September 13, 1995 95117

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 Joint Legislative Audit Committee requested that we review specific questions related to the commitments of the Los Angeles County Metropolitan Transportation Authority (MTA). Originally, the Legislature approved Senate Bill 75 (SB 75) which provided that the Los Angeles County Board of Supervisors may annually adopt a resolution requiring a transfer to Los Angeles County's general fund of up to $75 million of the MTA's transit funds in each of the next five years. However, the governor expressed concerns regarding the long-range impact of SB 75 on transportation services in Los Angeles County and subsequently vetoed SB 75. As a result, the Legislature requested that we provide answers to specific questions regarding the MTA's long-term debt.

As of June 30, 1995, the MTA's long-term outstanding debt was approximately $2.9 billion and annual debt service requirements were approximately 19 percent of the MTA's operating expenses. According to its treasurer, the MTA plans to issue approximately $140 million in new long-term debt during fiscal year 1995-96. In addition, the MTA has pledged fare box revenues to finance the workers' compensation funding program and a new 26-story headquarters building. Finally, according to the treasurer, the MTA used approximately $282 million of certain debt issues totaling $1.5 billion for the construction of the Metro Red Line.

BACKGROUND

In February 1993, as the result of state legislation, the Los Angeles County Transportation Commission (commission) and the Southern California Rapid Transit District (district) merged to become the MTA. The MTA acquired all the powers, duties, rights, obligations, liabilities, indebtedness (bonded or otherwise), immunities, and exemptions of the commission and district.

The commission, originally organized under the California Public Utilities Code, Sections 130000 et seq. in 1977, was responsible for managing transit operating policies among municipal bus operators and for planning and developing light, heavy, and commuter rail. This included the construction of a 150-mile urban light and heavy rail system in Los Angeles, participation in the construction of the 250-mile Metrolink commuter rail system in the five-county Metrolink service area, and, under contract with the district, the design and construction of the first and second phases of the subway system known as the Metro Red Line. In order to provide one source of funds for construction of the various transit systems, in November 1980, the voters of Los Angeles County approved Proposition A, which imposed a one-half of one percent sales and use tax. Additionally, in November 1990, the voters of Los Angeles County approved Proposition C, increasing sales tax an additional one-half of one percent to be used for transit purposes.

The Southern California Rapid Transit District (district), organized under the California Public Utilities Code, Sections 30000 et seq. in 1964, was responsible for providing bus service within its service area in Los Angeles County and to portions of Orange and Ventura counties. The district also operated the Metro Blue Line light rail system, which covers 22 miles between the cities of Los Angeles and Long Beach, and a portion of the Metro Red Line, which covers 4.4 miles between Union Station and MacArthur Park in the Los Angeles central business district.

Before 1993 and the creation of the MTA, both the commission and the district issued long-term debt to assist in the construction of the various transit systems and to purchase equipment such as buses and rail cars. The long-term debt was secured by revenue sources such as fare box revenues, sales and use taxes, and federal and state grants. Current long-term debt of the MTA is approximately $2.9 billion.

Since 1993, in addition to the responsibilities and obligations it acquired from the commission and district, the MTA completed and opened the Metro Green Line, a 20-mile-long rail line connecting Norwalk and El Segundo. Additionally, the MTA is continuing its design and construction of the Metro Red Line. The construction of phase 2 is expected to be completed in 1998 and phase 3 at a later date. The MTA expects to finance phases 2 and 3 of the Metro Red Line with a combination of Propositions A and C sales tax revenues, special benefit assessments, state gasoline taxes, and federal funds. In addition, the $140 million that the MTA expects to issue in long-term debt during fiscal year 1995-96 will be secured with some of these same revenues. In the following section of this letter, we discuss our response to the specific questions asked related to the MTA’s long-term debt.

