Sustainable Transportation Revenue:
Why we need it;
How we raise it; and,
What should we do with it?

Planning and Programming Committee
January 16, 2008
Executive Management and Audit Committee
January 17, 2008

Metro

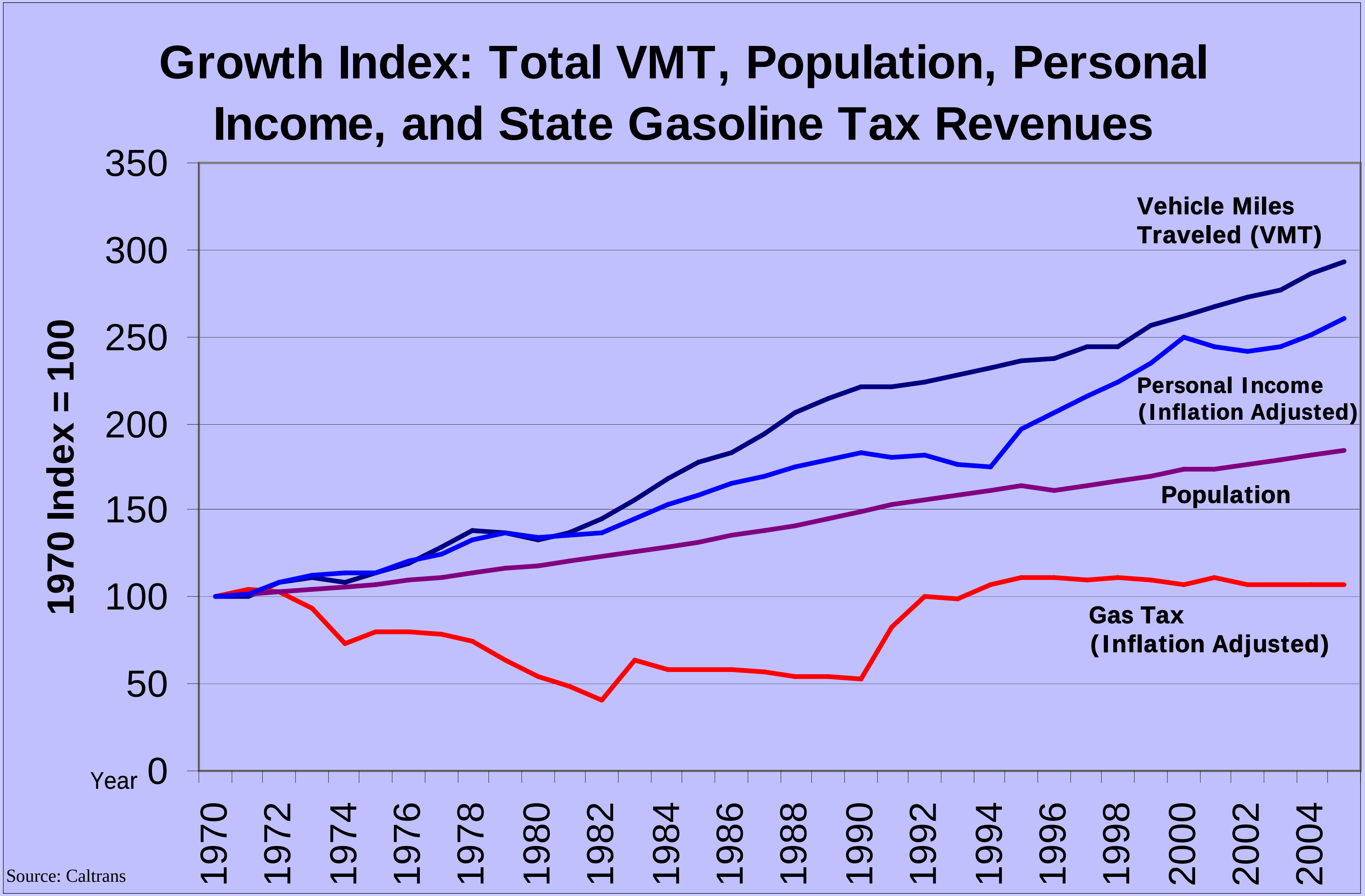
Why We Need It

Declining Value of Transportation Revenues

- Why does transportation need more funding?
  - Gas tax is flat and has not been raised since 1994
    - Grows with gallons sold, not with inflation or economy
    - Sales tax on gas diverted to General Fund deficit
  - Higher capital improvement and operating costs
    - Declining value of dollar
    - Commodities, energy, and surety costs all rising dramatically
    - Costs of deferring maintenance is exponential

