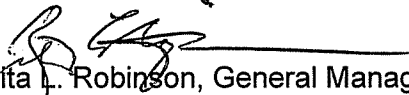


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: October 7, 2009

To: The City Council, City of Los Angeles
c/o City Clerk, Room 395, City Hall
Attention: Honorable Bill Rosendahl, Chair
Transportation Committee

From: 
Rita L. Robinson, General Manager
Department of Transportation

Subject: **MEASURE R LOCAL RETURN FUNDS – PROPOSED BUDGET AND GUIDELINES (CF 09-0600-S48)**

SUMMARY

The City of Los Angeles Department of Transportation (DOT) has made significant progress in its effort to work collaboratively with other City departments to develop budget scenarios and draft guidelines to address the City's transportation needs using Measure R 15% Local Return funds. Through this process, DOT has come to learn that the demands on Measure R Local Return total over \$120 million per year over the next five years, with the City's Measure R Local Return revenue ranging from \$20.8 million in Fiscal Year (FY) 2010, to \$43.1 million in FY 2014. The largest requests came from departments seeking funds to build new projects (without leveraging funds), and from Proposition A (transit programs and service) and Proposition C (grant projects) deficits. The use of Measure R Local Return funds can help reduce the projected Proposition A and C deficits through FY 2014, but cannot completely eliminate these deficits. With the input of the City's Interdepartmental Committee, DOT developed three Measure R Local Return budget scenarios to address the City's needs. The preferred scenario is a balanced budget that helps preserve some transit programs and service, provides matching funds for grant funded projects, makes alternative modes a transportation priority with dedicated funding, and establishes a Council discretionary fund for each Council office to use for transportation related projects for their constituents, as necessary.

RECOMMENDATIONS

1. APPROVE the Measure R Local Return Budget as presented in Plan C (Preferred Budget);
2. INSTRUCT all bureaus and departments to return uncommitted advances at the end of Fiscal Year 2009-10 to the Measure R Fund (Fund No. TBD);
3. AUTHORIZE the City Administrative Officer to make technical corrections as necessary to those transactions included in the approved budget to implement the Mayor and Council's intentions;
4. DIRECT DOT to work with the City Administrative Officer each year for the life of Measure R to develop a proposed budget based on comments received from City departments and Council offices;

101-101-101-20

101-101-101-20

5. DIRECT DOT to continue to work with the Los Angeles County Metropolitan Transportation Authority (Metro) to finalize the draft Measure R Local Return Guidelines to allow the greatest flexibility of the funds to support transportation programs and projects.

DISCUSSION

Projected Measure R 15% Local Return Revenue

With the Measure R ½ cent sales tax increase in effect as of July 1, 2009, significant revenues are expected to be generated countywide for transportation projects. Metro estimates that the sales tax increase will generate approximately \$40 billion over the next 30 years. During that same time span, the City's 15% Local Return share is projected at roughly \$2.3 billion.

A review of Metro's five-year forecast for Measure R Local Return, reveals that the projected revenue for the City on an annual basis is as follows: \$20.8 million for FY 2010, \$36.9 million for FY 2011, \$38.9 million for FY 2012, \$41.5 million for FY 2013, and \$43.1 million for FY 2014. The relatively low number for FY 2010 is based on the economy and Metro's previous experience with other sales tax increases (namely Propositions A and C) not reaching 100% compliance among all businesses in the County of Los Angeles during the first fiscal year. Cities and the County of Los Angeles are not expected to receive any Measure R Local Return revenue until at least December 2009. This delay in payment is attributed to businesses paying the taxes to the State at the end of the month, the State collecting and distributing a portion of the sales tax revenue to Metro, and Metro allocating and distributing the funds to the cities and County.

Interdepartmental Committee Meetings

On July 9 and September 3, 2009, DOT held Measure R Local Return Interdepartmental Committee (IDC) meetings to discuss proposed budget scenarios and guidelines for Measure R expenditures related to the City's 15% Local Return allocation. These meetings were attended by representatives from the Mayor's Office, several Council offices, Chief Legislative Analyst, City Administrative Officer (CAO), City Planning Department, Community Redevelopment Agency, and the Bureaus of Engineering (BOE) and Street Services. The following tasks and key issues were discussed at these Committee meetings:

- Setting aside the required 3% local match for rail/transit expansion projects;
- Maintaining existing high use transit service before adding new service;
- Continuing to leverage funds to maximize grant opportunities;
- Making bikes, pedestrian and transportation demand management projects a priority by setting aside a specific percentage of Measure R Local Return funds to address the City's alternative transportation needs; and
- Creating a line item for council discretionary funds.

