California State Auditor

BUREAU OF STATE AUDITS

Los Angeles Metropolitan Transportation Authority:

Creating a Separate San Fernando Valley Authority Would Take a Split of Assets, Revenue, and Debt

July 1998
98107

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CALIFORNIA STATE AUDITOR

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July 7, 1998 98107

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

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning a proposal calling for a separate San Fernando Valley Transportation Authority (VTA) with authority similar to the Los Angeles Metropolitan Transportation Authority (MTA). This report concludes that under the proposal, the MTA would hand over a portion of the northern extension of the Metro Red Line, three rail corridors (rights-of-way), and bus operations to the proposed VTA. We estimate that 20 percent of the MTA's sales tax revenue would also transfer to the VTA in addition to other local, state, and federal revenues. We conclude that shifting 20 percent of the existing debt to the VTA to match the 20 percent of total MTA sales tax revenue it will receive would keep both entities viable and support their ability to issue additional bonds as needed. Our analysis indicates the VTA would have net revenues in fiscal year 1998-99 of $38.6 million over what it needs for operating expenses and payments of principal and interest on the existing debt.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Enclosure

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Summary

Audit Highlights . . .

A legislative proposal would create the San Fernando Valley Transportation Authority (VTA) from part of the Los Angeles Metropolitan Transportation Authority (MTA).

We assessed the proposal and found that after transferring $1.1 billion in assets, assuming $560.3 million in principal and interest costs, and receiving 20 percent of the MTA's sales tax revenue, the VTA would have net revenues of $38.6 million more than expenses in fiscal year 1998-99.

Results in Brief

The Los Angeles Metropolitan Transportation Authority (MTA) is responsible for all aspects of ground transportation in Los Angeles County, which includes the San Fernando Valley. A legislative proposal would call for a separate San Fernando Valley Transportation Authority (VTA) with authority similar to the MTA.

Under such a proposal, the MTA would hand over a portion of the northern extension of the Metro Red Line, three rail corridors (rights-of-way), and bus operations to the proposed VTA. When completed, the MTA will have spent $1.1 billion to purchase or construct these assets, with $560.3 million in principal and interest still remaining. This represents about 10 percent of the debt MTA secured with sales tax revenues from Proposition A and Proposition C.

In addition to certain local, state, and federal revenues, we estimated that 20 percent of the MTA's sales tax revenue would also transfer to the VTA. We concluded that shifting 20 percent of the existing debt to the VTA to match the 20 percent of total MTA sales tax revenue it will receive would keep both entities viable and support their ability to issue additional bonds as needed. Our analysis found the VTA would have net revenues in fiscal year 1998-99 of $38.6 million over what it needs for operating expenses and payments of principal and interest on the existing debt.

Introduction

Background

The Los Angeles County Metropolitan Transportation Authority (MTA) was established in 1993 by state law as the result of the merger of the Los Angeles County Transportation Commission and the Southern California Rapid Transit District. The MTA is the nation's second-largest provider of public transportation. As Los Angeles County's principal transportation agency, the MTA is responsible for planning, operating, and constructing all aspects of ground transportation, including highway construction and traffic flow management; public parking facilities; rail construction; bus, rail, and ferry services; alternative modes of transportation; research and development of alternative energy sources for transit vehicles; and air quality, environmental impact, land use, and economic development decisions.

The MTA operates a fleet of 2,067 buses over a 3,800-mile route system and carries 1.2 million bus passengers daily, making it one of the largest bus systems in the United States.

In addition to its bus operations, the MTA's Metro Rail system serves an estimated 100,000 passengers daily. The system currently consists of the following three lines:

- The Metro Blue Line light rail system, completed in 1990, covers 22 miles between the cities of Los Angeles and Long Beach.

- The Metro Green Line light rail, which opened in 1995, covers 20 miles between Norwalk and El Segundo and also connects with the Metro Blue Line.

- The Metro Red Line is a 6.7-mile subway running through downtown Los Angeles from the Gateway Transit Center/Union Station to Wilshire Boulevard at Western Avenue. The MTA plans to construct the subway in three phases to eventually run through Hollywood, the San Fernando Valley, and East Los Angeles. The San Fernando Valley extension is scheduled for completion by May 2000.

The MTA Receives Funds From a Variety of Sources

The MTA receives the funding for its operations and capital projects from a variety of sources, including local, state, and federal governments. Voter-approved Proposition A and Proposition C each impose a one-half percent sales and use tax and generate approximately 29 percent of the MTA's budgeted annual revenues for fiscal year 1998-99. It also receives state funds, such as gasoline tax and sales tax revenues, to be used for transportation planning, as well as building and operating rail and bus lines, and other transportation purposes. The federal government provides funding for similar purposes. Additionally, bus and all other transit riders contribute about 9 percent of budgeted annual revenues through fare box collections, passes, and tokens.

The MTA and its predecessors sold bonds to assist in the construction of rail systems and to purchase equipment such as rail cars. This long-term debt is secured by various revenue sources, including Proposition A and Proposition C sales and use taxes. As of June 30, 1998, the MTA estimates it will have incurred long-term debt totaling approximately $5.66 billion with an annual principal and interest payment (debt service) of approximately $212.8 million for fiscal year 1998-99.

