Los Angeles County Metropolitan Transportation Authority:

Effects of the Transfer of $50 Million to Los Angeles County

March 1997

96024

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March 31, 1997

96024

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits' analysis of the accuracy of information the Los Angeles County Metropolitan Transportation Authority (MTA) reported as required by Senate Bill 727 (SB 727) regarding the impact on its operations from a $50 million transfer of funds to the County of Los Angeles (county) confirmed that:

- MTA used funds intended for its rail construction projects to replace the $50 million diverted from its bus operations to the county during fiscal year 1995-96 to assist the county in balancing its budget;

- Based on the actual results MTA reported for fiscal year 1995-96 and its fiscal year 1996-97 budget, MTA budgeted for a 1.5 percent decline in the number of vehicle revenue miles its buses will travel, indicating a slight decline in bus service level. Furthermore, in fiscal year 1996-97, MTA increased its budget for its specialized paratransit operations by $1.8 million over the funding budgeted in the previous fiscal year;

- By transferring funds from its rail construction program to replace the $50 million diverted to the county, MTA added to an existing funding shortfall to construct certain rail projects. To mitigate the shortfall, MTA adopted a recovery plan to transfer $300 million from its program to construct commuter lanes to its rail construction program. Such a transfer will fund construction of certain rail projects for the next five years but will not eliminate delays in their completion, currently estimated to be two to seven years behind schedule; and

- If the county is unsuccessful in appealing a recent superior court ruling ordering the county to return $50 million plus interest to MTA, then the impact of SB 727 will be nullified.

Background

In October 1995, the governor approved SB 727, Chapter 518, Statutes of 1995, authorizing a transfer of MTA funds to assist the county in achieving a balanced budget in fiscal year 1995-96. These funds were to come from one-quarter percent Transportation Development Act (TDA) county sales and use tax revenues that otherwise would be allocated from the county's local transportation fund to MTA for its bus operations. This same legislation required that MTA file a written report by August 30, 1996, with the Legislature and the state auditor detailing the specific amount and source of funds used to replace the sales and use tax funds transferred to the county; discussing whether bus and paratransit services and operations have been maintained at consistent levels; and determining whether the transfer of funds required by SB 727 had any detrimental effects on MTA's operational, administrative, planning, or construction activities, and if so, their nature. The state auditor is required to review MTA's report and submit an analysis of its accuracy to the Legislature. MTA's report is attached as an appendix.

MTA is governed by a 14-member board of directors (board) consisting of 5 county supervisors, the mayor of Los Angeles, 5 city council members or mayors, 2 public members, and a nonvoting member appointed by the governor. A chief executive officer manages MTA to provide leadership and fulfill the mission of the board.

MTA, which is the second largest public transportation agency in the United States, coordinates the operation of all public transportation services within the county. Its operations include:

- Long-range regional transportation planning;

- Planning, developing, constructing, and operating light and heavy commuter rail systems; and

- Providing bus service within its service area in the county and to portions of Orange and Ventura counties.

MTA Funds Were Transferred to Los Angeles County

As stated in a report we issued on MTA in August 1996, the county transferred a total of $50 million of TDA sales and use tax revenues to its general fund, making three monthly transfers of $15 million each beginning in March 1996 and a final transfer of $5 million in June 1996. Normally, these sales and use tax revenues would have been allocated from the county's local transportation fund to MTA for its bus operations.

Scope and Methodology

The purpose of this review was to examine MTA's report as required by SB 727 and submit an analysis of its accuracy to the Legislature. Therefore, we confined the scope of our work only to determining the accuracy of MTA's reported statements. Specifically, we reviewed and evaluated the laws, rules, and regulations relevant to MTA and the requirements of SB 727, reviewed the minutes of board meetings from September 1995 and January 1997, and interviewed MTA personnel.

To assess the accuracy of MTA's data in its report to the Legislature, we examined board resolutions supporting the transfer of $50 million to the county. In addition, we examined memoranda instructing the banks to transfer the funds. Finally, we reviewed a document prepared by MTA staff designating local Proposition C sales taxes as the source of funding used to replace funds diverted to the county.

To determine the accuracy of whether bus and paratransit services and operations were maintained at consistent levels, we compared actual vehicle revenue hours and vehicle revenue miles for fiscal year 1995-96 to budgeted vehicle revenue hours and vehicle revenue miles for fiscal year 1996-97. In addition, we examined a supporting schedule prepared by MTA staff regarding budgeted funding for paratransit service in fiscal years 1995-96 and 1996-97.

To determine whether the transfer of funds required by SB 727 had any detrimental effects on the operational, administrative, planning, or construction activities of MTA, we examined the proposed recovery plan for adopted rail projects approved by the board in January 1997 and identified its key components.