There was a general consensus that maintaining existing transit services and leveraging funds were the highest priorities to the IDC participants. Measure R Local Return funds can help minimize the disruption to vital transit services by decreasing potential extensive cuts and significant fare increases. It was understood by the group that if new, non-grant funded, transportation related projects were supported by Measure R Local Return, this would not be the most cost effective use of the funds and would open the discussion for hundreds of new

projects. Although this may give the impression that no new projects are being proposed at this time, projects proposed to be funded with Measure R Local Return funds would otherwise be in jeopardy of having their funds rescinded by the grantor should local match commitments not be identified. Several of the grant projects that Measure R could support have not begun and are, for all intensive purposes, new projects. Additionally, the required 3% set aside for Metro rail and transit projects are large scale new projects.

Per the Southern California Association of Governments (SCAG) latest census data, the mode split of average daily traffic in Los Angeles County is as follows:

- 70.4% mode split for the single-occupancy
- 15.1% mode split for carpooling, and
- 6.6% mode split for transit
- 3.6% mode split for bike/walk
- 3.5% mode split for telecommuting

It is no surprise that the City's streets and freeways remain the most congested in the nation. During the Transportation Committee meeting on July 22, 2009, Councilmembers expressed a desire to expand our transportation system beyond the single-occupancy vehicle and to promote alternative modes of transportation. Specifically requested was to make bike and pedestrian improvements a priority for the City by setting aside a percentage of Measure R funds dedicated to those modes of transportation. DOT, being a multi-modal transportation agency, plays a prominent and vigorous role pushing for regional trip reduction through funding and development of alternative transportation modal systems. To continue to promote and expand those "green" efforts, DOT, with the concurrence of the IDC participants, established that 10% of remaining balance of the Local Return (after the 3% set aside for rail and transit), be dedicated solely to bike, pedestrian and transportation demand management projects (such as bike and pedestrian facilities, and rideshare projects). This commitment will help the City be proactive in developing a truly integrated alternative transportation system for the future.

3% Local Match Set-Aside for Measure R Rail and Transit Projects

Metro is requiring all local agencies to provide a 3% local match contribution towards the implementation of the Measure R mega transit/rail projects, such as the Crenshaw Transit Corridor, Canoga Transit Line, and the Subway to the Sea Projects. These billion-dollar projects require a local match commitment of over \$200 million over the life of Measure R. Assuming the Mayor's office request for a 10-year accelerated schedule of these rail and transit projects, the 3% local match requirement for Measure R Rail projects totals \$73.4 million over the next five years.

Proposition A and C Forecasts

With so many budget demands being placed on Measure R, it is prudent to highlight two programs, Propositions A and C Local Return. Forecasts indicate that there will be a Propositions A and C combined deficits of approximately \$83.9 million beginning FY 2011, increasing to \$124 million in FY 2014.

Proposition A Local Return, which helps support the City's DASH, Commuter Express and other transit programs, is projected to have a \$260 million deficit over the next 10 years. To offset the deficit, DOT would need to raise transit fares and eliminate roughly 26 transit service lines (a

typical line operates at roughly \$1 million per year) or the equivalent of the entire Community DASH program. A line by line analysis of DOT's transit services is being prepared separately to recommend to Council which poor and marginal lines should be eliminated. Even if those lines are eliminated, DOT is still expected to have a multimillion dollar annual shortfall in Proposition A Local Return. The analysis is expected to be complete later this fiscal year; therefore, recommendations for funding Proposition A in FY 2010 were not considered until the analysis is complete.

Proposition C Local Return funds are primarily used for match and front funding for grant programs such as the Metro Call for Projects, Federal earmarks, Safe Routes to Schools, other Federal and State grant opportunities, and the dedicated staff working on Proposition C eligible activities at DOT, CAO, City Attorney, Contract Administration, Mayor's Office, and Public Works. Transportation projects and programs leveraged with Proposition C funds typically yield \$3 to \$4 in outside funding for every \$1 the City spends. Proposition C is projected to have a deficit of \$14 million in FY 2010, \$57.9 million in FY 2011, \$80.2 million in FY 2012, \$82.6 million in FY 2013, and \$98 million in FY 2014. To deal with this shortfall, the City would need to delay or cancel dozens of previously grant funded transportation projects (street, bike, pedestrian, transit capital, signal synchronization, transportation demand management projects, etc.) and also not compete in the near future for outside funding opportunities.

