Tax, Transient Occupancy Tax, Power Revenue Transfer, Documentary Transfer Tax, and Licenses, Permits, Fees and Fines. The chart below illustrates this diversity.



The City is estimated to realize General Fund revenues in the current fiscal year of approximately \$5.791 billion, \$35 million or 0.6 percent below the 2017-18 Adopted Budget of \$5.826 billion. This Office bases these estimates on information received from departments, consultation with local economic experts and academics, and historical as well as recent trends.

Total 2018-19 General Fund revenues are projected to \$5.961 billion, an increase of \$169 million or 2.9 percent over the 2017-18 estimate. It should be noted that the Controller's 2018-19 General Fund revenue estimates do not account for discretionary one-time transfers from the Reserve Fund or other funds identified during the budget process.

The complete list of estimated City receipts for 2017-18 and 2018-19 is presented in Schedule 1.

## **Economy-Sensitive General Fund Revenues**

The seven major revenue sources labeled "Economy-Sensitive" include Property Tax, Utility Users' Tax, Business Tax, Sales Tax, Transient Occupancy Tax, Documentary Transfer Tax, and Parking Users' Tax. Together, they represent 72 percent of General Fund revenues in the 2017-18 Adopted Budget.

The most volatile tax revenue is Documentary Transfer Tax, which is assessed on real estate sales and transfers. As shown in the chart below, the documentary transfer tax receipts reached a historical high of \$217 million in 2005-06. Receipts plunged in the wake of the real estate market's collapse, falling to \$84 million in 2008-09, a decrease of 61 percent in three years. As the housing market and overall economy began to recover, double digit growth resumed, and approached the 2005-06 high with \$210 million in receipts in 2016-17.

While the documentary transfer tax receipts represent only 3.7 percent of 2016-17 General Fund revenues, it is nonetheless a significant revenue stream that can quickly and sharply fluctuate in a very short period of time. Its growth rate has recently slowed to single digits. Based on recent trends, documentary transfer tax is actually estimated to decline by 3.4 percent in 2017-18. The 2018-19 receipts are projected to remain flat, as most indicators are not foreseeing a crash like 2007, but this tax will need to be watched closely in case it begins to turn more dramatically negative.



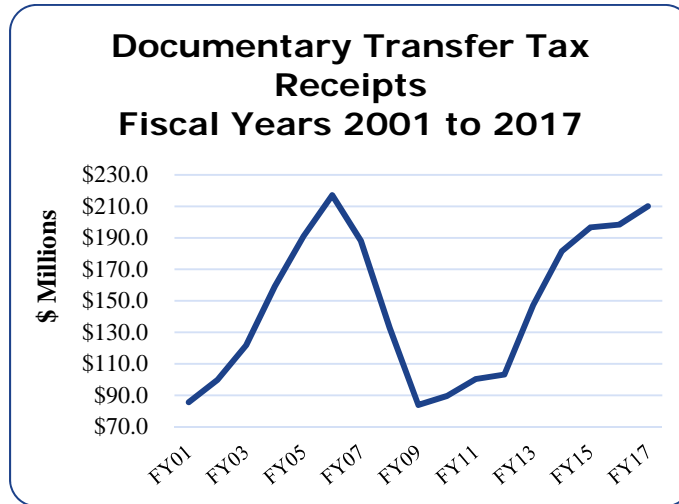


Exhibit 2 presents the City’s economy-sensitive General Fund receipts in the 2017-18 Adopted Budget, and the Controller’s estimates for 2017-18 and 2018-19.

**EXHIBIT 2**

**GENERAL FUND ECONOMY-SENSITIVE REVENUES**  
(dollar amounts expressed in thousands)

	Adopted	Controller's March 1, 2018		% Change over 2017-18	
	Budget	Estimated Receipts		Adopted Budget	
	2017-18	2017-18	2018-19	2017-18	2018-19
	(a)	(b)	(c)	(b) / (a)	(c) / (a)
Property Tax	\$ 1,833,755	\$ 1,849,300	\$ 1,942,900	0.85%	5.95%
Utility Users' Tax	661,200	633,000	642,000	-4.26%	-2.90%
Business Tax	518,900	544,000	548,000	4.84%	5.61%
Sales Tax	528,670	536,000	550,000	1.39%	4.03%
Transient Occupancy Tax	282,100	293,000	306,000	3.86%	8.47%
Documentary Transfer Tax	219,096	203,000	203,000	-7.35%	-7.35%
Parking Users' Tax	112,900	110,000	110,000	-2.57%	-2.57%
<b>Total Economy-Sensitive Revenues</b>	<b>\$ 4,156,621</b>	<b>\$ 4,168,300</b>	<b>\$ 4,301,900</b>	<b>0.28%</b>	<b>3.50%</b>

General Fund economy-sensitive revenues are estimated to increase in 2018-19 by 3.5 percent above the 2017-18 Adopted Budget. Exhibit 3 provides an explanation of the estimates of General Fund economy-sensitive revenues for 2017-18 and 2018-19.

