

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

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Date: April 9, 2010

To: Honorable Members of the City Council

From: *MS* Miguel A. Santana, City Administrative Officer    Council File No.: 09-0600-S48  
Gerry F. Miller, Chief Legislative Analyst *for*

Subject: **MEASURE R LOCAL RETURN FUND GUIDELINES AND INTERIM BUDGET REPORT**

**SUMMARY**

In November 2008, the voters in Los Angeles County approved Measure R, which provides an additional one-half cent sales tax increase for 30 years to make a variety of improvements to the County's transportation system. As part of this funding stream, the City receives a 15 percent Local Return share that is projected at an estimated \$2 billion over the life of Measure R initiative. Collection of the Measure R sales tax receipts began on July 1, 2009 and the Los Angeles County Metropolitan Transportation Authority (Metro) the administrating agency, made the first disbursement of funds to the City in December 2009.

As was originally projected, the Measure R sales tax increase would generate approximately \$40 billion over the next 30 years. As a result of the current economic recession, Measure R revenues may be negatively affected, especially in the near-term. A five-year projection of the City's Measure R Local Return fund revenue has been revised downward from a previous projection of \$181.2 million over five years to \$157.3 million over the same period. Revenues are now estimated as follows:

- FY2009-10 - \$20.8 million
- FY2010-11 - \$32.7 million
- FY2011-12 - \$33.6 million
- FY2012-13 - \$34.6 million
- FY2013-14 - \$35.6 million

The City will also receive an allocation from a 20 percent share of the revenue collected for transit capital and operations, which has also been revised downward from \$1.7 million anticipated for 2009-10 and \$3 million in subsequent years to \$1.7 million for 2009-10 and approximately \$2.5 million annually in subsequent years over the life of Measure R.

The City's 2009-10 Adopted Budget assumed \$20.8 million in appropriated 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 in order to begin accruing a three percent local match for the projects, in the City of Los Angeles, that were identified in the ballot measure. The Mayor's Office has stated that the early setting aside of matching funds will ensure that the projects are not delayed and encourage Metro to expedite these projects.

As discussed in our November 13, 2009 report, during deliberations on the 2009-10 Budget, the Budget and Finance Committee recommended reductions in the appropriations to the

"Matching Funds - Transit Projects" line item to fund various projects. These motions are pending before the Transportation Committee.

The Transportation Committee has discussed the allocation of Measure R funds at its June 10, July 22, October 14, and November 18, 2009 meetings. At its October 14, 2009 meeting, the Committee directed the City Legislative Analyst (CLA) and the City Administrative Officer (CAO) to report back with a further analysis of the line items included in the Department of Transportation's "Preferred Scenario" to identify the ramifications of moving forward with the funding recommendations. The Committee specifically requested a list of Proposition C projects that are at risk of being canceled or delayed as a result of the LADOT's funding shortfall and a recommendation as to whether any of these projects should receive Measure R funding.

### Proposition C Deficit

The CAO, in determining the extent of the deficit in the City's Proposition C fund, reviewed the "City Project Summary" (see Attachment 1) that identifies the projects that received transportation grant funds and will require front or matching funds from the City's Proposition C Fund for project completion. The transportation grants that have been awarded to the City may include the Metro Call for Projects, Safe Routes to Schools Program, SAFETEA-LU or other Caltrans grants, including Highway Safety Improvement Program and State Hazard Elimination Safety Funds. By accepting these federal, state and regional funds, the City has committed to implementing these projects by specific deadlines. If projects are not completed within specified timeframes, the City may be required to return these funds.

In reviewing the above projects, the CAO worked with LADOT to determine estimated annual cash flow needs associated with the Transportation Grant Fund Annual Work Program (TGFAWP). Through the TGFAWP, Proposition C front and matching funds are allocated to various grant projects. Cash Flow needs are updated by LADOT and the various affected City departments that manage the grant projects. The estimated annual cash flow needs for the TGFAWP are incorporated into the attached forecast of Proposition C revenue and appropriations (Attachment 2).

In reviewing LADOT's previously projected funding deficits, it was determined that the cash flow analysis had not properly accounted for existing project staff, effectively doubling some costs. The subsequent revised Proposition C forecast prepared for this report indicates that there will be an estimated \$18.7 million shortfall in the TFGAWP in 2010-11. Additionally, the Proposition C forecast accounts for staff reductions resulting from employee participation in the Early Retirement Incentive Program (ERIP) and Citywide reduced work schedules in departmental appropriations for 2009-10. The Proposition C forecast also assumes, for 2010-11 and future years, special funded Proposition C ERIP positions may be backfilled and Proposition C staff may be exempted from future reduced or limited work schedules.

