CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: April 2, 2013 0220-04799-0000

To: The Public Works Committee

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

Reference: Council File 13-1300-S1

Subject: **LOS ANGELES EMERGENCY LOCAL STREET SAFETY AND TRAFFIC IMPROVMEMENT MEASURE**

SUMMARY

On January 15, 2013, the City Council considered a Motion (Englander-Buscaino-Krekorian – C.F. 13-1300-S1) relative to a proposal to place a $3 billion Emergency Local Street Safety and Traffic Improvement General Obligation Bond (Street Bond) on the May 21, 2013 General Municipal Election Ballot to provide for repair of the City's worst streets. The Proposal would provide $300 million annually for the next ten years to repair more than 8,700 lane-miles of streets in the City that are in the worst condition. Pursuant to the Council Motion, the City Administrative Officer (CAO) and the Chief Legislative Analyst (CLA) were directed to report back with an analysis of this proposal. An amending Council Motion (Buscaino-Englander) referred this matter to the Public Works Committee to allow more time for study, debate and public input and outreach on this proposal.

This report discusses funding options for street infrastructure and related policy considerations relative to the City's overall street repair needs.

The Proposal

Each of the City's streets are given one of five letter grades (A,B,C,D,F) depending upon their physical condition, with the D and F rated streets considered "failed" streets. Failed streets are the most expensive to repair. Since the City has limited ongoing funding available to maintain and repair streets, the primary focus has been on maintaining A,B and C rated streets so that they do not deteriorate into failed streets. At the current time, very few failed streets are repaired annually.

The proposed Street Bond would generate a total of $3 billion, which would be deposited into a new Street Repair Bond Trust Fund to be exclusively used to repair all roads in D and F categories. If approved, the owner of a $350,000 home would pay an average of $121 more in property taxes per year over a 29 year period (approximately 33 cents per day). Streets to be repaired would be chosen by the Micro PAVER[1] system, to ensure that roads slated to be repaired are chosen objectively. The

[1] Micro PAVER is the Bureau of Street Services' Pavement Management System, which analyzes data collected by the Bureau's survey vans. The Micro PAVER system enables the Bureau to calculate a road's condition and an optimal maintenance or rehabilitation plan. A more detailed description can be found in Attachment 1 "Road Bond Background."

bulk of the work would be contracted out, creating new private sector jobs. Approximately 870 lane-miles of streets[2] would be reconstructed per year. Currently the overall grade of the City's road system is rated a C, at the end of the program the overall grade of the City's road system would be increased to a B rating.

We agree with the makers of the Council Motion and the Mayor that the repair of the City's street infrastructure is one of the most pressing issues facing the City. Streets that are constructed and maintained well contribute significantly to the safety of the traveling public, to the value of private property, to the ability of a City to spur economic development, and to the overall livability of the City.

However, further analysis is needed to verify that a $3 billion bond issuance would be sufficient to achieve the goal of increasing the City's road system to an overall B rating.

Overall Street Repair Needs

To better understand the overall needs of Street Repair in the City it is helpful to think of it in sections:

1. The Pavement Preservation Program

This represents the general ability to maintain the City street system at its current condition. The general goal is to keep the City's best streets (rated A through C) from deteriorating further and becoming D and F rated streets. D and F rated streets cost significantly more to repair as they require more extensive resurfacing and/or reconstruction. A, B and C streets require less costly work such as pot hole repair, crack sealing, slurry sealing and resurfacing. Spending limited City funds on maintaining A, B and C streets is thus cost effective and prevents the growth of failed streets in the City. This is currently costing the City approximately $130 million annually.

The City's roadways have continued to be an area of investment even during the economic downturn (Attachment 2). Funding for the City's pavement preservation program has remained steady due to the availability of non-General Fund resources including over $53 million from the Federal American Recovery and Reinvestment Act (ARRA) of 2009 and over $124 million from the California Transportation Bond Program (Prop 1B). The availability of these funds allowed the pavement preservation program to fill a gap created by the loss of General Fund dollars due to the recession.

