DRAFT: FOR DISCUSSION PURPOSES ONLY. This interim progress update of the Budget and Finance Advisory Committee (BFAC) is a draft. This item was provided by BFAC support staff for informational purposes only and has not been formally approved or endorsed by BFAC or any member thereon.

Month Day, 2026

Honorable Members of the City Council
City of Los Angeles City Hall, Room 395
Los Angeles, CA 90012

BUDGET AND FINANCE ADVISORY COMMITTEE: PROGRESS REPORT 1

Honorable Councilmembers,

The Budget and Finance Advisory Committee ("BFAC" or the "Committee") was established by Council action (see Council File 25-0314). The Advisory Committee members were appointed by the Budget and Finance Chair, Council President, and Council President Pro Tempore. The Budget and Finance Advisory Committee's key mandate is to recommend tangible, structural, reforms (short and long term) that will help the City to fiscally operate within its means and fundamentally improve how public resources are managed.

COMMITTEE ESTABLISHMENT AND STAFFING

BFAC is composed of five volunteer members appointed by City Council leadership. The cross-sectoral diversity of our subject matter expertise, professional experience, and background reflects the intent of the authorizing motion introduced by Council President Marqueece Harris-Dawson and Budget and Finance Committee Chair Councilwoman Katy Yaroslavsky.

On November 24, 2025, BFAC held its inaugural meeting at Los Angeles City Hall. BFAC has since continued to hold regular full-body meetings to review research findings, hear expert testimony, and debate policy mechanisms that should be put forward to guide policy. All regular meetings of BFAC are held at Los Angeles City Hall and publicly noticed in compliance with the Brown Act.

BFAC's regular meetings are also staffed and supported by the Office of the City Clerk, Office of the City Attorney and staff from the office of Budget and Finance Committee members. The Committee was also staffed by two dedicated UCLA Luskin Leadership Fellowship graduate students, Golden Bachelder and Prokriti Monolina. They invested substantial time independently researching often new and obscure policy areas related to municipal finance, the historical context around past City actions, as well as drafting memos, managing meeting logistics, and driving the Committee's overall progress and success.

COMMITTEE ENGAGEMENTS

Over the past six months, BFAC has invited and received formal presentations and updates from the Chief Administrative Officer ("CAO"), the Office of the Chief Legislative Analyst ("CLA"), the Office of the Controller, City Treasurer, the Office of Finance, UCLA Luskin Leadership Fellows, Neighborhood Council Budget Advocates. The Committee also takes in-person, General Public Comment in each meeting. As of the latest meeting, a high level summary of our meeting and presentation record is as follows:

- **November 24, 2025:** Inaugural meeting. Chair Yaroslavsky introduced Committee members and outlined BFAC's purpose and potential focus areas. CAO Matthew Szabo presented a FY 2025-26 budget overview. CLA's Office, represented by Andrea Galvin, briefed the Committee on available CLA support.
- **February 6, 2026:** — Report-backs on initial focus area findings: Liability mitigation, generally, Los Angeles Police Department (LAPD) liability mitigation, special fund management, treasury return on investment, and real estate asset management. Discussion of future research needs.
- **February 27, 2026:** — Rebecca Rasmussen, Budget and Legislative Director, Council District 5, delivered an update on the budget calendar and financial objectives. Substantive discussion on liability mitigation, special fund reform, treasury returns, and city asset management.
- **April 3, 2026:** — Presentation by City Controller Kenneth Mejia and Controller's Office representatives covering the Revenue Forecast Report, General Fund revenue and expenditure, liability trends, and special fund management. Luskin Leadership Fellows and Coro Fellow, Sofia Martinez, reported on city fund and special fund restrictions.
- **May 1, 2026:** — Presentation by City Treasurer Diana Mangioglu and Chief Investment Officer Thomas Juarez on the Investment Division's responsibilities and investment strategy. Presentation by Jay Handal, Co-Chair of the Neighborhood Council Budget Advocates, on the 2026 White Paper.

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In accordance with the Brown Act, to broaden study and deepen Committee understanding, additional conversations, individual and ad-hoc subcommittee-only meetings, and consultations with independent researchers, community members, and cross-sectoral experts have been engaged on these subjects as well.