The impacts of not partially subsidizing both Propositions A and C would be detrimental to multiple transportation programs in the City. Therefore, subsidizing these funds is considered one of the top priorities.

Budget Scenarios

Based on the input received from the participants at the IDC meetings, three budget scenarios with a five-year forecast were developed. Each budget scenario assumes that the required 3% local match for Metro rail and transit projects is automatically taken off the top of the annual revenue. The remaining balance is then allocated among the Council and department requests, and administrative line items. Each budget reflects an annual administrative cost of 2%.

The balanced budgets scenario were based on Metro's Draft Long Range Transportation Plan schedule of 30 years to complete the Metro Rail/Transit projects within the City of Los Angeles. After the second IDC meeting and per direction of the Mayor's staff, DOT is assuming in all budget scenarios that the Metro rail and transit projects related to Measure R will be accelerated and completed within 10 years. Therefore, the 3% set aside as local match for these mega projects will be much greater than what was discussed with the IDC. The financial impact to the Local Return budgets of accelerating the rail and transit projects is not that significant for the first three years with only an increase of \$600,000 in FY 2010, \$700,000 in FY 2011, and \$2.3 million in FY 2012. However, in FYs 2013 and 2014, the 3% local match set aside jumps to over \$31 million per year and leaves an estimated \$9.8 million and \$11.8 million, respectively, for the remaining budget line items. This will result in the temporary elimination of funding for operational improvements, transportation capital projects contingency, Council office discretionary funds and significant reduction of funding for Proposition A and C programs and projects. Despite the assumption of Metro's rail and transit projects being completed within 10 years, the City can revisit this assumption annually and make changes as needed.

Plan A (see attachment): As illustrated in Figure 1, this budget represents a wish list of all Measure R eligible Council and department requests received by DOT. Over the five-year period: the rail/transit 3% local match totaled \$73.4 million; Council staff requested \$16.6 million; City departments requested \$630.1 million; and administrative costs were \$3.5 million. Annually, the balance ranged from a deficit of \$123 million to a deficit of \$193 million. The total five-year deficit is estimated at \$542.4 million.