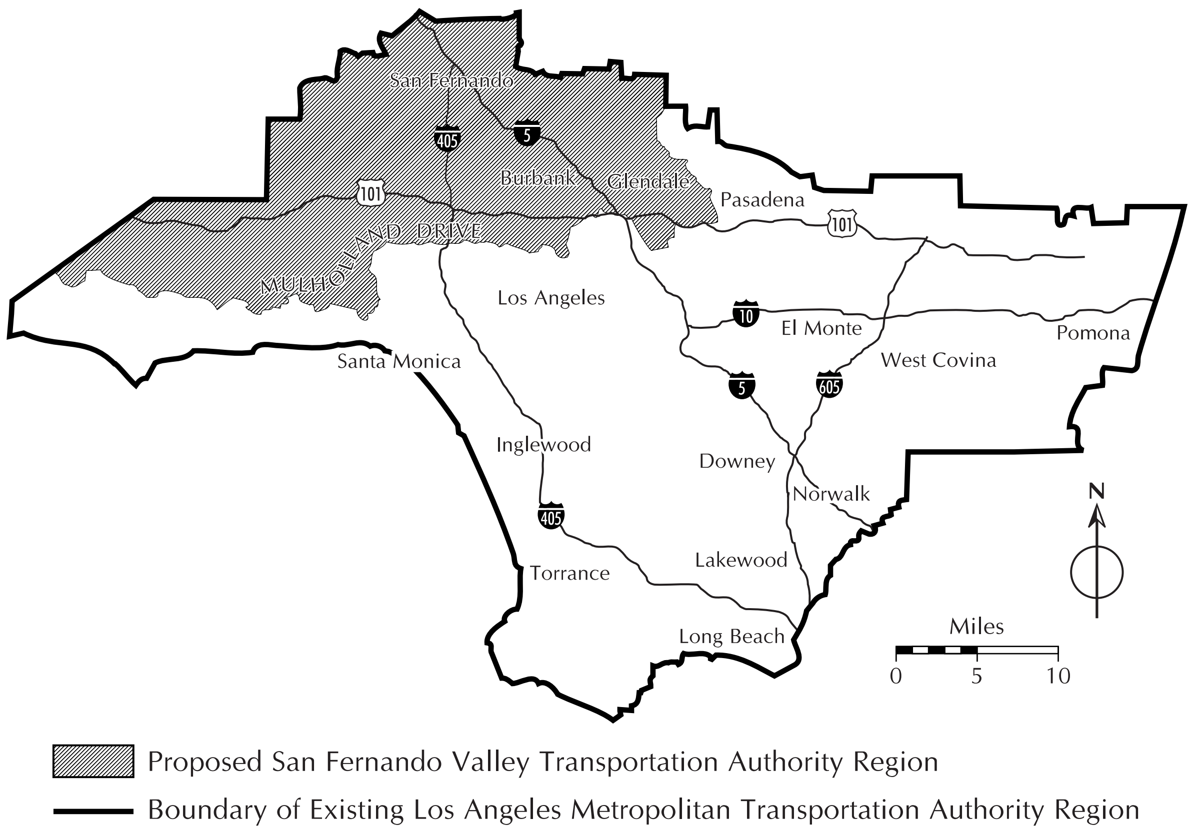
The Proposed San Fernando Valley Transportation Authority

Senate Bill 1886 proposes establishing a San Fernando Valley Transportation Authority (VTA) to provide transportation resources for the San Fernando Valley region rather than the MTA.

As shown in Figure 1, the bill defines the VTA region as the area bordered by the city limits of the city of San Fernando and the city of Los Angeles to the north, the Los Angeles County line to the west, Mulholland Drive to the south, and the city of Glendale's city limits to the east.

Figure 1

Proposed San Fernando Valley Transportation Authority Region



Under the proposal, all property owned by the MTA and located in the San Fernando Valley region would transfer to the VTA on January 1, 1999. In addition, the VTA would be entitled to the portion of the sales- and use-tax revenue collected in the region under Proposition A and Proposition C as well as the bond debt incurred by the MTA to acquire the transferred property. The VTA would also assume the rights and obligations of any MTA contract to be performed in the San Fernando Valley region.

Further, we assumed the VTA would become subject to the rulings under a consent decree, filed October 29, 1996, between the MTA and class action plaintiffs represented by the NAACP Legal Defense and Education Fund, Inc. The consent decree calls for additional bus service, a commitment to increase security on the bus system, and a commitment to reduce or maintain the cost of bus passes and fares. See Appendix B, Bus Fare Revenue, for additional information on the consent decree.

Recent Events

Recent events have made extension of the Metro Red Line uncertain. First, the MTA will not receive the federal funds it needs to complete the project until the Federal Transit Administration approves a recovery plan showing how the MTA will reduce costs on its rail projects and comply with the consent decree. Second, in an attempt to contain costs to allow for the continued construction of the San Fernando Valley extension of the Red Line, the MTA's chief executive officer suspended work on all but one other rail project. Finally, state funds are also in doubt unless the MTA can show that its rail projects are financially viable.

Scope and Methodology

This audit's purpose is to identify and assess assets and liabilities that would transfer from the MTA if a proposed VTA is established. To complete this assessment, we reviewed and evaluated the laws, rules, and regulations relevant to the MTA and its transportation programs, reviewed the minutes of the MTA's board of directors meetings from January 1998 to April 1998, and interviewed the MTA's personnel.

To identify assets that would transfer to the VTA, we interviewed the MTA's staff and reviewed documents showing the location of rail lines, rights-of-way, and bus routes in the proposed region.

To determine the amount of bond debt incurred by the MTA to acquire property, including the Metro Red Line, that pertains to the proposed VTA, we identified bond issues related to the property that would be transferred.

To quantify the amount of revenue from local, state, and federal sources that the proposed VTA would be entitled to, we interviewed the MTA's staff and reviewed the MTA's documents. We then made projections relating to the VTA based on project forecasts developed by the University of California, Los Angeles and the MTA's own estimates. We based bus fare projections on the consumer price index as recommended by the MTA's staff.

Using information provided by the State Board of Equalization, we obtained taxable sales and population figures for both Los Angeles County and the San Fernando Valley region, which we used in projecting sales revenues related to the VTA.

To compute the costs associated with operating buses and the San Fernando Valley portion of the Red Line, we interviewed the MTA's staff and reviewed the operational costs experienced by the MTA in these areas. We then made projections relating to the VTA based on the consumer price index as recommended by the MTA's staff.

We also calculated the VTA's portion of revenue, debt service, and operations costs to determine its viability as a separate entity.

To complete our calculations, we made a number of assumptions, estimates, and projections which we detail in the appendices.

The Proposed VTA Would Have Funds Available for Transit Projects After Paying Its Share of Annual Debt and Operating Costs

Summary

We identified approximately $1.1 billion of the Los Angeles County Metropolitan Transportation Authority's (MTA) assets attributable to the proposed San Fernando Valley Transportation Authority (VTA). The related principal and interest cost incurred to acquire the assets is estimated at $560.3 million and would be fully paid by 2028.