Metro

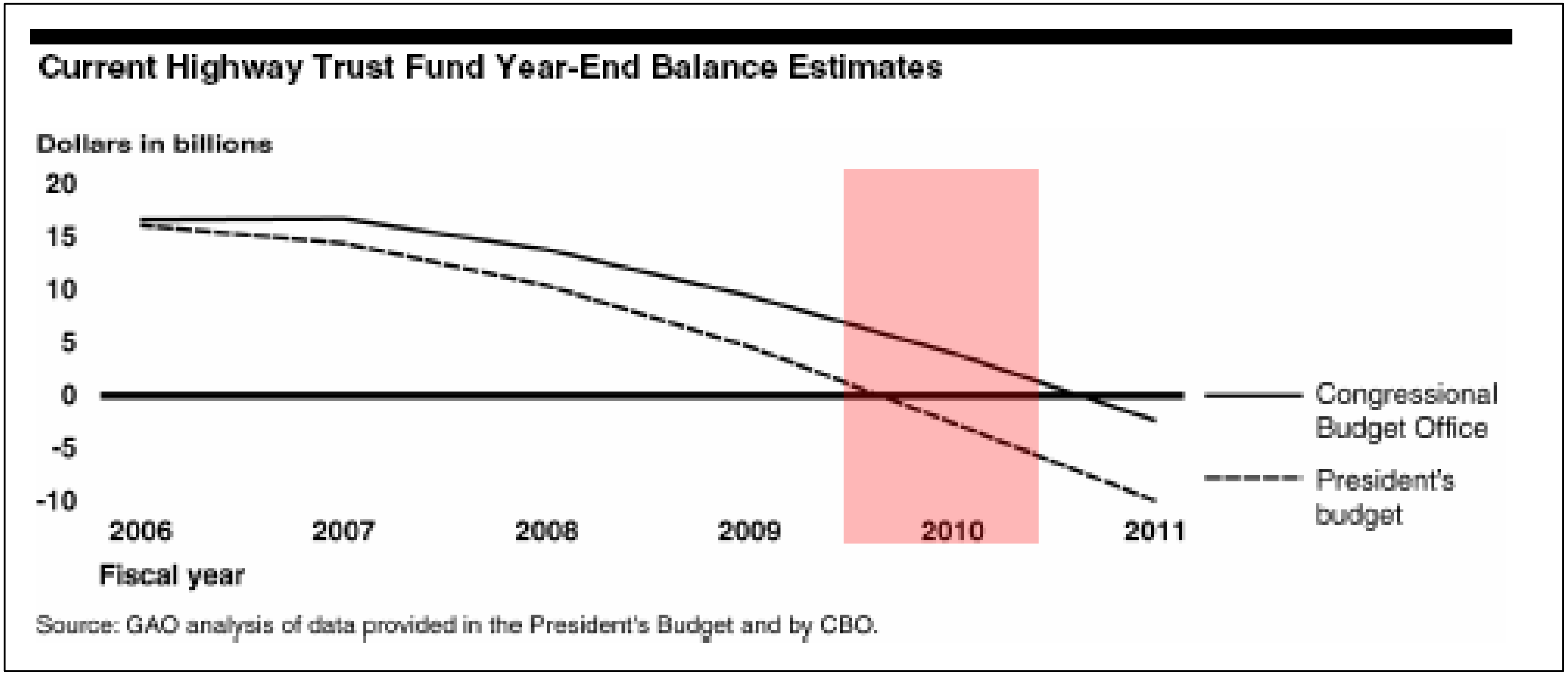
More People, More Travel, Flat Revenues



Source: Caltrans

Federal Highway Trust Fund Overdrawn by 2010

- **Reauthorization will be a fierce fight for less resources**



- **Congestion Mitigation and Air Quality Program at risk**

  -- Weighted population/air emissions formula = $130 M/yr.