QUESTIONS POSED BY THE LEGISLATURE

1. ***What is the amount of long-term debt that the MTA has incurred and for what purposes, what is the annual amount of money required to service that debt, and what is (are) the revenue stream(s) specifically designated to service the debt? What portion of the MTA's operating budget does debt service represent?***

   As of June 30, 1995, the MTA's long-term outstanding debt was approximately $2.9 billion, and over the term of the debt it will pay interest totaling approximately $2.8 billion. These amounts exclude principal and interest that certain official statements indicate will be paid from assets deposited in escrow accounts. These escrow accounts relate to certain bonds that have been refunded to reduce the MTA's interest expense by taking advantage of market conditions. The commission, before it merged with the district to form the MTA, also issued commercial paper totaling $345 million to assist in the financing of various projects, including the Metro Rail system. As of June 1995, the MTA has approximately $243 million of commercial paper outstanding and its practice has been to pay the accrued interest and roll over or reissue the principal amounts as they mature. The revenue sources that the official statements identified to fund these debt issues vary. They include Proposition A and C tax revenues, Federal Transit Authority grants and receipts from local entities, fare box revenues, and fees and advertising revenues. The appendix on page 7 presents the amount of long-term debt incurred by both the district and commission, and the MTA after merging; the purpose of each issuance of debt; and the revenue source pledged to be used for payment of the debt.

   Approximately 19 percent of the MTA's fiscal year 1994-95 operating expenses are for debt service. This percentage is based on debt service of approximately $190 million and a preliminary estimate of the MTA's operating expenses for fiscal year 1994-95 of approximately $985 million. The debt service excludes interest related to the commercial paper that may have increased total debt service to approximately 20 or 21 percent of the 1994-95 operating expenses. The estimated operating expenses include approximately $58 million of operating expenses related to the construction program. We obtained the preliminary estimate of expenses from the MTA's fiscal year 1995-96 budget document. The MTA was unable to provide us with the actual 1994-95 expenses because it has not completed its year-end financial statements. The following table illustrates the MTA's annual long-term debt service requirements for the debt outstanding at June 30, 1995:

Table

Annual Long-Term Debt Service Obligation
(In Millions)

Due in Fiscal Year	Principal	Interest	Total
1995-96	45.8	160.0	205.8
1996-97	52.3	164.5	216.8
1997-98	56.1	161.4	217.5
1998-99	61.2	157.9	219.1
1999-00	64.6	154.1	218.7
Thereafter	2,666.2	2,044.9	4,711.1
Total	**$2,946.2**	**$2,842.8**	**$5,789.0**

2. ***What additional debt does the MTA's proposed fiscal year 1995-96 budget anticipate will be issued, and for what purposes? What portion of the fiscal year 1995-96 operating budget will debt service represent?***

   The MTA's fiscal year 1995-96 budget document does not specifically address the amount of debt the MTA plans to issue during the year. However, according to its treasurer, the MTA plans to issue approximately $140 million in new long-term debt during fiscal year 1995-96. The MTA plans to use the proceeds of these bonds to finance further construction of the Metro Red Line. Approximately 21 percent of the MTA's fiscal year 1995-96 budgeted operating expenses are for debt service. This percentage is based on debt service of approximately $206 million and budgeted operating expenses for fiscal year 1995-96 of approximately $1 billion. The debt service excludes interest related to the commercial paper that may increase total debt service to 22 or 23 percent of the operating budget, depending on changes in the principal amount of commercial paper outstanding and interest rates that will change over the course of the year. The budgeted operating expenses include approximately $55 million in operating expenses related to the construction program.

3. ***Has the MTA pledged revenue derived from transit fare box as debt service, and if so, for what? What is the revenue stream designated to retire the debt for construction of the new MTA headquarters building?***

   Fare box revenues, along with other revenues, have been pledged for two debt issues. Revenue from fare boxes was approximately $207 million for fiscal year 1993-94 and the MTA budgeted its fiscal year 1995-96 fare box revenues as $213 million. The first debt issue financed the workers' compensation funding program and the second issue is financing the cost of a new 26-story headquarters building for the MTA.