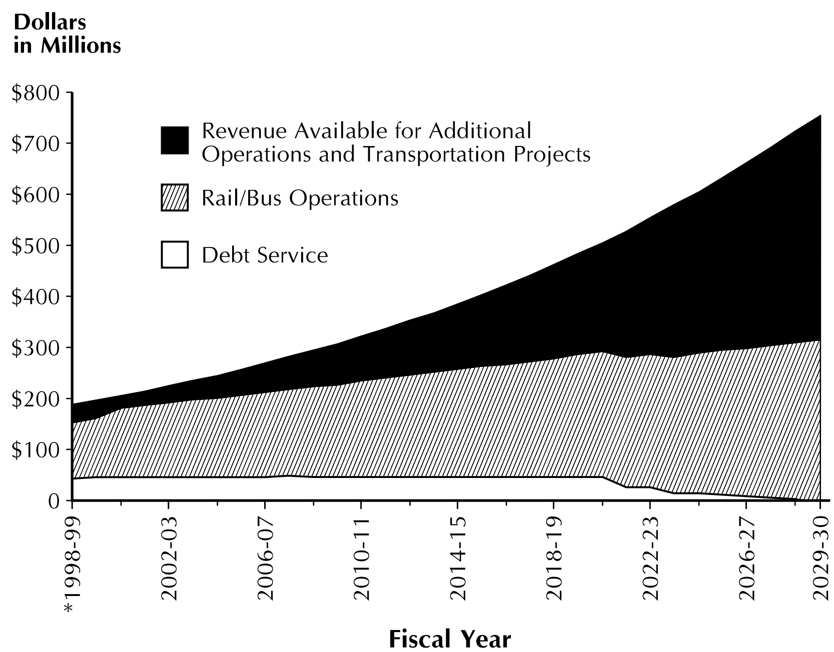
If the VTA is established in fiscal year 1998-99, we anticipate its local revenue for that fiscal year to be $189.6 million, net of its allocation to local jurisdictions of $40.4 million. With an annual debt-service payment of $44 million and estimated operating costs of $107 million for the transferred assets, we calculate the VTA would have $38.6 million more available in fiscal year 1998-99 for additional operating expenses and transportation-related projects.

Figure 2 illustrates the VTA's annual debt service, its cost of operating the transferred assets, and the annual dollar amount available to the VTA for additional operations and transportation projects.

In addition to local revenues, we estimated the VTA could receive more than $88.7 million in additional revenue from state and federal sources in fiscal year 1998-99. The majority of these revenues are earmarked for specific projects or transportation needs, however, and cannot be used for operations.

Figure 2

Revenue Available After the VTA Pays Its Annual Debt and Operations Costs for Transferred Rail and Bus Assets From Local Revenue Sources



*Although the VTA would be established on January 1, 1999, we have shown the entire fiscal year for ease of comparison.

The VTA Would Have Three Major Assets

The proposed VTA would include part of the Metro Red Line, three railroad rights-of-way, and 35 bus routes. See Appendix A for details on the assumptions on which our calculations are based.

Metro Red Line

The proposed VTA region would include more than 3.7 miles of the northern extension of the Metro Red Line. The completed extension would include rights-of-way, dual tracks, communication lines, and the Universal City and North Hollywood stations. The total cost of the Red Line property that would be transferred is $767 million. The MTA incurred debt when it issued Proposition C sales tax revenue bonds to construct the Red Line, and it plans to sell additional bonds before the line is completed. Approximately $88.7 million in principal and interest is or will be associated with this segment of the Red Line and will be paid off in fiscal year 2027-28. Because the majority of the Red Line is located within the MTA region and, where operational, is run by it, we concluded it would be reasonable to expect that the MTA would operate the entire northern extension of the Metro Red Line under an agreement with the VTA. Based on the MTA's experience operating the existing Metro Red Line in downtown Los Angeles, we estimate the VTA share of operating costs for the segment of the Metro Red Line in its region would be approximately $19.9 million for fiscal year 2000-01, the first fiscal year the northern extension would be fully operational.

Rights-of-Way

Three rail rights-of-way and two bus divisions would transfer to the new authority at a combined value of $308 million.

The three rail rights-of-way at least partially located in the San Fernando Valley region cost $258 million. We estimate the remaining principal and interest associated with these assets is $471.6 million, which will be paid in full by fiscal year 2026-27. Metrolink, Amtrak, and Union Pacific are currently using two of the three rights-of-way for their operations and one is idle. We found no significant costs associated with maintaining these assets.

Bus Operations

The proposed VTA region would assume the operation of two of the MTA's eleven bus divisions. These two divisions are within the San Fernando Valley region and operate a total of 359 buses on 35 routes. Each division has a bus facility that provides maintenance and dispatch services to all the buses serving the routes in its territory. The cost of the buses and other assets assigned to the divisions is $50 million and the MTA has no debt associated with these assets.

With the transfer to the VTA of the assets assigned to these bus divisions would go the operation of 35 bus routes, including 2 routes operated by Chartways Incorporated under contract to the MTA. We assumed the VTA would honor the existing contracts after the transfer. Based on our assumptions spelled out in the appendices, we estimated the proposed VTA would spend $107 million on bus operations during fiscal year 1998-99.

The MTA Receives Local, State, and Federal Revenue

The MTA is responsible for identifying needed transportation projects and budgeting all regional surface transportation funds in the county. To meet its various responsibilities, the MTA receives funds from a variety of local, state, and federal sources. If the legislation establishing the new authority passes, the VTA would begin to receive revenue on January 1, 1999. For ease of presentation in the discussion that follows, we have used fiscal year 1998-99 as the first year that the VTA would be established. Table 1 shows projections by year of the most significant sources of revenue the proposed VTA would receive.

Table 1

Revenue Projections for the Proposed VTA
Major Local, State, and Federal Sources
Fiscal Years 1998-99 Through 2029-30
(Dollars in Millions)

	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-30	Total
Local								
Proposition A and Proposition C Sales Tax net of allocation to local jurisdictions	$139.0	$145.2	$151.9	$159.1	$167.1	$175.5	$ 9,416.2	$10,354.0
Transportation Development Act net of distribution	6.1	6.4	6.5	6.9	7.2	7.5	381.7	422.3
Bus Fares	38.7	40.0	41.5	43.0	44.6	46.2	1,811.1	2,065.1
Rights-of-Way	3.6	3.8	3.9	4.0	4.1	4.2	167.9	191.5
Advertising	2.2	2.4	2.4	2.5	2.6	2.7	104.5	119.3
Local Revenue Total	189.6	197.8	206.2	215.5	225.6	236.1	11,881.4	13,152.2
Percent of Total	68%	76%	77%	78%	87%	85%	90%	89%
State								
State Transportation Improvement Program	73.7	48.5	49.1	45.6	19.2	27.5	912.6	1,176.2
State Transit Assistance Program	3.5	3.5	3.6	3.6	3.7	3.7	111.6	133.2
Service Authority for Freeway Emergencies	1.2	1.1	1.1	1.1	1.1	1.1	33.2	39.9
State Revenue Total	78.4	53.1	53.8	50.3	24.0	32.3	1,057.4	1,349.3
Percent of Total	28%	20%	20%	18%	9%	12%	8%	9%
Federal								
Surface Transportation Program	10.3	9.4	9.6	9.7	9.8	10.0	299.2	358.1
Federal Revenue Total	10.3	9.4	9.6	9.7	9.8	10.0	299.2	358.1
Percent of Total	4%	4%	4%	4%	4%	4%	2%	2%
Total Local, State, and Federal Revenue	**$278.3**	**$260.3**	**$269.6**	**$275.5**	**$259.4**	**$278.4**	**$13,238.0**	**$14,859.6**

*Although the VTA would be established on January 1, 1999, we have shown the entire fiscal year for ease of comparison.