Metro

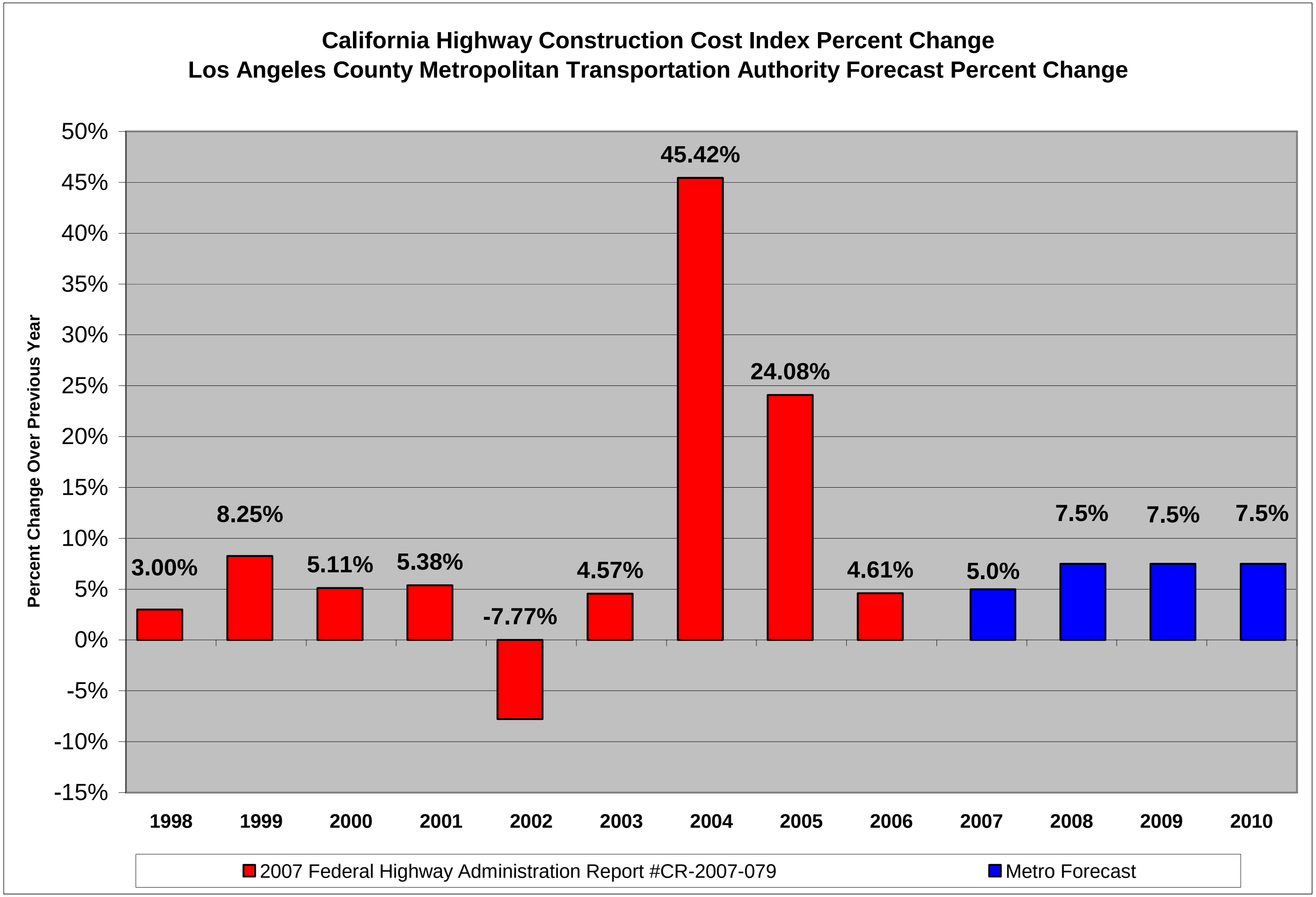
State Transportation Funds in Jeopardy

- **State has 10% General Fund deficit**
  - Metro needs, but is not assuming "Spillover" funds
    - California Transit Association lawsuit
- **State Transportation Improvement Program (STIP) is overdrawn**
  - STIP funds borrowed or redirected for General Fund deficit
  - Allocations may be suspended
