



KAREN BASS
MAYOR

April 23, 2024

The Honorable Members of the Budget, Finance and Innovation Committee
Office of the City Clerk
City Hall, Council Chamber Room 340
Attention: Luigi Verano, Legislative Assistant

RE: OFFICE OF FINANCE - FISCAL YEAR 2024-25 PROPOSED BUDGET

Dear Honorable Members:

The Office of Finance is grateful for the opportunity to discuss the Mayor's FY 2024-25 Proposed Budget. Given the City's financial outlook, I recognize the difficult decisions that both the Mayor and City Council face in putting together a holistic budget that meets Citywide priorities and maintains strong fiduciary stewardship. Finance is appreciative of the continued investments that enable us to be a steadfast partner in generating positive outcomes through the budget process.

The current year has presented unique challenges in the way we administer our taxes and manage the City's funds. Finance processes over \$2.5 billion a year in tax revenue through our LATAX system and is the steward of over \$15 billion in City funds. Although progress was made in the areas of revenue growth, process improvement, and taxpayer interaction, it was somewhat limited by reduced hiring opportunities. Additionally, LATAX began to show critical signs of wear this year and our recurring request for resources toward this effort has become more urgent to ensure not just the long-term longevity, but the short-term stability of our system.



Despite these challenges, we have made significant progress in areas identified as critical under our Departmental Strategic Plan. Our Strategic Plan covers multiple priority areas identified by our staff: Process, Technology, Policy, and Team.

These strategic focus areas are vital towards ensuring Finance is equipped to meet the needs of today and tomorrow. Together, we've already achieved several milestones, including migrating LATAX to the cloud, reviewing and analyzing the Los Angeles Municipal Code's Business Tax sections, revamping our revenue forecast process and format, revising our forms and instructions to be more accessible to all, and intend to continue moving forward with the support of City leadership. Taking into account where we stand today, below are five achievements we aim to accomplish next year given the resources in the Proposed Budget.

1. LATAX Stabilization and Progress Toward Replacement

LATAX is a two-decades old legacy system that manages the collection of billions in revenues per year. The System has undergone several modernization efforts over the last decade, the latest of which was moving to a cloud environment in order to improve data security, and achieve better cost savings due to storage constraints. However, the greatest outcome of this latest effort is the realization that the system is beyond its useful life. The fragility of the system is apparent, with the risks of failure being high. System maintenance costs exceed budgeted appropriations and will continue to grow beyond our current resource levels. Total system failure is an unacceptable outcome.

With the continuation of positions in the Proposed Budget, Finance will continue on its path toward implementing a system replacement. There is no option to delay or cancel this project without putting tax and permit revenues in jeopardy. Thus, we are requesting appropriation of resources to help us move this project forward.

2. Customer Service Enhancements

The current fiscal year marked the first year that Finance was able to reopen our customer support center in West LA since the beginning of the pandemic in 2020. We opened this public counter during renewal season in order to ease some of the traffic to our other centers and to create a new accessibility point for our taxpayers. Additionally, we were able to open a pop-up center for a limited time in Council District 15 to aid those who would otherwise have to travel significant distances in order to conduct in-person business. Unfortunately, the reduction in Customer Support Specialist positions in the Proposed Budget will limit Finance's flexibility in hiring and we will not be able to provide either of these options in the upcoming year.

In order to weather tight budget years, I have been looking at low-cost options to improve the customer experience while accepting the reality of fewer customer service representatives to assist taxpayers. My goal is to create pathways for independence where taxpayers with simple needs can achieve faster resolution on their own. Self-guided automated systems like kiosks, an interactive voice response system, and a more efficient email management system will be implemented in the coming year to mitigate staffing shortages.

3. Collections Process Re-Mapping

The collection of delinquent debt continues to be a function that affects many City departments across a wide array of permits, fees, and taxes. These efforts yield millions of dollars a year and are continually being assessed and improved. The goal for next year will be to streamline our efforts further. To this end, we will be conducting a full internal review, mapping our all collection processes and creating efficiencies to ensure that all City departments are supported by our operations most effectively and, with the aid of a new system, alleviate some of the manual work required today for all of our partners, as well as create new reporting standards that will give us further insight into the efficacy of collection efforts. This will allow us to shift resources as needed to minimize time spent outside of collections and maximize revenue generated from collections.

4. Investment in Team Finance

When resources are sparse, we need to remind ourselves that our employees are our greatest asset. It is important to me that I invest in their skill sets to see us through the hard times; we are working on low- and no-cost opportunities to expand professional development, institutionalize employee recognition programs, and offer employee-crafted training and professional development. We are capable of institutionalizing excellence when we use our strongest skills and support our teams creatively, regardless of the financial landscape.