In addition, we reviewed supporting documents for these components and identified the associated costs and timelines, when available. Finally, we reviewed the data that MTA staff used to analyze the effects of implementing the recovery plan.

SB 727 required that MTA file a written report with the Legislature and state auditor by August 30, 1996. However, we did not receive MTA's report until January 7, 1997, more than four months after the filing date and only after we requested the information on two separate occasions.

MTA Used Rail Funds To Replace Funds Diverted to Los Angeles County

For fiscal year 1995-96, MTA reported that it used $50 million of its local Proposition C sales tax funding to replace the funds diverted to the county. According to the information MTA provided to us, these Proposition C funds originally were earmarked for rail construction projects but were redirected to support its bus operations.

However, on January 7, 1997, the superior court in the county ruled that SB 727 is unconstitutional and prohibited the county and MTA from making any additional transfers of funds related to the legislation and ordered the county to return all funds previously transferred to it, plus interest, to the MTA.

Budgeted Bus Service Declined Slightly

MTA redirected Proposition C funds from its rail capital projects to its bus operations to ensure that bus and paratransit service and operation levels remained constant. MTA reported that its fiscal year 1996-97 budget maintained bus operations at fiscal year 1995-96 actual service levels. Additionally, MTA reported that its funding budget for paratransit service was increased in fiscal year 1996-97 over the amount budgeted in fiscal year 1995-96. However, in reviewing information MTA provided and its budget for fiscal year 1996-97, it appears that while one measure of its budgeted service levels for bus operations showed a slight increase, another measure indicated a decrease. Specifically, the number of budgeted vehicle revenue hours increased from approximately 6.26 million actual hours reported in fiscal year 1995-96 to 6.31 million hours budgeted in fiscal year 1996-97, an increase of almost 50,000 revenue hours, or 0.8 percent. In contrast, the number of actual revenue miles reported by MTA for fiscal year 1995-96 were approximately 77.5 million revenue miles compared to the 76.3 million revenue miles budgeted for fiscal year 1996-97, a decrease of 1.2 million revenue miles, or 1.5 percent.

Vehicle revenue hours is a performance indicator representing the number of hours a bus is available to the public with a reasonable expectation of carrying passengers, including bus driver rest periods, but excluding time spent traveling when the bus is unavailable to the public. Vehicle revenue miles is another performance indicator representing the number of miles a bus is driven when it is available to the public with a reasonable expectation of carrying passengers.

Factors unrelated to service can influence the performance indicated by vehicle revenue hours. For example, an increase in the budgeted number of vehicle revenue hours could be predicated on a projected increase in traffic congestion requiring more time en route and would not, by itself, indicate an increased level of bus service. Therefore, because vehicle revenue miles are less likely to be influenced by traffic congestion, we considered this performance indicator to be a more reliable measure of bus service level. Using vehicle revenue miles, it appears that MTA budgeted for a 1.5 percent decrease in its bus service level.

We were able to verify that MTA budgeted $18.2 million for its paratransit operations in fiscal year 1996-97 compared to $16.4 million in fiscal year 1995-96, an increase of $1.8 million, or approximately 11 percent. Paratransit is a custom form of public transportation offering "curb to destination" service to a special segment of MTA's ridership such as the disabled or elderly.

Rail Projects Have Been Further Delayed by Implementing SB 727

MTA reported that, as a result of the diversion of funds required by SB 727, its rail capital program has been adversely affected, causing MTA to adjust the completion schedules for its rail construction projects. In fact, based on the documents we reviewed, MTA's transfer of $50 million not only caused delays in some completion dates but also added to an existing funding shortfall. Specifically, the MTA projects that the $50 million fund transfer, combined with declines in federal and local funding and other operating and construction cost increases, created a funding shortfall of more than $360 million to complete several of its existing rail construction projects.

To address concerns raised by the Federal Transit Administration (FTA) relating to MTA's management, scheduling, and financing of its rail construction projects—particularly the Metro Red Line projects—in January 1997, MTA developed a proposed recovery and funding plan for some of its rail projects. According to the plan adopted by MTA's board, the MTA projected as of January 1997, that three of its rail construction projects would be completed from two to seven years behind schedule and would collectively cost $369 million more than MTA originally estimated. To overcome the funding shortfall associated with these rail projects, MTA's recovery plan recommended transferring $300 million in funding originally intended for its High Occupancy Vehicle (HOV) program to its rail capital program. The HOV program funds the construction of commuter lanes designed to discourage the use of single-occupant vehicles and thus reduce traffic congestion.