We determined that revenue from local sources in fiscal year 1998-99 is 68 percent of the total revenue the VTA would receive from all major sources. See Appendix B for the assumptions we made regarding revenue and additional detail on revenue sources.

We determined that revenue from local sources in fiscal year 1998-99 is 68 percent of the total revenue the VTA would receive from all major sources.

Our analysis of revenue, operations costs, and debt service payments is based on historical data and forecasts we obtained from the MTA, and the projections we present in this report are estimates only. Furthermore, some of the state and federal revenues we projected that the VTA would receive were based on the MTA's existing funding agreements. Because the VTA is not yet established, it has not entered agreements with the state and federal agencies that provide revenue for identified and eligible transportation projects. Consequently, once established, the VTA will need to identify the transportation needs for its area. Moreover, the VTA's projected operations costs are based on a portion of the MTA's operations costs and do not include start-up and other inherent costs related to a new organization. The VTA's costs could therefore be higher, at least initially. Finally, whether the State has the legal authority to transfer Proposition A and Proposition C sales tax revenue from the MTA to the VTA is not certain.

Because the VTA Will Receive 20 Percent of the MTA's Revenues, It Should Also Assume 20 Percent of the Debt

If the VTA is established, the MTA will transfer assets and related indebtedness to the new entity. The amount of indebtedness secured by Proposition A and Proposition C sales tax revenues associated with transferring these assets is \$560.3 million, only about 10 percent of the MTA's indebtedness secured by these revenues. But the VTA would be entitled to 20 percent of the MTA's sales tax revenues from these propositions based on its sales tax base. We concluded that it would be more equitable for the VTA to assume 20 percent of the MTA's principal and interest cost rather than the 10 percent associated with the assets being transferred. The MTA uses most of the revenues it receives from Proposition A and Proposition C sales taxes to secure bond issues. These bond issues are then used to finance the construction of transportation projects benefiting the entire MTA region. Because the VTA will be entitled to 20 percent of the sales tax revenues based on its share of the taxable sales, it should assume 20 percent of the MTA's debt secured by those revenues. See Appendix C for details of our analysis.

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 the audit scope section of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: July 7, 1998

Staff: Doug Cordiner, Audit Principal
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Tony Nevarez
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Appendix A

Transferred Assets: Northern Extension of the Metro Red Line, Rights-of-Way, and Bus Operations

Northern Extension of the Metro Red Line

The estimated costs for building the northern Red Line extension is approximately $1.31 billion, which is funded by federal, state, and local resources, and bond sales secured by Proposition C tax revenue. Construction costs include excavating and constructing a tunnel through the Santa Monica Mountains; laying rail tracks; constructing three stations; purchasing rail cars; and supplying electrical power, a signaling system, communication, and maintenance facilities.

According to the Los Angeles Metropolitan Transportation Authority's (MTA) documents, the majority of the northern extension, 3.7 miles (58.5 percent), lies within the proposed San Fernando Valley Transportation Authority (VTA) region and would be transferred to the proposed entity. Transferred assets would include tracks, signaling and communication lines, and the Universal City and North Hollywood stations along with the property adjacent to the two stations.

Because of the recent uncertainty regarding the completion of certain MTA projects, we made several assumptions to complete the audit. First, we assumed that the MTA will complete the northern extension of the Red Line and it will begin earning revenue by its scheduled completion date of May 2000. We also assumed that construction management of the Red Line would remain with the MTA and that property associated with the Red Line and situated within the VTA region would not be transferred until the rail line becomes operational. We based this assumption on the fact that the MTA already has the administrative infrastructure in place and experience operating and maintaining existing Metro rail lines. Although the VTA would receive rail fare box revenue generated by the Universal City and North Hollywood stations, we assumed that the VTA would remit the proceeds to the MTA to defray part of its costs of operations and maintenance on the line. We also assumed that the VTA and the MTA would enter into an agreement regarding the operation of the northern extension.

To determine the debt associated with the northern extension, we prorated the total indebtedness incurred by the MTA based on track mileage, with the assumption that construction costs of the rail line could be evenly distributed, and the fact that two of the three stations are located in the VTA region, which encompasses the majority of the northern extension. The MTA's estimated total cost for the construction of the northern extension is $1.31 billion. Of this total, principal of approximately $61 million is funded by existing and future long-term bond issues secured by Proposition C sales tax revenue.

The MTA also expects to receive federal funds of approximately $46.5 million in fiscal year 2001-02 and $45.4 million in 2002-03, for construction costs associated with the northern extension of the Metro Red Line. To fund construction of the extension, the MTA is planning to borrow $91.9 million for five years, starting in 1999. The projected debt-service costs associated with the construction of the rail line total $151.6 million. The federal funds it expects to receive will be used to pay the principal amount of the debt. We believe it is reasonable that the VTA share in the related interest expense.

Table 2 shows the debt-service share for the MTA and the VTA based on the percentage of the extension located in each region.

Table 2

Debt Service Projection for the Northern Extension of the Metro Red Line Within the MTA and VTA Regions Fiscal Years 1998-99 Through 2027-28 (Dollars in Millions)

	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-28	Total
MTA (41.5%)	$3.6	$2.9	$2.1	$2.1	$2.1	$2.1	$ 48.0	$ 62.9
VTA (58.5%)	5.1	4.0	3.0	3.0	3.0	3.0	67.6	88.7
Total	**$8.7**	**$6.9**	**$5.1**	**$5.1**	**$5.1**	**$5.1**	**$115.6**	**$151.6**

*Although the VTA would be established on January 1, 1999, we have shown the entire fiscal year for ease of comparison.

