

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 3, 2009

CAO File No. 0610-03514-0012

Council File No. 08-0600-S69

Council District:

To: The Council

From: Raymond P. Ciranna, Acting City Administrative Officer *RPC*

Reference: Council Files 08-0600-S74, 08-0600-S75, Ordinance Nos. 180460, 180723

Subject: **SPECIAL PARKING REVENUE FUND SURPLUS TRANSFER**

SUMMARY

On June 16, 2009, the City Council approved the City Administrative Officer's (CAO's) 2008-09 Special Parking Revenue Fund (SPRF) surplus recommendations with amendments made by two motions that adjusted funding for various active projects (C.F. 08-0600-S69). On June 26, 2009, the Mayor vetoed that Council action. Subsequently, two motions (Garcetti-Zine – C.F. 08-0600-S74 and Parks-Cardenas – C.F. 08-0600-S75) were submitted for reconsideration of a SPRF surplus declaration. On July 13, 2009, the Budget and Finance Committee requested that the CAO provide a report defining the impact of the Council's previous actions regarding the declaration of a SPRF surplus and the impacts of the motions currently under consideration. The chart below illustrates a history of actions taken by the Council and the impacts relative to the identification of funding available for a surplus declaration:

	<u>Source</u>	<u>Aiso Project</u> <i>(Construction 9/09)</i>	<u>Vine Street</u> <i>(Construction 11/09)</i>	<u>SPRF Surplus</u>
Funding Needed		\$23,430,000	\$17,600,000*	
Current Funding Avail. (Unencumbered)	SPRF	\$ 6,000,000	\$14,084,206	
	MICLA	17,430,000	0	
	Subtotal	\$23,430,000	\$14,084,206	
Council Action June 16, 2009	SPRF	\$ 6,000,000	\$16,464,206	\$18,057,849
C.F. 08-0600-S69	MICLA	17,430,000	0	
	Subtotal	\$23,430,000	\$16,464,206	
Motion (Garcetti-Zine) C.F. 08-0600-S74	SPRF	\$ 0	\$ 2,000,000	\$36,629,086
	MICLA	23,430,000	16,500,000	
	Subtotal	\$23,430,000	\$18,500,000	
Motion (Parks-Cardenas) C.F. 08-0600-S75	SPRF	\$ 6,000,000	\$16,084,205	\$18,437,850
	MICLA	17,430,000	0	
	Subtotal	\$23,430,000	\$16,084,205	

*Net of expenditure to-date of \$900,000. Reflects estimate amount prior to receipt of construction bids on July 22, 2009.

It should be noted that the Council action and the two motions listed above (C.F. 08-0600-S74 and C.F. 08-0600-S75) were based upon funding available in the 2008-09 SPRF Budget and project estimates known at the time. Bids for construction on the Vine Street Garage project were received on July 22, 2009, reflecting a maximum construction cost approximately \$3.5 million lower than originally estimated. Should either of the above-referenced motions be adopted, the specific funding amounts in each motion will be verified and updated as needed. Should no definitive action be taken to identify a SPRF surplus, adopt any motions currently pending before Council regarding a SPRF surplus transfer, or adjust funding for any projects, all funds will remain as is in the SPRF and active projects will proceed with their current funding.

The primary difference between the two motions is the proposed use of MICLA financing for the specified parking projects. Below is a chart illustrating the various costs of financing scenarios for the Vine Street and Aiso Garage projects, with SPRF cash or through MICLA over 30-year periods:

Council Action, June 16, 2009	<u>Aiso Project</u>	<u>Vine Street</u>
Proposed MICLA Financing	\$ 17,430,000	\$ 0
Annual Debt Payment (30-years)	\$ 1,349,188	\$ 0
Total Payment Over 30 years	\$ 40,475,640	\$ 0
Less Cost if Paid in Cash	17,430,000	
Total Interest Paid through MICLA Financing***	\$ 23,045,640	\$ 0
Net Present Value of Proposed MICLA Financing****	\$ 26,444,680	\$ 0
Proposed SPRF Contribution	6,000,000	16,464,206 ^(a)
Total Cost of Proposed Financing	\$ 32,444,680	\$ 16,464,206

***The calculation of interest was based on a standard 5.5 percent interest rate. Historically, the actual interest rate has been lower.

****Net Present Value projects the actual cost of funding over time, in this instance using a three percent discount rate.