With the final draw down of Prop 1B funds complete, the new challenge for the City is identifying funds to replace the Prop 1B funds that are no longer available. Given the City's continuing structural deficit, increasing the General Fund budget for street repairs to the level required to keep the program successful is not easily achieved. Measure R and Proposition C may provide some relief for 2013-14. However, the use of these funds for resurfacing will limit the funds available for other longer-term City transportation projects. As the budget for 2013-14 is developed, the Mayor and Council will need to prioritize street preservation against other City priorities to determine the level of funding and the number of miles of repair that will be completed in 2013-14. If appropriate funding cannot be secured, the number of miles will decrease as will the condition of the City's streets. A

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[2] Lane-miles are used to measure the total length and width of a given road. Centerline miles represent the total length of a given road; the width of the road is ignored when calculating centerline mileage.

Pavement Preservation Program of approximately 735 centerline miles must be funded to maintain the current pavement condition.

Funding of the Pavement Preservation Program is critical to maintaining the overall condition of the street system, with or without the Proposed Bond Program.

2. The Street Capital Improvement Program

This represents the need to construct bulkheads and retaining walls, repair sinkholes and roads damaged by landslides and other repairs required to ensure the overall structural stability of the City street system. Repairs are often done to small portions of a street and primarily serve to maintain the street in its current condition. In addition, items like repair and replacement of guardrails, erosion control for hillsides, berm replacement and tunnel maintenance and repair are funded from this program. This is currently costing the City between $3.3 and $16 million annually, based on the last five years. However, the City is likely to see a spike in this category in the near future. Projects such as replacement of Paseo Del Mar in San Pedro and the stabilization of Asilomar Road in Pacific Palisades will need to be addressed.

3. The Street Reconstruction Program

This represents the work covered by the Proposed Street Bond. The Street Bond will provide funds to repair the D and F rated streets (failed streets). These are the most expensive streets to repair. Although the City's budget provides for some reconstruction every year, the amount needed to bring the system to the B category is not readily available in the annual City budget. Funding for this component is critical to rapidly improve the overall condition of the street system.

Future Policy Considerations

While the Street Bond will be a critically important part of repairing and improving the City's streets, the Pavement Preservation Program and the Street Capital Improvement Program must be maintained during the implementation of the Street Bond. If they are not, the goal of successfully eliminating D and F rated streets Citywide will not be accomplished.

For example, if the Pavement Preservation Program is not fully funded during the implementation period of the Street Bond, then B and C rated streets may deteriorate into D and F rated streets. As a result, at the end of the implementation period of the Street Bond, there would be a brand new set of D and F rated streets to address.

As an additional example, if the Street Capital Improvement Program is not funded during the implementation period of the Street Bond, then streets could collapse or be blocked by moving earth and the City will be unable to repair them. A collapsed street or a street blocked by obstacles are comparable to D and F streets and are expensive to repair. If both programs are not funded during the implementation period of the Street Bond, then a whole new series of significant and expensive street repairs will exist once the Street Bond monies are expended.

Current projections for the City's efforts to maintain the Pavement Preservation Program and the Street Capital Improvement Program are similar to those of the General Fund. Growth in expenditures is expected to be greater than the growth of revenues. Should the Street Bond be implemented over a ten year period, which is reasonable, it is currently projected that insufficient funding will be available within the City Budget to maintain the Pavement Preservation Program and the Street Capital Improvement Program. Therefore, to successfully eliminate D and F streets in the City, a funding solution must include not only the resources to eliminate the current 8,700 miles of D and F streets over a ten year period but also to maintain the roadways that are currently in acceptable condition over that same ten year period.

Potential Funding Options

Several funding options are available to provide for strategic management of deferred maintenance for the City street system. A brief summary of each of the following options is included in this report (Attachment 3) for consideration:

Options that Do Not Require a Vote or Direct Approval of Taxpayers	Options Requiring a Vote or Direct Approval of Taxpayers
• Prioritization of All Street-Related Projects • Developer Mitigations • Measure R Financing • Gas Tax Financing • Trash Franchise Fees	• General Obligation Bond (Street Bond) • Incremental Sales Tax Assessment • Special Tax Assessment • Mello-Roos District • Infrastructure Financing District • Marks-Roos District • General Road User Fees

Next Step

A more detailed analysis is required, therefore instruct our Offices to report back, after the adoption of the 2013-14 Budget, with a detailed analysis on the funding requirements for an integrated street repair and maintenance program that would result in an overall street rating of "B".

RECOMMENDATION

That the Council instruct the City Administrative Officer and the Chief Legislative Analyst, with the assistance of the Department of Public Works, Bureaus of Street Services and Engineering, to report back with more detail on the funding requirement and potential funding options for the achievement of an overall Citywide street system rating of B.

