

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: December 6, 2024

CAO File No. 0220-05291-1596

Council File No.

Council District: All

To: The Mayor
The Council

From: Matthew W. Szabo, City Administrative Officer



SUBJECT: RESOLUTION AUTHORIZING REIMBURSEMENTS OF RESERVE FUND LOANS WITH POSSIBLE 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 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

On December 6, 2024, the City Administrative Officer ("CAO") released the Second Financial Status Report for Fiscal Year 2024-25 (the "Second FSR"). The Second FSR reported that after four months in 2024-25, there is downside risks to the City's economically-sensitive receipts and overspending of \$296 million. Also reported was 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. The City has fully exhausted its budgeted Liability Claims Account and drawn from General Fund reserves to make the required payouts for settlements and judgments that have been approved.

Due to continued high levels of overspending driven by liability costs, a depleted Reserve Fund, and downside risk to General Fund revenues, the Council approved various actions in the First FSR 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. JOBs were recommended by this Office as there are no other sources of available funds this fiscal year to pay the remaining anticipated settlements and judgments on a timely basis pursuant to the terms of the settlements and

judgments.

As instructed, this Office and the City Attorney have taken the initial steps to issue JOBs. One of the required steps is to adopt 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 that the Council has considered, is considering, or will be considering for the purpose of resolving certain claims against the City. Certain of those findings and determinations are found in the attached resolution that is recommended for approval. 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 or settlement payments that are approved with JOB proceeds, which judgment or settlement payments if approved would amount to approximately \$12.47 million in the aggregate. Certain of the settlements listed in the resolution have been approved by Council but have not yet been paid, and certain others are being considered concurrently or will be considered by Council.

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.

This Office expects to file similar resolutions for Council consideration in the future as additional cases are transmitted to Council for consideration.

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 has considered, 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 \$12.47 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 Council has considered, is considering or will be considering certain proposed settlement agreements for the purpose of resolving certain claims against the City identified in Schedule A attached to this Resolution and made a part hereof (collectively, the “Settlements”), which 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 City will seek to have stipulated judgments entered in connection with each such Settlement that is approved by Council (each, a “Judgment” and collectively, 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, 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 amount on a timely basis pursuant to the terms of the Settlement;

(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 \$15,000,000, 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 A¹

1. Robert Fischer v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 22STCV02009)
2. Laura Gelles v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 23STCV08367)
3. Elizabeth Ann Armstrong v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 22STCV23068)
4. Kim Williams v. City of Los Angeles (Los Angeles Superior Court Case No. 22STCV35693)
5. Dawn Eliashiv, MD, v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 22STCV00029)
6. Maria Cisneros Romero v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 22STCV21600)
7. Yolanda Ricks v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 20STCV32529)
8. Willie Redmond v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 21STCV03620)
9. Mahin Massaband v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 23SMCV00178)
10. Michael Libitzky, et al. v. City of Los Angeles, et al. (Lead Case) & Kriss Dozal v. City of Los Angeles, et al (Consolidated Case) (Los Angeles Superior Court Case Nos. 21STCV33832 & 22STCP01177)
11. Ashley House v. Brett Populorum, et al. (Los Angeles Superior Court Case No. 21STCV07527)
12. Estate of Rosendo Olivio, et al. v. City of Los Angeles, et al. (United States District Court Case No. 2:23cv01516FMO (Ex))
13. James Phillip Thomas, et al. v. City of Los Angeles, et al. (Los Angeles Superior Court Case No. 23STCV26107)
14. Gayane Barsegyan v. City of Los Angeles, et al. (LASC Case No. 22STCV12606)
15. Evelyn Cohen v. City of Los Angeles, et al. (LASC Case No. 23SMCV02813)
16. Rogelio Mendez Flores, et al. v. The Department of General Services, et al. (LASC Case No. 23VECV01748)
17. Santiago Aguilar v. City of Los Angeles, et al. (LASC Case No. 20STCV18191)
18. Hermenegildo Morales v. City of Los Angeles, et al. (LASC Case No. 23VECV01475)
19. Sally Olivas v. Olvera Street, et al. (LASC Case No. 21STCV37053)

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

20. Daniel Metelitz v. City of Los Angeles, et al. (LASC Case No. 23SMCV00665)
21. Alice Hricak v. City of Los Angeles, et al. (LASC Case No. 21STCV37200)
22. Charles McIntyre, et al. v. City of Los Angeles, et al. (LASC Case No. 22STCV24949)
23. Luisa Bonilla, et al. v. City of Los Angeles (LASC Case No. 23STCV15297)
24. Zoila Moran De Alfaro v. City of Los Angeles, et al. (LASC Case No. 23VECV02661)
25. Patricia Hill v. City of Los Angeles, et al. (LASC Case No. 21STCV06932)