



OFFICE OF
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Date: August 8, 2007

To: Antonio Villaraigosa, Mayor
City of Los Angeles

Eric Garcetti, President
Los Angeles City Council

From: *Laura N. Chick*
Laura N. Chick
City Controller

Subject: **INTERIM YEAR-END CLOSING REPORT**

Each September, after the year-end closing, my Office releases a Preliminary Financial Report. However, this year the results of the closing are not as positive as in the past. It is important for you to be aware of the reserve fund status now.

After closing the General Ledger and adjusting the Reserve Fund for Budgeted Reappropriations and the Transfer to the City Budget, the Contingency Reserve stands at "0" and the Emergency Reserve is \$111,170,539. The Emergency Reserve Fund amount is approximately \$11 million short of the \$122 million required under the City's budget policy that stipulates a set aside of 2.75 percent of the City's budget. Overall, the Reserve Fund at July 1, 2007 is approximately \$90 million less than anticipated.

The reasons for this difference include:

- A \$25 million loan for Figueroa Plaza to be reimbursed in August from the proceeds of the issuance of MICLA debt for the purchase of Figueroa Plaza,
- Actual reappropriations are \$34 million greater than the budget; \$44 million versus the budgeted \$10 million,
- Year-end borrowing for unfunded expenditures was \$14 million greater than the budget; \$28 million versus \$14 million, and
- Year-end encumbrances are higher than in recent years, \$232 million at June 30, 2007 versus \$179 million at June 30, 2006.

With the return of the \$25 million Figueroa Plaza loan, the Emergency Reserve will be fully funded at \$122 million while the Contingency Reserve will have a balance of \$14 million. However there have been appropriations of \$6 million against this amount which, when processed, will reduce the Contingency Reserve to \$8 million.

The Mayor and Council should take immediate action to address the Reserve Fund and the following recommendations are included for your consideration:

1. The Mayor and City Council should stop all appropriations from the Reserve Fund until the Contingency Reserve is substantially enhanced,
2. Instruct all departments with Unfunded Expenditures as well as Reserve Fund loans to accelerate repayments,
3. Review the \$44 million in reappropriations to determine if they are necessary,
4. Review the \$231 million in encumbrances to determine if they are necessary, and
5. Review the \$86 million Transfer to Budget.

Currently we have cash in the Reserve Fund. However, if we literally follow the 2007-08 Budget and execute the full Transfer to Budget and the Reappropriations, the City will be left with an Emergency Reserve and a very small Contingency Reserve. The Reserve Fund Budget authorizes the Controller to perform the Transfer to Budget as cash is available in the Reserve Fund. Until such time as the Reserve Fund cash situation is improved, we will withhold executing the Transfer to Budget.

Cc: Members of the Los Angeles City Council