FISCAL IMPACT

The impact to the General Fund is unknown at this time. Our Offices will report back with further analysis.

MAS/GFM:DHH/SMS:MSR/JD:06130063

Attachments
1. Road Bond Background
2. Sources of Funds Used for the Pavement Preservation Program
3. Street Infrastructure Deferred Maintenance Financing Options

ROAD BOND BACKGROUND

The City of Los Angeles, at 469 square miles, maintains the largest paved road system in the United States. The system is the result of decades of expansion. Pavement of the Los Angeles street system began in 1880 when Main Street in Downtown became the first paved road in the City. This system is made up of 6,500 centerline miles (28,000 lane miles) of streets and 800 centerline miles of alleys, divided into two geographic locations. The Metropolitan area makes up 53 percent of the system, while the Valley area is the remaining 47 percent.

The road system is broken down into two general categories: select streets and local roadways.

- Select streets, which include primary arterial, secondary arterial and collector streets, are considered "non-residential," and are generally throughways that connect distant locations. These roads move heavy volumes of traffic, including large trucks, are constructed with thicker layers of asphalt, generally between 45 – 100 feet wide and designed to last approximately 15 – 20 years.
- Local roadways, mostly residential streets, are designed to carry local and light traffic, as well as the occasional heavy traffic, such as buses and trash trucks. Local roadways are generally 15 -45 feet wide and designed to last approximately 30 -35 years.

5,840 miles of the City's road system is constructed of asphalt, 493 miles are constructed of Portland cement concrete (PCC); the remaining 107 miles of roadway is constructed of other materials. The Bureau of Street Services (BSS) is responsible for the maintenance and repair of the road system, and, in 1982, established an in-house Pavement Management System to monitor and maintain the road system.

Funding for street repair and maintenance comes from a variety of sources. Historically, these sources include the General Fund, the Gasoline Tax, Proposition C, Proposition 1B, Measure R, and the American Recovery and Reinvestment Act (ARRA). However, Proposition 1B and ARRA funds are exhausted and will not be available beyond the 2012 – 2013 fiscal year. In the near future, the available funding sources are insufficient to cover the costs of road maintenance and repairs.

CURRENT STATE OF THE STREET SYSTEM

The Bureau of Street Services conducts a complete survey of all streets in the street system every three years, with the most current survey completed in June 2011. BSS identifies street condition on an A-F scale, with an A representing streets in good condition and F being streets in a failed condition. Currently, the overall street system has a C grade. However, approximately 31 percent of all roads in the system fall into the D or F categories.

The A-F levels assigned to roads by BSS are determined using the internationally

accepted Pavement Condition Index (PCI) as the grading basis. The PCI is an index of the pavements' structural surface operational condition and is reflected in a numerical rating index ranging from 0 for a failed pavement to 100 for pavement in perfect condition. The PCI is obtained by analyzing type, severity, and quality of pavement distresses identified during a pavement condition survey. The PCI ranges and inventory for the grades assigned to roads by BSS are as follows:

Grade and PCI Range	Local Street Pavement Inventory Percentage
A roads have a PCI of 86 – 100	21%
B roads have a PCI of 71 – 85	23%
C roads have a PCI of 56 – 70	18%
D roads have a PCI of 41 – 55	13%
F roads have a PCI of 0 – 40	25%

Source: Bureau of Street Services 2011 State of the Streets Report

BSS manages its Pavement Preservation Program by determining the pavement condition, maintenance needs, and the optimal time and method for rehabilitation of pavement conditions. This enables BSS to perform cost-effective preventive maintenance and rehabilitation, and provides a strategy for maintaining the street system based on the level of funding available. Generally, the approach to pavement preservation incorporates two strategies:

- Most economical selection of streets and rehabilitation methods used; and,
- Prevention or slowing of street deterioration.

Road repairs can be crack sealing, slurry sealing, resurfacing, or reconstruction. These maintenance efforts have varied costs, and are applicable at certain levels of road damage. It is generally accepted that overall repair costs are significantly less in the long run if road repairs are conducted during the early stages of deterioration.