At this time, Measure R is the only source of unprogrammed cash that can potentially be used to assist the City in completing Proposition C projects. If Measure R funds are not used, transportation projects that have not begun construction and/or design phase (Attachment 1 "Projects in Design/PSE" and "Projects in Pre-Design") will continue to be delayed and possibly canceled. Programming Measure R funds to allow the completion of Proposition C transportation projects would allow the City to complete needed capital improvements while keeping commitments to and credibility with grantors, improve the quality of life for the City's residents, potentially minimize overall project costs, create employment opportunities and funds will not be obligated on an ongoing basis for an extended period of time.

It is important to note, however, that even if the City provides Measure R funds and allows the Proposition C staff to be exempted from hiring and work schedule restrictions, it will be important for the City to include an effective project management strategy to ensure timely completion of projects. The backlog of Proposition C projects has been an ongoing problem that predates the City's current fiscal difficulties. Therefore, maintaining staffing to the levels experienced several years ago will not necessarily ensure the timely completion of projects. It is critical that LADOT, with the assistance of the Bureau of Engineering and the Bureau of Street Services, be instructed to return with an effective project management strategy for the efficient and effective completion of the Proposition C projects.

#### Proposition A Shortfall

The City's Proposition A local return fund, is currently the sole source of City funding for LADOT's transit services. The Department has transmitted a series of reports to the City Council beginning in 2004, highlighting significant projected shortfalls in City Proposition A funds over the ten year forecast period. In FY2010-11, Proposition A is projected to show a deficit of \$23 million and the cumulative deficit is expected to grow to \$350 million over the next decade. This structural deficit is a result of an aggressive expansion of DASH services in prior years and rising operating costs that have affected transit properties across the nation. The recent decline in sales tax revenue is a relatively small aspect of the significant structural deficit in the Proposition A fund. A revised report released by LADOT on January 28, 2010, provides preliminary recommendations for route and service reductions and fare increases for all LADOT transit services, including DASH, Commuter Express, Cityride and Charter Bus, to address the anticipated deficit.

LADOT's report also includes a detailed analysis evaluating the performance of all City transit services, the level of City subsidy and any service duplication. The magnitude of the impending Proposition A budget deficit necessitates that the City implement significant transit service cuts and fare increases within the next few months to ensure that the remaining transit program remains viable. It should also be noted that even with the implementation of all of LADOT's recommended transit service cuts and fare increases, a Proposition A deficit of approximately \$16.5 million is anticipated in 2012-13. Thus, additional service reductions and fare increases may be necessary in the near future. Therefore, while Measure R funds could be used to forestall some of the transit service reductions in 2010-11, to do so will exacerbate the structural deficit that currently exists in the City's transit program. In addition, such an action will be trading the ability of the City to create meaningful capital improvements for the ability to maintain transit service that is not sustainable in the longer term. In order for the City to operate financially sustainable transit services, it is recommended that the Council approve all the transit service cuts and fare increases proposed by the LADOT and instruct the Department to manage the transit program within the funding constraints of Proposition A and the Measure R bus operations fund revenues.

#### Measure R Funds Availability and Potential Funding Categories

At previous Transportation Committee meetings, members have supported the allocation of ten percent of the annual Measure R revenues for bicycle and pedestrian projects. If approved, LADOT will need to develop a work program that will identify specific projects and an implementation schedule.

The Transportation Committee also voiced support for a \$1.5 million Council discretionary set-aside that was proposed by the Department of Transportation. This proposal would allow for a number of small, local projects to be incorporated into the funding plan, however, such

projects would require additional administrative and field staff resources for LADOT. Because of the anticipated reduction in Measure R revenue, the creation and funding of a Council discretionary account is not recommended.

The table set forth below identifies anticipated Measure R revenues and funding needs for various City programs. Based on the analysis, \$9.3 million of Measure R funds are available in 2009-10. For 2010-11, the CAO anticipates that City will receive Measure R revenue totaling approximately \$32.7 million. The availability of funds depends on the actions taken to close the future Proposition A structural deficit and the Proposition C shortfall that begins in 2010-11.