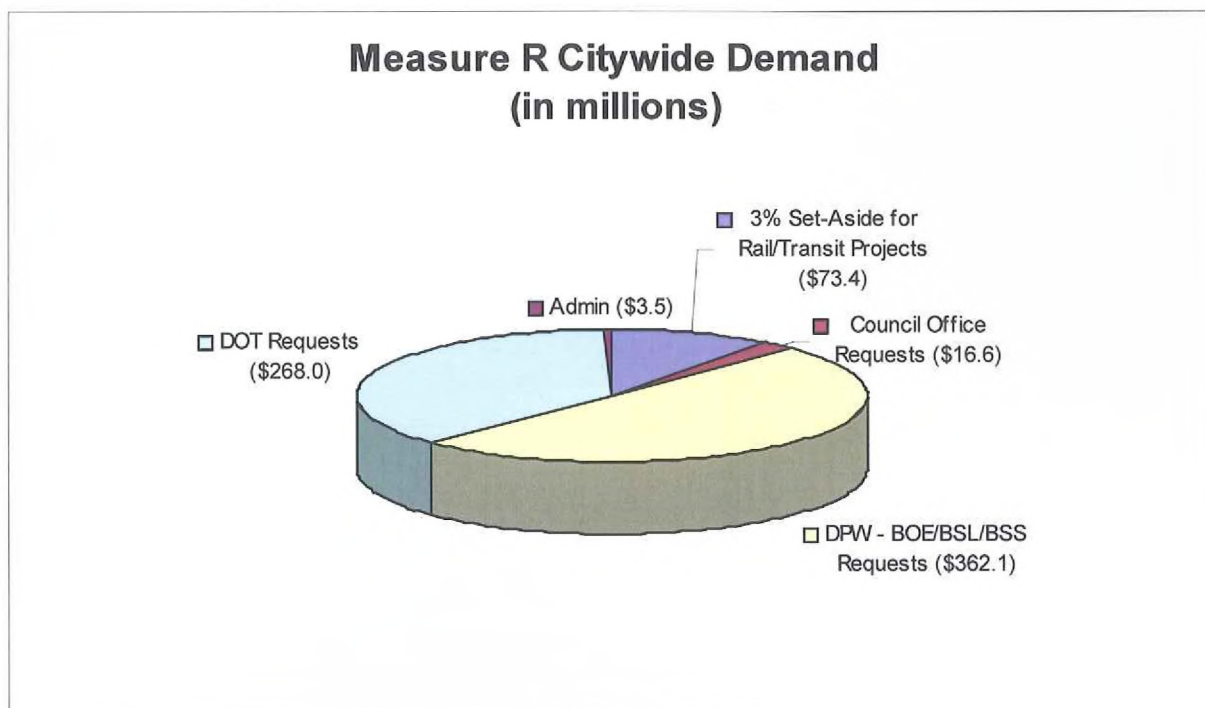


Figure 1

Plan B (see attachment): This is a balanced five-year budget scenario (as illustrated in Figure 2) that meets the rail/transit 3% local match needs (\$73.4 million), fills in the budget gap for seven grant funded BOE Bridge and Stormwater Program projects (\$4.6 million), partially subsidizes Propositions A (transit services at \$38 million) and C (leveraged funds at \$43.4 million), invests 10% of the revenue for bike, pedestrian and transportation demand management projects (\$10.8 million), contributes towards operational improvements (\$2.5 million), establishes a contingency for transportation capital projects (\$5 million), and provides for administrative costs (\$3.5 million).

While the majority of the revenue over the five-year period is shown to partially subsidize Propositions A and C, this will still result in transit service cancellations, fare increases, delayed or canceled transportation capital improvement projects and the possibility of not competing in the near term for future grant opportunities.