Agendas and minutes for all meetings are available at:
https://councilcommittee.lacity.gov/budget/BudgetandFinanceAdvisory/

POLICY FOCUS AREAS TO DATE

We commend Chair Yaroslavsky and all members of Council's Budget and Finance Committee for your leadership in guiding the City through Fiscal Year (FY) 2026-27 budget process. The numbers are clear. Your collective work has led the City to an improved fiscal position against the backdrop during the FY 25-2026 budget adoption process. These short-term improvements are crucial but our mandate demands the expertise of this body to deliver on long-term, structural reforms to ensure the best path forward for the City.

BFAC's work to date has focused on several policy areas that present the highest potential for long-term cost savings, revenue generation, General Fund relief, and improved long-term fiscal management. Those areas include:

- City Treasury and Investment Strategy
- Cost of City Liability, Litigation, and Settlement Payouts
- Interfund Borrowing Practice and Tax and Revenue Anticipation Notes (TRAN)
- Special Funds Management
- Real Asset Management
- Annual CAP Management

An executive summary and breakdown of focus areas, open questions, and revised policies that are under investigation by this Committee are set forth in Appendix X.

The Committee is mindful that many of these issues have been studied before. A central focus of BFAC's current work is not merely identifying possible reforms, but determining why prior recommendations have not been implemented, what legal or administrative barriers remain, and what concrete actions the Budget and Finance Committee could take to move from analysis to execution.

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NEXT STEPS

City Council authorized the BFAC's work to continue for a period not longer than 18 months, which will take us into May 2027. As we move forward, we will remain committed to translating our research into actionable recommendations that produce meaningful, long-term improvements to the City's fiscal health.

Over the coming months, the Committee will continue refining its areas of focus, engage additional City departments and subject matter experts, and test the legal, fiscal, and operational feasibility of potential recommendations. The Committee is mindful that many of these policy issues have been examined before, and we intend to avoid duplicating efforts. Our results will rely on lessons learned from key stakeholders and build on any work being actively implemented rather than duplicate it.

CONCLUSION

A common theme this Committee has heard from seasoned employees and advocates is that structural reforms require sustained, long-term attention and dedicated resources that extend beyond the immediate, pressing demands of the annual budget adoption cycle. Change demands a champion, and that happens to be the most unique and potentially impactful leverage we have as a committee. We will deliver our policy recommendations directly to your body. We are truly grateful for the Committee's diligence and partnership throughout this process. The fiscal challenges facing Los Angeles are significant, and the Committee recognizes the weight of responsibility entrusted to us in helping to chart a path forward. We look forward to presenting our formal recommendations and working in close coordination with you and City leadership to advance this work from analysis to action. Thank you for the opportunity to serve the residents of Los Angeles in this capacity.

APPENDIX X: Policy Details and Recommendations

1. CITY TREASURY RETURN ON INVESTMENT.

The City's investment portfolio is constrained by an allocation framework that prioritizes liquidity and security at the expense of yield. The result is a persistent gap between what the City earns on its holdings and what comparable institutional portfolios return. Compounding this problem, both state law and internal policy restrict the City's flexibility to shift allocations. Initial findings suggest that opportunities exist to adjust the City's current practices without jeopardizing necessary liquidity or safety standards.

BFAC Preview: Policy Fixes Under Review

- Long-Term Investment Allocation: Shift a larger portion of treasury holdings into longer-duration, higher-yield instruments where legally permissible.
- Legislative Updates: Identify and advocate for state-legislative updates to expand flexibility in the City's investment strategy.
- Interfund Borrowing: Prioritize interfund borrowing over Tax and Revenue Anticipation Notes (TRAN) to reduce interest payments.

2. LIABILITY CLAIMS PAYMENTS

The financial toll of liability payments has increased substantially in recent years. According to a March 2026 report (Council File 24-0600-S37) from the City Attorney and City Administrative Officer, the City's liability payouts have increased by an average of 35 percent per year since FY 2021-22. Payouts from FY 2014-15 through 2023-24, totaling over $1.31 billion. The largest single category of expenditures is "Dangerous Condition/Trip and Fall" which accounted for $421 million, or 32% of all payouts. Civil

Rights/Excessive Use of Force was the second-largest category at 23% ($305 million), followed by Traffic Accidents at 14% ($181.6 million) and Employment claims at 13% ($165.8 million).