As the table indicates, if it is obligated only for the interest associated with the rail line assets transferred to it, the VTA would pay a total of $88.7 million over the remaining term of the bonds.

Based on the MTA's operating costs of the Metro Red Line in downtown Los Angeles, we estimated the VTA's share of operating costs for the portion of the line within its region at $19.9 million for fiscal year 2000-01, the first fiscal year the northern extension is fully operational.

Rights-of-Way

Three rail rights-of-way from the Southern Pacific Transportation Company were acquired by the MTA's predecessors to build a transportation system in Los Angeles County. The Burbank and Coast rights-of-way were acquired in 1991 for approximately $125 million for Burbank and $35 million for Coast. The Valley right-of-way was acquired in two phases, one in 1991 and one in 1993, for a total of $140 million. It cost $300 million to acquire these assets, and $548.4 million in principal and interest must be paid through fiscal year 2026-27.

The Burbank and Coast rights-of-way owned by the MTA lie entirely within the VTA region and would be transferred to the VTA. However, only 27 percent of the Valley right-of-way lies within the proposed VTA region, but it is worth approximately 70 percent of the original cost. The MTA bases its estimate on the revenue it receives from adjacent property it leases. The adjusted cost of this asset that would be transferred is $98 million, bringing the total cost of transferred rights-of-way to $258 million. Therefore, the cost of the rights-of-way within the proposed VTA region is 86 percent of the cost of the entire three rights-of-way ($258 million divided by $300 million). Table 3 shows the projected annual debt service.

Table 3

Debt Service Projection for Rights-of-Way Within the MTA and VTA Regions Fiscal Years 1998-99 Through 2026-27 (Dollars in Millions)

	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-27	Total
MTA (14%)	$ 2.7	$ 2.7	$ 2.3	$ 2.3	$ 2.3	$ 2.7	$ 61.9	$ 76.8
VTA (86%)	16.5	16.7	13.8	14.0	14.0	16.6	380.0	471.6
Total	**$19.2**	**$19.4**	**$16.1**	**$16.2**	**$16.2**	**$19.4**	**$441.8**	**$548.4**

*Although the VTA would be established on January 1, 1999, we have shown the entire fiscal year for ease of comparison.

As the table indicates, the VTA's share of the principal and interest associated with these assets is $471.6 million over the remaining term of the bonds at the proposed time of the transfer.

Bus Operations

The total cost of the bus operations that would be transferred to the proposed VTA region is $50 million, as shown in Table 4.

Table 4

Value of Bus Operations Located Within the VTA Bus Divisions 8 and 15 (Dollars in Thousands)

Assets	Division 8	Division 15	Total
Land*	$ 3,570	$ 3,246	$ 6,816
Building*	7,384	6,007	13,391
Equipment*	29	38	67
Office equipment, furniture, and fixtures*	4	6	10
Inventory	503	447	950
Bus stops (fixtures)	150	150	300
Buses (remaining equity)**	16,966	11,364	28,330
Nonrevenue fleet (depreciated value)	74	74	148
Total	**$28,680**	**$21,332**	**$50,012**

*Net book value as of January 31, 1998.

** Remaining equity represents the lesser of the straight-line depreciated value based on a 500,000-mile life or a 12-year service life.

According to the MTA's staff, the property represented in the table was acquired using federal grants and local resources. Therefore, there is no indebtedness associated with its transfer to the VTA.

We computed the estimated operating costs of the proposed VTA's two bus divisions by prorating the MTA's total bus operating costs based on the number of buses assigned to the two bus divisions (359 VTA buses divided by 2,067 total buses). Using this methodology, the VTA's operating costs for fiscal year 1998-99 are estimated to be $107 million. This estimate does not include the VTA's start-up and other associated costs; actual operating costs, at least in the short term, are therefore likely to be higher.

Appendix B

Major Local, State, and Federal Sources of Revenue

Revenue Assumptions

To project the amounts and sources of revenue the VTA would receive, we made several assumptions. Specifically, we assumed that the MTA would continue receiving local, state, and federal funding. We projected the revenue to be received from these sources using historical growth factors or anticipated revenue increases or decreases provided by the MTA. We also assumed no new revenue sources would be available over and above those that the MTA already receives. Further, we assumed that bus fares would increase with inflation.

We also assumed that the proposed VTA would be entitled to a 20 percent share of revenues derived from Proposition A and Proposition C taxable retail sales and a 13 percent share of state and local revenue allocations based on population. We based this assumption on the State Board of Equalization's determination that 20 percent of Proposition A and Proposition C taxable retail sales and 13 percent of revenue allocations for Los Angeles County originate from and relate to the proposed VTA region. Finally, we assumed that once established, the VTA would want to pursue the same projects identified by the MTA and located within the new authority. Moreover, we assumed that the VTA would enter into state and federal agreements similar to the agreements the MTA now has to obtain funding for these projects.

Local Revenue

As was shown in Table 1 on page 10, the proposed VTA could expect to receive $189.6 million in local revenue in fiscal year 1998-99. Proposition A and Proposition C sales tax revenues make up the majority of local revenue.

Proposition A and Proposition C Sales Taxes

In 1980, Los Angeles County voters approved Proposition A, a measure that imposed a tax of one-half of one percent of the gross receipts from the sale of tangible personal property sold at retail in the county; and a use tax at the same rate on the storage, use, or other consumption in the county, subject to certain limited exceptions. As approved by the voters, the Proposition A sales tax is not limited in duration. The MTA is required to allocate 25 percent of the Proposition A sales tax to local jurisdictions for local transit purposes, 35 percent to rail development programs, and 40 percent to other discretionary transportation purposes.

In November 1990, the voters of Los Angeles County approved Proposition C, an additional half-cent sales tax for transportation. Proposition C sales tax also is not limited in duration. The MTA is required to allocate 20 percent of the Proposition C sales tax to local jurisdictions for local transit purposes, 25 percent to transit-related street and highway improvements, 10 percent to commuter rail transit centers and park ride projects, 5 percent to rail and bus security, and 40 percent to discretionary purposes that improve and expand rail and bus service.

The State Board of Equalization determined that taxable sales within the proposed VTA region represent approximately 20 percent of Los Angeles County's total. We therefore estimated that 20 percent of the sales tax revenue generated from Proposition A and Proposition C currently received by the MTA would transfer to the VTA. Because the MTA is required to allocate a percentage of its Proposition A and Proposition C revenues to local jurisdictions, we only projected the percentage of sales revenue the MTA receives for its own specified uses, including operations. Table 5 shows the net revenue from both Proposition A and Proposition C that the proposed VTA would receive annually based on the projected taxable sales occurring within the region.