The Pavement Preservation Program utilized by the BSS is comprised of the following components:

- Pavement Management System (Micro PAVER)
- Maintenance Program (Small asphalt repairs, Crack Sealing and Slurry Sealing)
- Rehabilitation Program (Asphalt Overlays, Resurfacing, Reconstruction)

BSS uses the Micro PAVER Pavement Management System to monitor, maintain, and manage the City's street system. This system provides a systematic and consistent method for selection, maintenance and rehabilitation needs, as well as determines the optimal time for repair by predicting future pavement conditions. BSS uses three automated survey vans for data collection on a three year cycle.

The maintenance program involves small asphalt (pothole) repairs, crack sealing, and slurry sealing.

- Potholes are created when water enters the road surface and causes erosion of the roadway. Holes are repaired using cold- or hot-patch materials. The cost to repair a pothole varies from $7 to $21.

- Crack sealing is an early preventive maintenance technique used for roadways. BSS uses a Polymer Modified Petroleum based product and slow setting asphalt emulsion product to seal cracks as they develop. This avoids and prevents development of a base failure.

- Slurry seal is a rubberized seal that replaces eroded fine aggregate particles, seals minor cracks and provides approximately 1/8" to 3/8" wearing surface that lasts approximately seven years. Slurry seal is applied to residential streets with good riding and drainage qualities to keep the street perpetually in a good to excellent condition. A maximum of three slurry seals can be applied, extending the serviceability of the street by 21 years. Optimally, a street should be slurry sealed within three years of asphalt blanketing or resurfacing. Slurry seal costs approximately $25,000 per mile.

Rehabilitation includes asphalt overlays, resurfacing, and reconstruction.

- Resurfacing is the placement by paving machine of asphalt wearing surface over a prepared sub base. The roadway may have had up to 15 percent by surface area involved in base failures, and all failures must be repaired prior to resurfacing. A leveling course of asphalt may be needed to return proper shape to the roadway. Resurfacing returns a roadway to a new status. The cost of resurfacing varies with the amount of base failure. Generally, the cost of resurfacing ranges from $250,000 to $400,000 per mile.

- Reconstruction is the most expensive repair, and involves the removal and re-building of a roadway. Some forms of reconstruction involve complete removal and reconstruction of the roadway base and some require less. The cost of total reconstruction can range between $650,000 per mile and $2.5 million per mile.

Currently, the City reconstructs about 60 lane miles of F condition streets a year, and rehabilitates approximately 85 lane miles of D grade streets. At this rate, it would take 60 years for the City to repair all D and F streets, barring any additional miles falling into the D or F category.

ROAD DAMAGE CAUSED BY TRUCKS & BUSES

Vehicle road damage is a result of the axle weight upon the pavement. A truck carrying 10 times the weight of a car does 1000 times more damage to a road as the single

passenger vehicle. While diesel fuel is subject to federal and state taxes, it is generally accepted that these excise taxes have not kept pace with inflation and do not go far enough to cover roadway repair caused by heavy trucks and transit vehicles. Numerous transit groups believe that this situation results is the trucking industry (and public transit) being subsidized by motorists' gasoline taxes.

Trucking is even more damaging, and, as the weight of trucks grow, and the use of trucks continues to increase, the damage to roads caused by the use of these vehicles will become more severe. Truck usage has been increasing at a greater rate than passenger vehicle usage, which greatly increases the strain on the road network.

Many groups advocate increased taxes on heavy trucks, in order to cover the costs of road maintenance and repair. However, trucking groups oppose any increase in taxes, and argue that a tax increase would run independent operators out of business and increase the cost of goods for consumers.

The Los Angeles County Metropolitan Transportation Authority (Metro) transfers funds generated by County transit sales taxes to local governments via local returns. These funds are designed to cover the wear and tear caused by the operation of heavy buses. It may be that the damage caused by these buses could be more than what is returned to local jurisdictions to be used for road maintenance.

SOURCES OF FUNDS USED FOR THE PAVEMENT PRESERVATION PROGRAM

PROPOSITION C

Public Utilities Code Section 130350 provides that the Los Angeles County Transportation Commission may adopt a sales tax within the County, provided that it is approved by a majority of the electors. In 1990, the voters in Los Angeles County approved the imposition of an additional one-half cent sales tax to improve transit service and operations, reduce traffic congestion, improve air quality, efficiently operate and improve the condition of streets and freeways utilized by public transit, and reduce foreign fuel dependence.

The City receives funds from a 20 percent share of the revenues collected based on a per capita allocation. Funds may be used for public transit, paratransit, and repairing and maintaining streets used by public transit.