- **S & P changed outlook to "stable" from "positive" for State's General Obligation debt**
  - Cited downturn in State tax receipts
  - Infrastructure bond borrowing costs could rise if State General Obligation debt rating changes

Metro

California Construction Cost Increases

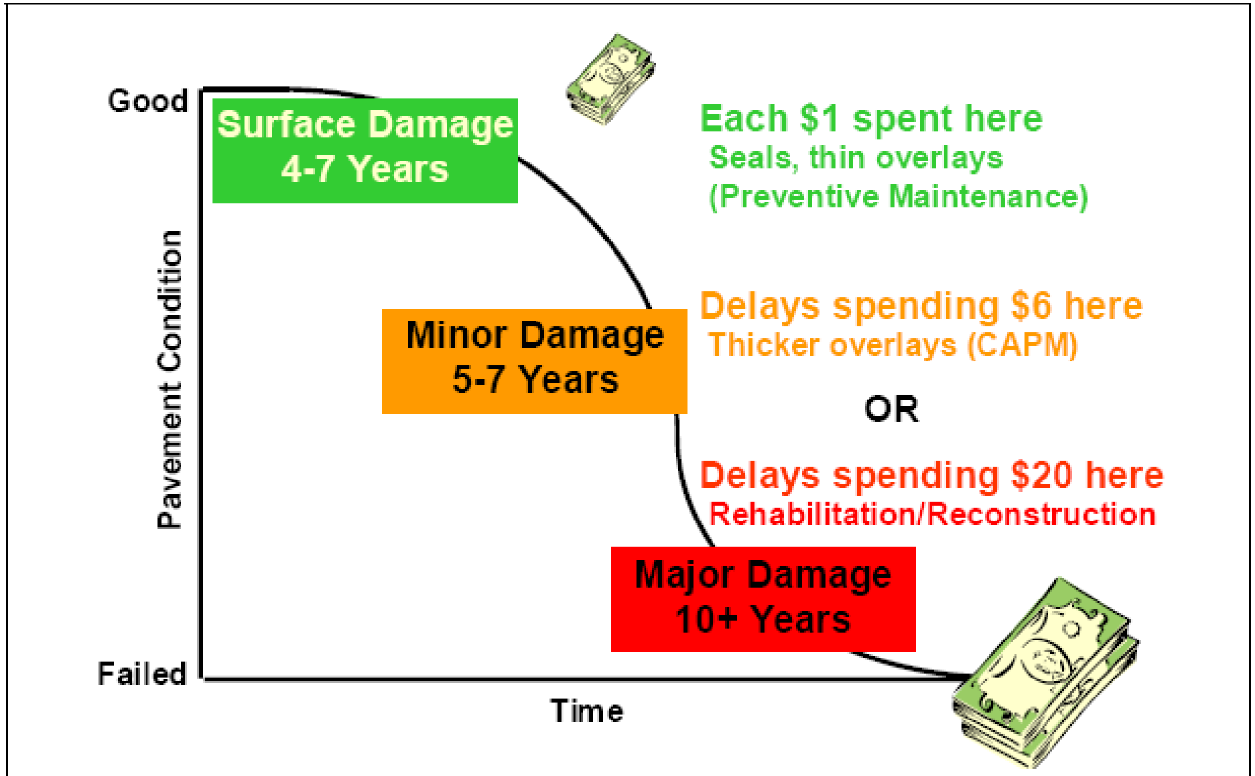
Between 2004 and 2006 construction costs increased 80%