BFAC Preview: Policy Fixes Under Review

- Claims Management: Implement a centralized claims intake and triage system to route low-to-medium value claims into Alternative Dispute Resolution (ADR), reducing the City Attorney's litigation workload and costs associated with taking claims to trial.
- Department Accountability: Link department budgets directly to misconduct costs to create a behavioral incentive for risk reduction; particularly for settlements and payouts for civil rights violations. Consider the use of department-funded insurance for certain classes of liability.
- City Liability Division: Invest in dedicated staff to track and emphasize performance-based analytics for risk mitigation, enhanced oversight, and preventative budgeting process reform.
- Risk Auditing and Predictive Analytics for Infrastructure: Leverage auditing and technology high-claim corridors with accelerated repair investment using GIS-mapped claims data to reduce the pipeline of future claims.

3. SPECIAL FUNDS MANAGEMENT

Within the City's six-hundred plus special purpose funds, there are numerous idle and under-utilized accounts holding balances that remain unallocated while the City faces General Fund constraints that currently total at minimum $80 million and potentially in the hundreds of millions. Reforms to special fund management would aim to identify and unlock these funds to alleviate General Fund pressures. Recommendations for reforming the City's fund management have been made in the past, and the most significant barriers to success have been, no clear lead on the execution of proposed next steps. Historically, there has also been too narrow of a scope in the special purpose fund audits.

BFAC Preview: Policy Fixes Under Review

- Dedicated Staff: Appoint a dedicated staff member specifically responsible for navigating the history and restrictions of each special fund to streamline oversight, improve coordination, and centralize management.
- Year-round Engagement: Adopt a regularly scheduled special fund assessment in the B&F calendar.
- Proprietary Spending: Review how the City can access special funds managed by Proprietaries (.e.g. LAWA, Port) for infrastructure improvements and mitigation measures.
- Fund Identification: In consultation with the City Controller and City Attorney, develop formulas to identify large funds growing at a faster rate than they are being spent, and analyze historical encumbrances on funds that could feasibly be alleviated.
- Legislative Agenda: Identify and advocate for state-legislative updates to allow for greater access to overly-encumbered funds.

4. REAL ASSET MANAGEMENT

Since the dissolution of the CRA, the City has lost vital real-estate expertise to facilitate deals. Furthermore, existing bureaucracy and state/local laws, such as the prohibitive nature of the Surplus Land Act, heavily limit how the City can dispose of or transform underutilized property. The City would benefit from a holistic assessment of its property assets to advise on their highest and best use. Currently, the City predominantly views its assets strictly for residential use, overlooking opportunities for properties that could be repurposed for economic development and revenue generation.

BFAC Preview: Policy Fixes Under Review

- Address the Implications of CRA Dissolution: Identify capabilities and resources lost with the CRA dissolution and formulate strategies to replace them.
- Update Property Assessments: Commission a comprehensive Asset Inventory Analysis.
- Special Purpose Entity: Commission a comprehensive analysis to study successful models of external, citywide real asset management.

- Utilize City's Real Assets that are not for Housing Development: The City should study opportunities for smaller sites to generate revenue, such as advertising signage.

5. ANNUAL CAP MANAGEMENT.

The annual Cost Allocation Plan (CAP) is the mechanism by which the Federal government reimburses the City for grants management. The City has historically utilized the same CAP as the Federal government to reimburse the General Fund for overhead related to special funds. Efficient and accurate administration of the CAP is critical to ensuring the City and the General Fund recover eligible administrative costs.

BFAC Preview: Policy Fixes Under Review

- Internal CAP: Create an internal CAP framework to more accurately capture, track, and manage reimbursable expenses across departments.

APPENDIX X: Committee Roster

- **Ron S. Galperin** – Chair
- **Derric J. Johnson** – Vice Chair
- **Gilda Haas** – Member
- **Joseph Lumarda** – Member
- **Tom De Simone** – Member