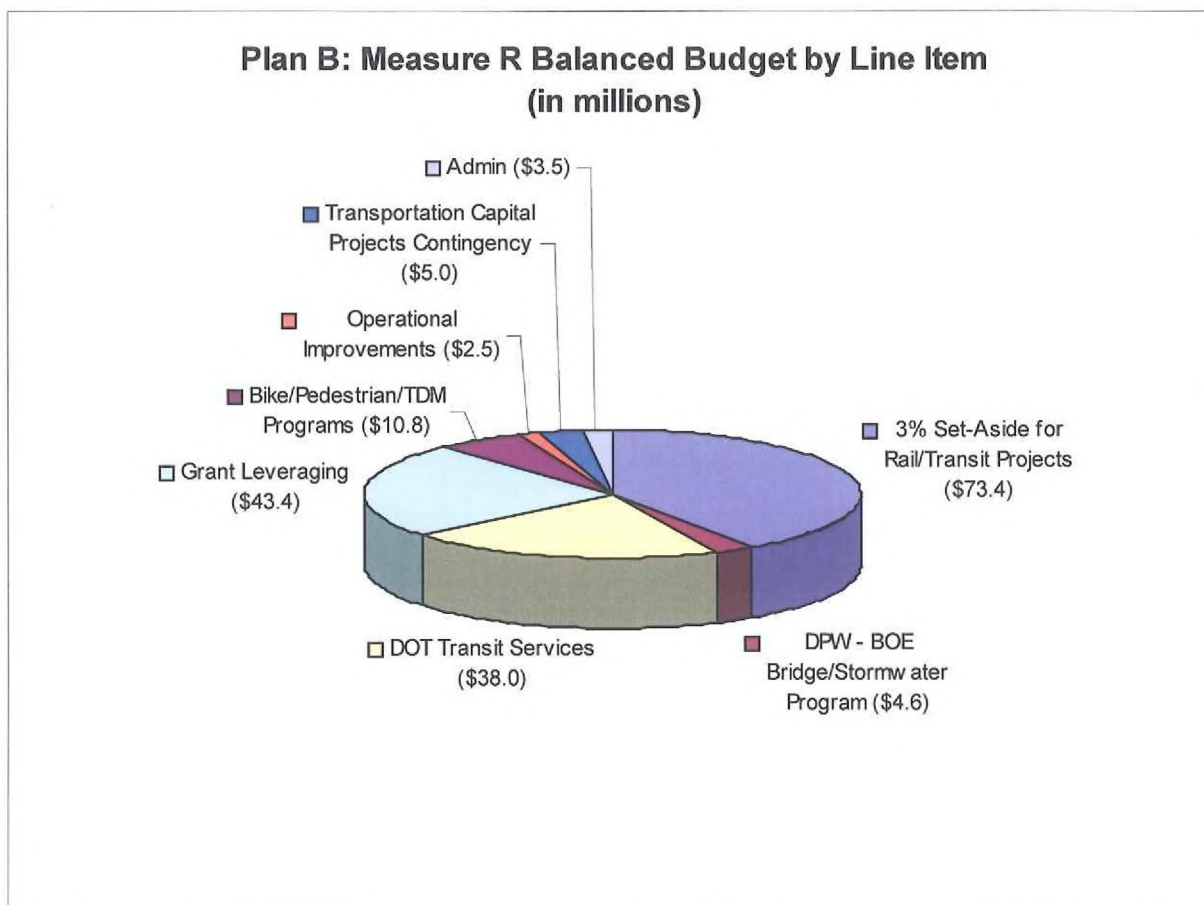


Figure 2

Plan C - Preferred (see attachment): Similar to Plan B, this is a balanced five-year budget (as illustrated in Figure 3) that meets the rail/transit 3% local match needs (\$73.4 million), fills in the budget gap for seven grant funded BOE Bridge and Stormwater Program projects (\$4.6 million), partially subsidizes Propositions A (transit services at \$38 million) and C (leveraged funds at \$39.6 million), invests 10% of the revenue for bike, pedestrian and transportation demand management projects (\$10.8 million), contributes towards operational improvements (\$2.5 million), establishes a contingency for transportation capital projects (\$5 million), provides for administrative costs (\$3.5 million) and creates a Council office discretionary fund (\$3.8 million). The allocation for the Council office discretionary fund comes at the cost of taking money from Proposition C (leveraged funds). The amount budgeted in the discretionary fund will be equally divided among all 15 Council offices each year. Funds may be used for any eligible transportation projects as defined by Metro' Measure R Local Return guidelines. Individual Council offices will have the option to carry money over from year to year to accumulate sufficient funds to pay for more expensive transportation projects.

As illustrated in Figure 4, while the majority of the revenue over the five-year period is shown to partially subsidize Propositions A and C, this will still result in transit service cancellations, fare increases, delayed or canceled transportation capital improvement projects and the possibility of not competing in the near term for future grant opportunities.

Plan C: Measure R Balanced Budget by Line Item (in Millions)

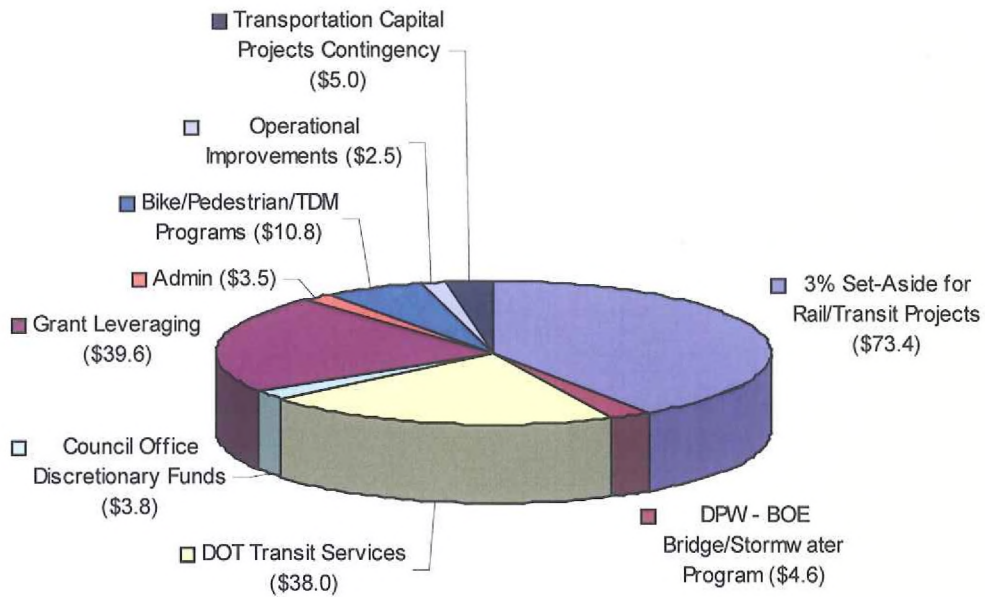


Figure 3

Prop A/C Structural Deficits (in millions)

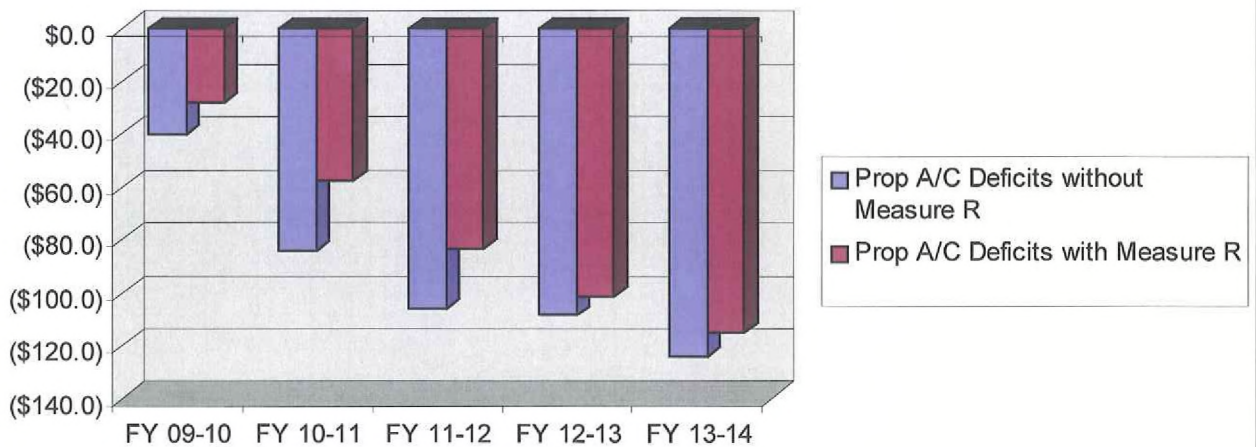


Figure 4

Future Local Return Budgets

Part of the intention of the five-year forecast is to glance at the future and ensure the allocated dollars are achieving the desired transportation goals of the City. The guiding principles recommended by the City's Transportation Committee and the Mayor's Office recognize the importance of providing core transit services, addressing safety concerns and leveraging scarce transportation dollars, as stated below:

- Setting aside the required 3% local match for rail/transit expansion projects;
- Maintaining existing high use transit service before adding new service;
- Continuing to leverage funds to maximize grant opportunities;
- Making bikes, pedestrian and transportation demand management projects a priority by setting aside a specific percentage of Measure R Local Return funds to address the City's alternative transportation needs;
- Promote projects that address safety and traffic congestion relief; and

Despite creating a five-year forecast, the City will need to revisit the budget annually to address the changes in budget needs and reflect the latest revenue estimates. Although current priorities include Propositions A and C budget shortfalls because of the potential impacts of drastically cutting transit service and delaying or canceling millions of dollars worth of capital improvement projects, there will be opportunities in the future to divert Measure R funds to other programs or projects. Following the completion of the City's Strategic Transportation Plan, consideration may be given to implementing the projects in the plan that yield longer-term transportation benefits consistent with the goals of the City.

While it is in everyone's interest to maintain transparency in the budget process, the development of the budget should not be as cumbersome as a Call for Projects process. The budget can be developed with the aforementioned guiding principles and involve DOT working with the City Administrative Officer each year for the life of Measure R to develop a proposed budget based on comments received from City departments and Council offices. As with every special fund budget, the proposed Measure R budget will be presented to the City Council for review, revisions as necessary, and final approval. During the course of those open meetings, the public will have the opportunity to express any concerns, recommendations or questions related to the proposed budget.

Draft Metro Local Return Guidelines

In May 2009, Metro created the Measure R Local Return working group consisting of representatives from the City of Los Angeles DOT, County of Los Angeles Department of Public Works and several other cities representing various councils of governments (COGs) across the County. This working group was given the task of developing guidelines governing the use of Local Return money by the County and municipalities within the County. It was mutually agreed upon by all members of the group to create guidelines that allow for greater flexibility and reduce the amount of paperwork compared to previously established guidelines for Propositions A and C.

During the course of several meetings with Metro's working group, DOT solicited comments on the guidelines from the IDC to take back to the working group for consideration. Some comments received and approved by the working group included:

- Adding traffic safety education to the eligible projects list;

- Adding bike storage facilities to the eligible projects list;
- Allowing “green street” elements as part of larger projects;
- Allowing municipalities to bond against Measure R; and
- Measuring “maintenance of effort” globally and not on a project-by-project basis.