**EXHIBIT 3**

**GENERAL FUND ECONOMY-SENSITIVE REVENUES  
YEAR-TO-YEAR CHANGES**

Fiscal Year 2017-18	Fiscal Year 2018-19
<p><b>Property Tax</b></p> <ul style="list-style-type: none"> <li>• Total property tax receipts will be \$15.5 million above the budgeted amount to \$1.849 billion mainly due to higher than anticipated one percent prior year secured property tax revenue.</li> <li>• One percent secured property tax receipts is estimated to increase by 7.2% from prior year actual revenue (PY).</li> <li>• Total property tax receipts estimate is \$58 million or 3.2% above PY.</li> </ul>	<ul style="list-style-type: none"> <li>• Total property tax receipts are projected to increase by \$93.7 million over the 2017-18 estimate to \$1.942 billion.</li> <li>• The estimate reflects 6.0 % assumed growth in secured levy based on consultation with local economists.</li> <li>• One percent secured property tax receipts is projected to \$1.478 billion, a \$68.6 million or 4.8% increase from the 2017-18 estimate.</li> <li>• The vehicle license fee (VLF) swap is projected to \$464.9 million, a \$25.1 million increase from the 2017-18 estimate.</li> </ul>
<p><b>Utility Users' Tax</b></p> <ul style="list-style-type: none"> <li>• The estimated utility users' tax (UUT) receipts of \$633.0 million includes \$387.0 million electric users', \$176.0 million telephone users', and \$70.0 million gas users'.</li> <li>• Electric users' tax receipts are estimated based on collection trends and reflect the approved rate increase. The estimate is \$30.4 million or nearly 8.5% greater than PY, though well below the budgeted amount.</li> <li>• The telephone users' tax receipts are estimated at \$9.6 million below budget based on actual collection trend through the first six months of the year. The estimate is \$18.5 million or 9.5% less than PY.</li> <li>• With natural gas prices flat in the current fiscal year, gas users' tax receipts are estimated to be slightly above budget based on collection to date. The estimate is \$3.7 million or 5.0% less than PY.</li> </ul>	<ul style="list-style-type: none"> <li>• The estimated UUT receipts of \$642.0 million include \$404.0 million electric users', \$168.0 million telephone users', and \$70.0 million gas users'.</li> <li>• Electric users' tax receipts are projected to increase by 4.3% from the 2017-18 estimate. This is based on DWP's estimate and reflects the approved rate increase.</li> <li>• Telephone users' tax receipts are projected to continue their declining trend with a 4.5% reduction from the 2017-18 estimate.</li> <li>• No growth in gas users' tax receipts is anticipated in 2018-19. Gas prices and demand are projected to remain flat.</li> </ul>

<p><b>Business Tax</b></p>	<ul style="list-style-type: none"> <li>• Current fiscal year business tax receipts will be above budget based on assumed 3.4% growth from PY and a \$20.0 million one-time payment through the voluntary disclosure program (VDP), offset by \$16.4 million in business tax rate reduction, for a net total of \$544.0 million, or \$25.1 million above budget. The estimate is \$16.1 million or 3.0% above PY.</li> </ul>	<ul style="list-style-type: none"> <li>• Business tax receipts are projected to remain flat. The forecast reflects 3.8% economic growth offset by elimination of the one-time VDP revenue realized in 2017-18. The projection includes \$4 million in recreational marijuana related revenues. This amount has not been adjusted to account for the proposed change to the due date.</li> </ul>
<p><b>Sales Tax</b></p>	<ul style="list-style-type: none"> <li>• Sales and use taxes will total to \$536.0 million, \$7.3 million above budget. The estimate is \$15.6 million or 3.0% above PY.</li> </ul>	<ul style="list-style-type: none"> <li>• Sales and use tax receipts are estimated to total \$550.0 million, a 2.6% increase over the 2017-18 estimated receipts based on trends and consultation with local economists, and includes \$1 million in recreational marijuana related receipts.</li> </ul>
<p><b>Transient Occupancy Tax (TOT)</b></p>	<ul style="list-style-type: none"> <li>• Current fiscal year receipts are estimated at \$247.0 million \$1.1 million below budget. The estimate is \$13.2 million or 5.7% greater than PY.</li> </ul>	<ul style="list-style-type: none"> <li>• It is projected that TOT – hotel revenues will total \$258.0 million, a 4.5% increase over the 2017-18 estimated receipts based on anticipated growth in room rates and opening of several new hotels.</li> </ul>
<p><b>TOT – Short-term Rental</b></p>	<ul style="list-style-type: none"> <li>• Office of Finance (Finance) estimates receipts from the tax collection agreement with Airbnb at \$46.0 million, \$12.3 million above budget. The estimate, \$14.0 million or 43.7% greater than PY, reflects trend in actual receipts collected through the first half of the current fiscal year.</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term rental TOT receipts is expected to slightly increase by \$2.0 million or 4.3% to \$48.0 million.</li> </ul>
<p><b>Documentary Transfer Tax</b></p>	<ul style="list-style-type: none"> <li>• It is estimated that current fiscal year receipts will be \$16.1 million or 7.3% below budget to \$203.0 million. This represents 3.3% decline in revenue from the PY. While the number of deeds through the first seven months of the current fiscal year have increased by 4.4%, the year-to-date average price per deed has decreased by 9.3%.</li> </ul>	<ul style="list-style-type: none"> <li>• Documentary transfer tax receipts are expected to remain flat in 2018-19 at \$203.0 million.</li> </ul>
<p><b>Parking Users' Tax</b></p>	<ul style="list-style-type: none"> <li>• Current year receipts are estimated to nearly \$3.0 million below budget based on collections to date. The estimate is \$1.2 million or 1.0% less than PY.</li> </ul>	<ul style="list-style-type: none"> <li>• 2018-19 parking users' tax receipts will remain flat at \$110.0 million next fiscal year.</li> </ul>