Metro

Maintenance Needs Outstripping Funds

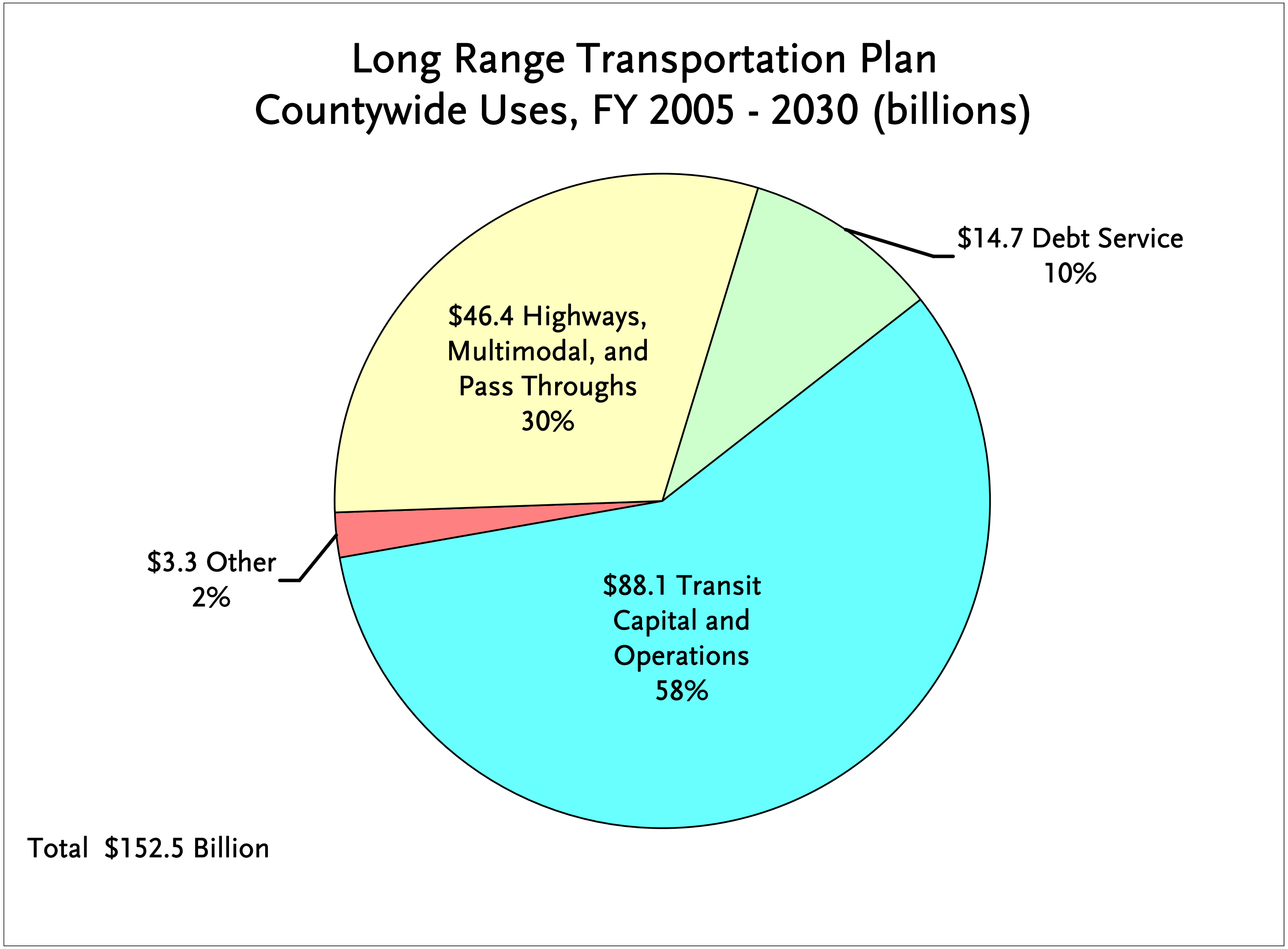
100% of State Hwy Acct now goes to safety and O & M uses and it's not enough: Caltrans has $3 B/yr. in unmet need



