



KENNETH MEJIA
CONTROLLER

July 5, 2023

The Honorable Karen Bass, Mayor
The Honorable Hydee Feldstein Soto, City Attorney
The Honorable Members of the Los Angeles City Council

SUBJECT: LEVERAGING IDLE SPECIAL FUNDS

Bureaucracy is the bane of big organizations. But we can't let bureaucracy stand in the way of tapping every available resource to meet urgent community needs.

In analyzing \$5.43 billion dollars held in 661 different special funds, **we discovered 203 of them where there has been no activity at all for at least two years. Astonishingly, 62 of them have been untouched for more than ten years!** While there are often specific restrictions on expenditures from these funds, our analysis shows more than \$50 million in idle resources that departments should deploy to meet the purposes for which the funds were collected. This includes more than \$10 million earmarked for vital housing and homelessness expenditures.

Our report offers detailed proposals for utilizing these untouched resources, calling on departments to submit expenditure plans for putting these idle funds to work. We also recommend terminating a number of them to redeploy their balances – or to return them to the source, including approximately \$600,000 to the General Fund or General Fund reserves.

Our commitment to transparency and accountability impels us to continually press for maximizing the impact of public resources. Prudent reserves are vital for long-term fiscal sustainability. Yet letting funds sit in obscure accounts for years at a time shortchanges the people of Los Angeles at a time when they are insisting on greater responsiveness from their City government.

We will continue to monitor the use of public resources and work for systemic change that eliminates bureaucratic barriers which slow progress. As stewards of public funds, making the most of those resources is crucial to rebuilding public trust.

The Honorable Karen Bass, Mayor
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Finally, we want to thank the dedicated staff of our Financial Analysis and Reporting team for their timely work on this analysis and report.

Respectfully submitted,


Kenneth Mejia (Jul 5, 2023 13:56 PDT)

KENNETH MEJIA, CPA
City Controller

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LEVERAGING Idle Special Funds 2023

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LA CITY CONTROLLER

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SUMMARY

After every fiscal year, the Office of the Controller closes the books and reports on the finances for the year that just concluded. As of June 30, 2022, Los Angeles’ treasury was made up of 857 funds with a combined cash balance of \$14.7 billion. This amount includes the City’s General Fund, Reserve Fund, debt service funds, proprietary funds, pension and retirement funds, and special purpose funds (Special Funds). This report focuses on 661 Special Funds, representing approximately \$5.4 billion, or 36.9 percent, of the City’s treasury.

