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PLANNING AND PROGRAMMING COMMITTEE
JANUARY 16, 2008

EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
JANUARY 17, 2008

SUBJECT: POTENTIAL REVENUE-GENERATING AND COST AVOIDANCE OPPORTUNITIES

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file potential revenue-generating and cost reduction opportunities shown in Attachments A and B, to maintain, enhance and expand Los Angeles County's surface transportation system.

ISSUE

Los Angeles County's current and expected population growth and economic development is placing even greater demands on the multi-modal surface transportation system. Traditional local revenue sources (namely Propositions A and C, transit fares and other local, state and federal transportation funding sources) are falling far short of current and future needs in the county. In addition, specific legislative policy changes are needed to improve the Los Angeles County Metropolitan Transportation Authority's (LACMTA) ability to effectively provide sustainable mobility solutions to the county.

BACKGROUND

Los Angeles County has one of the most extensive multi-modal surface transportation networks in the country. However, the cost of operating, maintaining and expanding this multi-modal network is increasing faster than the funds available to meet current and future needs of the nation's most populous county. Furthermore, the growing needs of the goods movement sector, rapidly deteriorating performance of the highway system and volatile construction and energy costs are placing greater strains on the traditional state and federal funding sources that are expected to be reduced over time. All of these factors are placing an even greater burden on the LACMTA's local revenues. The following issues explain the need for the LACMTA to aggressively pursue additional local revenue sources and specific legislative and internal policy changes to meet current and future needs of the county's transportation system.

Highway Trust Fund Insolvency Expected by Federal Fiscal Year (FFY) 2010-11

The federal excise tax on gasoline (18.4 cents per gallon) is the principal federal funding source for the Highway Trust Fund (HTF) that provides the financial resources for the various multi-modal transportation programs including Federal Transit Administration funds. These resources provide significant formula and competitive grant programs for Los Angeles County. The tax, however, is not tied to inflation and has experienced significant devaluation since the last increase in 1994. This devaluation is primarily due to inflation, and will be further reduced with anticipated increases in vehicle fuel efficiency and rising gasoline prices that steady the rates of consumption. According to most of the transportation industry experts, the HTF is risking insolvency as early as FFY 2010-11. The next federal re-authorization cycle of FFY 2009- FFY 2013 is approaching, and timing is critical for LACMTA and the Los Angeles County delegation to advocate for advantageous policy changes and fund revenues.

State Highway Account Oversubscribed by State Highway Operation Protection Program

The state excise tax on gasoline (18 cents per gallon) is the principal funding source for the State Highway Account (SHA) and other funding programs, and provides the majority of the funds to state transportation programs. The SHA has been experiencing similar issues to the federal Highway Trust Fund, namely devaluation. However, the exponential cost of maintaining the state highway system over the last decade has used most of the available SHA funds that were traditionally available for the State Transportation Improvement Program (STIP).

The State Highway Operation and Protection Program (SHOPP) has identified an increasing amount of distressed lane miles that if deferred will need to be replaced at a dollar factor of 20:1. That ratio translates into one dollar in deferred maintenance costing $20 dollars to completely replace in ten years. The SHOPP's conservative needs are estimated at over $5 billion annually, yet only $2 billion is programmed annually and it leaves a shortfall that is growing exponentially. Any increases in state revenues for transportation could potentially go to the SHOPP. In addition to this growing problem, the state fiscal situation is continually diverting dedicated state transportation resources to balance the state budget. This back-and-forth process has reduced the STIP to a minority program (the STIP is only three percent of the public transportation investments in Los Angeles county), as self-help counties such as Los Angeles County have been forced to use local fund sources to close state funding gaps.

The LACMTA's Strategic Financial Forecast Needs to 2030

To meet the future transportation needs of the county, the LACMTA must identify and pursue additional revenue generation and cost avoidance opportunities. Staff utilized specific sustainable mobility criteria (Attachment A) that demonstrated a nexus between the funds generated and the congestion relief, air pollution and greenhouse gas emissions reductions those funds will mitigate. For example, to maintain, enhance and expand the transportation system and to meet current and future air quality and climate change mandates at the state and federal level, direct user fees on the transportation system would have the greatest impact.