Source: Caltrans

Metro

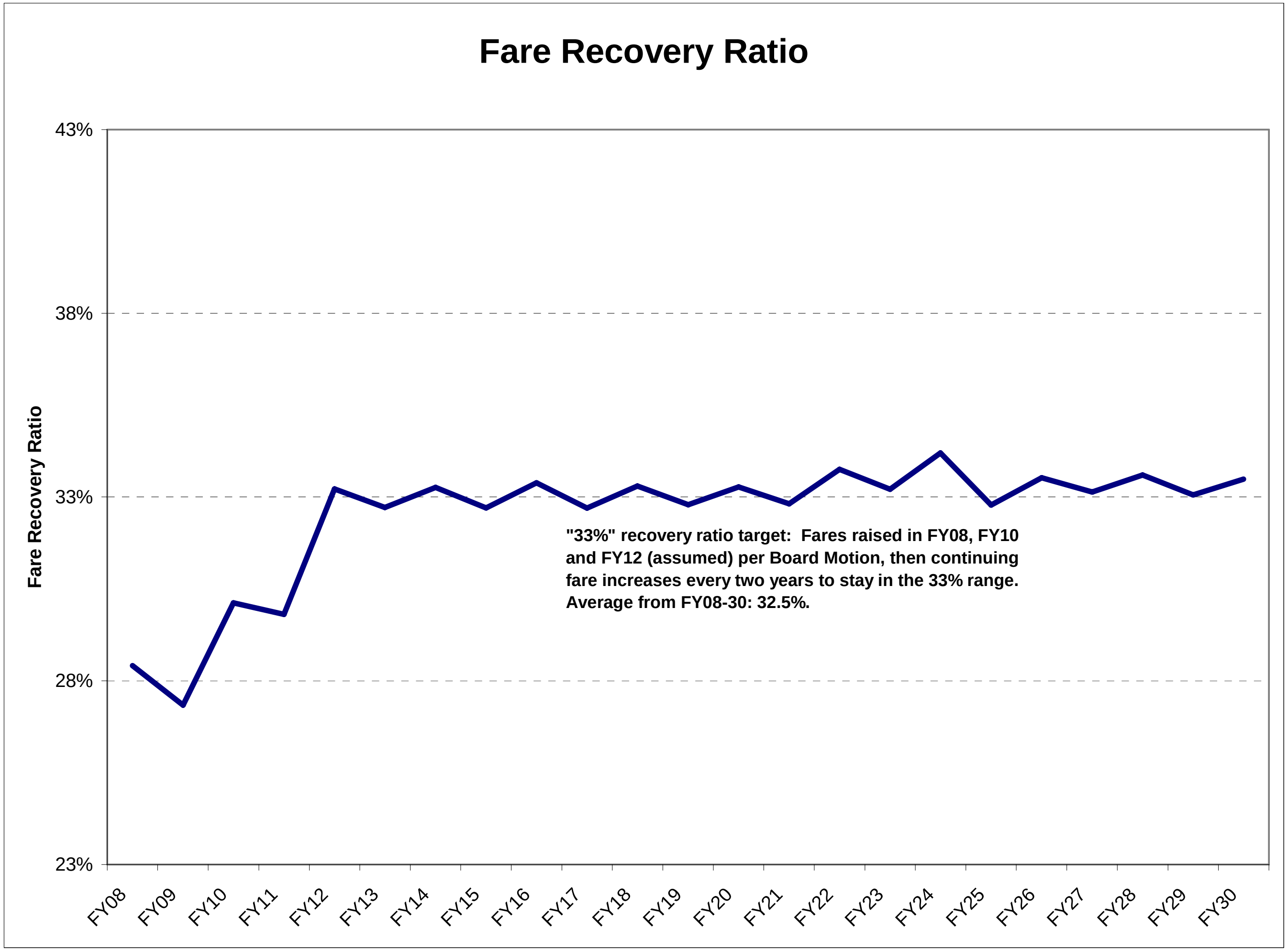
Long Range Transportation Plan Update



Metro

Long Range Financial Forecast for Transportation

- 33% Metro transit fare recovery ratio target
  - Metro transit fares raised in FY 2008, FY 2010, then every 2 years to stay in the 33% range