## **Licenses, Permits, Fees and Fines**

In the March 2017 Revenue Forecast Report, this Office introduced the concept of breaking down the broad Licenses, Permits, Fees and Fines (LPFF) revenues, which represents almost 20 percent of General Fund receipts, into three categories: LPFF, Services to Proprietary Departments and Reimbursements from Other Funds.

City department services to proprietary departments, such as fire protection, construction inspection, and City Attorney billings for Department of Airports, Water and Power, and Harbor make up the "Services to Proprietary Departments" category. The "Reimbursement from Other Funds" category consists of special fund reimbursements for costs that are paid for by the General Fund for central services such as payroll, leasing and fleet, and fringe benefits such as health insurance and retirement, as well as reimbursements to the City from other governmental agencies such as Metro and LAUSD, for services such as policing and election administration. The remaining revenues of fees for special services such as animal licenses, engineering permits, fire brush clearance fees, and ambulance billings, as well as numerous other smaller revenues.

Exhibit 4 presents the budgeted and estimated 2017-18 and projected 2018-19 LPFF revenues by category.

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### **EXHIBIT 4**

#### **LICENSES, PERMITS, FEES AND FINES (amounts expressed in thousands)**

	Adopted Budget	Controller March 1, 2018 Estimated Receipts	
		FY 2017-18	FY 2018-19
Licenses, Permits, Fees and Fines	\$ 355,352	\$ 345,408	\$ 332,109
Services to Proprietary Departments	151,635	149,499	150,362
Reimbursement from Other Funds	540,007	503,846	554,433
<b>Total Licenses, Permits, Fees and Fines</b>	<b>\$ 1,046,994</b>	<b>\$ 998,753</b>	<b>\$ 1,036,904</b>

In 2017-18, total LPFF is estimated to \$998.8 million or \$48 million below budget. The shortfall is largely due to the delayed implementation of the Affordable Housing Linkage fee, unrealized billboard lease revenue, delay in Police billing for Metro policing services, and reduced related costs reimbursements from the Planning and Housing and Community Investment Departments, attributable to staff vacancies, grant availability, and unrealized fee increases. The 2018-19 LPFF projection includes anticipated implementation of Housing Linkage fees and collection of anticipated reimbursements from Metro, Planning, and Housing and Community Investment, but does not assume any billboard revenue.

## **Other Significant Revenues**

Exhibit 5 depicts other revenues such as Franchise Income, Parking Fines, Power Revenue Transfer, and Ex-CRA Tax Increment. The revenue estimates are provided by various departments responsible for administration of the program(s) and/or collection and transmittal of the receipts to the General Fund.

### EXHIBIT 5

#### OTHER SIGNIFICANT REVENUES (amounts expressed in thousands)

	Adopted	Controller March 1, 2018		% Change over FY2017	
	Budget	Estimated Receipts		Adopted Budget	
	FY 2018	FY 2018	FY 2019	FY 2018	FY 2019
	(a)	(b)	(c)	(b) / (a)	(c) / (a)
Franchise Income	\$ 58,123	\$ 58,000	\$ 79,000	-0.21%	35.92%
Parking Fines	140,900	139,000	139,000	-1.35%	-1.35%
Power Revenue Transfer	242,500	241,848	240,000	-0.27%	-1.03%
Ex-CRA Tax Increment	74,168	84,000	84,000	13.26%	13.26%

Franchise income is collected from City franchisees, including distributors of natural gas; cable TV operators; and others such as official police garages and taxicabs. RecycLA, the solid waste collection franchise system for commercial, industrial and large multi-family buildings, was partially implemented during

the fiscal year. The estimated 2017-18 Franchise income revenue will meet budget while 2018-19 is projected to increase by \$21 million to \$79 million, primarily due to anticipating a full-year of RecyclA revenue, which is anticipated to generate \$35 million in 2018-19.

Parking Fines are based on Department of Transportation (DOT) estimates. DOT estimates 2017-18 revenue to be \$1.9 million or 1.3 percent lower than budget and 2018-19 projected parking fines will remain flat.

The Power Revenue Transfer is set as a percentage of prior-year gross operating power revenue realized by the Department of Water and Power (DWP). DWP has approved a transfer of \$241.8 million this fiscal year. The forecast of \$240 million is based on DWP's assumed energy sales.

Current year Ex-CRA Tax Increment revenue is estimated to \$84 million, \$9.8 million above budget based on trend analysis. Actual receipts through January include \$6.1 million in unanticipated surplus property sales. It is projected that 2018-19 revenue will total \$84 million.