The Draft 2008 Long Range Transportation Plan Update will identify approximately $150 billion in transportation revenues, with a compendium list of existing transportation projects and services in a constrained plan between now and 2030. This constrained list falls far short of the strategies, programs and performance measures needed to meet the current and future congestion, air quality and climate change responses to the county's transportation challenges. In addition, volatile costs for construction materials, energy and sureties will further erode the LACMTA's ability to maximize the constrained list of capital and operations programs.

The strategic, multi-modal transportation capital and network service expansion and the demand management projects and programs needed to meet the county's multiple economic, environmental and social equity challenges is estimated at more than $60 billion above the $150 billion available between now and 2030. This is a conservative estimate and notwithstanding the most optimistic efficiency measures, the number is likely to increase. The reduction in traditional fund sources will make it impossible to meet these needs and will exacerbate our position as the nation's most congested and polluted region, further compromising our economic competitiveness, regional affordability, quality of life and our ability to meet air quality attainment and climate change response goals.

Revenue-Generating Options to Optimize Los Angeles County's Transportation System

The potential additional funding options (shown in Attachment A) provide examples and scenarios of ways the LACMTA can pursue additional revenues to meet Los Angeles County's strategic needs. These are examples for reference only and have specific assumptions that can be altered to determine very different outcomes. The Board of Directors may choose some or all of these fund sources to be further analyzed with specific assumptions established. The funding options are measured based on their ability to meet multiple objectives of congestion relief, air quality and climate change goals. For example, direct user fees such as congestion reduction, road access pricing or vehicle miles driven fees provide the greatest nexus between the user's impact on the transportation system and the revenues generated. These options also meet the multiple objectives of influencing travel behavior to reduce congestion, peak period load and air pollution, and increase transit performance and ridership. Whereas, a gasoline tax or general sales tax has a more diffuse nexus to the user and the peak loads that the user places on the transportation system. The extent to which a gasoline or sales tax modifies driving behavior during peak, congested periods can depend on the projects and programs funded with this source.

While increases in state or federal gasoline taxes may have an improved outlook on the LACMTA fund sources, local revenue sources hold the greatest promise to meet the strategic needs of the county and keep funds under local control. The Board may also choose to develop sustainable mobility (congestion, air pollution and greenhouse gas reduction) goals and policies to be incorporated as part of future plans.

Legislative/Policy Changes to Promote Streamlining/Cost Avoidance

While new revenue sources are absolutely needed, there is room for the LACMTA to further pursue efficiency measures that will allow the agency to reduce costs. These cost avoidance/streamlining opportunities (shown in Attachment B) will further the LACMTA's ability to provide existing and future services more efficiently and effectively. Some of these changes can reduce duplicative processes, mandates and other administrative burdens to the agency. These changes could be included in the 2008 Legislative Program that advocacy groups, including the Los Angeles Delegation, may pursue.

NEXT STEPS

Staff will consider Board direction on the items in both the revenue generating and streamlining matrices as we pursue more funding opportunities.

ATTACHMENT(S)

A. Sustainable Revenue Generation Options to Optimize Los Angeles County's Transportation System
B. Legislative/Policy Changes to Promote Streamlining/Cost Avoidance

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Sustainable Mobility Criteria for New or Enhanced Transportation Funding

Local Revenue Source Criteria

1. Will lead to improved demand management and reduction of congestion and vehicle miles traveled
2. Will lead to increased multi-modal mobility and reduced need for solo driving
3. Will lead to improved air quality and reduction of greenhouse gases and particulate matter
4. Revenue source can be locally controlled
5. Revenue source will be stable and indexed to grow with inflation and economic development

State Revenue Source Criteria

1. Will lead to improved demand management and reduction of congestion and vehicle miles traveled
2. Will lead to increased multi-modal mobility and reduced need for solo driving
3. Will lead to improved air quality and reduction of greenhouse gases and particulate matter
4. Supports existing air quality emphasis and national mobility, safety, and productivity goals
5. Revenue source will be stable and indexed to grow with inflation and economic development
6. Provides an equitable return to Los Angeles County taxpayers

Federal Revenue Sources Criteria

1. Will lead to improved demand management and reduction of congestion and vehicle miles traveled
2. Will lead to increased multi-modal mobility and reduced need for solo driving
3. Will lead to improved air quality and reduction of greenhouse gases and particulate matter
4. Supports existing air quality emphasis and national mobility, safety, and productivity goals
5. Revenue source will be stable and indexed to grow with inflation and economic development
6. Provides an equitable return to California and Los Angeles County taxpayers