(a) Assumes contribution of \$2.38 million from the Projects to be Designated Account to Vine Street

Motion (Garcetti-Zine)	<u>Aiso Project</u>	<u>Vine Street</u>
Proposed MICLA Financing	\$ 23,430,000	\$ 16,500,000
Annual Debt Payment (30-years)	\$ 1,813,624	\$ 1,277,200
Total Payment Over 30 years	\$ 54,408,720	\$ 38,316,000
Less Cost if Paid in Cash	23,430,000	16,500,000
Total Interest Paid through MICLA Financing***	\$ 30,978,720	\$ 21,816,000
Net Present Value of Proposed MICLA Financing****	\$ 35,547,831	\$ 25,033,684
Proposed SPRF Contribution	0	2,000,000
Total Cost of Proposed Financing	\$ 35,547,831	\$ 27,033,684

***The calculation of interest was based on a standard 5.5 percent interest rate. Historically, the actual interest rate has been lower.

****Net Present Value projects the actual cost of funding over time, in this instance using a three percent discount rate.

Motion (Parks-Cardenas)	<u>Aiso Project</u>	<u>Vine Street</u>
Proposed MICLA Financing	\$ 17,430,000	\$ 0
Annual Debt Payment (30-years)	\$ 1,349,188	\$ 0
Total Payment Over 30 years	\$ 40,475,640	\$ 0
Less Cost if Paid in Cash	17,430,000	
Total Interest Paid through MICLA Financing***	\$ 23,045,640	\$ 0
Net Present Value of Interest****	\$ 26,444,680	\$ 0
Proposed SPRF Contribution	6,000,000	16,084,205
Total Cost of Proposed Financing	\$ 32,444,680	\$ 16,084,205

***The calculation of interest was based on a standard 5.5 percent interest rate. Historically, the actual interest rate has been lower.
****Net Present Value projects the actual cost of funding over time, in this instance using a three percent discount rate.

SPRF Ordinance and Administrative Code Section 5.117

Section 5.117 of the Los Angeles Administrative Code (LAAC) established the SPRF to collect revenue from City-owned parking meters and facilities, and to provide for the purchasing, leasing, installing, repairing, maintaining, operating, acquiring, designing, constructing, improving and removing of parking meters, meter spaces and off-street parking facilities.

Ordinance 180460, which was adopted by Council and signed by the Mayor on December 19, 2008, amended LAAC Section 5.117 to expand the use of the SPRF. The ordinance allowed for a surplus declaration of 2007-08 and 2008-09 monies in the SPRF and a subsequent transfer of the surplus amount to the Reserve Fund to assist in eliminating a 2008-09 General Fund deficit. The ordinance also included a sunset clause that eliminated the amending language and ability to declare a surplus from the SPRF on June 30, 2009.

During 2008-09, this Office worked extensively with the Department of Transportation (DOT) to identify available cash and to eliminate prior year appropriations that were no longer needed. On April 6, 2009, the Mayor concurred with Council approval of a 2007-08 surplus declaration totaling \$56,260,500 (C.F. 08-0600-S33). This surplus was declared in accordance with Ordinance 180460, which protected the integrity and legal requirements of the SPRF by specifying that sufficient funding must be identified to pay for debt service on outstanding bonds and for the operations and maintenance costs of the assets that generate revenue for the fund before any surplus could be considered.

The same considerations were taken into account when this Office drafted its recommendation for a 2008-09 surplus declaration of \$38,729,086 (C.F. 08-0600-S69). In addition, while there generally has not been an established policy on providing funding for capital parking projects, the recommendations outlined in the report attempted to only eliminate appropriations for projects that were complete or indefinitely stalled, as identified in discussions with DOT and various Council offices. Appropriations provided for active projects were retained, and the report recommended additional actions to ensure that funding for active projects was fully provided to current estimates,

whether through SPRF funding or through other sources. The surplus determination was not intended to delay any projects from moving forward or hinder the process of accumulating funding for a feasible project.

The Council's concern about jeopardizing funding for earmarked—but not necessarily designated or fully established—projects in order to declare a larger surplus led to a change in the policy for determining future surplus amounts. In addition to extending the sunset clause of Ordinance 180460, the 2009-10 Adopted Budget instructed the City Attorney to draft an ordinance that provided for the return of funding, to the respective accounts within the SPRF, any monies loaned to contribute to a surplus transfer from the fund. On June 8, 2009, the Mayor concurred with the Council adoption of Ordinance 180723, which specifies that "any funds loaned from an account to contribute to a surplus funds transfer to the Reserve Fund shall be only on a temporary basis, must be returned in the same amount to the originating account within two years, and if not repaid in the first year, the repayment shall be considered as a fourth payment or set-aside category in sub-subsection 7(a) in calculating any surplus funds in the second year."