MEASURE R TRAFFIC RELIEF AND RAIL EXPANSION FUNDS

Public Utilities Code Section 130350 provides that the Los Angeles County Metropolitan Transportation Commission (Metro) may adopt a sales tax within the County, provided that it is approved by a majority of the electors. In 2008, the voters in Los Angeles County approved the imposition of an additional one- half cent sales tax for a period of 30 years to (a) expand the County Metro rail system, including providing a direct airport connection; (b) make local street improvements, such as signal synchronization, filling potholes, repairing streets and making neighborhood streets and intersections safer for drivers, bicyclists and pedestrians in each community; (c) enhance safety and improve the flow of traffic on freeways and highways; (d) make public transportation more convenient and affordable (especially for seniors, students, the disabled and commuters); and, (e) provide alternatives to high gas prices, stimulate the local economy, create jobs, reduce pollution and decrease dependency on foreign oil. All transit projects funded by Metro through the Measure R transit capital fund will require a three percent local match. Matching funds identified will allow Metro to deliver transit projects within the City more quickly.

SPECIAL GAS TAX STREET IMPROVEMENT FUND

The Special Gas Tax Street Improvement Fund receives monies from the State's Excise Tax on the sale of gasoline and from federal reimbursements through the Surface Transportation Program - Local (STP). These monies provide funding to various departments and to the CIEP – Physical Plant for eligible activities and projects.

A sum equal to 1.315 cents per gallon of the net revenue derived from the State gasoline tax and 2.590 cents per gallon from the diesel fuel tax is apportioned monthly to cities in the proportion that the population of each city bears to the total population of all cities in the State in accordance with Section 2107 of the Streets and Highways Code.

A sum equal to 1.04 cents per gallon derived from the State gasoline tax is apportioned among counties by vehicle registration, among cities and unincorporated areas of counties by assessed valuation, and among cities within counties by population in accordance with Section 2106 of the Streets and Highways Code.

As a result of the passage of Proposition 111 in June of 1990, the 9 cents per gallon of gas and diesel taxes was increased to 14 cents on August 1, 1990 and 1 cent per gallon each January 1 until January 1, 1994. A sum equal to the net revenues derived from 11.5 percent of taxes in excess of 9 cents per gallon is allocated to cities in the proportion that the population of each city bears to the total population of all cities in the State in accordance with Section 2105 of the Streets and Highways Code.

The sales tax on gasoline allocated as Traffic Congestion Relief Fund (TCRF) was repealed on March 22, 2010 with ABx8 6 and ABx8 9. Included in the legislative bills was a new excise tax of 17.3 cents per gallon effective July 1, 2010 and allocated in accordance with Section 2103 of the Streets and Highways Code. AB 105 signed on March 24, 2011 clarified that funds apportioned to Section 2103 are not subject to the requirements and restrictions applicable to the former TCRF.

The STP provides federal grants to finance the upgrading of the most heavily traveled highways. Funding is authorized through federal legislation every six years. The last legislation that would have expired in September 2009 was extended.

TRAFFIC SAFETY FUND

The City's share of fines and forfeitures collected under Section 42200 et. al from any person charged with a misdemeanor or an infraction under the Vehicle Code of the State of California is used for traffic signs, signals, and other traffic control and safety devices; traffic law enforcement and accident prevention; and for the maintenance, improvement or construction of public streets, bridges and culverts within the City.

STREET DAMAGE RESTORATION FEE SPECIAL FUND

The Street Damage Restoration Fee Special Fund was created by Council action to receive revenues from the Street Damage Restoration Fee. The Fee was established to compensate the City for damage to City streets caused by excavations or other work performed by any entity, including City agencies, required to obtain a permit for the performance of said excavations or other work. The funds are to be used only for street surfacing, resurfacing, repair and reconstruction, and laboratory fees, testing,

materials, engineering, salaries and overhead associated therewith.

GENERAL FUND

The General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds. General Fund revenues are derived from such sources as taxes, fines, interest income and other resources available for discretionary funding. Expenditures are expended for functions of general government, protection of persons and property, public works, health and sanitation, transportation, cultural and recreational services, community development, capital outlay, and debt service.

STREET INFRASTRUCTURE FINANCING OPTIONS

The following provides a listing of potential financing options for the restoration of the City street system.

