

Resources, Community, and  
Economic Development Division

B-280462

July 9, 1998

The Honorable Bob Livingston  
Chairman

The Honorable David Obey  
Ranking Minority Member  
Committee on Appropriations  
House of Representatives

The Honorable Ted Stevens  
Chairman

The Honorable Robert Byrd  
Ranking Minority Member  
Committee on Appropriations  
United States Senate

Subject: Surface Infrastructure: Review of the Los Angeles County  
Metropolitan Transportation Authority's Restructuring Plan

Over the past several years, the Los Angeles County Metropolitan Transportation Authority (MTA) has faced a series of management challenges and construction problems while building the Red Line Subway Project and providing other transportation services to the Los Angeles area. Most notably, a 1996 consent decree resulting from litigation over MTA's bus program required MTA to significantly improve its bus service. These challenges severely strained MTA's finances and led to a provision in the conference report accompanying the Department of Transportation and Related Agencies Appropriations Act for fiscal year 1998 that made funds contingent upon, among other things, MTA's producing a rail-recovery plan that complies with the "bus consent decree." The report also directed GAO and the Department of Transportation's Inspector General to analyze the plan and report to the House and Senate Committees on Appropriations.

On May 13, 1998, MTA's Board of Directors approved a "restructuring plan" in response to the conference report. The restructuring plan addresses MTA's bus and rail programs through 2004 and reflects MTA's January 1998 decision to suspend construction on two of the four remaining extensions of the Red Line Subway Project. (See enc. I for a map depicting the Red Line Subway Project.)

We reviewed the restructuring plan to (1) determine the cost, schedule, and funding for completing the two remaining extensions to the project—Segment Two and North Hollywood; (2) identify MTA's activities designed to comply with the bus consent decree and their associated costs, including potential impacts to completing the extensions; and (3) determine whether MTA has sufficient funding available for its rail and bus programs and the potential impacts of any funding shortfalls. The following sections summarize the briefing charts (see enc. II) that we used in our June 1998 meetings conveying the results of our review to the House Appropriations Committee staff.

## THE RED LINE SUBWAY PROJECT

### Segment Two

Segment Two is about 94 percent complete, and all state and federal funds have been allocated. MTA estimates that the total cost of Segment Two will be \$1.74 billion, or about 17 percent above the \$1.45 billion estimated in the grant agreement with the Federal Transit Administration (FTA). Segment Two is expected to open in June 1999, about 6 months later than had been projected in the grant agreement. The delay is primarily due to contractual disputes, flood damage, and site accessibility problems that delayed the completion of several stations. MTA's plan estimates that it will cost about \$355 million to complete Segment Two. The remaining funding will be provided by revenues from a local sales tax. Although MTA believes that there are very few risks associated with meeting the funding goals of Segment Two, the project's costs could increase depending on the outcome of claim settlements and a pending lawsuit.

### The North Hollywood Extension

As of April 1998, MTA estimated that the North Hollywood extension was about 65 percent complete. The total cost of this extension is expected to be about \$1.34 billion, or \$31 million above the \$1.31 billion estimated in the grant agreement. Although MTA's restructuring plan projects that the North Hollywood extension will open in May 2000, FTA's technical consultant believes that, because of delays in tunneling, the December 2000 date in the grant agreement between MTA and the federal government is more realistic.

MTA's restructuring plan identifies a total of about \$822 million in federal, state, and local funds that it expects will be available for completing the extension. MTA, however, has budgeted only \$742 million for completing this extension, including \$31 million in reserves to address funding shortfalls or project cost increases. MTA plans to transfer the excess funding (about \$80 million) to rail capital projects after completing the extension. (See enc. II for MTA's financial plan for completing the North Hollywood extension.)

MTA expects that about \$317 million of the \$822 million will come from the federal government's New Starts Program as prescribed by the grant agreement with FTA;<sup>1</sup> another \$20 million is expected to come from the government's Congestion Mitigation and Air Quality Program. The remaining funds are expected to come from state (\$280 million) and local sources (\$205 million). As of June 1998, California had already provided \$146 million to complete the extension and planned to provide an additional \$134 million in fiscal year 1999. However, the agreement to provide the additional amount contains several conditions, such as the completion of a study by December 1998 of viable options to improve transportation to certain areas, including those areas the suspended extensions to the Red Line were intended to serve.

