



KENNETH MEJIA
CONTROLLER

January 30, 2026

Honorable Mayor Karen Bass
Honorable Members of the Council of the City of Los Angeles
Community Members of the City of Los Angeles

As the Controller for the City of Los Angeles, our Office has the Charter responsibility to prepare and publish the City's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2025.

Our City's financial state is the culmination of decades of unsustainable budgeting, seen and felt by Angelenos across the City in our crumbling infrastructure and deteriorating services. As our Office has warned, revenue shortfalls, liability payouts, and departmental overspending continue to be the cause of our budget deficit for the second year in a row. The City had to make up \$160 million in revenue shortfall by tapping the Reserve Fund.

Short-term budget balancing over the past two years resulted in unpaid furlough days for city employees, the elimination of thousands of unfilled positions that departments were trying to fill. In addition, 614 filled positions were also eliminated and departments are scrambling to find these employees new positions before they get laid off. The service impacts of those cuts are still hitting departments as they struggle to address growing needs with severely diminished capacities.

In last year's ACFR, we warned that the City was "on the brink of needing to declare a 'fiscal emergency.'" We regret to say that our prediction came true. As part of the current City budget, the Council and Mayor declared "A State of Emergency Based on Fiscal Circumstances Resulting From Decreased Revenue and Increased Liabilities."

We've gone from record levels of General Fund Reserves of \$648 million two fiscal years ago to \$402 million. In addition, four rating agencies (S&P, Fitch, Moody's and Kroll), have given the City a "negative outlook" with the same concerns that we have been raising over

the past three years coupled with the potential liabilities and damages from the Palisades Fire. The time for bold reform is now.

GENERAL FUND HIGHLIGHTS: BUDGET VS ACTUAL (*budgetary cash basis*)

- Revenues came in \$160 million below budget.
- Top area of overspending (spending over budget):
 - Liability Claims: Exceeded the budget by \$199 million or 228%, totaling a record \$287 million for the year (the top three areas include Police at \$152 million, Street Services at \$44 million, and Transportation at \$20 million)
- Top area of underspending (spending under budget):
 - Capital Improvement Projects: The City only spent \$25 million or 19% of its \$131 million budget.

GENERAL FUND HIGHLIGHTS: YEAR-OVER-YEAR

General Fund revenues increased by \$234.9 million or 3.4% from FY2024

- Property taxes, which represent 40.6% of General Fund revenues, increased by \$119.3 million (4.3%), primarily due to growth of \$77.4 million in current and prior secured property tax receipts and a combined increase of \$41.6 million from Vehicle License Fee (VLF) replacement and former Community Redevelopment Agency (CRA) tax increment receipts.
- Economy-sensitive revenues, including sales, business, and utility users taxes, reflected mixed conditions in the local economy. Business tax revenues increased by \$67.0 million (8.6%), reflecting favorable collection trends from non-cannabis activity. In contrast, sales tax revenues declined by \$14.7 million (2.2%), due to continued softness in taxable spending driven by inflationary pressures. Utility users taxes (which consist of electric, gas, and communications users taxes) increased by \$17.2 million (2.5%). This increase was primarily driven by a \$28.3 million rise in electric users tax revenues, reflecting higher energy costs and increased consumption. The growth was partially offset by a \$13.4 million decline in communications users tax revenues, consistent with the ongoing downward trend in phone service prices and reduced landline usage.
- Other tax revenues increased by \$5.8 million (0.8%), due to several factors: Parking occupancy tax revenues rose by \$4.6 million, and documentary transfer tax revenues increased by \$20.6 million, largely reflecting higher real estate transaction volumes associated with lower mortgage rates. These increases were partially offset by a \$11.7 million decline in transient occupancy tax revenues, including hotel and short-term rental taxes, attributable to reduced international tourism stemming from tourism boycotts and travel advisories. In addition, franchise income declined by a combined \$7.4 million.

General Fund Expenditures increased by \$63.8 million or 0.9% from FY2024

- Salaries and Employee benefits increased by \$162.6 million (4.7%), compared with the prior year, primarily due to cost-of-living adjustments associated with civilian and sworn labor agreements, sworn employee hiring, increased overtime usage, and higher benefit and insurance premium costs.
- Retirement contributions to pension systems increased by \$52.8 million (4%) largely reflecting higher covered payroll. Workers' compensation benefit payments rose by \$8.2 million from the prior year.
- Capital outlays increased by \$38.4 million (28.2%), due to the General Services Department's acquisition of right-to-use (RTU) assets through lease contracts.
- Interest payments on debt service increased by \$9.3 million due to higher interest paid on debt.

Although we are half-way through the current fiscal year, the City continues to have General Fund budget challenges. The current fiscal year's budget assumes modest revenue growth, however, the long-term impact of the current economic activities on revenue growth remains unknown and revenue has been stable during the first half. Of more concern, unchecked overspending continues to be a major issue of our financial troubles. While departments are expected to absorb or manage remaining costs, many departments are unlikely to be able to. This could result in the use of the Reserve Fund again if the City is not able to identify additional solutions.

THE PATH TO LONG TERM FISCAL HEALTH

Fortunately, we have an opportunity now to get the City on a sustainable fiscal path. To help guide us there, our Office has recommended and is pushing for the following:

- A two-year budget
- A real capital infrastructure program
- Having honest and transparent budgeting that includes:
 - Tackling our structural deficit and honestly addressing how we got here
 - Having more realistic revenue projections
 - Accurately budgeting for liability payouts and increased costs
- Revenue generation by growing our tax base (e.g. implementing a vacancy tax or taxing rideshare/autonomous vehicles and not just increasing sales taxes)
- Accountability for overspending
- Implementing performance based budgeting
- Empowering department heads with their budget

We appreciate the work currently underway in the Charter Reform Commission towards multi-year budgeting and mandating a Capital Infrastructure Program, and hope for continued support from the Council and Mayor to make these changes reality. We must seize this opportunity to break the cycle of short term thinking and embrace the best practices of other cities.

Guiding the City back to fiscal health will not be easy, but it will only get harder the longer we wait. We are grateful for the continuous discussions with the Mayor and City Council as we collaborate on finding solutions to the City's financial crisis. As the City heals from devastating fires and the ongoing immigration raids, it's more important than ever to work together to build a Los Angeles that works for everyone.

Finally, I would like to acknowledge the professional and dedicated staff of the Financial Analysis and Reporting Division of the Controller's Office for the preparation of this report. I would also like to express my appreciation to all those in our Office and citywide who made contributions to the report. At a time of staff shortages and resource constraints, their work is deeply valued and respected.

Should you have questions or require additional information, please contact my Director of Financial Analysis and Reporting, Wally Oyewole at rahoof.oyewole@lacity.org.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth Mejia". The signature is written in a cursive, flowing style.

KENNETH MEJIA, CPA
City Controller

cc: Vincent De Vera, Chief Deputy Controller
Sharon Tso, Chief Legislative Analyst
Matt Szabo, City Administrative Officer