## **Special Purpose Fund Revenues**

Special Fund revenues represent approximately 30 percent of total 2017-18 Adopted Budget receipts. In addition, Available Balances, which are projected cash balances at the beginning of the fiscal year, represent 7.5 percent of budgeted Special Fund revenues. Schedule I presents a breakdown of 2016-17 actual, 2017-18 estimated and 2018-19 projected revenues by budgeted Special Fund. Available Balances are excluded from this report.

Based on departmental estimates, 2017-18 total Special Fund revenues are estimated to \$2.628 billion or 5.2 percent below budget, and \$172.6 million or 7.0 percent above prior year actual receipts. 2018-19 Special Fund revenues are projected to \$2.822 billion, an increase of \$193.4 million or 7.4 percent greater than prior year estimated revenues.

Exhibit 6 presents the 2017-18 and 2018-19 adopted and estimated revenues for many of the largest Special Funds.

## EXHIBIT 6

**SELECTED SPECIAL FUND REVENUES**  
 (amounts expressed in thousands)

	Adopted	Controller March 1, 2018		% Change over FY2018	
	Budget	Estimated Receipts		Adopted Budget	
	FY 2018	FY 2018	FY 2019	FY 2018	FY 2019
	(a)	(b)	(c)	(b) / (a)	(c) / (a)
Sewer Construction and Maintenance	\$ 999,789	\$ 863,470	\$ 911,234	-13.63%	-8.86%
Solid Waste Resources	312,905	317,794	386,622	1.56%	23.56%
Proposition A Local Transit Assistance	149,433	149,433	147,495	0.00%	-1.30%
Building and Safety Enterprise	144,846	166,402	157,381	14.88%	8.65%
Special Gas Tax Street Improvement	122,186	119,512	181,195	-2.19%	48.29%
Proposition C Anti-Gridlock Transit Improv.	76,894	76,643	78,698	-0.33%	2.35%
Measure R Traffic Relief & Rail Expansion	45,400	45,400	47,000	0.00%	3.52%
Code Enforcement Trust	39,728	39,914	39,737	0.47%	0.02%
Measure M Local Return	39,100	39,100	50,214	0.00%	28.42%

The projected gains for 2018-19 are led by growth in Solid Waste Resources, Sewer Construction and Maintenance, Gas Tax, and Measure M. The new portion of the Gas Tax, SB-1, and Measure M are showing their first full year in place, which is the cause of the high rate of growth in these funds. Also showing strong growth in the current year is the Building and Safety Permit Enterprise Fund, though the extreme volatility of construction permit revenue leads to conservative estimates of that revenue looking forward.

## **General Fund Cash Flow Borrowing**

### **Current and Prior Year Experience**

Due to the timing difference between receipts and expenditures, the Controller annually requests issuance of Tax and Revenue Anticipation Notes (TRAN) to ensure that the General Fund has sufficient cash to cover expenditures during the first half of the fiscal year. The Controller also has the ability to initiate Reserve Fund and interfund borrowing during the year for cash flow purposes. Exhibit 7 illustrates cash flow borrowings for 2008-09 through 2017-18.

## EXHIBIT 7

**GENERAL FUND CASH FLOW BORROWINGS  
FOR FISCAL YEARS 2008-09 THROUGH 2017-18  
(amounts expressed in thousands)**

Fiscal Year	Total Annual Cash Flow Borrowings			
	Reserve Fund	Other Funds	TRAN	Total
2008-09	\$ --	\$ 116,000	\$ 350,000	\$ 466,000
2009-10	100,000 <sup>(1)</sup>	150,000	400,000	650,000
2010-11	--	--	450,000	450,000
2011-12	--	--	400,000	400,000
2012-13	--	--	425,000	425,000
2013-14	--	--	400,000	400,000
2014-15	--	--	350,000	350,000
2015-16	50,000 <sup>(2)</sup>	--	350,000	400,000
2016-17	--	--	400,000	400,000
2017-18	50,000 <sup>(2)</sup>	--	400,000	450,000

## Notes:

(1) The \$100 million Reserve Fund borrowing was needed as gap funding until Council authorized other fund borrowing.

(2) The \$50 million Reserve Fund borrowing was short term until Property Tax receipts were received.

Annually, the Controller estimates an amount of borrowing needed to meet City short-term cash flow requirements in the first half of the next fiscal year. The Controller's Office will work with the Mayor and City Administrative Officer (CAO), as in prior years, to determine the amount of borrowing required and its source, as better information becomes available. The likely cash flow borrowing requirement in 2018-19 would be between \$400 million to \$450 million.

