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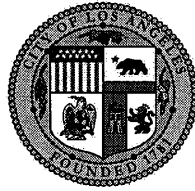
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**DEPARTMENT OF PUBLIC WORKS
BUREAU OF STREET SERVICES**

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FAX: (213) 473-4150

January 22, 2008

Gerry F. Miller, Chief Legislative Analyst
Office of the Chief Legislative Analyst
200 North Spring Street, Room 255, City Hall
Los Angeles, CA 90012

Attention: Maria Souza-Rountree

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TRANSPORTATION FUNDING CHALLENGES

Due to the State deficit, Highway Users Tax (Gas Tax) funding allocations to local jurisdictions are being temporarily suspended and Proposition 42 (Prop 42) funding runs the potential risk of being suspended in the near future. Such deferrals will reduce the funding sources available for the resurfacing and reconstruction program and negatively impact the ability of the Bureau of Street Services (BSS) to maintain current service levels. The loss of Gas Tax funding in the amount of \$15.5 million for 2007-08 would reduce the current resurfacing and reconstruction program from 175 miles to 110 miles (a reduction of 65 miles).

Gas Tax

The Governor's proposed budget released on January 10, 2008, recommends delaying payment of approximately \$500 million in Gas Tax funding to local governments from April 2008 to August 2008. Full repayment, without interest, would occur in September 2008. The impact to the City of Los Angeles will be approximately \$32 million over the five months. A mitigation strategy has been discussed with the Office of the City Administrative Officer (CAO) for the last quarter of 2007-08 that includes cutting \$2 million from 2007-08 Capital Improvement and Expenditure Program (CIEP) projects with unexpended funds and cutting \$15.5 million from the BSS resurfacing and reconstruction program (a reduction of 65 miles).

The League of Cities' financial consultant anticipates that the suspension of Gas Tax funds is a short-term borrowing strategy that will not likely extend past September 2008, due to the State's other financing strategies and the negative impact this would have on local agencies' projects that have already been contracted out. Please note, however, that under Section 6, Article 19 of the California Constitution, the State may borrow these funds subject to repayment either within

30 days of the adoption of the budget bill for the subsequent fiscal year or within three years. Although the Governor's proposal recommends the shorter pay-back period, the payback date could potentially be lengthened during the Governor's May 2008 Revise of the budget.

Proposition 42 (Prop 42) - Local Street and Road Improvements

The Governor's Proposed 2008-09 Budget leaves Prop 42 funding intact. The latest estimate (November 2007) of the City of Los Angeles' share of the 2008-09 Prop 42 Local Street and Road Improvements funding is approximately \$38.6 million. This is good news for the City so far; however, the Governor could always propose borrowing Prop 42 funds to address the State deficit, if necessary, in the May 2008 Revise of his budget.

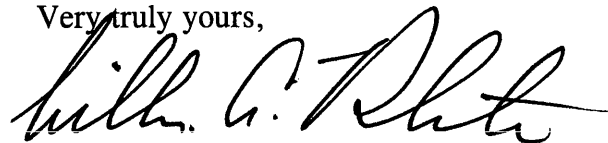
Proposition 1B (Prop 1B) - Local Streets and Roads

The estimated amount of Prop 1B Local Streets and Roads funding that would be made available to the City of Los Angeles in the first distribution of funds in 2007-08 is \$63.5 million. Whether any of this Prop 1B funding should be used to mitigate the Proposition C (Prop C) deficit as proposed by the Department of Transportation (LADOT), highly depends on whether the Prop 42 funding actually will be released in 2008-09 and Gas Tax allocations are resumed as anticipated.

The Bureau of Street Services strongly recommends the use of Prop 1B funds to maintain the funding for street resurfacing and reconstruction needs until regular Gas Tax allocations are resumed and the release of Prop 42 allocations is certain. In the interim, part of the Prop 1B funding could be applied to the 2007-08 fiscal year to mitigate the anticipated loss of \$15.5 million (reduction of 65 miles) in the resurfacing and reconstruction program. In 2008-09, approximately \$31.6 million in Prop 1B funding could be used to increase the BSS resurfacing and reconstruction program from 175 miles to 225 miles to sustain the current Pavement Condition Index (PCI) of the street network for the short-term (less than four years).

Ideally, long-term preservation of the street network and maintenance of the current PCI requires that a minimum of 260 miles of street resurfacing and reconstruction are completed annually. However, providing 225 miles for the short-term will slow the deterioration of the street network while sustaining the current PCI. Any additional funds from Prop 42, Gas Tax or Prop 1B could be placed in the Unappropriated Balance (UB) to maximize the funding allocated for the street resurfacing and reconstruction program in future years.

Very truly yours,



WILLIAM A. ROBERTSON, Director
Bureau of Street Services

WAR:NS:RO:JFC:GAM:gam

cc: Councilmember Eric Garcetti, Council District 13
Councilmember Wendy Greuel, Council District 2



ERIC GARCETTI
COUNCILMEMBER
PRESIDENT, LOS ANGELES CITY COUNCIL

December 21, 2007

William Robertson, Director
Bureau of Street Services
Department of Public Works

Dear Mr. Robertson:

The City Council will hold a single topic meeting on transportation, on January 29th, from 10:00 to 5:00 PM. The meeting agenda is still under development, but is likely to focus on the development of L.A.'s Strategic Plan for Transportation.

We would like a presentation from you on the transportation funding challenges facing the City, with a focus on your priorities in addressing these issues. We also expect to have speakers discuss their ideas for new revenue sources for transportation projects and their perspectives on transportation concerns facing Los Angeles. In order to cover all these topics, we would like to limit each presentation to no more than five minutes.

In addition to preparing for the verbal presentations, please submit a written report to the Office of the Chief Legislative Analyst by Friday, January 18th, to the attention of Maria Souza-Rountree. This document will be distributed to the Council prior to the meeting. Given the limited amount of time allotted to verbal presentations, the written report will provide an opportunity for you to share more extensive information.

If you should have any questions, please do not hesitate to contact us. You may also contact Ana Guerrero of Council District 13 at 213-473-7013 or Jennifer Cohen of Council District 2 at 213-473-7002.

Sincerely,

ERIC GARCETTI
President

WENDY GREUEL
President Pro Tempore

CC: Maria Souza-Rountree, Office of the Chief Legislative Analyst