Table 5

Proposition A and Proposition C Sales Tax Revenue Net of Local Allocation—MTA and VTA Fiscal Years 1998-99 Through 2029-30 (Dollars in Millions)

	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-30**	Total
MTA only								
Proposition A and Proposition C	$695.2	$725.9	$759.3	$795.7	$835.5	$877.3	$47,081.2	$51,770.1
MTA and VTA								
MTA @ 80 percent Proposition A and Proposition C	$556.2	$580.7	$607.4	$636.6	$668.4	$701.8	$37,665.0	$41,416.1
VTA @ 20 percent Proposition A and Proposition C	$139.0	$145.2	$151.9	$159.1	$167.1	$175.5	$ 9,416.2	$10,354.0

*Although the VTA would be established on January 1, 1999, we have shown the entire fiscal year for ease of comparison.

**The annual increase through fiscal year 2003-04 is based on the MTA's forecast. We extended the projection from fiscal year 2004-05 through 2029-30 using a flat rate of 5 percent.

Although we assumed that the proposed VTA would receive the sales tax revenues we project in Table 5, it is not certain that the State has the legal authority to transfer these sales tax revenues from the MTA to the VTA. This issue most likely will be decided in the courts.

Transportation Development Act

Transportation development revenues are derived from a one-fourth cent retail sales tax collected statewide. These funds are available for either transportation-related projects or operations costs. The MTA distributes approximately 87 percent of these funds to transit operators, transit districts, and joint-powers authorities by formula. We therefore assumed the VTA would also distribute a like amount to the operators, districts, and authorities located within the new region. We estimated that in fiscal year 1998-99, the proposed VTA would receive $6.1 million in transportation development revenue, net of distributions, as shown in Table 1 on page 10.

Bus Fare Revenue

We identified two bus divisions within the proposed VTA region. We assumed that, if the VTA is established as a separate transit authority, fare box revenue generated by these two divisions would accrue to the VTA. These revenues include fare box cash and prepaid sales, such as passes and tokens. The projection of bus fares shown in Table 1 on page 10 takes into consideration a consent decree filed in October 1996, which requires that the MTA continue the sale of monthly bus passes with a rollback in the price from $49 to $42, beginning in December 1996, establishing off-peak discount fares on selected bus lines, and the MTA's commitment to maintain the current bus fare of $1.35 and tokens for 90 cents for two years also beginning in December 1996. The consent decree permits the MTA to raise nonpass bus fares in November 1998 and the rates for passes in November 1999, at rates tied to the consumer price index.

Rail Fare Revenue

When completed in May 2000, the northern extension of the Metro Red Line will be the only Metro rail line operating within the VTA region. The MTA has forecast revenues for the entire Metro Red Line but did not have separate projections available for the Universal City and North Hollywood stations that, when constructed, will be within the VTA region. We assumed that the VTA would receive the revenues from these two stations. However, we also assumed that the VTA would enter into an agreement for the MTA to operate the Red Line and, under the terms of the agreement, the VTA would remit most if not all of the revenues from the two stations to the MTA to cover operations and maintenance costs. Consequently, we did not project revenue the VTA would receive from the Universal City and North Hollywood stations.

The MTA receives revenue from a transfer agreement it has with the Metrolink rail system. Under the transfer agreement, each time a Metrolink passenger transfers to an eligible MTA bus or Metro rail line, the Metrolink rail system pays the MTA 80 cents. According to an MTA transportation technical manager, a survey of Metrolink passengers indicated that only a small percentage transfer to or from bus or rail routes within the San Fernando Valley. Consequently, according to the MTA manager, the VTA would receive only about $40,000 a year from the Metrolink transfer agreement. Because this revenue is not significant, we made no projections.

Rights-of-Way Revenue

The MTA earns income from railroad rights-of-way that are within the proposed VTA region. If the new authority is established, a significant part of the revenues the MTA now receives from three of its rights-of-way would transfer to the VTA. Specifically, the Burbank Branch right-of-way, the portion of the Coast right-of-way owned by the MTA, and a 20.8-mile section of the Valley right-of-way that is located within the proposed region. The MTA estimates that approximately 70 percent of the revenue generated from the Valley right-of-way is applicable to the 20.8 miles within the San Fernando Valley region.

The Metrolink rail system, Amtrak, and the Union Pacific railroads all operate on the Valley and Coast rail rights-of-way. When the MTA purchased the Coast and Valley rights-of-way, a clause in the agreement provided that the Metrolink, Amtrak, and the Union Pacific railroads reserved the right to continue to operate without compensation. The MTA does, however, receive income from the rights-of-way properties from other sources, including the leasing or monthly rental for parking, advertising space, and storage yards. The Burbank Branch also generates revenue from the use of its adjacent real property; however, no railroad operates on the Burbank Branch. Table 1, presented on page 10, shows projected right-of-way revenue that would accrue to the VTA between fiscal years 1998-99 and 2029-30.

Advertising Revenue

The MTA grants contractors the exclusive right to sell and display exterior and interior advertising on its bus fleet. For the 1998-99 fiscal year, the MTA's advertising contract will generate $12.3 million. We determined, based on the number of buses operating at peak hours within the proposed VTA region, that 18 percent of the MTA's advertising revenue would transfer to the VTA. The advertising revenue figures shown in Table 1 on page 10 are based on the assumption that the VTA will receive the same advertising rates as the MTA receives in its current contract. However, with fewer buses, the VTA may not be able to negotiate such a favorable contract.

State Revenue Sources

The MTA also receives state funds from several sources to pay for such activities as transportation planning, transit operations, and rail projects. As with local revenues, a share of the state funds the MTA now receives would transfer to the VTA. We estimated that the proposed VTA would receive $78.4 million in state revenues in fiscal year 1998-99.

State Transportation Improvement Program

The State Transportation Improvement Program (STIP) is adopted by the California Transportation Commission for the statewide allocation of funds to specific transportation projects in future years. Programs identified in the STIP are funded through state and federal gas taxes. Effective January 1, 1998, the Statutes of 1997 consolidated a major program within the STIP into a "regional-choice" program enabling authorities such as the MTA and the proposed VTA to decide how to spend the majority of these funds. The proposed VTA could elect to spend 75 percent of its projected share of regional-choice funds on such projects as state highways, local roads, public transit, pedestrian and bike facilities, grade separation, and sound walls. The VTA would be allowed to spend the remaining 25 percent on interregional roads or intercity rail projects. We estimated that the proposed VTA would receive $73.7 million in STIP revenue in fiscal year 1998-99, as shown in Table 1 on page 10.