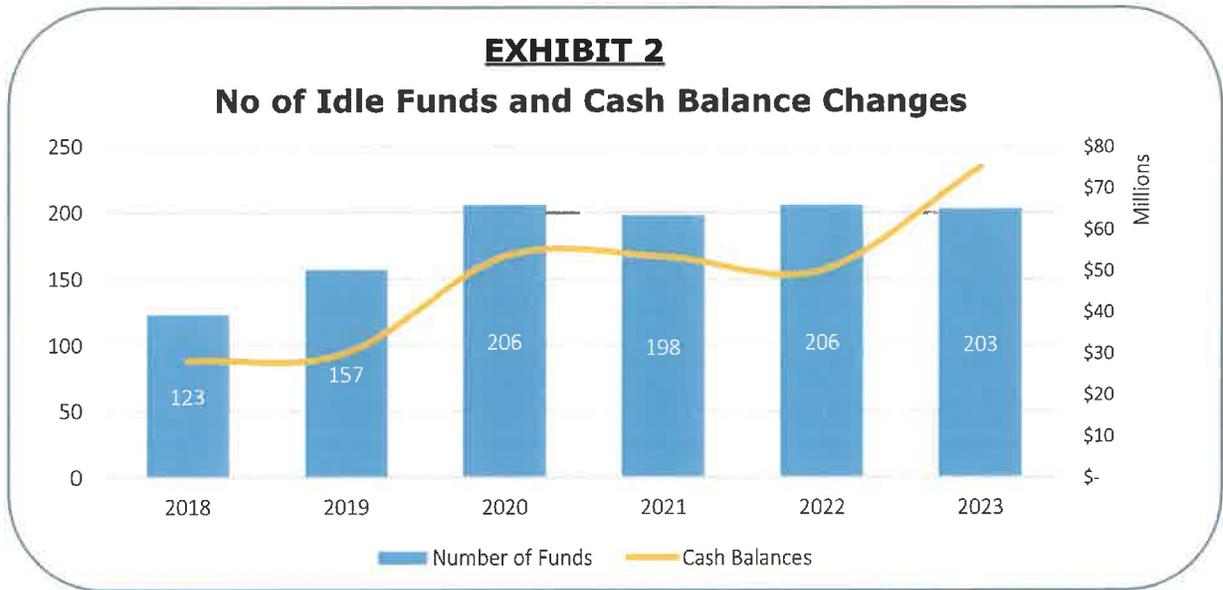
Idle Special Funds

As of April 30, 2023, **there were 203 Special Funds with a total of \$72.87 million cash balance**, known as Idle Special Funds (or Idle Funds), with **no expenditure activity for two or more years** (see Schedule 6 for a detailed listing of the funds). Of the 203 funds, 62, or 30.5 percent, had no expenditures for more than 10 years. Of the \$72.87 million, we have identified 64 funds totaling \$51.26 million that departments should submit an expenditure plan for. Exhibit 1 is a summary of the 203 idle funds by function, as of April 30, 2023.

EXHIBIT 1

Summary of Idle Funds as of April 30, 2023		
Function	Amount	No. of Funds
Community Safety	\$14,012,149	34
Economic Development	\$11,706,470	47
Sanitation & Environment	\$11,027,579	12
Housing & Homelessness	\$10,097,388	10
Other	\$7,426,120	11
Parks	\$7,386,262	7
Social Services	\$4,538,350	21
Transportation	\$3,054,012	8
Public Works	\$1,946,768	6
Streets	\$1,091,630	13
Arts/Culture/Tourism	\$414,507	3
Debt Related	\$172,886	31
Grand Total	\$72,874,120	203

In the last four years, the number of Idle Special Funds hovered around the 200 range. Exhibit 2 shows net changes from the number of funds closed, funds where activity occurred, and funds that become newly dormant. The jump between 2019 and 2020 was due to a reporting criterion change for unspent funds becoming idle after two years, instead of four.



After analyzing these funds and working with departments, we have made recommendations for their disposition as summarized in Exhibit 3 below:

EXHIBIT 3

Disposition	Amount	No.
Department should submit an expenditure plan for these funds	\$51,256,199	64
Keep open	\$5,849,043	32
Return funds to the grantor	\$5,529,753	32
Repay Reserve Fund loans owed by these funds, develop plans for remaining balances	\$5,083,329	7
Close fund – evaluate opportunities to leverage remaining cash balance for other needs, and then close the funds	\$2,356,597	34
Return funds to payors	\$894,900	13
Repurpose to another fund within the function and Close fund	\$576,499	11
Transfer excess over \$500K to the General Fund per ordinance	\$501,282	1
Initiate escheatment process	\$367,255	4
Need to determine the disposition of the funds	\$343,981	1
Evaluate for potential transfer to the General Fund	\$115,283	4
Grand Total	\$72,874,120	203

Details for each Idle Fund name, account balance, and the time since the last expenditure can be found in Schedule 6 of this report.

Recommendations

Except in 2021, Special Fund revenue exceeded expenditures with the cash balance rising an average of 5.6 percent over the last ten years. This report provides a framework for a healthy, on-going discussion of the overall management of special funds, and how idle Special Funds can be repurposed.

To improve the short term management and accountability over Special Funds administration, we recommend that the Mayor and Council instruct Departments to:

- a) Submit spending plans to this Office for the 64 funds listed under the category "Department should submit an expenditure plan for these funds" in the Controller's *Status of Idle Funds* report (Schedule 6);
- b) Work with the City Administrative Officer (CAO) to transfer special funds to the General Fund for those seven (7) funds identified as "Repay Reserve Fund Loan" in the Controller's *Status of Idle Funds* report (Schedule 6);
- c) Follow the remaining actions to dispose the cash balances in the remaining Special Funds identified under the "Recommendations" heading in the Controller's *Status of Idle Funds* report (Schedule 6);
- d) Request the City Attorney to draft an ordinance to repeal previously closed Special Funds identified as "Repeal" under the "Status" heading in the Controller's *Status of Fund Ordinances to Repeal* (Schedule 7); and,

