

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

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Date: November 13, 2009

To: Honorable Members of the City Council

From: Miguel A. Santana, City Administrative Officer *MA S*
Gerry F Miller, Chief Legislative Analyst *G. Miller*

Subject: **MEASURE R LOCAL RETURN FUND GUIDELINES (C.F. 09-0600-S48)**

SUMMARY

In November 2008, the voters in Los Angeles County approved an additional one-half cent sales tax over 30 years to make a variety of improvements to the County's transportation system. It is expected that the sales tax increase will generate approximately \$40 billion over the next 30 years. As part of this funding stream, the City receives a 15 percent Local Return share that is projected to be \$2.3 billion over the life of Measure R. Collection of the Measure R sales tax receipts began on July 1, 2009 and the Los Angeles County Metropolitan Transportation Authority (Metro) will make the first disbursement of funds in January 2010. The Metro five-year forecast for Measure R Local Return funds is, as follows:

- \$20.8 million for 2009-10;
- \$36.9 million for 2010-11;
- \$38.9 million for 2011-12;
- \$41.5 million for 2012-13; and,
- \$43.1 million for 2013-14.

The Measure R ballot measure assumed a three percent local match for the implementation of the major Measure R projects. The City will also receive an allocation from a 20 percent share of the revenue collected for transit capital and operations, which is projected to be \$1.7 million for 2009-10 and approximately \$3 million annually over the life of Measure R.

The City's 2009-10 Budget assumed \$20.8 million in Measure R funds, which included an appropriation of approximately \$2.7 million to the Bureau of Street Services for additional sidewalk access ramps and bus pads. The remaining \$18.1 million was set-aside in a "Matching Funds - Transit Projects" line item to begin the accrual of the required three percent local match for the following Measure R projects in the City of Los Angeles that were identified in the ballot measure (in alphabetical order):

- Crenshaw Transit Corridor
- Exposition Boulevard Light Rail Transit
- Green Line Extension to Los Angeles International Airport

- Regional Connector
- San Fernando Valley I-405 Corridor Connection
- San Fernando Valley North-South Rapidways (Canoga Corridor)
- San Fernando Valley East North-South Rapidways
- Westside Subway Extension

The City's share of this local commitment is just over \$200 million over the 30-year life of Measure R. The Mayor's Office believes that front-loading the funds will encourage Metro to give priority to those projects.

During the deliberations of the 2009-10 Budget, the Budget and Finance Committee recommended a reduction in the appropriations to the "Matching Funds - Transit Projects" line item to \$10,571,569 and a reallocation of \$6,000,000 to a new line item entitled "Green Line Extension to Los Angeles International Airport planning studies" in the Measure R Fund. This action was referred to the Transportation Committee, along with the following Council motions related to Measure R funding:

- Motion (Huizar-LaBonge) sought to amend the Proposed Budget to reduce appropriations to the "Matching Funds - Transit Projects" by \$5M and appropriate this amount to conduct the environmental studies for the Downtown Los Angeles Street Car project.
- Motion (Parks-Greuel) proposed amending the Budget to reduce appropriations to the "Matching Funds - Transit Projects" by \$5,571,569 and reappropriate the funding for land acquisition and safety mitigation around Foshay Middle School related to the development of the Exposition Light Rail Line.

These motions are pending before the Transportation Committee.

On May 26, 2009, former Councilmember Greuel introduced a motion that directed the Department of Transportation and the Bureau of Street Services to provide recommendations on how to allocate Measure R funds to meet the City's current and future transportation needs. The Transportation Committee discussed the allocation of Measure R funds at its June 10th, July 22nd and October 14, 2009 meetings. At each meeting, the Department of Transportation reported on their progress and continued effort to develop guidelines and a budget process to address the City's transportation needs using Measure R local return funds. At the June 10th Transportation Committee meeting, Councilmember Huizar submitted a letter regarding the priorities and focus of Measure R Local Return dollars and at the July 22, 2009 Committee meeting, President Garcetti also submitted a letter with recommendations on the use of this funding.