Anticipated local funding for completing the extension totals \$205 million—\$115 million in revenues from a county sales tax and \$90 million from the city of Los Angeles. MTA has already received about \$55 million for the extension from Los Angeles in 1998, and another approximately \$35 million is expected in fiscal year 2000. The City and MTA are currently negotiating the terms of the agreement, which must be approved by the MTA Board of Directors and the Los Angeles City Council.

Although the extension will most likely be completed near schedule and within budget, total costs could increase. MTA's plan assumes that all existing contracts will be completed for the forecast amount, bids for new contracts will be received within the forecast amounts, and the project will be completed by May 2000. If any of these assumptions are not met, total costs will increase. In addition, ongoing litigation and construction contract claims could also increase costs.

#### THE BUS CONSENT DECREE

##### MTA's Requirements Under the Consent Decree

MTA's restructuring plan assumes that its current and planned bus program meets the requirements of a 1996 consent decree resulting from litigation over bus service. However, the Bus Riders Union, which represents the plaintiffs in the case, has argued that various elements of MTA's current and planned bus program do not satisfy the decree's requirements. Future rulings by the official designated to resolve disputes between MTA and the Bus Riders Union may affect MTA's bus program and increase its expenditures for bus service.

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<sup>1</sup>MTA's plan assumes a 1-year delay in receiving federal funding from the grant agreement schedule.

MTA's obligations under the consent decree include (1) expanding bus service; (2) establishing a pilot project to facilitate access to jobs, education, and health centers; (3) restructuring transit fares; and (4) reducing the ratio of passengers to bus seats (load factor) from 1.45 to 1.20 by June 30, 2002.<sup>2</sup> To address these requirements, MTA has purchased additional buses as well as deferred the planned retirement of older buses.<sup>3</sup> MTA estimates that implementing the consent decree will cost about \$526 million through 2004.

The consent decree established a mediation process for resolving disputes between MTA and the Bus Riders Union. When that process fails, a court-approved Special Master resolves the disputes, subject to review by the court. Currently, a disagreement over MTA's compliance with the load-factor requirement is before the Special Master. If his opinion, which is not expected before September 1998, results in expanded bus service requirements and/or additional bus purchases, MTA may have to reallocate funds from other programs. According to MTA officials, it is unlikely that funds programmed for the completion of the North Hollywood extension would be used for these activities because they are committed to completing this extension on schedule and within the budget outlined in the restructuring plan.

#### RAIL AND BUS CAPITAL/OPERATING PROGRAMS

According to its restructuring plan, MTA faces a potential \$1.14 billion funding shortfall in its bus and rail capital and operating programs through 2004. For instance, funding identified for MTA's bus capital program (e.g., for fueling facilities, maintenance, overhauls, and rehabilitation) is \$377 million less than MTA needs through 2004. (Enc. II lists MTA's potential shortfall amounts through 2004.)

MTA's shortfalls, if not addressed, could significantly impact its rail and bus programs. For example, the rail capital shortfall could result in MTA's inability to purchase about 83 percent of the light rail vehicles it plans to purchase for the Green and Blue light rail lines through 2004.

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<sup>2</sup>The consent decree remains in effect for 10 years. MTA may petition to terminate the decree after 7 years, provided it demonstrates that it has substantially complied with the decree and that it has a 5-year plan for maintaining benefits achieved by the decree.

<sup>3</sup>MTA operates an aging bus fleet—about 38 percent of its buses are 15 years old or older. It plans to purchase 1,313 new buses by 2004, in an effort to reduce the age of its fleet and improve reliability.

Our analysis identified additional factors that could reduce future revenues or increase costs by another \$325 million or more—thereby increasing MTA's shortfalls through 2004. For instance, MTA's restructuring plan assumes that bus and rail fare increases will generate \$201 million in increased revenues. However, fare increases are controversial and require public hearings and approval from the MTA Board. The plan also does not reflect the Board's recent decision to purchase 50 buses (for about \$19 million) that are needed to modernize the agency's aging bus fleet. The plan also assumes that about \$80 million in surplus revenues from the North Hollywood Subway extension and \$25 million in a state reserve account will be available to address the rail capital shortfall. However, if the cost to complete the North Hollywood extension increases, these funds might not be available. Finally, other cost increases, such as those that may be required by future rulings on the bus consent decree or additional investments in transit service for the areas where planned subway extensions have been suspended, could increase the bus and rail capital shortfalls.