The City Attorney drafted the Ordinance language with input from the CAO and the CLA. The three offices interpreted the Council's intent to indicate several points:

- that the distinction of funds "loaned" versus "determined as surplus" applies to accounts within the SPRF as specifically identified by the Council, and not to all accounts within the SPRF that contribute funds to a surplus transfer;
- that funding would be identified from available cash or future revenues from the SPRF to replenish appropriations from project accounts that had loaned funds for a surplus transfer; and,
- that the term "loaned" is as established at the discretion of the Council and does not obligate the General Fund or Reserve Fund to pay back surplus funds received from the SPRF.

Ordinance 180723 came into effect July 13, 2009, after the release of the CAO's 2008-09 SPRF surplus declaration report on May 26, 2009. In order to address the concerns outlined in the Ordinance, the CAO had proposed in Recommendation 14 of the 2008-09 SPRF Surplus Report that funds would be identified within the SPRF to replace those used to contribute to the 2008-09 SPRF surplus.

In its meeting on July 13, 2009, the Budget and Finance Committee instructed the CLA to draft an amendment to the language presented in Ordinance 180723 to specify that monies loaned to a fund from a SPRF surplus transfer would be repaid from that fund, and not from the SPRF. It is not recommended at this time that the SPRF LAAC language be amended to specify that funds loaned to a surplus be returned from the recipient. The DOT, through the budget process and as needed throughout the year, continues to strive for a policy of securing all estimated funding needs, through the SPRF, of any parking related project that is deemed necessary or beneficial to the community through a demand/feasibility study. It is not recommended, in this report or as a policy, that funding for projects that meet these criteria be designated and transferred as surplus.

Reserve Fund Impact

In its 2008-09 SPRF Surplus Declaration Report, the CAO recommended that MICLA be authorized to fund construction of the Vine Street Garage and the \$6 million portion of the Aiso Street Garage Project that was originally scheduled to be funded through SPRF cash. While this action would incur the City greater cost over time, as demonstrated in the charts above, this Office continues to recommend that the two projects be financed through MICLA in order to maximize the amount of cash that can be transferred to the Reserve Fund from a SPRF surplus transfer. Because final revenue in 2008-09 is projected to be lower than anticipated in the adjusted 2008-09 Budget, a reduced surplus transfer from the SPRF would further deplete the Reserve Fund balance.

In accordance with the City's Financial Policies, Debt Management Section, the maximum debt service payable in any given year may not exceed six percent of General Fund revenues for non-voter approved debt. The proposed MICLA issuance for the Aiso and Vine Street Garage projects will not cause debt service to exceed this limit (see attachment for debt chart).

RECOMMENDATION

1. That the Council receive and file the Mayor's veto of the Declaration of the 2008-09 Special Parking Revenue Fund Surplus;
2. That the Council, subject to the approval of the Mayor:
 - a. Authorize the Department of Transportation use of up to \$15 million in MICLA financing to allow the construction of the Vine Street Garage to proceed without delay;
 - b. Approve \$6 million in MICLA long-term financing for construction of the 1st and Aiso Public Parking Garage portion of the Police Administration Building project to replace funding from the Special Parking Revenue Fund for a total of \$23.43 million in MICLA financing;
 - c. Instruct the City Administrative Officer to prepare a new 2008-09 Special Parking Revenue Fund surplus transfer report implementing the Council's actions; and,
 - d. Instruct the Department of Transportation to work with the City Administrative Officer, Chief Legislative Analyst, and all Council Offices to develop a capital project policy to provide funding, through the Special Parking Revenue Fund, for parking-related capital projects.

FISCAL IMPACT STATEMENT

Approval of the recommendations will provide up to \$38.7 million in surplus 2008-09 Special Parking Revenue Fund monies to the Reserve Fund, and the issuance of \$21 million in MICLA will be an obligation of the General Fund. If the use of MICLA is not approved, a maximum surplus funding of approximately \$19.4 million would be transferred to the Reserve Fund, or \$19.3 million less than what is anticipated. If no action is taken on a surplus declaration, the Reserve Fund will be negatively

impacted in that no surplus funding will be transferred to the Reserve Fund. The recommendations are consistent with City Financial Policies.

DEBT IMPACT STATEMENT

Issuance of the proposed \$21 million in MICLA will not cause the City's debt service payments to exceed six percent of General Fund revenues for non-voter approved debt as established in the City's Financial Policies, Debt Management Section. The \$21 million MICLA issuance will result in annual debt service payments of approximately \$1.6 million.

RPC:JHC:06100011

NON-VOTER APPROVED DEBT

July 2009

Debt Service to General Fund Revenues (2% Projected Growth Beginning in Fiscal Year 2012)

Note: For every 0.1%, approximately \$26 million in project funding may be issued (at 5.5% over 15