For the long-term reduction in the number of idle Special Funds, we suggest referring to the Controller's prior Special Fund reports (C.F. Nos. 17-0786 and 17-0786-S1). As such, we encourage the Mayor and Council to consider the following prior recommendations for implementation:

- e) Instruct the CAO to develop a policy for automatically disencumbering outstanding Special Fund encumbrances three years or older;

- f) Request the City Attorney to incorporate a sunset clause for new Special Fund ordinances;
- g) Instruct the CAO to create a Departmental Special Fund Creation Form submitted by Departments to summarize the intent and nature of the new Special Fund requested; and,
- h) Instruct the CAO to create a policy to transfer cash to the General Fund from expired and obsolete grant Special Funds, especially when insufficient documentation is available to keep them.

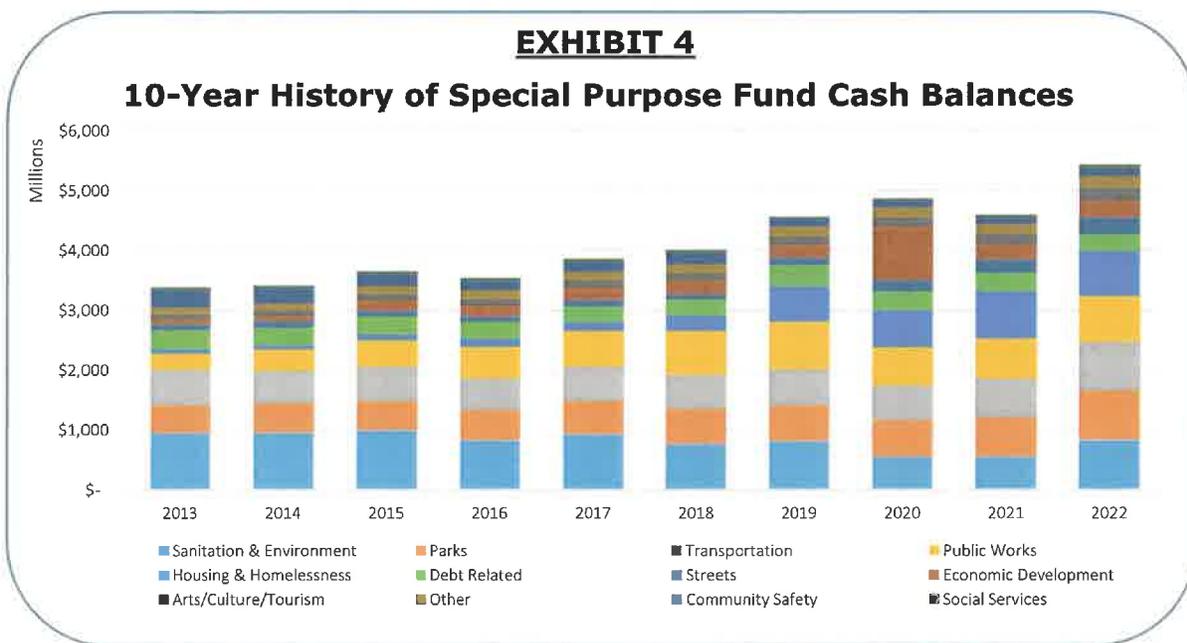
DISCUSSION

Financial assistance from the federal and state helped the City of Los Angeles weather the economic blow from the COVID-19 pandemic. The City has continued its journey to fiscal recovery after the end of the 2022 fiscal year by providing essential services, projects, and programs while monitoring and projecting the impact of homelessness, housing, and community engagement on City services, programs, and finances.

As it should be, the City’s emphasis from a budgetary and practical standpoint has always been managing the General Fund. Special Funds are usually treated as a background funding source. However, Special Funds actually represent a much larger portion of the City’s overall financial resources. As of June 30, 2022, the total cash balance in 661 Special Purpose Funds (Special Funds) was \$5.43 billion compared to a General Fund cash balance of \$1.93 billion which includes the Reserve Fund and Budget Stabilization Fund (and 17 general governmental funds required for standard reporting purposes effective in 2021^a). The Special Fund cash balance increased by 18.4 percent from 2021. In this report, the Special Funds are grouped by a function the City performs (see Schedule 1 for the function definitions).