State Transit Assistance Program

The State Transit Assistance Program provides funding for transportation planning and mass transportation derived from 50 percent of Transportation Planning and Development revenues. These revenues are generated primarily from sales tax above 9 cents per gallon assessed on diesel fuel and gasoline. The MTA receives two separate allocations of State Transit Assistance funds: the first can be used for any transit operations or capital projects, including bus and rail; the second can be used the same way, but it is divided among the MTA and eligible municipal operators based on a formula. Assuming the VTA would receive its portion of State Transit Assistance funds and based on our projections, the total State Transit Assistance revenue for fiscal year 1998-99 would be $3.5 million, as shown in Table 1 on page 10.

Service Authority for Freeway Emergencies

The MTA receives Service Authority for Freeway Emergencies (SAFE) revenue derived from a $1 annual surcharge on each motor vehicle registered in Los Angeles County. This money is intended for the installation, operation, and maintenance of the freeway emergency call box system and tow truck service patrols. We projected the proposed VTA would receive $1.2 million in SAFE funds in fiscal year 1998-99, as shown in Table 1 on page 10. We based our estimate on the share of the county's population in the proposed VTA region because motor vehicle registration information was not available. Further, we assumed the proposed VTA could enter into a contractual arrangement with the MTA for continued SAFE operations.

Federal Revenue Sources

The proposed VTA could expect to receive $10.3 million in fiscal year 1998-99 in Surface Transportation Program revenue. It could also receive additional federal revenue when it identifies eligible projects, negotiates funding grants with the Federal Transit Administration, and is recognized as a public transit authority. Because the VTA is not yet established, we cannot project the amount of any additional federal funds it would qualify for.

Surface Transportation Program

Funds from the Surface Transportation Program can be used to construct, reconstruct, resurface, and improve most roads or highways, publicly-owned intracity or intercity bus terminals and facilities, carpool projects, and bicycle and pedestrian walkways. Federal legislation requires states to distribute 50 percent of these funds to regional areas such as the MTA.

The MTA then distributes the funds to previously approved projects. Based on our projections, the proposed VTA would receive $10.3 million in regional Surface Transportation Program revenue in fiscal year 1998-99, as shown in Table 1 on page 10. We assumed the proposed VTA would also be entitled to a portion of the remaining 50 percent of these funds the State distributes for safety construction, transportation improvement, and other discretionary purposes once the VTA is established and identifies projects eligible for such funds.

Other Federal Revenue

The MTA receives federal revenue for new rail starts and modernization, bus purchases, public transportation operations, and improving the quality of the air. Congress allocates some of these revenues to specific projects. The Federal Transit Administration provides other revenue through grant agreements negotiated with the MTA. However, because the VTA is not yet established, it has not identified projects and it has no grant agreements with the Federal Transit Administration. As a result, we could not project the revenues, if any, to which the VTA would be entitled.

Appendix C

The VTA Would Be Entitled to 20 Percent of the Revenue and Obligated for 20 Percent of the Existing Debt

Long-Term Debt Secured by Proposition A Revenue

Prospective bond buyers want to know if the bonds they buy are safe investments. They want assurance that principal and interest (debt service) will be paid. Official statements accompanying the MTA's bond issues provide data on the issuer's ability to cover its debt service. For example, the information in the official statements for the MTA's bonds secured by Proposition A revenue includes pledged revenue (the amount of total revenue the MTA pledges will be used to pay its debt service, if necessary), its debt-service cost, and the resulting debt-service coverage ratio. The ratio is determined annually by dividing the revenue the MTA pledges to pay its debt service by the amount of the debt. The MTA pledges 75 percent of its Proposition A sales tax revenue to pay its debt service. If the economy worsens and sales tax revenues decrease to levels lower than those projected in the official statement, actual ratios will be lower than those presented in the projection.

Table 6 shows the MTA's total projected Proposition A revenue, the amount of that revenue pledged to secure the bonds, its debt-service cost, and its debt-service ratio for fiscal year 1998-99 before the establishment of a transit authority such as the VTA. As the table shows, before the establishment of the proposed VTA, the MTA can cover 2.5 times the amount of its aggregate debt service.

To estimate the effect of establishing the VTA on the debt-service ratio, we used the State Board of Equalization's determination that the VTA's share of Proposition A sales tax revenue, (based on taxable sales within the VTA region in fiscal year 1996-97), would be approximately 20 percent. Assuming no significant change in the proportion of taxable sales, the amount of Proposition A sales tax revenues the MTA could pledge against its debt service would be reduced by 20 percent in the future. Only 10 percent of the MTA's debt associated

Table 6

MTA Debt-Service Coverage Ratio
Fiscal Year 1998-99
Before the VTA Is Established
(Dollars in Millions)

Proposition A Sales Tax Revenue	Pledged Revenues (75 Percent)	Total Debt Service	Debt-Service Coverage Ratio
$449.3	$337.0	$135.6	2.5

with the assets within the proposed VTA region would be transferred to the VTA. Table 7 shows the effect on the MTA's ratio when its revenue is reduced by 20 percent while its debt service is reduced by only 10 percent. The MTA would be able to cover 2.2 times rather than 2.5 times the amount of its aggregate debt service, if its revenue was reduced disproportionately to its debt service.

Table 7

MTA Debt-Service Coverage Ratio
Fiscal Year 1998-99
After the VTA Is Established
(Dollars in Millions)

Proposition A Sales Tax Revenue, Less 20 Percent	Pledged Revenues (75 Percent of Revenue)	Total Debt Service, Less 10 Percent	Debt-Service Coverage Ratio
$359.4	$269.6	$122.0	2.2

Such a reduction in the debt-service coverage ratio could cause concern in the bond community and also affect future bond issues. On the other hand, San Fernando Valley residents would expect to receive their fair share of Proposition A sales tax revenue. One approach to resolving both concerns would be to have the MTA and the VTA share existing principal and interest cost in proportion to sales tax revenue. Because the MTA incurred its debt developing a transportation system benefiting all residents of the county, we believe the VTA should carry a share of the debt proportionate to its share of the sales tax revenue. Consequently, if the VTA is entitled to receive 20 percent of the sales tax revenue, it should be obligated to pay 20 percent of the debt. This would ensure that debt-service coverage ratios are maintained, as shown in Table 8.