MTA management officials believe that they have a strategy and the tools needed to successfully address its operating and capital shortfalls. First, MTA estimates that its "cost reduction/workout teams" will generate about \$392 million in budget savings through 2004 that can be applied to the shortfalls. (Ten workout teams were formed in January 1998 to identify cost reductions and efficiencies in MTA's operations, which were then used to balance MTA's fiscal year 1998 budget and the proposed fiscal year 1999 budget.) In its restructuring plan, MTA projected the teams' current savings through 2004 to arrive at the \$392 million estimate. Second, MTA assumes that it will receive significant federal funding increases under the newly enacted Transportation Equity Act for the 21st century. For example, MTA projects that it will receive about \$310 million through 2003 in additional federal money for transit projects.<sup>4</sup> Third, the officials said that MTA has substantial bonding capacity that could be used to address capital shortfalls. Finally, as a last resort, the officials said that any remaining shortfall would be addressed by proposing additional bus and rail fare increases and/or service reductions, while still satisfying the principal objectives of the bus consent decree.

## CONCLUSIONS

Overall, we recognize that MTA's new management team has been making progress in its efforts to meet MTA's considerable financial challenges. We

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<sup>4</sup>MTA also estimates that another \$300 million in flexible highway funds from the Congestion Mitigation and Air Quality Program may be available under the same act.

believe that if MTA receives the expected level of federal and state funding, the North Hollywood extension can be completed on schedule and within budget. However, if the Special Master's bus consent decree load-factor ruling requires expanding bus service and/or purchasing additional buses, MTA may have to reallocate funds from other programs. Any increased bus program costs would also negatively impact MTA's operating and capital funding shortfalls. Finally, MTA still faces major funding shortfalls in key rail and bus programs that may impede its ability to meet the requirements of the bus consent decree and to maintain the current level of bus and rail service at existing fares.

### AGENCY COMMENTS

We provided a draft of enclosure II to MTA for its review and comment. We discussed the contents with senior MTA officials, including the Deputy Chief Executive Officer, who generally agreed with the information presented. These officials stressed, however, that they have a strategy and the tools to successfully address, on an annual basis, the restructuring plan's \$1.14 billion funding shortfall. Therefore, the officials believe that the \$325 million we identified in additional costs and reduced revenues should not be added to the plan's shortfall. While we revised enclosure II to reflect MTA's comments where appropriate, some of the current savings MTA has identified may turn out to be one-time savings or otherwise difficult to sustain for the next 6 years. Therefore, in our opinion, MTA cannot simply project current savings generated by its workout teams through 2004 and assume that all of these projected savings will be available to meet future shortfalls.

### SCOPE AND METHODOLOGY

To prepare this report, we met with MTA officials and collected pertinent documents from those officials. We reviewed MTA's restructuring plan and supporting financial documentation and discussed costs, financing, and issues related to the consent decree with officials at MTA in Los Angeles; Hill International, Inc., in Los Angeles; the city of Los Angeles; the Bus Riders Union in Los Angeles; and the California Transportation Commission in Sacramento.

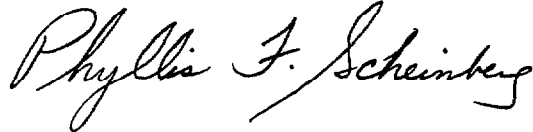
We performed our work from April through July 1998 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to interested congressional committees; the Secretary of Transportation; and the Administrator, Federal Transit Administration. We will also make copies available to others upon request.