Section I: Cash, Revenue and Expenditures

Cash Balance Growth



^a Per Governmental Accounting Standards Board Statement No. 84 for Identifying fiduciary activities beginning in fiscal year 2021. Page | 5
For comparison purposes only, data prior to 2021 was adjusted accordingly for all exhibits throughout this report.

Exhibit 4 on the previous page displays a 10-year history of Special Fund **cash balances** between 2013 and 2022 with an average cash balance growth of 5.6 percent. Special Funds cash balances increased by 18.4 percent from \$4.59 billion in 2021 to \$5.43 billion in 2022.

As pandemic restrictions have largely been lifted in 2022, revenues increased by 15.6 percent compared to 2021. Expenditures decreased by 4.3 percent in 2022, resulting in a net increase in Special Funds' cash balance.

Because revenues have consistently been higher than expenditure, excess cash balance continue to grow in the Special Funds.

Exhibit 5 ranks the top ten functions with the highest cash balance in 2022.

EXHIBIT 5
Top Ten Functions with Largest Cash Balance

(In \$Millions)

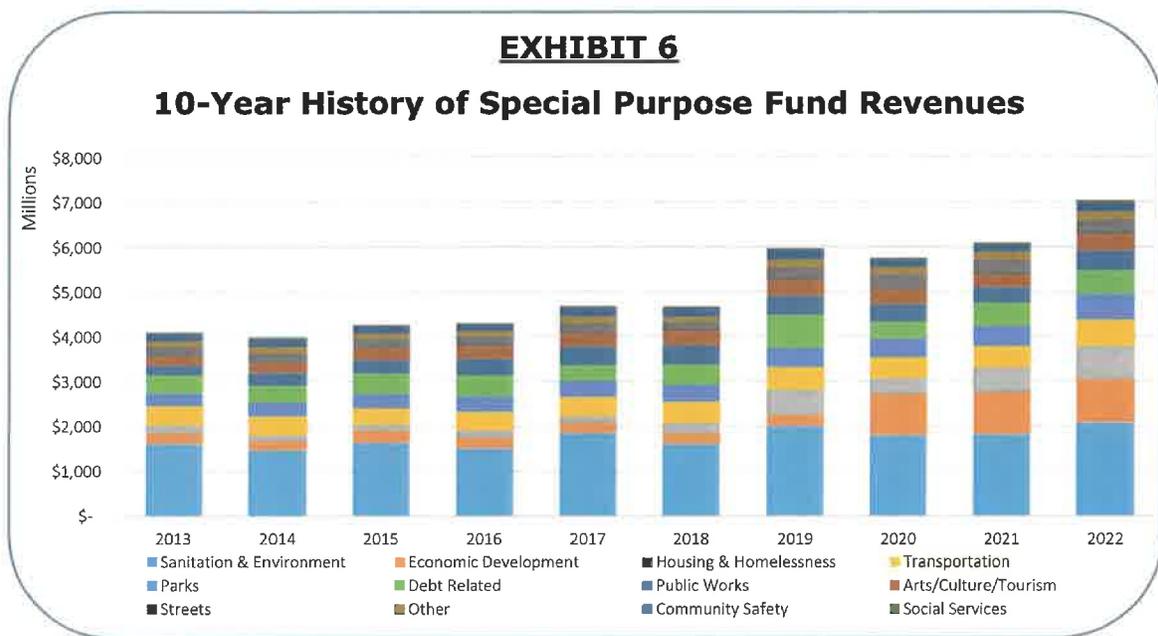
Function	2021 Cash Balance	2022 Cash Balance	Chg %
Sanitation & Environment	552.8	828.2	50%
Parks	654.9	827.4	26%
Transportation	634.8	800.0	26%
Public Works	685.9	780.3	14%
Housing & Homelessness	779.5	749.6	-4%
Economic Development	258.8	282.0	9%
Debt Related	313.7	280.4	-11%
Streets	220.1	278.4	26%
Arts/Culture/Tourism	166.4	218.0	31%
Other	169.4	196.3	16%