In August and July, the Department held several Measure R Local Return Interdepartmental Committee (IDC) meetings to gather input on the development of guidelines for Measure R budget/expenditures regarding the City's estimated allocation of funds. Although there was general consensus that maintaining existing transit services and leveraging funds were the highest priorities, some Council offices have expressed the need to use Measure R dollars for new projects.

The Department's October 7, 2009 report recommended the adoption of a "Preferred Scenario" that primarily focuses on backfilling the City's existing Proposition A and C deficits ("DOT Transit Services" and "Leverage funds for Federal/State/MTA grants," respectively). The "Preferred Scenario" also:

- Sets-aside a 10 percent set-aside for bicycle/pedestrian/TDM projects;
- Establishes a Council discretionary fund;
- Eliminates the \$2.7 million in Measure R funding that was allocated in the FY2009-10 Budget for the Bureau of Street Services;
- Includes several other line items that were not fully defined; and,
- Provides a 10-year accelerated schedule of the Metro Measure R projects, which means that \$73.4 million needs to be set-aside over the next five years.

At the October 14, 2009 meeting, the Committee directed the CLA and the CAO to report back with a further analysis of the line items included in the Department's "Preferred Scenario" to understand the ramifications of moving forward with these funding recommendations. The Committee specifically requested a list of Proposition C projects that are at risk of being canceled/delayed as a result of the Department's identified funding shortfall and a recommendation as to whether any of these projects should receive Measure R funding. The Committee clearly indicated support for setting aside five percent of the Measure R funding for bicycle projects and five percent for pedestrian projects to expand the transportation system to include and promote alternative modes of transportation. However, they did not concur with the addition of Transportation Demand Management (TDM) projects. The Committee also recommended that the funding to the Bureau of Street Services not be deleted to preserve the Bureau's budget for this fiscal year. There was also support for Council discretionary funds.

Concerns, however, were expressed regarding the allocation of funds for the "Operational Improvements" line item, which according to the Department, would be used to replace overhead street signs at intersections and add incandescent light systems and/or retroreflexivity. The Department estimates that an entire sign replacement program would cost in excess of \$50 million. However, there is no legal mandate to do so.

Proposition C Deficit

In order to determine the extent of the deficits in the Proposition C account, the CAO reviewed the Department's most recent "City Project Summary" (Attachment) that lists each project that received grant funds either through the Call for Projects, Safe Routes to Schools, SAFETEA-LU other Caltrans grants (Highway Safety Improvement Program [HSIP] or State Hazard Elimination Safety Funds [HES]) and will need matching funds from Proposition C. This document indicates that approximately \$22.3 million in Proposition C funds are needed in FY2009-10 to meet the City's obligation for these projects. Additional analysis is necessary to determine if a funding shortfall exists either for this year or future years.

We note that upcoming staff reductions resulting from early retirements will affect the City's ability to complete work that was anticipated in FY2009-10. This may relieve some of the pressure on Proposition C, but it will likely cause delays in the implementation of some projects. The Department should report back on the impact of staff reductions and actions necessary to complete projects on schedule.

For projects in design, significant amounts of funding are attributable to "other match funds." This is not unusual, but it will be important to monitor these amounts to ensure that they are real and are not lost, thereby leaving another burden on Proposition C. The Department should work closely with project managers to monitor and evaluate if this funding will be realized as anticipated.

Proposition A Shortfall

The Department of Transportation is facing a significant budget shortfall over the next 10 years in the Proposition A account, which funds the City's transit services. The FY2010-11 budget shortfall is estimated to be \$23 million, which is 39 percent of the Department's overall transit program net operating budget of \$60 million. This program includes the Community DASH program, Commuter Express, Cityride and Charter Bus. This deficit is forecasted to grow over the next ten years to a cumulative \$300+ million if no action is taken. The Department has been working on a line-by-line analysis of the City's transit services and it is expected that draft recommendations on how to address the shortfall will be presented in the next few weeks. A consultant's study has found that the Department is managing the transit programs in line with industry standards, so addressing the deficit will require reducing service and increasing user fees. Measure R funds could be used to backfill the existing transit services and it is important to understand the community impacts of the Department's recommendations to address the Proposition A shortfall before Measure R funds are expended elsewhere.