5. Reorganizations to Replace Loss of Staff and Mid-Level Supervisors

In order to correct span-of-control deficiencies and broken career ladders at a time when the City is unable to grow its staffing base, I am implementing several internal reorganizational changes. These changes will strengthen our operations without negatively impacting our customers. Specifically, I will be reorganizing our Audit Division to ensure that mid-level span of control is more manageable. Additionally, I will be consolidating Finance collections functions so that there is one point of contact on such matters for all customers. Lastly, I will move our Business Tax Liaison Office under our

Customer Support Division to provide more direct leadership and focus on offering solutions proactively.

Considerations

While the Mayor's Proposed Budget provides the opportunities to achieve all of the items listed above, there are a few items that Finance respectfully requests the Budget, Finance and Innovation Committee to consider as these will greatly enhance Finance's success in carrying out its customer-focused strategy and ensure continuity of key operations. In an effort to minimize the impact to the budget, the below requests, when considered together, are designed to be as financially neutral as possible.

Systems Strategies

Increase Contractual Services Account (\$1.5 Million)

Funds in the Contractual Services Account (3040) are required for two items: (1) An outside consultant for project management services for the LATAX Replacement Project to support research and planning, and design and track the implementation of the project on a timeline that best serves the City (\$1.2M) and (2) for revenue collection optimization software (\$300,000).

Administrative Technical Changes

Transfer \$300,000 from Salaries, General to Overtime General (Net \$0)

Finance starts a very busy permitting season early in the fiscal year, and requests continuation of a transfer similar to that in the current year budget. Since we anticipate overtime costs to exceed our budget before the First Finance Status Report of the year, we request funding be moved to eliminate the need to request a motion.

Add/Delete for one Chief Tax Compliance Officer I (Net \$0)

Finance requests to add one Chief Tax Compliance Officer I to manage the Contact Center in our Customer Support Division, and delete two Customer Service Specialist I positions to offset this request.

Modify the Funding Source for BB18 (GF Savings and Revenue Increase \$1 Million)

Blue Book Item 18 can be funded from special Fund No. 66M (House LA), resulting in General Fund savings of \$436,638 and additional General Fund revenue of \$618,629 for related costs.

Restoration of Deleted Positions

Restore one Senior Management Analyst I (GF Increase \$134,083)

The 2024-25 Proposed Budget includes the deletion of a filled Senior Management Analyst I resolution position (P012919) in the Treasury Division to support banking services. Finance requests that this position authority be restored because no other position authority is available in the Department to absorb this workload.

Restore one Treasury Accountant (GF Increase \$116,761)

The 2024-25 Proposed Budget also includes the deletion of one Treasury Accountant (P066668) in the Treasury Division. While this position is currently vacant due to recent attrition, Finance has only the barest minimum of Treasury Accountants to guard and manage over \$16 billion in annual cash. Any deletions of Treasury Accountants puts the City's cash at risk.

Area of Major Concern

In previous conversations with the Mayor and Council, Finance discussed the need for either baseline increases in funding to support unfunded obligations, or the retention of vacant positions in order to absorb these costs. In the current fiscal year, Finance has repurposed part of the \$6.6 million in funding generated by vacant positions to resolve unfunded liabilities of \$3 million and spend \$2.8 million to fill some of the most critical vacancies, with a surplus of \$800,000 that will be reverted. This highlights for us that even with very limited hiring in the second half of the year, we spent more than 98% of our budget.

However, for FY 2024-25, half of Finance's vacancies are deleted, our salary savings rate has increased, and expense funding is reduced beyond our ability to resolve shortfalls internally. Based on the 2024-25 Proposed Budget and necessary anticipated expenditures, the unbudgeted liabilities are estimated to be \$4.9 million. With reductions totaling \$4 million, the available balance of \$3.4 million from the remaining vacant positions leaves us unable to address the \$1.5 million shortfall without an increase to our appropriations.

FY 2023-24 (Estimated)			FY 2024-25 (Proposed)		
Unfunded Liability	Available Balance	Remainder (+/-)	Unfunded Liability	Available Balance	Remainder (+/-)
\$2,997,000	\$6,600,000	+\$3,603,000	\$4,948,000	\$3,400,000	-\$1,548,000

Closing

Finance considers equity principles to be foundational in all of our decision-making in regards to our internal staff, interdepartmental colleagues, and our taxpayers. We continue to make or plan to make changes that will make our resources accessible and transparent to the smallest of businesses, and provide educational and training opportunities to our staff to elevate their skill sets. We also extend this approach to our analysis of the municipal code, and other tax- and revenue-governing documents.

As always, Finance continues to strive for solutions that will help position the City to both maximize and optimize the services it provides. We are grateful to the Mayor and the City Administrative Officer for a Proposed Budget that gives us the framework to continue building on the progress that we have made these past few years. We look forward to working with the members of the Budget, Finance and Innovation Committee and the City Council to address any outstanding priorities and ensure a successful FY 2024-25.

Sincerely,



Diana Mangioglu
City Treasurer / Director of Finance

cc: Carolyn Webb de Macias, Office of the Mayor
Jenny Delwood, Office of the Mayor
Matt Hale, Office of the Mayor
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