The Sanitation & Environment function was first on this list with the largest increase of \$275.3 million from 2021. The Sewer Construction & Maintenance, Fund 208 with a cash balance of \$204.7 primarily contributed to this difference. The Parks function was second highest with cash growth due primarily to transfers into Fund 302 of \$75 million from the Unappropriated Balance's (UB) for maintenance capital improvements at City parks and facilities in disadvantaged communities (C.F. 21-0935), and \$20 million to restore licensed childcare sites in economically disadvantaged communities (C.F. 21-0937).

The largest percentage growth of 87% (not shown) was for the Social Services function which increased from \$35.8 million in 2021 to \$67.1 million in 2022. The Debt Related function dropped in cash by 11 percent with less borrowing as interest rates rose.

Revenue Growth

During Fiscal Year 2022, the 661 Special Funds generated \$7.04 billion in **revenue**, a 15.6 percent increase compared to Fiscal Year 2021. Exhibit 6 presents a comparison and makeup of the actual revenues by fiscal year.



Revenue growth of 15.6 percent for 2022 was higher than the 10-year average annual growth of 6.3 percent. When viewed by function, the largest 2022 revenue growth was from Sanitation & Environment at \$260 million with the largest revenue coming from the Sewer Construction and Maintenance, Fund 208 at \$830.8 million. The largest percentage increase of 65.6 percent (not shown) was for the Social Services function with revenue increasing from \$47 million in 2021 to \$78 million in 2022, \$29.5 million of the increase coming from the Area Plan for the Aging Title 7, Fund 395.

Exhibit 7 shows the top Special Fund functions with the largest revenues. The Sanitation & Environment function rose 14 percent with revenue mainly from the Sewer Construction and Maintenance, Fund 208.

EXHIBIT 7
Top Ten Functions by Total Revenues

(In \$Millions)

Function	2021 Revenue	2022 Revenues	Chg %
Sanitation & Environment	1822.2	2082.2	14%
Economic Development	939.5	975.3	4%
Housing & Homelessness	541.9	720.4	33%
Parks	479.2	590.7	23%
Transportation	433.6	571.4	32%
Debt Related	533.3	535.9	0%
Public Works	337.8	435.0	29%
Streets	290.1	361.4	25%
Arts/Culture/Tourism	331.5	329.5	-1%
Community Safety	182.6	182.5	0%

Under the Economic Development function, the City received \$639.5 million on June 3, 2022, the final tranche of the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund (SLFRF), from the 2021 American Rescue Plan Act (ARPA). These funds were initially recorded under the City's ARPA, Fund 64M, as Special Fund revenue for internal accounting and tracking purposes and immediately transferred to the General Fund to offset expenditures for government operations. The ARPA revenue was for one-time federal assistance to City operations for 2021 and 2022.

The Housing & Homelessness function revenue increased by 33 percent primarily from the General Obligations Bond Series 2021-A (Taxable), Proposition HHH Construction, Fund 17E bond proceeds of \$213.1 million. The Parks function experienced a revenue growth of 23 percent mostly from revenues generated by the Recreation and Parks, Fund 302.

The drop in the Arts/Culture/Tourism function were mainly due to the following funds: Library Trust, Fund 831 by \$298,349, the Arts and Cultural Facilities & Service, Fund 480 by \$239,134, and the Arts Development Fee Trust, Fund 516 by \$232,286.

Expenditure Growth

Total 2022 special fund **expenditures** were \$6.13 billion. This was \$278.7 million or 4.3 percent lower than in 2021. Over the last ten years, total expenditures grew an average of 5.0 percent.