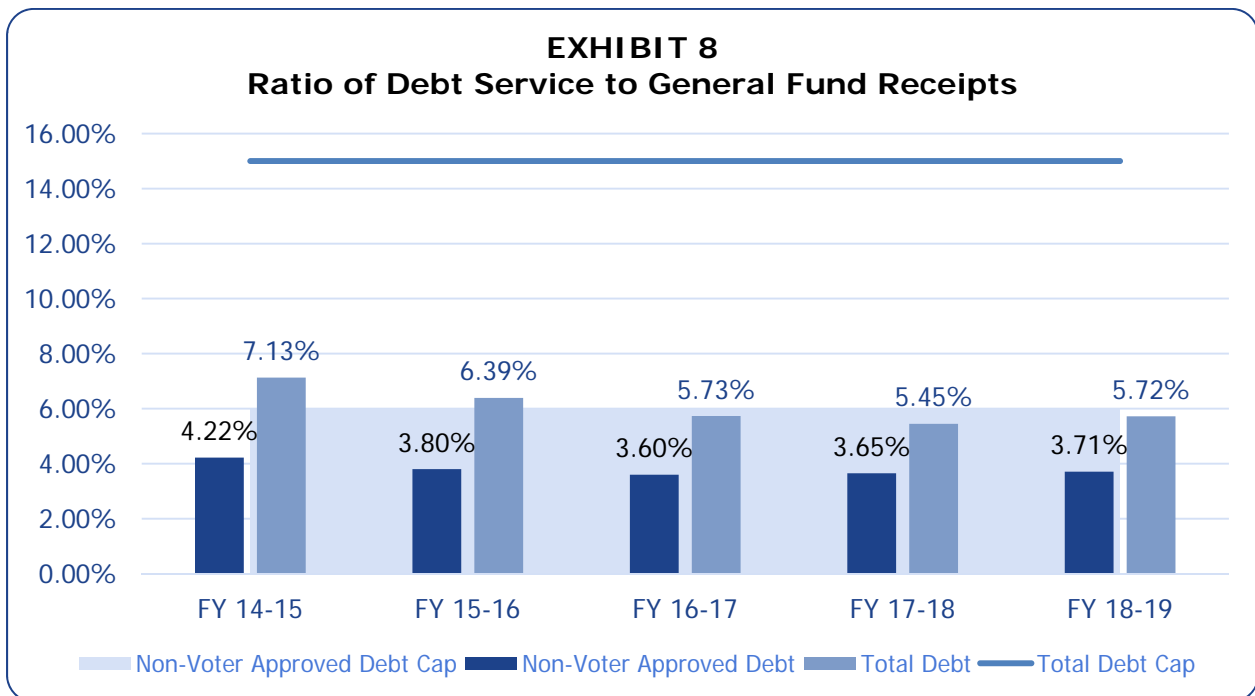
As the amount borrowed for cash flow needs is sometimes insufficient to meet General Fund cash flow needs, the Controller is authorized to enter into short-term borrowing from the Reserve Fund. However, this can cause concern when the Reserve Fund balance is close to the five percent target set by the City's financial policies. In order to balance this concern against cash flow needs and legal caps on the TRAN, the Controller's Office will work closely with the City Administrative Officer to determine the most appropriate amount to borrow.



## Debt

### City Debt Policy

Exhibit 8 below illustrates the City’s debt service in relation to General Fund receipts and demonstrates compliance with the City’s debt management policies.



Note: FY 2014-15 to FY 2016-17 ratios are based on actual General Fund receipts. FY 2017-18 and FY 2018-19 ratios are based on estimated and projected receipts.

The City’s debt policy established maximum levels for voter and non-voter approved debt. The maximum debt service level for non-voter approved debt is not to exceed six percent of General Fund revenues (with certain exceptions). As you can see, the City has managed its debt issuance very conservatively, with debt service well below the policy limits. Based on the current ratio of debt service to total projected receipts in 2018-19, the City has the capacity to issue additional non-voter approved debt with an annual debt service requirement of up to \$136.5 million or 2.29 percent of General Fund receipts. Assuming long term debt at 5 percent interest, this would equate to more than \$25 billion in additional debt capacity.

The City’s total debt service level for voter and non-voter approved debt shall not be greater than 15 percent of General Fund revenues. After the \$136.5 million, the City has the capacity to issue voter approved debt with an annual debt service requirement of no more than \$417 million. Again assuming long term debt at five percent interest, this would equate to more than \$75 billion in additional voter-approved debt capacity.

EXHIBIT 9

CITY DEBT POLICY

Shall not exceed 6% of General Fund revenue for non-voter approved debt and 15% for voter approved and non-voter approved combined (dollar amounts expressed in thousands)

Fiscal Year	Debt Service Requirement			General Fund Receipts <sup>(1)</sup>	Ratio of Debt Service to Total Receipts		
	Non-Voter Approved	Voter Approved	Total		Non-Voter Approved	Voter Approved	Total
2008-09	\$ 185,067	\$ 191,308	\$ 376,375	\$ 4,435,145	4.17%	4.31%	8.49%
2009-10	210,288	191,756	402,044	4,435,433	4.74%	4.32%	9.05%
2010-11	206,825	198,867	405,692	4,304,950	4.80%	4.62%	9.42%
2011-12	207,383	188,246	395,629	4,396,040	4.72%	4.28%	9.00%
2012-13	210,809	188,707	399,516	4,676,009	4.51%	4.04%	8.54%
2013-14	218,868	184,844	403,712	4,960,718	4.41%	3.73%	8.14%
2014-15	221,428	152,477	373,905	5,247,997	4.22%	2.91%	7.13%
2015-16	202,603	138,054	340,657	5,338,014	3.80%	2.59%	6.39%
2016-17	202,444	120,166	322,610	5,628,790	3.60%	2.13%	5.73%
2017-18	211,576	104,429	316,005	5,791,442	3.65%	1.80%	5.45%
2018-19	220,999	119,694	340,693	5,961,204	3.71%	2.01%	5.72%

(1) All years with capitalized interest have been adjusted upwards to reflect bond proceeds to pay for capitalized interest. For 2008-09; 2009-10; 2010-11; 2011-12; 2012-13; and 2013-14; the adjustments are \$16,082,240; \$16,082,240; \$4,060,169; \$2,942,063; \$4,928,625; \$3,308,633; respectively. In addition, receipts for all fiscal years include revenues from the Staples Center.