How We Raise It

Sustainable Transportation Revenue

- **How we raise funds is as important as how we use them**
  - Constant and growing congestion means:
    - Economic competitiveness & quality of life is hampered
    - Hours of lost time for employees, families, and visitors
    - Increasing air pollution & greenhouse gas emissions from wasted fuel
  - Our transportation system capacity is not optimized
    - Under-priced highway, road, & parking capacity over-used by solo-drivers
    - Inadequate street priority for Transit, Bicycle & Peds-Under-used capacity
    - Car-Oriented Land Use & Streetscape decisions increase vehicle use
    - Modest highway & parking pricing signals yield strong congestion relief results
  - Comprehensive Energy Efficiency, Smart Growth & Demand Management partnerships needed to meet sustainable transportation revenue objectives
  - Legislative streamlining and cost saving efforts needed

Metro

Revenue Generating Options

Funding Option	25 Yr. Potential for LA County	Nexus to Improved Congestion & Emissions Criteria
Implement Weight/Mileage Greenhouse Gas Fee (10 cents per pound of CO2 per mile)	$18,750	High
Implement Freeway Access Fee During Peak Hours ($4 average)	$50,000	High
Implement Vehicle Miles Traveled Fee (1 cent per mile)	$20,000	High
Implement High Occupancy Managed Lanes ($6 average per vehicle in rush hours)	$6,500	High
Implement Countywide Congestion Mitigation on New Developments	TBD	High
Implement Parking Management on all lots ($1 per space)	$15,000	High
Half-Cent County Sales Tax	$16,500	Medium
Implement Regional Sales Tax on Gasoline (Five Percent)	$16,875	Medium
1% Transportation Assessment on Property Tax	$2,200	Medium
Implement Metro Parking Access Fee ($1 to $8 per day)	$200	Medium
Benefit Assessment Districts	TBD	Medium
Tax Increment financing	TBD	Medium

Figures are for illustrative purposes only and altering assumptions will give completely different figures.
A one half cent sales tax imposed in FY 2010 would generate $22.25 billion by the end of the LRTP.

Metro

Distance Based Pricing & Financing options

Metro can pursue specific proposals or ask for further study or both

Distance-Based Pricing Options For Existing State Auto fees (Enabling Legislation Needed) and LACMTA Transit System		
Funding Option	25 Yr. Potential for LA County	Nexus to Improved Congestion & Emissions Criteria
Pay as you Drive Insurance	n.a	High
Mileage Based Registration Fee	n.a	High
Mileage Based Vehicle Purchase Tax	n.a	High
Mileage Based Vehicle Lease Fee	n.a	High
Weight Distance Fees	n.a	High
Time Based/ Distance Based Fares using TAP	TBD	High
LACMTA Financing Options		
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	High
Public Private Partnerships (Concession Agreements, Availability Payments)	TBD	High

Metro

Metro Streamlining and Cost Reduction Options

Level of Govt	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 Metro were relatively straightforward. By selling the depreciation right to equipment, Metro 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 Metro governmental purpose, including operating expenses. Congress recently ended LLBs for transit agencies – which ended Metro'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

Metro

Metro Streamlining and Cost Reduction Options

Level of Govt	Streamlining/ Cost Reduction Opportunity	Executive Summary	Probability
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 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

Metro

Metro Streamlining and Cost Reduction Options

Level of Govt	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 Metro 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

Metro

Metro Streamlining and Cost Reduction Options

Level of Govt	Streamlining/ Cost Reduction Opportunity	Executive Summary	Probability
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. Metro 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 Metro'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 Metro	Possible

Metro