   The district, before it merged with the commission to form the MTA, issued Certificates of Participation (COP) totaling $160 million in July 1990. The district agreed to make installment payments from its fare box revenues, contract service revenues, and, if any, grants or loans received by the district which were not dedicated to specific purposes. The district used the proceeds from the COPs to finance its workers' compensation funding program. As of June 30, 1995, the entire $160 million of the principal on the COPs remains outstanding.

Subsequent to the merging of the district and the commission, the MTA issued general revenue bonds totaling $169.5 million in January 1995. The MTA pledged as security for this issue its fare box revenues and fees and advertising revenues, including interest income, that the MTA receives from the facilities and properties it maintains. The MTA used the proceeds from this issue of general revenue bonds to finance the cost of a new 26-story headquarters building for the MTA.

4. ***SB 1231 (Chapter 331, Statutes of 1994) repealed the previous $300 million cap on financing the construction of the Metro Rail Red Line. How much debt has been issued to fund Red Line construction?***

   In issuing bonds and commercial paper, the commission, in the official statements, did not specifically identify the amount of the debt proceeds that would be applied to each rail project. Rather, the Metro Red Line was financed by unspecified portions of various bond issues totaling approximately $1.2 billion and commercial paper totaling $345 million. In July 1986, the commission issued Sales Tax Revenue Bonds totaling approximately $708 million to finance its proposed rail rapid transit system. In January 1991, the commission issued commercial paper totaling $345 million in order to finance various projects on an interim basis. Subsequently, in June 1991, a second series of Sales Tax Revenue Bonds was issued by the commission for the amount of $500 million. The commission issued these bonds for the purpose of financing certain right-of-way acquisitions for the rail system, the construction of commuter rail lines, the construction of portions of the Metro Green Line and Metro Red Line, the acquisition of rolling stock for the rail system, and the payment of approximately $100 million of the outstanding commercial paper. According to the treasurer of the MTA, approximately $282 million of the long-term debt issued to finance the rail system was used specifically for the construction of the Metro Red Line. The MTA, through June 1995, estimates that it has spent a total of approximately $2.6 billion on the Metro Red Line.

In summary, the MTA's long-term outstanding debt was approximately $2.9 billion at June 30, 1995. According to its treasurer, the MTA plans to issue an additional $140 million in long-term debt during fiscal year 1995-96. The MTA has also pledged some of its fare box revenues to finance the workers' compensation funding program and a new 26-story headquarters building.

Finally, according to the MTA's treasurer, the MTA used approximately $282 million of certain debt issues totaling $1.5 billion for the construction of the Metro Red Line. We shared the information in this report with the MTA and considered its comments.