After many years without new voter-approved debt, Los Angeles voters approved Proposition HHH in November 2016 authorizing the City to issue more than \$1 billion in new General Obligation Bonds to finance construction of affordable housing. In July 2017, \$89 million in new debt was issued.

## City Indebtedness

Exhibit 10 provides the outstanding balances of City debts along with 2017-18 and 2018-19 estimated debt service requirements based on the amount of current outstanding debt.

### EXHIBIT 10

#### OUTSTANDING DEBT AND DEBT SERVICE REQUIREMENTS <sup>(1)</sup> (amounts expressed in thousands)

Bonds	Outstanding Balance, 6/30/2018			Debt Service Requirement	
	Principal	Interest	Total	FY 2017-18	FY 2018-19
MICLA <sup>(2)</sup>	\$ 1,481,298	\$ 532,469	\$ 2,013,767	\$ 202,323	\$ 211,772
General Obligation	700,210	143,581	843,791	103,906	119,167
Judgment Obligation	14,555	967	15,522	9,028	9,027
Site-Specific Tax Revenue	5,706	1,543	7,249	749	726
Solid Waste Resources Revenue	147,365	19,164	166,529	38,904	37,581
Wastewater System	2,596,110	1,630,782	4,226,892	209,377	206,954
<i>Subtotal</i>	<i>4,945,244</i>	<i>2,328,506</i>	<i>7,273,750</i>	<i>564,287</i>	<i>585,227</i>
Tax and Revenue Anticipation Notes <sup>(3)</sup>	--	--	--	50,945	--
<b>Total</b>	<b>\$ 4,945,244</b>	<b>\$ 2,328,506</b>	<b>\$ 7,273,750</b>	<b>\$ 615,232</b>	<b>\$ 585,227</b>

Notes:

(1) Long-term debt does not include short-term commercial paper notes. However, the goal is to replace commercial paper with long term debt. As of January 2018, the balance of the MICLA and Wastewater System commercial paper notes is \$324 million and \$0, respectively.

(2) Includes debt service requirement supported by assessment on real property approved by the electorate of \$526,375 in 2018-19.

(3) A total of \$1,449,055,000 in TRAN were issued on July 6, 2017, with final maturity of June 28, 2018. The amount of interest to be paid in 2018-19 will depend upon the size of the TRAN and interest rates at the time of sale. The size of the TRAN will depend upon the amount of cash needed for cash flow and budgetary decisions on advance funding of City pensions and retirement contributions.

Source: Official Statements

The City strategically structures its various debt service schedules with the goal of stability. This means that, when one issuance is paid off and retired, payments are accelerated for other issuances. By scheduling the payments this way, the City avoids large swings in debt service which can have negative budgetary impacts.

## General Obligation Bond Payments

Exhibit 11 lists the City's General Obligation Bonds (GOB) debt service requirements for principal and interest for 2018-19. The total principal and interest requirements for 2018-19 are estimated at \$119.2 million. GOBs are general obligations of the City payable from ad valorem taxes levied upon all of the taxable property in the City. Taxes levied for the GOB debt service requirement are separate from the General Fund property tax revenue. The City issues GOB debt for capital improvement projects, including the acquisition of property and the construction of new facilities and improvements to existing facilities.

### EXHIBIT 11

#### GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS FOR FISCAL YEAR 2018-19

	Principal	Interest	Total Requirement
GOB - Series 2009-A	\$ 4,050,000	\$ 81,000	\$ 4,131,000
GOB - Series 2009-B	--	2,951,963	2,951,963
GOB - Series 2011-A	5,850,000	351,000	6,201,000
GOB - Series 2011-B	32,805,000	7,160,125	39,965,125
GOB - Series 2012-A	22,900,000	7,510,150	30,410,150
GOB - Series 2016-A	7,435,000	3,584,564	11,019,564
GOB - Series 2017-A	4,320,000	2,443,243	6,763,243
GOB - Series 2017-B	13,980,000	3,745,250	17,725,250
<b>Total</b>	<b>\$ 91,340,000</b>	<b>\$ 27,827,295</b>	<b>\$ 119,167,295</b>