Table 8

Proposition A Sales Tax Revenues and Debt Service Projection—MTA and VTA Fiscal Years 1998-99 Through 2027-28 (Dollars in Millions)

	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-28	Total
Current—MTA only								
Proposition A Revenue net of allocation to local jurisdictions	$337.0	$351.9	$368.1	$385.7	$405.0	$425.3	$22,822.8	$25,095.7
Debt Service	135.6	138.5	132.9	139.4	139.6	144.5	2,719.4	3,549.8
Residual	$201.3	$213.4	$235.2	$246.3	$265.4	$280.8	$20,103.4	$21,546.0
Debt-Service Coverage Ratio	2.5	2.5	2.8	2.8	2.9	2.9	8.4	7.1
Proposed—MTA and VTA								
MTA @ 80 percent								
Proposition A Revenue net of allocation to local jurisdictions	$269.6	$281.5	$294.5	$308.6	$324.0	$340.2	$18,258.2	$20,076.6
Debt Service	108.5	110.8	106.3	111.5	111.6	115.6	2,175.5	2,839.8
Residual	$161.1	$170.8	$188.2	$197.1	$212.4	$224.6	$16,082.7	$17,236.8
Debt-Service Coverage Ratio	2.5	2.5	2.8	2.8	2.9	2.9	8.4	7.1
VTA @ 20 percent								
Proposition A Revenue net of allocation to local jurisdictions	$ 67.4	$ 70.4	$ 73.6	$ 77.1	$ 81.0	$ 85.1	$4,564.6	$5,019.1
Debt Service	27.1	27.7	26.6	27.9	27.9	28.9	543.9	710.0
Residual	$ 40.3	$ 42.7	$ 47.0	$ 49.3	$ 53.1	$ 56.2	$4,020.7	$4,309.2
Debt-Service Coverage Ratio	2.5	2.5	2.8	2.8	2.9	2.9	8.4	7.1

*Although the VTA would be established on January 1, 1999, we have shown the entire fiscal year for ease of comparison.

As the table indicates, both the MTA and the VTA would have sufficient revenue to meet their respective Proposition A obligations. The residual could be used for rail development and discretionary purposes.

Long-Term Debt Secured by Proposition C Revenue

The MTA also has long-term debt secured by Proposition C sales tax revenue. It is less than the long-term debt secured by Proposition A revenue; consequently, the debt service on these bonds is less than the debt service on Proposition A secured bonds. The effect of reducing the MTA's Proposition C revenue and debt service by 20 percent and conversely increasing the proposed VTA's Proposition C revenue and debt service by 20 percent would be similar to that shown in Table 8, and ratios would remain the same before and after the establishment of the VTA.

Agency's response to the report provided as text only:

METROPOLITAN TRANSPORTATION AUTHORITY
One Gateway Plaza
Los Angeles, CA 90012-2932
(213) 922-2000

June 28, 1998

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

Dear Mr. Sjoberg:

We have read the draft report regarding the proposed San Fernando Valley Transportation Authority (VTA) and conclude that the assumptions, assets proposed for transfer and their values, debt service cost projections, revenue projections and operating cost projections are reasonable.

The following are our comments:

- In various places in the text your cite "debt" figures which are the sum of principal and interest over the remaining life of the bonds. We feel that adding these values under the simple title of debt is not in keeping with the common definition of debt which is the principal portion only. 1*

- The report identifies and reasonably matches debt with assets to be transferred. However, there are three pieces of MTA debt not directly associated with those assets. They are the "Gateway Headquarters" bonds ($186 million) and "Workers Compensation" COPs ($140 million) that are secured by fare revenues. The report does not identify any asset to be transferred, accordingly VTA keeps the total amounts of fares collected in the VTA region. Arguably, a portion of that fare revenue could be identified to the pre-existing obligations and not become a portion of VTA's revenues. 2 3

  The third item is "Bus" COPs ($118 million) for the purchase of 333 buses. While your report accurately reflects that the buses located at the VTA divisions were not financed, approximately 15% of the MTA's fleet was. From the MTA's perspective, it would be more equitable to assume that the buses transferred to the VTA be in the same proportion as the MTA's overall mix. Accordingly, VTA would assume its portion of this 4

*California State Auditor's comments on this response are on page 31.

debt secured by TDA and Federal Section 9 funds which the report attributes to VTA on a prorated basis.

- On June 25, 1998, the MTA certified an Supervisor Yaroslavsky's initiative and forwarded it to the Los Angeles County Board of Supervisors for action to include it in the November 1998 Los Angeles County Consolidated Election. This initiative would impose certain restrictions on the use of sales tax revenues, establish an oversight panel and require an annual audit of transactions. These conditions would appear to flow to the VTA.

Thank you for the opportunity to comment on your report. I would like to commend Arn Gittleman and his staff for their patience and professionalism in the conduct of this review.

Very truly yours,

Terry Matsumoto
Executive Officer, Finance

Comments

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

To provide clarity and perspective, we are commenting on the Los Angeles Metropolitan Transportation Authority's (MTA) response to our audit report. The numbers correspond to the numbers we have placed in the response.

1 We changed the text of our report to clearly indicate those instances where we discuss the combination of principal and interest cost.

2 The only fare revenues we project that the new authority would receive would come from transferred bus operations as shown on page 10 of the report. Unlike other transportation projects which benefit the entire region and which the MTA financed with bonds secured by sales tax revenues, the benefits associated with financing the construction of the Gateway Headquarters building is enjoyed mainly by the employees of the MTA. Therefore, our assumptions regarding the proportion of MTA's debt-service costs that would shift to the San Fernando Valley Transportation Authority (VTA) did not include the financing cost of the Gateway Headquarters.

3 Because the proposed authority, along with its work force, has yet to be created, we considered it premature to try and estimate the amount of workers' compensation claims the VTA would be responsible for. Rather, we considered that this issue, like many others, would need to be negotiated with the MTA when and if the new authority is created.

4 As we stated on page 9 of our report, the 359 buses currently operating and associated with the two bus divisions that would transfer to the VTA are fully paid for. Similar to the workers' compensation claims, we consider the issue of MTA using certificates of participation to finance some of its fleet of buses to be best negotiated at the time the new authority is created.

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