The draft guidelines submitted by Metro to the Metro Board for consideration on October 22, 2009 will allow greater flexibility than Proposition A and C dollars. Examples include:

- More eligible projects without having to be linked to heavy transit usage (street/road, bike, and pedestrian improvements);
- Longer timely use of funds (5 years vs. 3 years);
- Easier to program the funds; and
- Less paperwork/forms to submit.

FISCAL IMPACT STATEMENT

There is no impact to the General Fund.

PLAN A: WISH LIST

CITYWIDE MEASURE R		FIVE YEAR FORECAST				
Year	1	2	3	4	5	
FISCAL YEAR	2010	2011	2012	2013	2014	TOTAL
Revenue (revised on 8 07 09)						
City of LA (39% of Local Return)	20.8	36.9	38.9	41.5	43.1	181.2
Expenditures						
<u>Measure R Transit 35% - 3% Local Match</u>						
	10 Year Accelerated Schedule					
Canoga	1.5	1.6	1.6	1.7		6.4
Expo - Phase II	No City Match Required					-
Crenshaw			5.7	5.9	6.2	17.8
Regional Connector			No City Match Req'd			-
Westside Subway				24.1	25.1	49.2
Green Line - LAX						-
SFV East North-South						-
SFV I-405						-
Sub-Total	1.5	1.6	7.3	31.7	31.3	73.4
Balance	19.3	35.3	31.6	9.8	11.8	107.8
<u>Council Requests</u>						
Green Line Extension to LAX (CD-11)	6.0					6.0
Downtown Street Car (CD-14)	5.0					5.0
Expo Light Rail & Foshay Middle School (CD-8)	5.6					5.6
<u>Department Requests</u>						
<u>BOE</u>						
Bridge Program						
6 th Street Cash Flow	10.0	-	-	-	-	10.0
6 th Street Construction Cash Flow	-	-	5.0	5.0	5.0	15.0
6 th Street R/W (if no Prop. 1B)	2.0	-	-	-	-	2.0
Other Bridge Projects Cash Flow	3.0	-	-	-	-	3.0
Local Match for 5 Seismic Bond Proj.	-	-	-	1.0	1.0	2.0
Street Program						
New Projects (134)	43.3	43.3	43.3	43.3	43.3	216.5
CIEP Projects (Gas Tax)	3.4	3.4	3.4	3.4	3.4	17.0
Stormwater Program						
Washington Blvd reconstruction @ Venice	0.6	-	-	-	-	0.6
BSL						
New Projects (30)	12.2	12.2	12.2	12.2	12.2	61.0
BSS						
Off-Grade Gutter Repair Program	1.0	1.0	1.0	1.0	1.0	5.0
Access Ramps	1.0	1.0	1.0	1.0	1.0	5.0
Bus Lane Reconstruction	5.0	5.0	5.0	5.0	5.0	25.0
DOT						
Community DASH/Commuter Express Program	26.0	26.0	26.0	26.0	26.0	130.0
Leverage funds for Federal/State/MTA Grants *	14.0	57.9	80.2	82.6	98.0	98.0
Operational Improvements	5.0	5.0	5.0	5.0	5.0	25.0
Transp. Capital Projects Contingency	3.0	3.0	3.0	3.0	3.0	15.0
<u>Other</u>						
Administration Cost (2%)	0.4	0.7	0.7	0.8	0.9	3.5
Subtotal	146.5	158.5	185.8	189.3	204.8	650.2
Total Expenditures	148.0	160.1	193.1	221.0	236.1	723.6
Balance	(127.2)	(123.2)	(154.2)	(179.5)	(193.0)	(542.4)

Revised 10/6/09

* - These figures represent running totals with prior year deficit carry-overs

Notes

Source: MTA 2009 Draft Long Range Transportation Plan Countywide Financial Forecasting Model FY 2005 – FY 2040 (June, 2009); Measure R (Countywide) figures hard keyed in from source document; "Local Return (15%)" figures calculated

PLAN B: BALANCED BUDGET

CITYWIDE MEASURE R						FIVE YEAR FORECAST
Year	1	2	3	4	5	
FISCAL YEAR	2010	2011	2012	2013	2014	TOTAL
Revenue						
City of LA (39% of Local Return)	20.8	36.9	38.9	41.5	43.1	181.2
Expenditures						
Measure R Transit 35% - 3% Local Match	10 Year Accelerated Schedule					
Canoga	1.5	1.6	1.6	1.7		6.4
Expo - Phase II	No City Match Required					-
Crenshaw			5.7	5.9	6.2	17.8
Regional Connector	No City Match Req'd					-
Westside Subway				24.1	25.1	49.2
Green Line - LAX						-
SFV East North-South						-
SFV I-405						-
Sub-Total	1.5	1.6	7.3	31.7	31.3	73.4
Balance	19.3	35.3	31.6	9.8	11.8	107.8
Department Requests						
BOE						
Bridge Program						
6 th Street Design	2.0	-	-	-	-	2.0
Local Match for 5 Seismic Bond Proj.	-	-	-	1.0	1.0	2.0
Stormwater Program						
Washington Blvd reconstruction @ Venice	0.6	-	-	-	-	0.6
DOT						
DOT Transit Services (Community DASH/Commuter Express Program)	-	12.0	12.0	7.0	7.0	38.0
Leverage funds for Federal/State/MTA Grants	12.9	16.1	12.7	-	1.7	43.4
Bike/Pedestrian/TDM Programs (10%)	1.9	3.5	3.2	1.0	1.2	10.8
Operational Improvements	0.5	1.0	1.0	-	-	2.5
Transp. Capital Projects Contingency	1.0	2.0	2.0	-	-	5.0
Other						
Administration Cost (2%)	0.4	0.7	0.7	0.8	0.9	3.5
Subtotal	19.3	35.3	31.6	9.8	11.8	107.8
Total Expenditures	20.8	36.9	38.9	41.5	43.1	181.2
Balance	0.0	0.0	0.0	0.0	0.0	0.0

Revised 10/6/09

Note:

Existing DOT Transit Service Shortfall	(26.0)	(26.0)	(26.0)	(26.0)	(26.0)	(130.0)
Existing shortfall for Federal/State/MTA Grants *	(14.0)	(57.9)	(80.2)	(82.6)	(98.0)	(98.0)

* - These figures represent running totals with prior year deficit carry-overs

PLAN C (PREFERRED): BALANCED BUDGET (With Council Office Discretionary Funds)

CITYWIDE MEASURE R		FIVE YEAR FORECAST				
Year	1	2	3	4	5	
FISCAL YEAR	2010	2011	2012	2013	2014	TOTAL
Revenue						
City of LA (37.5% of Local Return)	20.8	36.9	38.9	41.5	43.1	181.2
Expenditures						
<u>Measure R Transit 35% - 3% Local Match</u>						
Canoga	1.5	1.6	1.6	1.7		6.4
Expo - Phase II	No City Match Required					-
Crenshaw			5.7	5.9	6.2	17.8
Regional Connector	No City Match Req'd					-
Westside Subway				24.1	25.1	49.2
Green Line - LAX						-
SFV East North-South						-
SFV I-405						-
Sub-Total	1.5	1.6	7.3	31.7	31.3	73.4
Balance	19.3	35.3	31.6	9.8	11.8	107.8
<u>Department Requests</u>						
<u>BOE</u>						
Bridge Program						
6 th Street R/W	2.0	-	-	-	-	2.0
Local Match for 5 Seismic Bond Proj.	-	-	-	1.0	1.0	2.0
Stormwater Program						
Washington Blvd reconstruction @ Venice	0.6	-	-	-	-	0.6
<u>DOT</u>						
DOT Transit Services (Community DASH/Commuter Express Program)	-	12.0	12.0	7.0	7.0	38.0
Leverage funds for Federal/State/MTA Grants	12.1	14.6	11.2	-	1.7	39.6
Bike/Pedestrian/TDM Programs (10%)	1.9	3.5	3.2	1.0	1.2	10.8
Operational Improvements	0.5	1.0	1.0	-	-	2.5
Transp. Capital Projects Contingency	1.0	2.0	2.0	-	-	5.0
<u>Other</u>						
Administration Cost (2%)	0.4	0.7	0.7	0.8	0.9	3.5
Council Office Discretionary Funds	0.8	1.5	1.5			3.8
Subtotal	19.3	35.3	31.6	9.8	11.8	107.8
Total Expenditures	20.8	36.9	38.9	41.5	43.1	181.2
Balance	- 0.0	0.0	0.0	0.0	0.0	0.0

Revised 10/6/09

Note:						
Existing DOT Transit Service Shortfall	(26.0)	(26.0)	(26.0)	(26.0)	(26.0)	(130.0)
Existing shortfall for Federal/State/MTA Grants *	(14.0)	(57.9)	(80.2)	(82.6)	(98.0)	(98.0)

* - These figures represent running totals with prior year deficit carry-overs