The recovery plan states that the $300 million transfer will not eliminate the delay in completing the rail projects but will provide a source of funding during the next five years. Further, MTA's recovery plan states that there will be no adverse effect to HOV projects currently slated for completion. However, beyond the year 2003, MTA estimates there could be a one- to two-year delay in completing approximately 30 miles of HOV projects. Additionally, any HOV projects planned for construction beginning in the year 2003 will require MTA to replace the $300 million transferred or find an alternative source of funding.

Finally, on January 14, 1997, the county appealed the ruling made by the county's superior court that ordered the county to return the $50 million transfer, plus interest, to MTA. If the county is unsuccessful in its appeal, the $50 million plus interest will be returned to the MTA and the impact of SB 727 will be moot.

Conclusion

MTA used rail funds to replace the $50 million in funding originally intended for its bus operations that was diverted to the county to help balance the county's budget.

MTA budgeted for a 1.5 percent decline in the number of vehicle revenue miles its buses will travel during fiscal year 1996-97, indicating a slight decline in its bus service level. However, MTA did increase its funding level for paratransit operations by approximately $1.8 million over the amount budgeted in fiscal year 1995-96.

The diversion of the $50 million added to an existing shortfall of more than $300 million in funding for MTA's rail construction projects. To mitigate the effect that the funding shortfall had on its rail construction projects, MTA adopted a recovery plan to transfer $300 million from its HOV program to fund certain of its rail construction projects over the next five years. However, the transfer of the $300 million will not eliminate the delays in the scheduled completion of these projects currently estimated to be two to seven years behind schedule. On the other hand, if the county is unsuccessful in its appeal of the superior court ruling directing the county to return the $50 million plus interest to MTA, the impact caused by implementing SB 727 will be nullified.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in this report. The information in this report was shared with the department, and we considered its comments.

Respectfully submitted,

Kurt Sjoberg

KURT R. SJOBERG
State Auditor

Staff: Doug Cordiner
Greg Saul, CPA

Appendix

January 7, 1997

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Kurt R. Sjoberg, State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

The Los Angeles County Metropolitan Transportation Authority is submitting the following report as required by Senate Bill 727:

1. **The specific amount and source of money, if any, used to replace funds diverted as a result of the enactment of the act.**

   The funds used to backfill the $50 million diverted as a result of the act were MTA's local sales taxes known as Proposition C.

2. **Whether bus and paratransit services and operations have been maintained at consistent levels**

   As a result of SB 727 and the amendment to the Agreement between the County of Los Angeles and the State Board of Equalization, Proposition C funds were redirected from rail capital projects to bus operations. The MTA's FY 97 Budget maintained bus operations at FY 96 actual service levels. Funding for Paratransit service was increased over FY 96.

3. **Whether the act has had any detrimental effect on the operational, administrative, planning, or construction activities of the authority, and if so, the nature of the detrimental effects.**

   Proposition C funds were redirected from rail construction projects to bus operations. As a result of the transfer of funds, the rail capital program has been adversely affected and has required the adjusting of completion schedules.

The Senate Bill 146 documents received by your office were not intended to be the report required pursuant to SB 727. Please accept this as the official submission.

If any further information is required, please contact Terry Matsumoto, Executive Officer-Finance, at (213) 922-2473.

Sincerely,

Linda Bohlinger

Linda Bohlinger
Deputy Chief Executive Officer

c: Larry Zarian, Chairman MTA Board

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March 18, 1997

Mr. Kurt R. Sjoberg
State Auditor
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to comment on your draft report titled "Los Angeles Metroplolitan Transportation Authority: Effects of the Transfer of $50 million to Los Angeles County."

We generally agree with your findings. We did, however, point out to your staff that bus "revenue service hours" is the primary industry standard for measuring bus service levels, not "revenue service miles." On this basis, bus service actually shows a minor increase as noted in the body of your report. With this minor exception, we concur with your report that the MTA fully complied with the requirements of SB727. 1*

Very truly yours:

Linda Bohlinger

Linda Bohlinger
Interim Chief Executive Officer

*The California State Auditor's comment on this response begins on page 13.

Comment

California State Auditor's Comment on the Response From the Los Angeles County Metropolitan Transportation Authority

To provide clarity and perspective, we are commenting on the Los Angeles County Metropolitan Transportation Authority's response to our audit report. The number corresponds to the number we have placed in the response.

1 As we stated on page 5, factors unrelated to service such as traffic congestion can influence the performance indicated by vehicle revenue hours. Therefore, because vehicle revenue miles are less likely to be affected by traffic congestion, we considered it to be a more reliable measure of bus service level.

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps