

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER


Date: January 17, 2025

CAO File No. 0220-05291-1609

Council File No. 24-1539

Council District: All

To: The Mayor
The Council

From: Matthew W. Szabo, City Administrative Officer 

SUBJECT: **RESOLUTION AUTHORIZING REIMBURSEMENTS OF RESERVE FUND LOANS TOTALING APPROXIMATELY \$5.8 MILLION WITH POTENTIAL JUDGMENT OBLIGATION BOND PROCEEDS AND ADOPTING CERTAIN FINDINGS AND DETERMINATIONS TO ALLOW FOR A POTENTIAL JUDGMENT OBLIGATION BOND ISSUANCE**

RECOMMENDATION

That the Council, subject to the approval of the Mayor, adopt the attached resolution authorizing interfund borrowings, loans, or advances from the City's Reserve Fund to pay certain judgment or settlement obligations, which judgment or settlement payments if approved would amount to approximately \$5.8 million in the aggregate, and declaring the intention to reimburse and/or refund the City's Reserve Fund loans or advances with proceeds of a judgment obligation bond issuance and adopting certain findings and determinations to allow for a potential judgment obligation bond issuance in the future.

SUMMARY

As reported in the Second Financial Status Report for Fiscal Year 2024-25 (the "Second FSR") (C.F. 24-0600-S113), the City is experiencing downside risks to economically-sensitive receipts, overspending of \$296 million, and has a Reserve Fund balance of \$321 million, or 3.99 percent of budgeted revenues, which is below the five percent level required by the City's Financial Policies. A major contributing factor to the City's financial challenges stems from the extraordinary amount of liability claims payouts incurred this fiscal year. In response, the Council approved various actions to help balance the current year budget and to restore the Reserve Fund. One of those actions was instructing this Office and the City Attorney to pursue the necessary steps to enable the City to issue a judgment obligation bond (JOB), with the intent of reimbursing the Reserve Fund for loans made from the Reserve Fund to pay for liability costs.

The attached resolution will allow the City to reimburse and/or refund the City's Reserve Fund for expenditures incurred in connection with certain judgment and settlement payments with JOB proceeds, which judgment or settlement payments, if approved by Council, would amount to approximately \$5.8 million in the aggregate. The settlements listed in the resolution are being

considered concurrently or will be considered by Council. The attached resolution also includes certain findings and determination required by Section 11.27 of the City's Administrative Code to issue JOBs in connection with certain proposed settlement agreements and/or court judgments that the Council is considering or will be considering for the purpose of resolving certain claims.

On December 13, 2024, the Council approved a similar resolution authorizing Reserve Fund loans to pay certain judgements or settlement obligations that are approved with an intent to reimburse the Reserve Fund with JOB proceeds, which payments will amount to approximately \$12.47 million in the aggregate (C.F. 24-1539). This Office expects to continue filing similar resolutions for Council consideration in the future as additional cases are transmitted to Council for consideration.

This resolution does not authorize the issuance of JOBs but provides a financing mechanism if the Mayor and Council later decide that they want to move forward with a JOB issuance. Any issuance of JOBs would require future Council and Mayor approval and would be subject to a validity determination by the Superior Court.

FISCAL IMPACT STATEMENT

Approval of this recommendation will not impact the General Fund, as this recommendation does not approve any judgment or settlement agreements or related expenditures. However, approval of the settlements and judgments that the Council is considering or will be considering for the purpose of resolving certain claims against the City, which are associated with the recommended resolution, will reduce the Reserve Fund by approximately \$5.8 million in the aggregate. Depending on future financing options approved, however, the Reserve Fund could potentially be restored at a later date upon reimbursement with bond proceeds.

FINANCIAL POLICIES STATEMENT

Approval of the recommendation in this report is in compliance with the City's Financial Policies as there is no fiscal impact to the General Fund.

DEBT IMPACT STATEMENT

There is no impact to the General Fund as this recommendation does not authorize the issuance of bonds.

RESOLUTION

Resolution of the Council of the City of Los Angeles (the “City”) authorizing interfund borrowings, interfund loans or advances from the City’s Reserve Fund to pay certain Judgment Obligations (as defined herein), declaring the City’s intention to refund or reimburse such loan or advance with proceeds of a judgment obligation bond issue, and making certain findings and authorizations in connection therewith.

WHEREAS, the City is a municipal corporation organized and existing under its charter and the laws of the State of California;

WHEREAS, the Council of the City (the “Council”) is the governing body of the City;

WHEREAS, the City is, and subsequently this fiscal year expects to be, the subject of certain Judgment Obligations (as defined in Section 11.27 of the City Administrative Code), including judgments pursuant to the terms of a settlement agreement, relating to tort claims or other legal claims filed by third parties against the City in court;

WHEREAS, Section 11.27 et seq. of the City Administrative Code authorizes the issuance of bonds to pay or provide for the payment of Judgment Obligations, including by repaying an interfund borrowing, loan or advance used to pay a judgment owed by the City on an interim basis;

WHEREAS, the City is the subject of one or more court entered judgments, as may be identified in Schedule A attached to this Resolution (the “Court Judgments”), and the Council has considered, is considering or will be considering certain proposed settlement agreements for the purpose of resolving certain claims against the City (collectively, the “Settlements”), which Court Judgments and proposed Settlements, if approved by Council in the best interests of the City, would obligate the City to pay amounts to one or more third parties to resolve such claims;

WHEREAS, the Court Judgments and Settlements are identified in Schedule A attached to this Resolution and made a part hereof;

WHEREAS, the City will seek to have stipulated judgments entered in connection with each such Settlement that is approved by Council;

WHEREAS, stipulated judgments entered by a court pursuant to any Settlement that is approved by Council and any Court Judgment identified in Schedule A are each referred to herein as a “Judgment” and, collectively, as the “Judgments”;

WHEREAS, each Judgment would obligate the City to pay amounts to one or more third parties to resolve such claims;

WHEREAS, with respect to each Judgment, in order to avoid incurring significant interest payments, the City intends to make an interfund borrowing, interfund loan or advance from the Reserve Fund to pay the settlement or judgment on an interim basis, which loan or advance will

be refunded or reimbursed with the proceeds of a judgment obligation bond issuance (the “Bonds”);

WHEREAS, Section 11.27 of the City of Los Angeles Administrative Code provides that “[a]ny advance or interfund borrowing made to pay any settlement or judgment which may be refinanced with a bond shall constitute an indebtedness owed to the fund from which such advance or interfund borrowing was made”;

WHEREAS, each interfund borrowing, interfund loan or advance from the Reserve Fund used to make a Judgment payment will constitute an indebtedness owed to the City’s Reserve Fund, which the City intends to refund or reimburse with the proceeds of the Bonds;

WHEREAS, the City’s Financial Policies (“Financial Policies”) include a Reserve Fund policy setting forth the goal that the City maintain a budget-based Reserve Fund balance equal to at least 5 percent of General Fund revenues;

WHEREAS, on December 6, 2024, City Administrative Officer (“CAO”) released the Second Financial Status Report for Fiscal Year 2024-25 (the “Second FSR”), which reported that after four months of Fiscal Year 2024-25, overall General Fund receipts are \$54 million above projections in the Fiscal Year 2024-25 Adopted Budget although there are downside risks to the City’s economically-sensitive receipts; however, the Second FSR also identified \$296 million in overspending in part due to \$112 million in liability claims for the payment of settlements and legal actions brought against the City;

WHEREAS, the Second FSR also identified that the City’s total General Fund reserves are \$525 million, or 6.54 percent of budgeted General Fund revenues, which includes a Reserve Fund balance of \$321 million, or 3.99 percent of budgeted revenues;

WHEREAS, the total General Fund reserves and Reserve Fund balance reflected in the Second FSR are below the amounts required by the Financial Policies and are approaching the Emergency Reserve Account level of 2.75 percent;

WHEREAS, the Bonds may be eligible to be issued on a tax-exempt basis and pursuant to the provisions of the City Charter and Section 11.27 et seq. of the City Administrative Code and other applicable law;

WHEREAS, pursuant to a resolution adopted on December 13, 2024 (C.F. 24-1539) (the “Prior Resolution”), the Council previously declared its intent to make an interfund borrowing, interfund loan, or advance from the Reserve Fund to pay certain other court judgments and/or stipulated judgments (referred to herein as the “Prior Judgments”) on an interim basis, which loan or advance will be refunded or reimbursed with the proceeds of one or more judgment obligation bond issues;

WHEREAS, the Judgments referred to in this Resolution and the principal amount of Bonds expected to be issued in connection with the payment of such Judgments are in addition to the Prior Judgments referred to in the Prior Resolution and the principal amount of judgment obligation bonds expected to be issued in connection with the payment of such Prior Judgments;

WHEREAS, the City may refinance the interfund borrowings, interfund loans, or advances made to pay the Judgments and the Prior Judgments through one series of Bonds or through multiple series of Bonds issued from time to time;

WHEREAS, the Council may subsequently identify additional Judgment Obligations that would be paid for by the Bonds;

WHEREAS, any issuance and sale of the Bonds will require subsequent Council consideration and approval; and

WHEREAS, all acts, conditions and things required by the laws of the State of California and the Charter of the City to exist, to have happened and to have been performed precedent to the adoption of this Resolution and in connection with the consummation of the matters authorized hereby do exist, have happened and have been performed in regular and due time, form and manner (or, as applicable, will happen and be performed in regular due time, form and manner) as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such matters for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, be it resolved by the Council of the City of Los Angeles, as follows:

Section 1. The recitals set forth above are true and correct, and this Council so finds and determines and incorporates such recitals herein by reference.

Section 2. The Council hereby finds and determines that:

(a) based on information provided by the City Administrative Officer, there are no other sources of available money to pay each Settlement and Court Judgment amount on a timely basis pursuant to the terms of the Settlement and Court Judgment, as applicable;

(b) the Judgment payments constitute extraordinary nonrecurring items that are not customarily payable from current revenues, and neither the City nor any of the City's divisions, departments, agencies or affiliated entities has maintained a reserve or has otherwise set aside amounts to pay any portion of the Judgment payments to be reimbursed and/or refunded with proceeds of the Bonds;

(c) due to the unavailability of other funds of the City, and to avoid incurring significant interest costs due to delays in payments of the Judgments, the City intends to make an interfund borrowing, interfund loan, or advance from the Reserve Fund to pay each Judgment on

an interim basis, which loan or advance will be refunded or reimbursed with the proceeds of the Bonds; and

(d) such interfund borrowings will contribute in the depletion of the Reserve Fund to the Emergency Reserve Account level of 2.75 percent.

Section 3. In order to provide in part for the restoration of the Reserve Fund to a balance equal to at least 5 percent of General Fund revenues, the City hereby declares its intention to reimburse and/or refund the City's Reserve Fund for any interfund borrowing, interfund loan or advance from the Reserve Fund used to make a Judgment payment, and reasonably expects to do so by issuing the Bonds, in a maximum principal amount not to exceed \$7,000,000, within 18 months after making such Judgment payments.

Section 4. Each of the Controller and the City Administrative Officer, and their respective designees, are hereby authorized to execute any documents and take any actions necessary to document the terms and conditions of any such interfund borrowing, interfund loan or advance from the Reserve Fund.

Section 5. The officers and employees of the City are, and each of them is, hereby authorized to take or cause to be taken any and all actions necessary, appropriate or desirable to carry out the matters contemplated by this Resolution. All actions heretofore taken or caused to be taken by any other officer or employee of the City with respect to the matters contemplated by this Resolution are hereby approved, confirmed and ratified.

Section 6. This Resolution shall take effect immediately upon its adoption.

SCHEDULE A

Settlements:¹

1. Bobby Worthy v. City of Los Angeles, et al. (LASC Case No. 22STCV11640)
2. Celeste Haydee Echeverria De Franco v. County of Los Angeles, et al. (LASC Case No. 22STCV16029)
3. Laurie Nolan v. Luis Diego, et al. (LASC Case No. 23SMCV00695)
4. Juana Ivett Busby Arango v. City of Los Angeles, et al. (LASC Case No. 23STCV05077)
5. Anoush Grboyan v. Paul Jerrard Bingaman, et al. (LASC Case No. 22STCV32208)
6. Jo Anne Korngute v. City of Los Angeles, et al. (LASC Case No. 22STCV36947)
7. Joseph John McCann, Jr. v. De Coral Plaza, LLC, et al. (LASC Case No. 21STCV33691)
8. Vadim Albukh v. City of Los Angeles, et al. (LASC Case No. 19STCV29934)
9. Herbert R. Snyder v. City of Los Angeles, et al. (LASC Case No. 24SMCV01244)
10. Lauren Ruggiero v. City of Los Angeles, et al. (LASC Case No. 21STCV02274)
11. Efronia Manukyan v. City of Los Angeles, et al. (LASC Case No. 19STCV22473)
12. Maria Estrada v. City of Los Angeles, et al. (LASC Case No. 22STCV21022)
13. Guadalupe Castrellon De Leon v. City of Los Angeles, et al. (LASC Case No. 21STCV34413)
14. Juan Jose Perez, et al. v. City of Los Angeles, et al. (LASC Case No. 22STCV12017)
15. Dora Heinsius v. City of Los Angeles, et al. (LASC Case No. 22STCV23119)
16. Shawn Hendizadeh v. City of L.A. Dept. of Building and Safety, et al. (LASC Case No. 22STCV40177)
17. Shay Levy v. City of Los Angeles, et al. (LASC Case No. 22VECV02009)

Court Judgments:

1. Lisa Ray Woodard v. City of Los Angeles, et al. (LASC Case No. 21STCV11382)

¹ Settlements for these cases remain subject to Council consideration and approval.