Options That Are Readily Available to the Mayor and Council

Prioritization of All Street-Related Projects

The priority of street deferred maintenance work (as opposed to new street construction) could be deemed a priority, central component (or core service) of the annual budget process, instead of an ancillary component. This means that the amount required to repair and maintain the City's streets at the desired level would be determined and programmed into the annual budget. Reductions in other City programs would be necessary to balance the budget in tight years.

Potential Sources of Funds	Current Use
General Fund	Various
Gas Tax	Street Related Projects
Street Damage	Resurfacing/GSD Support
Measure R	Capital Projects (ADA,Bike/Pedestrian Match)
Prop C	Various - Transportation
Traffic Safety	Traffic Control Maintenance – Crossing Guards

Developer Mitigations

Development Agreements could be structured to provide for the funding of needed street and alley repair and maintenance in the affected area. Focus could be placed on the worst streets and alleys and those streets and alleys that will receive the trips generated by the development. Less focus could be placed on beautification projects such as tree planting, fencing or installation of street furniture.

Measure R Financing

Measure R is a Countywide ½ cent sales tax surcharge approved by voters in November 2008 to provide for an improved regional transportation system. Measure R funds are divided among regional funds for which the Metro has direct control and Local Return Funds that local jurisdictions have direct control over.

The City Council and Mayor have adopted policies governing the use of Measure R Funds. Since the public approval of Measure R was focused on completion of transportation projects, 90 percent of revenue is reserved for capital projects (ongoing costs are limited to 10 percent of revenue). In addition, five percent of revenue is reserved for bicycle projects and five percent of revenue is reserved for pedestrian projects. This leaves 80 percent of the revenue available without a change in policy. However, the Council and Mayor have given high priority to another 25 percent of the

revenue for the funding of sidewalk access ramps (to provide equal access to infrastructure for all people) and for Downtown Streetcar operations when operations begin in 2016. In addition, the Council intends to provide $317 million in matching funds for regional projects (to accelerate projects of benefit to the City) and reimbursement of costs to the General Fund. This leaves approximately 40 percent of the revenue (approximately $16 million annually) for discussion without changing policy.

The Measure R Ordinance and Guidelines allow local jurisdictions to issue revenue bonds repayable from Measure R Local Return Funds, subject to prior approval of the County MTA Board. The County MTA approved issuance of bonds for local jurisdictions in February 2013. The Public Resources Advisory Group (PRAG) estimated that between $227 million to $406 million of debt capacity is available to the City for a debt service requirement between $14 million and $27 million. However, this is based upon assumptions in several important financing criteria, such as interest rates, term and coverage ratios.

Gas Tax Financing

Several smaller California cities have issued debt to provide for street improvements. The debt is repaid from Gas Tax receipts. The City receives approximately $100 million annually in Gas Tax receipts. It might be possible for a Gas Tax financing to be done without impacting or pledging the General Fund and with the approval of the Council and Mayor. However, this needs to be reviewed and confirmed.

Trash Franchise Fees

Franchise Fees could be charged to private (and/or public) refuse collection agencies for the use of the City right-of-way, primarily streets and alleys. These fees could be used to repair and maintain roads and alleys utilized by private (and/or public) haulers. Franchise Fees are exempt from Proposition 26, have a logical nexus with the use of revenue and is consistent with current City practice. Road damage is a result of the weight put on the axle of a vehicle. A truck carrying 10 times the weight of a car does 1,000 times more damage to a road than a car.

In 2012, the City decided to implement a Franchise model for private refuse collection. The process of implementation is expected to take several years.

Options That Require A Vote or Direct Approval of Taxpayers

General Obligation Bond (Street Bond)

General obligation (GO) bonds are backed by a promise to levy ad valorem property taxes in an unlimited amount as necessary to pay debt service. Due to this pledge of revenues, the State Constitution requires that local governments seek voter approval prior to issuing GO bonds. These bonds typically have low borrowing costs because of their broad security pledge. They tend to yield high bond ratings and have wide investor acceptance.

GO bonds that are issued by local agencies require two-thirds voter approval. Article XVI, Section 18 of the State Constitution, states that local agencies (i.e., county, city, town, or school district) may not incur indebtedness without two-thirds voter approval.