Respectfully submitted,

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Appendix

MTA Debt Issues Including Purpose, Amount, and Source of Repayment

Debt Series	Purpose	Original Principal	Source of Principal Repayment—Dedicated Fund Sources
Equipment Trust Certificates 1984 January 1984	To purchase 447 transit motorbuses	$ 18,850,000	General Obligation of the District payable from revenues other than fare box revenues
Equipment Trust Certificates 1986 August 1986	To purchase 120 transit motorbuses	24,130,000	General Obligation of the District payable from revenues other than fare box revenues
Sales Tax Revenue Bonds 1986-A July 1986	To finance proposed rail rapid transit system	157,615,000	Proposition A Sales Tax Revenues
Sales Tax Revenue Bonds 1986-B July 1986	To finance proposed rail rapid transit system	260,000,000	Proposition A Sales Tax Revenues
Sales Tax Revenue Bonds 1986-C July 1986	To finance proposed rail rapid transit system	111,500,000	Proposition A Sales Tax Revenues
Sales Tax Revenue Bonds 1986-D July 1986	To finance proposed rail rapid transit system	100,000,000	Proposition A Sales Tax Revenues
Sales Tax Revenue Bonds 1986-E July 1986	To finance proposed rail rapid transit system	78,500,000	Proposition A Sales Tax Revenues
Sales Tax Revenue Refunding Bonds 1987-A May 1987	To refund a portion of the $707,615,000 Sales Tax Revenue Bonds, Series 1986 A-E	271,550,000	Proposition A Sales Tax Revenues
Sales Tax Revenue Refunding Bonds 1988-A May 1988	To refund $111,500,000 of Series 1986-C Bonds	112,274,129	Proposition A Sales Tax Revenues
Sales Tax Revenue Refunding Bonds 1989-A January 1989	To refund Series 1986-D and -E Bonds	174,303,858	Proposition A Sales Tax Revenues
Certificates of Participation Workers' Compensation Funding Program 1990 July 1990	To finance the Workers Compensation Funding Program	160,000,000	District revenues, including all fare box revenues, contract service revenues, if any, and grants or loans if use is not inconsistent with the specific grant or loan
Lease Revenue Bonds - 7.375% 1990 December 1990	To finance purchase of 22 light rail cars	26,400,000	Proposition A Sales Tax Revenues
Yen Obligation 1990	To finance purchase of 22 light rail cars—coupled with Lease Revenue Bonds above	6,600,000	Proposition A Sales Tax Revenues
Sales Tax Revenue Bonds 1991-A June 1991	For certain rail right-of-way acquisitions, construction of rail lines, and rail car acquisition; also to retire approximately $100 million of outstanding notes	500,000,000	Proposition A Sales Tax Revenues

Debt Series	Purpose	Original Principal	Source of Principal Repayment—Dedicated Fund Sources
Sales Tax Revenue Refunding Bonds 1991-B December 1991	To refund portions of Series 1987 and Series 1988 Bonds	281,425,000	Proposition A Sales Tax Revenues
Certificates of Participation 1991-G October 1991	To acquire 60 over-the-road buses and 26 fixed-route buses	19,340,000	Any source of legally available funds of the Commission; if insufficient, funds from Proposition A Sales Tax
Sales Tax Revenue Refunding Bonds 1992-A June 1992	To refund portions of Series 1986-A, 1987-A, and 1988-A Bonds	98,700,000	Proposition A Sales Tax Revenues
Proposition C Sales Tax Revenue Bonds, Second Senior Bonds 1992-A November 1992	To finance various transit projects	516,855,000	Proposition C Sales Tax Revenues
Sales Tax Revenue Refunding Bonds 1992-B June 1992	To refund portions of Series 1986-A, 1987-A, and 1988-A Bonds	107,665,000	Proposition A Sales Tax Revenues
Certificates of Participation 1992-B June 1992	To finance purchase of 333 buses	118,375,000	Federal Transit Administration grants (approximately 80 percent) and receipts from local entities per existing Memoranda of Understanding
Certificates of Participation 1992-C December 1992	To finance purchase of buses and other related equipment	3,390,000	Federal Transit Administration grants (approximately 80 percent) and receipts from local entities per existing Memoranda of Understanding
Grand Central Square Qualified Redevelopment Bonds 1993-A October 1993	To finance rehabilitation of the Grand Central Square Project for commercial and residential use	21,665,000	Primarily Proposition A Sales Tax Revenues
Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds 1993-A June 1993	To refund portions of Series 1992-A bonds	204,095,000	Proposition C Sales Tax Revenues
Proposition C Sales Tax Revenue Bonds, 1993-B November 1993	To fund various transit projects	312,350,000	Proposition C Sales Tax Revenues
Proposition A Sales Tax Revenue Refunding Bonds 1993-A May 1993	To refund portions of Series 1986-A, 1987-A, 1988-A, 1989-A, 1991-A, and 1991-B Bonds	560,570,000	Proposition A Sales Tax Revenues
General Revenue Bond, (Union Station Gateway Project) 1995-A January 1995	To finance the new 26-story MTA headquarters building and related costs	169,500,000	General Revenues—all fare box revenues, fees and advertising revenues, together with interest income thereon
Proposition C Sales Tax Revenue Bonds, Second Senior Bonds 1995-A July 1995	To finance various transit projects	250,000,000	Proposition C Sales Tax Revenue