Availability of Measure R Funds

Based on the previous preliminary analysis and direction from the Transportation Committee to include several funding proposals, Measure R funds may be available in FY2009-10 and beyond if Proposition C and Proposition A are not backfilled. Further analysis, however, is necessary to determine if the anticipated annual sales tax revenues are realized. Should funds be available, a review of potential funding opportunities, including the Council discretionary accounts, should be conducted. Our Offices can accomplish that review and provide recommendations for your consideration.

The Bureau of Engineering Bridge Improvement Program has requested \$2 million as the City's cash match for the Sixth Street Viaduct Seismic Improvement Project. The requested funds would be expended during the design phase of this highly leveraged project. The budget for this bridge replacement is \$358 million which will be funded by \$316 million in Federal Highway Bridge funds, \$37 million in State Seismic Bridge matching funds as well as \$5 million in City matching funds. Of the \$5 million in City matching funds, \$1,871,000 will be provided from Proposition C, \$400,000 will be provided from Proposition G, and \$823,000 will be provided from the Capital Improvement Expenditure Program. The remaining funding is requested through Measure R.

The Bureau of Engineering Bridge Improvement Program has also requested \$2 million as the City's cash match for five bridge projects that have been placed on hold due to lack of funding within the Seismic Bond Program. These bridge projects include West Blvd. over Venice Blvd., Via Marisol over the Arroyo Seco Channel, York Blvd. over the Arroyo Seco Channel, Avenue 43 over the Arroyo Seco Channel, and San Fernando Road over the Arroyo Seco Channel.

Cumulatively, the City has expended \$1.6 million on design for these projects, but lacks sufficient capital within the Seismic Bond Program to leverage the required funds to complete project design and construction. These bridge projects are highly leveraged through the Federal Highway Bridge Program which provides 88.53 percent of project costs for every 11.47 percent that the City provides as match. The requested \$2 million will leverage \$17.5 million in Federal dollars. Providing funds from Measure R would also mitigate the need to return Federal funds already expended on these projects if these projects were not completed.

If the Council decides to move forward with a Council discretionary fund and a separate set-aside for bicycle and pedestrian projects, a process and procedure needs to be developed by the Department of Transportation, including the development of a work program and the implementation of these local projects. Finally, a review of the bicycle and pedestrian projects could also consider potential funding opportunities from the Local Transportation Fund and the Mobile Source Air Pollution Reduction Trust Fund.

RECOMMENDATIONS

1. Approve the strategy to accelerate the three percent local match for the major Measure R projects in the City of Los Angeles.
2. Instruct the Department of Transportation (DOT) to:
 - a. Review and report to the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) on all match funds that are anticipated for each Transportation Grant project within 14 days; and,
 - b. Report to the CLA and CAO within 14 days on any impacts to the completion of Proposition C projects that may result from anticipated staffing reductions, including those due to the Early Retirement Incentive Program, and options to complete the projects on schedule.
3. Instruct the CAO and CLA to report back in 60 days with a revised budget for Measure R that:
 - a. Incorporates the accelerated three percent (3%) local match for the Measure R projects in the City of Los Angeles and a proposed schedule of funding requirements across multiple years;
 - b. Identifies additional policy decisions that would be appropriate for the Council to consider;
 - c. Provides an update on projected sales tax revenues and the impact on Measure R (and, if appropriate, the budget for Propositions C and A);
 - d. Creates a practical plan for the completion of all existing Transportation Grant projects (City Projects Summary spreadsheet) within the funding constraints of Proposition C, and if necessary, recommends funding from Measure R whereby the impacts are clearly defined;
 - e. Incorporates a review of the Department of Transportation Proposition A deficit/transit line-by-line analysis and clearly identifies potential Measure R funding options and impacts; and,
 - f. Provides recommendations on how to address other budgetary issues including, but not limited to, funding for the proposed ten percent set-aside for bicycle and pedestrian programs, the proposed Council discretionary accounts and other transportation-related projects and programs.

4. Receive and File the Department of Transportation's July 15, 2009 and October 7, 2009 reports.

FISCAL IMPACT STATEMENT

No impact at this time. The approval of the recommendations will require an additional report from the Chief Legislative Analyst and City Administrative Officer.