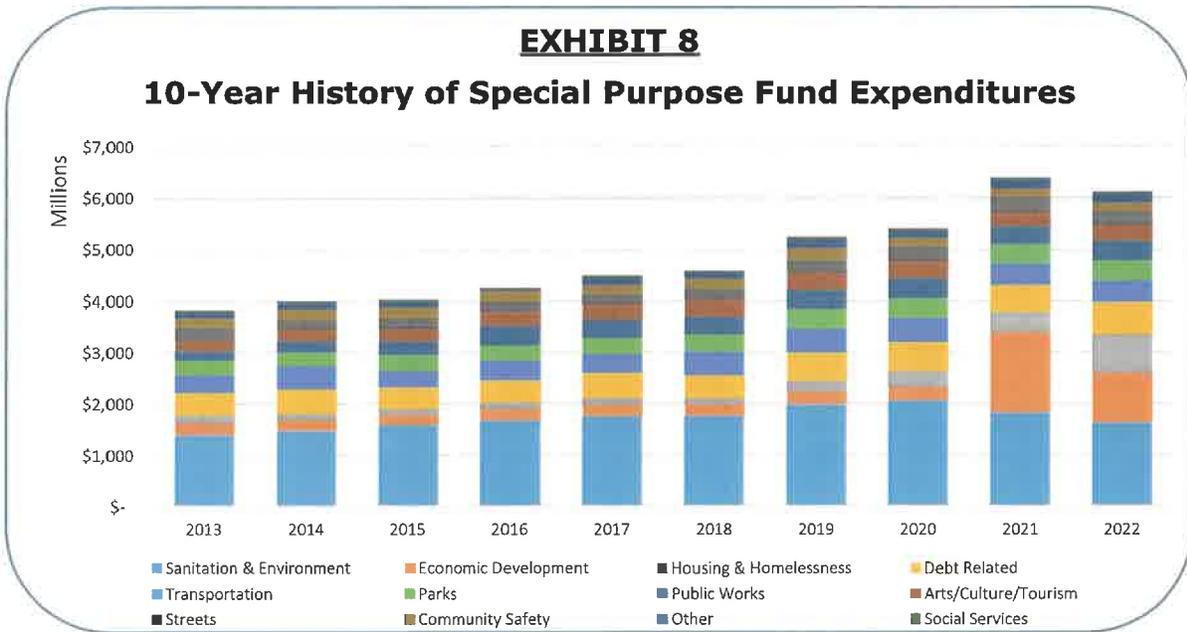


Exhibit 8 presents a comparison and makeup of the actual expenditures by fiscal year. In 2022, the Housing & Homelessness function spending jumped 99 percent to \$746.0 million. The Economic Development function spending dropped by 39 percent to \$965.7 million. This is mainly from a 96 percent decrease in COVID-19 Federal Relief, Fund 63M spending from \$675.2 million in 2021 to \$25 million in 2022.

The top three functions by total expenditures listed in Exhibit 9 are the same as those funds shown in Exhibit 7. Overall, the Sanitation & Environment expenditures dropped 11 percent primarily from the use of debt spending from the year prior such as the Wastewater System Subordinate Revenue Bonds 2018A Construction Green Bonds, Fund 75R for \$82.2 million and the Wastewater System Commercial Paper A Construction, Fund 70W for \$38.4 million.

EXHIBIT 9**Top Ten Functions by Total Expenditures**

(In \$Millions)

Function	2021 Expenditures	2022 Expenditures	Chg %
Sanitation & Environment	1817.4	1626.2	-11%
Economic Development	1575.9	965.7	-39%
Housing & Homelessness	374.2	746.0	99%
Debt Related	537.0	632.9	18%
Parks	410.0	413.5	1%
Transportation	386.1	393.2	2%
Public Works	342.7	379.3	11%
Arts/Culture/Tourism	267.1	307.0	15%
Streets	299.6	271.7	-9%
Public Safety	168.8	172.7	2%