ATTACHMENT A

Revenue-Generating Options

(all figures are current dollars in millions)

Federal, State, or Local	No.	Funding Option	Annual Potential for LA County	25 Yr. Potential for LA County	Action Needed	Nexus to Improved Congestion & Emissions Criteria
Local	1	Implement Weight/Mileage Greenhouse Gas Fee (10 cents per pound of CO2 per mile)	$750	$18,750	State Legislation	High
	2	Implement Freeway Access Fee During Peak Hours ($4 average)	$2,000	$50,000	State Legislation & City/State/Federal Partnership	High
	3	Implement Vehicle Miles Traveled Fee (1 cent per mile)	$800	$20,000	State Legislation	High
	4	Implement High Occupancy Managed Lanes ($6 average per vehicle in rush hours)	$260	$6,500	State Legislation & City/State/Federal Partnership	High
	5	Implement Countywide Congestion Mitigation on New Developments	TBD	TBD	Board/Cities/ County Approval	High
	6	Implement Parking Management on all lots ($1 per space)	$600	$15,000	Cities/ County Approval	High
	7	Half-Cent County Sales Tax	$660	$16,500	County Ballot Measure	Medium
	8	Implement Regional Sales Tax on Gasoline (Five Percent)	$675	$16,875	State Legislation & County Ballot Measure	Medium
	9	1% Transportation Assessment on Property Tax	$88	$2,200	City/County Approval & State Legislation	Medium
	10	Implement Metro Parking Access Fee ($1 to $8 per day)	$8	$200	Board Approval	Medium
	11	Benefit Assessment Districts	TBD	TBD	City/County Approval & State Legislation	Medium
	12	Tax Increment financing	TBD	TBD	City Approval & State Legislation	Medium
	13	Implement Vehicle Rental Fee ($13 per rental)	$26	$650	State Legislation	Low
	14	Eliminate STP-L formula to Cities	$32	$800	Federal Re-Authorization	Low
	15	Increase Vehicle license registration fee to $50	$124	$3,100	State Legislation	Low
State	16	Raise Statewide Sales Tax on Gas (One Percent)	$126	$3,150	State Legislation	Medium
	17	Raise State Excise Tax on Gas (18 cents indexed to meet SHOPP needs)	TBD	TBD	State Legislation	Low
Federal	18	Raise Federal Excise Tax on Gas (15 cents Indexed)	$675	$16,875	Federal Legislation	Low

ATTACHMENT A

Revenue-Generating Options

(all figures are current dollars in millions)

Federal, State, or Local	No.	Funding Option	Annual Potential for LA County	25 Yr. Potential for LA County	Action Needed	Nexus to Improved Congestion & Emissions Criteria

ATTACHMENT A

Revenue-Generating Options

(all figures are current dollars in millions)

Federal, State, or Local	No.	Funding Option	Annual Potential for LA County	25 Yr. Potential for LA County	Action Needed	Nexus to Improved Congestion & Emissions Criteria
Distance-Based Pricing Options For Existing State Auto fees (Enabling Legislation Needed) and LACMTA Transit System						
State	1	Pay as you Drive Insurance	n.a	n.a	State Legislation	High
	2	Mileage Based Registration Fee	n.a	n.a	State Legislation	High
	3	Mileage Based Vehicle Purchase Tax	n.a	n.a	State Legislation	High
	4	Mileage Based Vehicle Lease Fee	n.a	n.a	State Legislation	High
	5	Weight Distance Fees	n.a	n.a	State Legislation	High
Local	6	Time Based/ Distance Based Fares using TAP	TBD	TBD	Board Approval	High
Metro Financing Options						
Local	1	Grant Anticipation Revenue Bonding (Sales Tax, User Fees) (LACMTA Board policy limit on debt service ranges from 40% to 87% of sales tax revenues depending on category)	TBD	TBD	Board Approval	High
	2	Public Private Partnerships (Concession Agreements, Availability Payments)	TBD	TBD	State Legislation	High

