

Communication from Public

Name: Jack Humphreville
Date Submitted: 04/11/2024 07:09 PM
Council File No: 24-0600
Comments for Public Posting: Reserve Fund / Rainy Day Fund is for emergencies, not to fund operations..

Los Angeles' Rainy-Day Fund: A Cushion for Fiscal Mismanagement or True Emergencies?

JACK HUMPHREVILLE

APRIL 01 2024



LA WATCHDOG - A Reserve Fund or rainy-day fund is for emergencies such as an earthquake, pandemic, a terrorist strike, or other unanticipated event that shuts the City down. But in the case of the City of Los Angeles, the Reserve Fund is used by our fiscally irresponsible City Council and Mayor to cover deficits caused by budget busting labor agreements and the reliance on overly optimistic revenue projections.

The City has established a financial policy for the Reserve Fund of maintaining a balance of at least 5% of General Fund Revenues. On the other hand, City Administrative Officer has a more realistic goal equal to 10% of General Fund Revenues, in large part because of turmoil caused by the Great Recession when the balance slipped to below 4%.

According to the Third Financial Status Report issued by the City Administrative Officer, the Reserve Fund had a balance in March of almost \$500 million, an amount equal to 6.2% of this year's General Fund revenue of \$7.9 billion. This is after raiding the Reserve Fund for \$136 million in July to balance the budget, \$100 million of transfers to fund an assortment of operating expenses, and an additional \$87 million to cover mid-year shortfalls.

Without these transfers of \$325 million, the Reserve Fund would have a balance of more than \$800 million, exceeding the 10% goal of the City Administrative Officer. The Reserve Fund will also be called upon to help fund this year's expected operating deficit of around \$300 million caused by over expenditures of \$100 million and lower than planned revenues of \$200 million. This will reduce the Reserve Fund balance to around \$200 million, or 2.5% of General Fund Revenues.

Unfortunately, the City is looking at a "budget gap" of \$700 million next year, caused by budget busting labor agreements (\$350-\$400 million) and a revenue shortfall (\$340 million). While the City will attempt to cure this deficit by eliminating over 2,000 vacant positions, implementing a hiring freeze, cutting department budgets and staffing, tapping all or a portion of the \$200 million Budget Stabilization Fund, and risk utilizing the Measure ULA tax money, these sources may not be sufficient to cover the deficit. Therefore, the City may have to rely on the already depleted Reserve Fund.

Going forward, the City needs to establish a fully funded (10-15%) Reserve Fund through a ballot measure that would allow the City Council and the Mayor to use these funds only in the case of a real emergency. At the same time, the City should establish an Operating Reserve to cover budget shortfalls, but not those caused by budget busting labor agreements.

As for today, the City Council and Mayor appear to be oblivious to the risks of having an underfunded Reserve Fund. But just imagine the chaos if we had a Northridge like earthquake or a terrorist attack on the butane and propane tanks at the Port and did not have the necessary resources to respond.

<https://www.citywatchla.com/la-watchdog/28698-los-angeles-rainy-day-fund-a-cushion-for-fiscal-mismanagement-or-true-emergencies>