# SCHEDULE I

## Office of the Controller Actual and Estimated Receipts for Fiscal Years 2017-18 and 2018-19

	Actual 2016-17	Estimated 2017-18	Projected 2018-19
Property Tax:			
Property Tax 1%	\$ 1,314,873,955	\$ 1,409,400,000	\$ 1,478,000,000
Property Tax - Sales Tax Replacement	63,637,287	--	--
Property Tax - VLF Replacement	412,737,649	439,900,000	464,900,000
<b>Total Property Tax</b>	<b>1,791,248,891</b>	<b>1,849,300,000</b>	<b>1,942,900,000</b>
Property Tax - Ex-CRA Tax Increment	103,262,043	84,000,000	84,000,000
Utility Users' Tax:			
Electric Users' Tax	356,616,517	387,000,000	404,000,000
Telephone Users' Tax	194,481,399	176,000,000	168,000,000
Gas Users' Tax	73,733,233	70,000,000	70,000,000
<b>Total Utility Users' Tax</b>	<b>624,831,149</b>	<b>633,000,000</b>	<b>642,000,000</b>
Licenses, Permits, Fees and Fines:			
Licenses, Permits, Fees, and Fines	289,113,990	345,408,000	332,109,000
Services to Proprietary Departments	155,430,434	149,499,000	150,362,000
Reimbursements from Other Funds	468,688,210	503,846,000	554,433,000
<b>Total Licenses, Permits, Fees and Fines</b>	<b>913,232,634</b>	<b>998,753,000</b>	<b>1,036,904,000</b>
Business Tax	528,076,215	544,000,000	548,000,000
Sales Tax	520,404,118	536,000,000	550,000,000
Documentary Transfer Tax	210,069,625	203,000,000	203,000,000
Power Revenue Transfer	264,427,000	241,848,000	240,000,000
Transient Occupancy Tax	265,653,159	293,000,000	306,000,000
Parking Fines	140,772,515	139,000,000	139,000,000
Parking Users' Tax	111,161,383	110,000,000	110,000,000
Franchise Income	42,929,803	58,000,000	79,000,000
Grant Receipts	11,593,579	12,000,000	12,000,000
Interest	21,055,645	25,000,000	28,000,000
State Motor Vehicle License Fees	1,805,784	1,800,000	1,800,000
Tobacco Settlement	9,173,622	9,800,000	9,800,000
Residential Development Tax	5,254,814	5,200,000	5,300,000
Special Parking Revenue Transfer	28,341,817	38,633,000	23,500,000
Transfer from Reserve Fund	35,496,041	9,108,000	--
<b>Total General Fund Receipts</b>	<b>\$ 5,628,789,837</b>	<b>\$ 5,791,442,000</b>	<b>\$ 5,961,204,000</b>

# SCHEDULE I

<b>Special Fund Receipts:</b>	<b>Actual 2016-17</b>	<b>Estimated 2017-18</b>	<b>Projected 2017-18</b>
Affordable Housing Trust	\$ 5,052,607	\$ 4,893,000	\$ 1,237,000
Arts and Cultural Facilities	19,529,823	22,786,000	25,446,000
Arts Development Fee	3,027,546	4,369,000	3,155,000
Building and Safety Permit	215,178,961	166,402,000	157,381,000
Central Recycling and Transfer	5,984,398	7,376,000	6,100,000
City Employees' Retirement	107,568,091	102,886,000	111,283,000
City Employees Ridesharing	3,202,028	3,162,000	3,223,000
City Ethics Commission	2,578,154	3,054,000	3,309,000
City Levy (Debt Service)	118,306,726	124,729,000	119,167,000
Citywide Recycling Trust	29,479,532	27,828,000	30,080,000
Code Enforcement Trust	39,748,746	39,914,000	39,737,000
Community Development Trust	21,114,330	25,912,000	17,635,000
Community Services Administration Grant	1,736,755	1,581,000	1,800,000
Convention Center Revenue	34,770,502	31,108,000	30,910,000
Disaster Assistance Trust	27,759,192	726,000	2,097,000
El Pueblo de Los Angeles Historical Monument	5,190,637	4,860,000	5,060,000
Forfeited Assets	4,746,487	664,000	--
Greater LA Convention & Visitors Bureau	20,437,133	23,000,000	24,000,000
HOME Investment Partnerships Program	4,406,011	3,711,000	3,746,000
Household Hazardous Waste	2,532,075	5,159,000	3,414,000
Housing Opportunities for Persons with AIDS	233,872	566,000	465,000
Landfill Maintenance	5,228,223	8,000	--
Local Public Safety	42,117,124	43,606,000	45,394,000
Local Transportation	4,494,429	8,371,000	3,012,000
Measure M Local Return Fund	--	39,100,000	50,214,000
Measure R Traffic Relief and Rail Expansion	47,981,047	45,400,000	47,000,000
Mobile Source Air Pollution Reduction	5,286,418	5,250,000	5,250,000
Multi-Family Bulky Item	7,291,617	10,485,000	8,036,000
Municipal Housing Finance	4,411,195	5,572,000	5,298,000
Neighborhood Empowerment	6,136,000	2,602,000	2,595,000
Older Americans Act	2,108,022	1,578,000	1,579,000
Park and Recreational Sites and Facilities	3,504,200	3,000,000	3,000,000
Planning Case Processing	28,866,248	25,294,000	33,580,000
Proposition A Local Transit Assistance	141,277,652	149,433,000	147,495,000
Proposition C Anti-Gridlock Transit Improvement	78,346,371	76,643,000	78,698,000
Rent Stabilization	14,655,243	14,684,000	14,659,000
Sewer Construction and Maintenance	690,444,552	863,470,000	911,234,000
Sidewalk Repair	23,304,000	13,891,000	13,000,000
Solid Waste Resources	320,571,535	317,794,000	386,622,000
Special Gas Tax Street Improvement	87,964,386	119,512,000	181,195,000
Special Parking Revenue	54,113,286	43,140,000	58,748,000
Special Police Communications/911 System Tax	90,514	--	--
Staples Arena Special Fund	6,443,407	4,185,000	4,185,000
Stormwater Pollution Abatement	34,894,223	32,816,000	45,520,000

Continued....