ATTACHMENT B

Level of Government	Streamlining/ Cost Reduction Opportunity	Executive Summary	Probability
Federal	Lease/Leaseback	Lease-leaseback (LLB) financings represent an approach by public agencies to sell their depreciation rights to private parties—so-called equity partners—who can use such rights to their financial advantage. The advantages of LLBs to LACMTA were relatively straightforward. By selling the depreciation right to equipment, LACMTA could leverage grant moneys and realize additional funds usually around 7 percent to 8 percent of the transaction amount. These up-front payments are available for any LACMTA governmental purpose, including operating expenses. Congress recently ended LLBs for transit agencies – which ended LACMTA's ability to secure resources by engaging in these financing arrangements with private parties.	Unlikely
Federal	Cross-border Lease	Cross-border leasing transactions enable a foreign entity to receive in its country the tax benefits associated with ownership of an item of equipment. Traditionally, transit agencies have engaged in this leasing transaction because the "lessee" will receive from the "lessor" approximately 5% of the cost of the equipment (i.e. – rail cars) involved in any given transaction. These leases do not "finance" the vehicles being leased; rather they generate unencumbered revenue to the transit agency from the foreign tax treatment associated with ownership of such vehicles.	Unlikely
Federal	Reform of the New Starts Program – Section 5309	1.) The New Starts program should be improved by reducing the Federal due diligence role and making the local project sponsor responsible for its own risk assessment and related tasks. 2.) The New Starts program should be improved by simplifying and streamlining the evaluation and rating process. 3.) The New Starts program should be improved by Federal Transit Administration (FTA) committing to a schedule and milestones for its actions and approvals. 4.) The New Starts program should be improved by reducing the time between the issuance of the Record of Decision and the start of design and construction. 5.) The New Starts program should be improved by increasing the amount of Federal New Starts funding, now set at approximately $1.6 billion annually.	Possible
Federal	Repeal of Section 511 of the Tax Reconciliation Act of 2005	Section 511 of the Tax Reconciliation Act of 2005 imposed a 3% withholding tax on all government payments for products and services made by the federal Government, State Governments and local governments with expenditures of $100 million or more. The provision, which goes into effect in 2011, would affect payments for goods and services under government contracts and payments to any person for a service or product provided to a government entity. While the bill that included Section 511 lowered taxes on capital gains and dividends it did so with this costly offset designed to increase the government's revenue stream by $7 billion from 2011 to 2015. Legislation has been introduced in the 110th Congress in both the House (H.R.1023) and Senate (S.777) that would repeal Section 511.	Unlikely

ATTACHMENT B

Level of Government	Streamlining/ Cost Reduction Opportunity	Executive Summary	Probability
Federal/State	Going Green	Implement tax credits for "going green" to offset additional cost of green measures. If income tax – make sure law would allow us to sell credits to companies that could use them Carbon Trading. Ensure that federal legislation to be considered by the second session of the 110th Congress, including the Lieberman-Warner bill, includes provisions that permit LACMTA to directly benefit from the initiation of a cap and trade system.	Possible
Federal	Change cost analysis requirement in FTA 4220.1e circular to mirror FAR	Reduce staff time and requirements to document file. "Where cost analysis is required, some grantees have found difficulty obtaining the information necessary to conduct a proper cost analysis. The requirements for cost analysis are based in the Common Grant Rule and require action beyond FTA or DOT's authority to change. FTA continues to seek an equitable, practical solution to this problem consistent with the flexibility Federal contracting officers enjoy under the Federal Acquisition Regulation."	Unlikely
Federal/State	Family Medical Leave Act	Clarify definition of reasonable notice, intermittent leave and serious medical condition.	Unlikely
State	Bus Contract Services law	SB 158 (Alarcon) required incumbent Contractor to provide labor rates paid to employees to any new potential vendors interested in bidding on a contract. Requirement inhibits competition in bus service procurement contracts.	Unlikely
State	Procurement Streamlining	Both RTD and LACTC procurement laws are still in effect and they create uncertainty and confusion in certain procurements. LACMTA had proposed one unified procurement statute in a previous session that was vetoed by the Governor.	Possible
State	Small Business Program	Establish program for all Caltrans funded projects similar to DBE program recipients. Simplify administrative oversight requirements and replace LACMTA's SBE and M/WBE programs.	Unlikely
State	Change Order State Law	The Change Order procedure requires extensive use of legal and audit support staff. The process could be streamlined by exempting owner-initiated changes from these requirements.	Possible
State	100% Bond Requirement	Reduce Bonding requirement on construction projects – adds cost to vendors passed onto LACMTA	Possible