**Measure R Funds Availability Without Proposition A Backfill**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
<b>Measure R Revenue</b>	<b>\$20.8</b>	<b>\$32.7</b>	<b>\$33.6</b>	<b>\$34.6</b>	<b>\$35.6</b>
3% Accelerated local match <sup>1</sup>	\$1.5	\$1.7	\$7.8	\$36.5	\$34.9
<b>Subtotal</b>	<b>\$19.3</b>	<b>\$31.0</b>	<b>\$25.8</b>	<b>(\$1.9)</b>	<b>\$0.7</b>
<b>Discretionary Categories:</b>					
Bureau of Street Services – Sidewalk Access Ramps and Bus Pads (Including Related Costs)	\$4.5	\$7.9	TBD	TBD	TBD
Bridge Program <sup>2</sup>	\$2.0	\$0	\$0	\$0	\$0
Bicycle Program	\$1.0	\$1.6	\$1.7	\$1.7	\$1.8
Pedestrian Program	\$1.0	\$1.6	\$1.7	\$1.7	\$1.8
Program Contingency <sup>3</sup>	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
Administrative Cost <sup>4</sup>	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
<b>Available Funds Subtotal</b>	<b>\$9.3</b>	<b>\$18.4</b>	<b>\$20.9</b>	<b>(\$6.8)</b>	<b>(\$4.4)</b>
Proposition C Shortfall	\$0	\$18.7	\$12.7	\$0	\$0
<b>Available Funds Total<sup>5</sup></b>	<b>\$9.3</b>	<b>(\$0.3)</b>	<b>\$8.2</b>	<b>(\$6.8)</b>	<b>(\$4.4)</b>

<sup>1</sup> Estimated cash flow needs determined by the Office of the Mayor.

<sup>2</sup> The CAO has determined that this amount is necessary to reach the \$5 million match for the \$350 million to design and construct the 6<sup>th</sup> Street Bridge.

<sup>3</sup> This budget line item is intended be used to fund (a) the City's fair share of project costs in which other agencies (i.e. Caltrans, Metro, etc.) have committed their share of the expenses; (b) contingency for existing project cost overruns that have no other identified funding sources; and (c) priority or emergency projects. Also, it is intended that unencumbered funding at the end of the fiscal year will return to the cash balance of the Fund. Unencumbered funds will not accumulate in subsequent years.

<sup>4</sup> This budget line item includes accounting, budgeting, and other miscellaneous costs for administering Measure R funds, in compliance with all applicable federal, state and local laws and regulations.

<sup>5</sup> Shortfalls reflected in the Available Funds Total indicate that funding from prior years or deletion of funding from some discretionary categories would be required to balance Measure R beginning in 2012-13.

LADOT's October 2009 report recommended funding for operational improvements, which includes overhead guide signs near freeways and complex intersections, incandescent light systems, street name signs and improved signalized intersections for the hearing and visually-impaired. While these types of projects preserve the previous investments in traffic control

infrastructure, clearly the voters' expectations of Measure R uses included funding for transit program improvements and new transportation capital projects. The City clearly has many needs that are more consistent with the expectations of Measure R and the funding of operational improvements suggested by LADOT is not recommended.

## RECOMMENDATIONS

That the City Council approve the following actions:

1. Approve a plan for the expenditure of the City's Measure R local return funds that includes:
  - a. The accelerated three percent local match for the Measure R projects in the City of Los Angeles and a proposed schedule of funding requirements across multiple years;
  - b. No provision of funding to offset the Proposition A deficit and an instruction for the Department of Transportation to manage the transit program within the funding constraints of Proposition A and the Measure R bus operations fund revenues;
  - c. An annual allocation of a ten percent set-aside for bicycle and pedestrian programs (five percent each) and direction to LADOT to prepare a pedestrian and bicycle project work plan for the expenditure of these funds;
  - d. A City policy that Measure R funds will be used primarily for capital projects and that ongoing, non-capital programs will be limited to ten percent of the current year revenue;
  - e. An annual set-aside for project contingency in the amount of \$1M and a set-aside for administrative costs in the amount of \$500,000;
  - f. Funding to the Bureau of Street Services for the creation of sidewalk access ramps to accelerate the City's efforts to ensure that all constituents have equal access to the City's public infrastructure; and
  - g. Authorization for the CAO to make technical corrections to the Measure R budget to accurately reflect the intent of the Council.
2. Instruct the Department of Transportation, with the assistance of the Bureau of Engineering and the Bureau of Street Services, to develop a plan for the completion of all existing transportation grant projects identified in the City Projects Summary (Attachment 1) within the funding constraints of Proposition C, and if necessary, recommend funding from Measure R where the impacts are clearly defined;
3. Receive and File the Department of Transportation's July 15, 2009 and October 7, 2009 reports and the November 13, 2009 CAO/CLA report.

## FISCAL IMPACT STATEMENT

The recommendations in this report will provide policy guidelines to revise the budget for the City's Measure R Local Return funding. The City's Measure R funds are available funds that may provide assistance to services or programs funded through the City's Proposition A and Proposition C Funds. Due to shortfalls in both Proposition A and Proposition C Funds, the policies adopted may affect the services or programs that are funded by the City's Proposition A and Proposition C Funds. There is no impact to the City's General Fund.