# SCHEDULE I

	Actual 2016-17	Estimated 2017-18	Projected 2018-19
<b>Special Receipts: (Continued)</b>			
Street Damage Restoration Fee	\$ 10,209,740	\$ 9,717,000	\$ 10,011,000
Street Lighting Maintenance Assessment	57,374,817	55,357,000	64,572,000
Supplemental Law Enforcement Services	9,158,943	6,410,000	6,410,000
Telecommunications Development Account	18,466,696	18,093,000	17,840,000
Traffic Safety	4,254,730	3,638,000	2,988,000
Workforce Innovation Opportunity Act	11,555,007	11,875,000	17,298,000
Zoo Enterprise Trust Fund	21,670,459	22,188,000	22,862,000
Allocations From Other Sources:	41,031,042	70,617,000	44,257,000
<b>Total Special Receipts</b>	<b>2,455,834,733</b>	<b>2,628,415,000</b>	<b>2,821,797,000</b>
<b>Total Receipts</b>	<b>\$ 8,084,624,569</b>	<b>\$ 8,419,857,000</b>	<b>\$ 8,783,001,000</b>

# SCHEDULE II

**Office of the Controller**  
**General Fund Receipts**  
**Last 20 Fiscal Years and Estimates for Fiscal Years 2017-18 and 2018-19**  
**(amounts expressed in thousands)**

Fiscal Year	Property Tax <sup>(a)</sup>	Utility Users' Tax	Sales Tax	Business Tax	Transient Occupancy Tax	Licenses, Permits, Fees and Fines	Other Revenues <sup>(b)</sup>	Total General Fund Receipts
1997-98	\$ 505,788	\$478,725	\$296,874	\$ 289,320	\$ 85,476	\$ 367,337	\$ 609,094	\$ 2,632,614
1998-99	501,292	493,531	306,360	308,013	92,149	394,323	648,578	2,744,246
1999-00	527,810	487,439	331,710	317,340	98,306	420,475	667,521	2,850,601
2000-01	588,307	557,401	357,222	344,605	108,538	431,628	753,640	3,141,341
2001-02	622,393	488,778	351,062	360,336	93,901	473,162	831,956	3,221,588
2002-03	663,440	510,339	363,787	356,041	92,652	467,577	878,182	3,332,018
2003-04	717,801	576,251	377,890	373,248	97,989	462,600	970,296	3,576,075
2004-05	1,029,161	589,858	316,561	396,794	127,751	496,598	948,582	3,905,305
2005-06	1,121,848	604,947	323,555	434,529	126,989	477,231	1,043,559	4,132,658
2006-07	1,334,172	605,270	333,885	464,330	134,557	545,931	964,734	4,382,879
2007-08	1,389,255	628,319	335,562	466,997	148,523	614,891	779,314	4,362,861
2008-09	1,509,073	647,823	311,938	451,495	136,323	689,633	668,912	4,415,197
2009-10	1,442,270	631,048	280,096	424,830	118,500	735,306	783,441	4,415,491
2010-11	1,434,152	628,069	296,608	418,374	134,796	691,280	693,753	4,297,032
2011-12	1,438,840	615,034	323,247	439,802	151,722	727,538	693,061	4,389,244
2012-13	1,609,228	620,448	338,970	448,832	167,824	724,702	757,229	4,667,233
2013-14	1,660,180	627,437	356,503	475,397	184,382	831,974	817,691	4,953,564
2014-15	1,726,824	639,391	371,031	497,329	202,897	851,507	955,180	5,244,159
2015-16	1,737,472	614,702	417,541	509,765	230,818	887,442	937,337	5,335,077
2016-17	1,791,249	624,831	520,404	528,076	265,653	913,233	985,344	5,628,790
2017-18 (Estimated)	1,933,300	633,000	536,000	544,000	293,000	998,753	853,389	5,791,442
2018-19 (Projected)	2,026,900	642,000	550,000	548,000	306,000	1,036,904	851,400	5,961,204

(a) Includes Ex-CRA Property Tax Increment receipts of \$22,666 in 2011-12; \$58,830 in 2012-13; \$70,197 in 2013-14; \$52,363 in 2014-15; \$55,696 in 2015-16; \$103,262 in 2016-17; \$84,000 in 2017-18 and \$84,000 in 2018-19.

(b) Other Revenues include transfers from the Reserve Fund except for 1999-00, 2008-09 and 2012-13 through 2013-14.