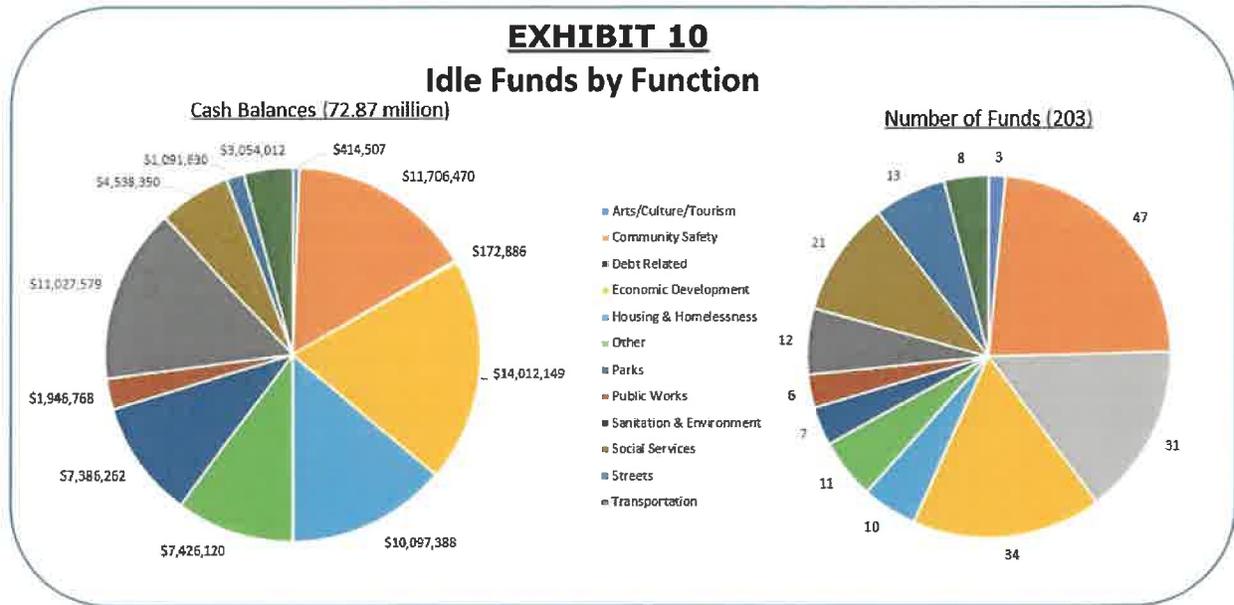
The 99 percent change under the Housing & Homelessness function was mainly from \$237.1 million spending in 2022 from the U.S. Treasury Emergency Rental Assistance, Fund 64D, to assist households unable to pay rent and utilities. This was a 4441 percent increase from 2021, which only spent \$5.2 million as a result of being a new fund established in March 2021.

Section II: Idle Special Funds

As of April 30, 2023, there were 203 Special Funds idle with no expenditure activity in the last 24 months. The cash balance in these funds totaled approximately \$73 million.

A vast majority, or 70 percent of the 661 Special Funds are used consistently to perform services under the Housing & Homelessness, Economic Development, Sanitation & Environment, Social Services, Public Safety, Parks, Public Works, and Transportation functions. However, there remains **203 Special Funds** or 30 percent of the total number of funds, **with \$72.87 million in cash balance but no expenditure for two or more years.** Throughout this report, we refer to these funds as Idle Special Funds (or Idle Funds). The City should inquire from departments about their plans to use the Idle Fund cash balances. Details for each Idle Fund name, account balance,

and the time since the last expenditure can be found in Schedule 6 of this report. Exhibit 10 shows idle funds and balances by function.



Spending Delays

Departments provided the following as some of the reasons for their spending delays:

- **Debt related** funds usually have additional legal restrictions placed upon them by covenant for cash to remain available for emergency purposes and/or for debt, principal or interest payments for the bonds. Zero balances in debt funds are usually kept when tied to bonds still outstanding.
- **Grant funded** cash have “strings attached” with any unspent funds tied to the grant agreement signed between the City and the grantor. The City is released from the agreement when the grantor issues an acceptance letter of the completed project or program. The City will need to determine what should be done for those dormant grant funds with obsolete projects or programs.
- **Program, Project and Site-specific** funds are based on the scope of work described in the Council action and/or ordinance creating the fund. It is less likely the fund will be spent on a timely basis when many restrictions are placed on the fund.

- **Newly dormant** are those funds affected when the criteria to be considered “idle” was expanded to two-years or more of no expenditure activity, instead of four years.

While these are valid reasons to leave a fund open, they do not account for a large number of funds with no expenditure activity in the last 24 months. In our view, a proactive and consistent review of these funds is necessary to promptly identify idle funds that could potentially be repurposed to help address the City’s other needs.