



RON GALPERIN
CONTROLLER

January 19, 2017

Kevin James, President
Public Works Commission
200 North Spring Street, Room 361
Los Angeles, CA 90012

Nazario Saucedo, Director
Bureau of Street Services
1149 South Broadway, Suite 400
Los Angeles, CA 90015

Re: Street Damage Restoration Fee (SDRF) CF:(15-0600-S22) CF:(14-1571)

The City currently assesses a Street Damage Restoration Fee (SDRF) on utility companies to recover the cost of the additional resurfacing and repairs needed to mitigate the impact of the excavation. The Controller's Audit, dated July 31, 2014, "Audit of Los Angeles Bureau of Street Services Resurfacing & Maintenance Activities", pointed out that because the City has not updated its calculations of SDRF since the year of 2006, the City has not optimized the opportunities to generate additional revenues that are so very needed for street repairs.

On May 16, 2016, the Department of Public Works executed a contract with an outside consultant to conduct a review of the way the SDRF is calculated and make recommendations as to how to develop a new SDRF in order that the City may be able to fully recover the costs associated with street excavations. The consultant, Shahin and Associates, is currently working with the BSS to select an appropriate street sample in order to perform the pavement testing necessary to obtain an accurate assessment of the activities associated with repairing the street after a utility company has conducted an excavation. Based on this analysis, the consultant will be able to provide an analysis of the work and update the SDRF accordingly.

Recent meetings between the Controller's Office, the Bureau of Street Services, and Dr. Shahin have led us to conclude that an expanded scope of this report is needed, to include issues which will allow the City to truly achieve cost recovery for utility excavations -- and to provide much needed dollars to the Bureau of Street Services.



The following factors are thus critical to examine if the City is to optimize its collections:

- **Street type / designation** -- The City currently categorizes streets into two categories: select and local. Select can be mostly associated with commercial type streets versus local, closer identified as residential street. Roughly 1/3 of L.A.'s streets are currently designated select vs. 2/3 local. Notably, the City assesses a significantly higher SDRF for select streets (commercial) than for local (residential). However, select streets have an assumed useful life of just 15 years, vs. an assumed useful life of 25 years for local streets. The designation of whether a street is select or local was typically made many years ago, there is now a need to reevaluate the designation of LA streets, in order to ensure the appropriate amount is being charged after excavation.
- **Useful life** – Currently, the City does not charge SDRF for streets past their defined 'useful' life (15 or 25 years). This may very well be shortchanging the City of much-needed funds for street restoration. The City defines useful life of any street as "economic" or "functional economic" useful life. Meaning, there is an average of how long a street should and will be useful based on designation and general assumptions.

However, as is evident in L.A., we have many streets with a different (and often longer) useful or actual life than may have been applied thereto. The City, along with the consultant, should examine how different definitions and choices of useful life might impact the percentage of loss of life -- and thus the sums recoverable by the City.

How useful life is defined, on any given street, can have a profound impact on the SDRF charges. For example, an excavation of a street which would cut short useful life of that street could calculate out to a higher dollar amount with a longer assumed useful life.

In addition, after the so-called useful life of a street has passed, the City should consider implementing a new SDRF charge for subsequent excavations. Currently, the City does not charge SDRF after the useful life has passed.

The City's consultant stated to the Controller's office that he is basing calculations of SDRF fees on existing City assumptions regarding useful life and street type. Over the decades as L.A. has further developed, what were purely local streets have become denser and well-traveled. Accordingly, it behooves the City to consider basing useful life (and SDRF) with a broader range of designated street types. (i.e., principal, arterial, collector, etc.).

Without an adequate assessment of whether these assumptions are truly optimal, it will not be possible to know that we have optimized the amount of SDRF to which the City is, in fact, entitled. Accordingly, any fee evaluation conducted by the City must include an evaluation of the underlying assumptions.

Additional points to consider:

- **Cost recovery** -- Our office was informed that the current basis for calculating cost recovery is based on an estimation of only "direct" City costs that would be associated with pavement deterioration. Such a cost recovery model fails, however, to fully capture the true costs to the City, including all overhead, benefits, etc. There would appear to be no reasonable reason to not fully capture both direct and indirect costs in calculating cost recovery for the City.
- **Cost increases** -- The City used Caltrans' Price Index for Asphalt Pavement Concrete unit costs from 1996 through 2005 as the basis for increasing SDRF in 2006. However, the City's actual costs may very well likely exceed such calculations. Accordingly, the City should consider the possibility of adjusting costs annually based on the higher of State or other increases and/or actual increases in City costs.
- **Concrete streets** -- Currently we are not assessing SDRF for concrete streets. These streets make up approximately 5% of L.A. City streets and are largely very much older streets with arguably little useful life remaining. Notwithstanding, it would behoove the City to assess the feasibility the possible benefits of extending SDRF to concrete streets.

It is also of important to note that the calculations of the City's consultant are based on test of selected excavated pavements throughout the City -- and comparison thereof to a nearby so-called "control" pavement that does not have any excavations. According to the consultant, the conditions of the streets generally in L.A. are such that it has been difficult to find control pavement areas with no excavations. It would be helpful to ascertain from the consultant how this may impact the calculations that will be used as the basis for the City's calculations of SDRF.

In addition, the consultant informed us that his SDRF study does not incorporate benchmark data. It would, however, be advisable for the study to include at least some benchmark data. A cursory review by our office found interesting and, we believe, useful analysis conducted by other jurisdictions of fees and fee structures. Some jurisdictions, for example, charge both a flat administrative fee and a fee per square foot and/or per linear foot for utility excavations. Some jurisdictions also charge differential fees based on the depth of cuts or for dry vs. wet utilities.

As detailed in our Audit, the Controller's Office believes it is vital the SDRF be applied to all utility companies -- including Sempra (which heretofore has been exempted therefrom). Moreover, the City should establish a practice of incorporating SDRF calculations in all future franchise agreements -- this would serve to ensure compliance but also allow full cost recovery associated with specific activity.

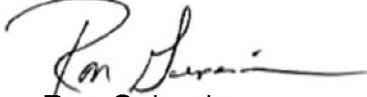
Moreover, the City should consider additional ways to apply SDRF calculations to other activities, such as construction or heavy hauling.

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It is our request that the issues discussed in this letter be incorporated into any SDRF study currently being done by Dr. Shahin and Associates, and this matter be expedited so that any relevant information can be used in budget discussions this coming fiscal year.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ron Galperin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ron Galperin
CITY CONTROLLER

CC: All Public Works Board
Mayor
City Council