Incremental Sales Tax Assessment

Effective July 1, 2011, the State of California let one percent of the Sales Tax expire. This had the net effect of reducing Sales Tax from 9.75 percent to 8.75 percent in Los Angeles County. An increase in the sales tax for the City could partially or wholly fill the gap, subject to the local cap on sales tax. A 1/4th of one percent increase would be approximately equal to $100 million, if administered by the City.

It should be noted that the City included a sales tax increase proposal on the most recent election ballot, which was not approved by the voters.

Special Tax Assessment
There are two primary acts which authorize the establishment of assessment districts:

- The Improvement Act of 1911 (Streets & Highways Code §5000 *et seq.*), which can be used by cities, counties and other municipal governments to fund a wide range of public infrastructure projects. The 1911 Act can also fund maintenance of improvements.

- The Municipal Improvement Act of 1913 (Streets & Highways Code §10000 *et seq.*), which can be used by cities, counties, joint powers authorities and other special districts to fund water, electrical, gas and lighting infrastructure, public transit facilities, as well as other basic infrastructure needs.

The Improvement Bond Act of 1915 (Streets & Highways Code §8500 *et seq.*) is normally used in combination with one of these acts to issue bonds to finance the improvements.

An Assessment District is created to finance improvements when no other source of money is available. Assessment Districts are often formed in undeveloped areas and are used to build roads and install water and sewer systems so that new homes or commercial space can be built. Assessment Districts may also be used in older areas to finance new public improvements or other additions to the community.

An Assessment District is created by a sponsoring local government agency, such as a city or county. The procedure for forming a district begins with a petition signed by owners of the property who want the public improvement. The proposed district will include all properties that will directly benefit from the improvements to be constructed. A public hearing is held, at which time property owners have the opportunity to protest the assessment district.

If approved, property owners have the opportunity to prepay the assessment prior to bond issuance. After this cash payment period is over, a Special Assessment Lien is

recorded against each property with an unpaid assessment. Then, these parcels will pay their total assessment through annual installments on the county property tax bill. The property owners will have the right to prepay the remaining balance of the assessment at any time, including applicable prepayment fees.

The assessment cannot be directly based on the value of the property. Instead, the assessments are based on mathematical formulas that take into account how much each property will benefit from the installation of the improvements. Each parcel in the assessment district becomes responsible for a fixed percentage of the total district debt, and pays that portion of the principal and interest due on the bonds each year. Bond issues are normally structured so the amount of the annual installment remains relatively level.

Mello-Roos District

The Mello-Roos Community Facilities District Act of 1982 established a method whereby the City may form a special, separate district to finance public infrastructure by the sale of bonds. A Community Facilities Districts is formed and bond issues authorized by a two-thirds vote of the property owners in the district. Bonds are sold to finance facilities that can include schools, parks, libraries, public utilities and other forms of infrastructure. The Districts may provide public services that include police and fire protection, recreation programs, area maintenance, library services, flood and storm drainage. Bonded debt service and/or the public services are paid for by special taxes levied on the real property within the district.

Infrastructure Financing District

Cities and counties can create Infrastructure Financing Districts (IFDs) to pay for regional scale public works. IFDs can divert property tax increment revenues for 30 years to finance highways, transit, water systems, sewer projects, flood control, child care facilities, libraries, parks, and solid waste facilities. IFDs can't pay for maintenance, repairs, operating costs, and services. Unlike redevelopment, the property in an IFD doesn't have to be blighted. IFDs and redevelopment agencies' project areas can't overlap.

To form an IFD, the city must develop an infrastructure plan, send copies to every landowner, consult with other local governments, and hold a public hearing. Every local agency that will contribute its property tax increment revenue to the IFD must approve the plan. Schools cannot shift their property tax increment revenues to the IFD. Once the other local officials approve, the city or county must still get the voters' approval to:

- Form the IFD (requires 2/3 voter approval).
- Issue bonds (requires 2/3 voter approval).
- Set the IFD's appropriations limit (majority voter approval).

Marks-Roos District

The State Legislature enacted the Marks-Roos Local Bond Pooling Act of 1985 to facilitate the financing of local government facilities by bond bank pools funded by bond proceeds. The pool, formed under a Joint Powers Authority, can buy any type of legally issued debt instrument within or without its geographic area. The idea was to save money through economies of scale by selling one large bond issue to finance several small projects.

General Road User Fees

While road user fees (tolls) have been widely implemented on highways, implementation on municipal streets would be difficult, if not impossible. Several California agencies responsible for toll roads have struggled to cover costs.