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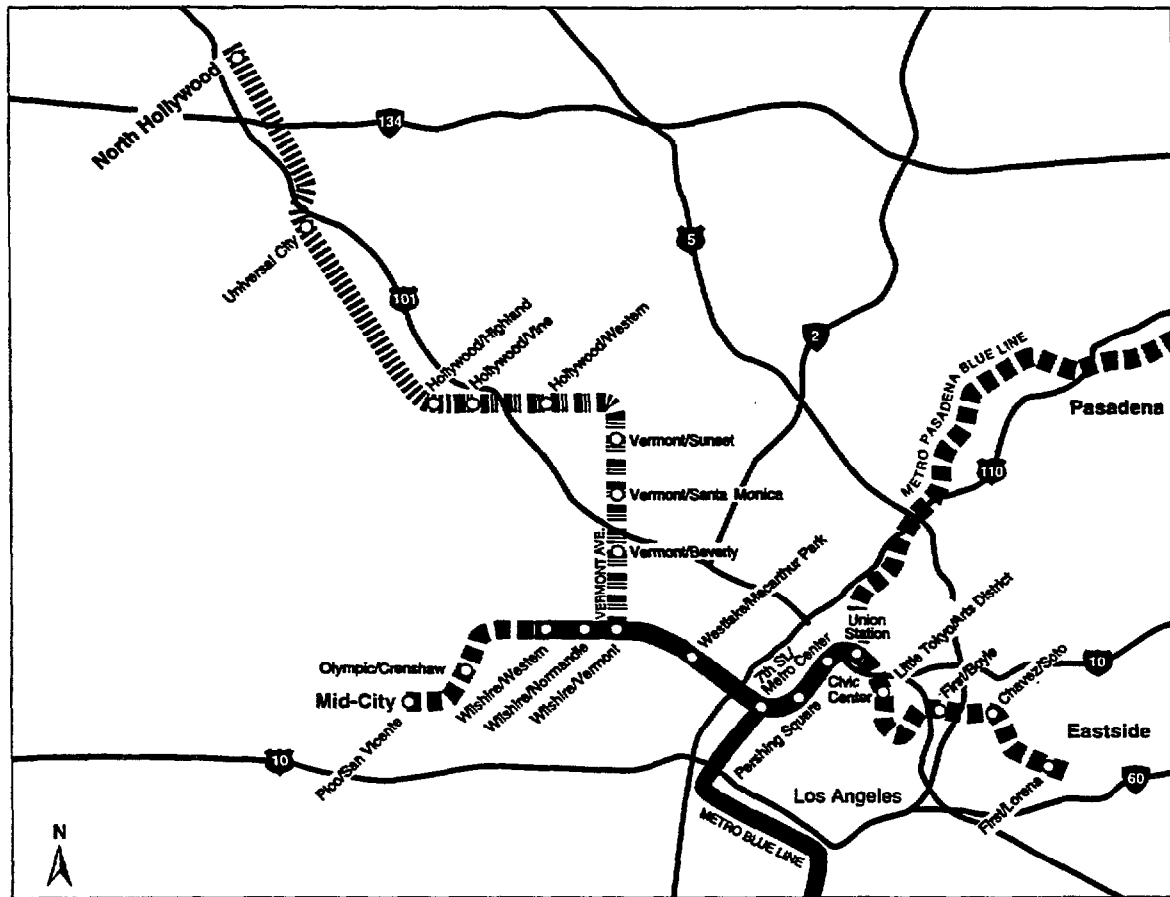
Major contributors to this report were Ron Stouffer, Susan Fleming, Helen Desaulniers, Steve Cohen, and Lewison Lem. If you or your staff have any questions about this report, please contact me at (202) 512-3650.

A handwritten signature in cursive script that reads "Phyllis F. Scheinberg".

Phyllis F. Scheinberg  
Associate Director  
Transportation Issues

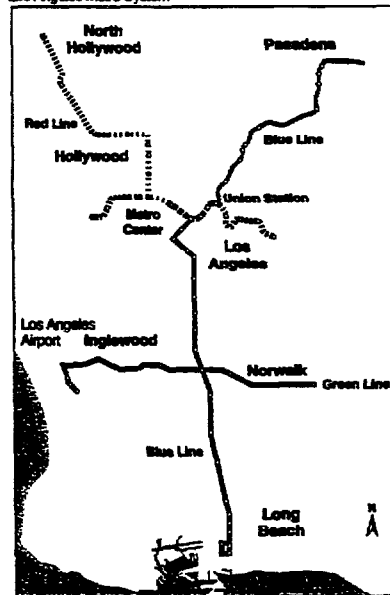
Enclosures - 2

LOS ANGELES SUBWAY SYSTEM



- Segment 1, five stations, 4.4 miles (operational) and part of segment 2, three stations, 2 miles (operational)
- Segment 2, five stations, 4.7 miles (operational July 1999)
- Segment 3 North Hollywood Extension, three stations, 6.3 miles (operational May 2000)
- Segment 3 Mid-City Extension, two stations, 2.3 miles (suspended)
- Segment 3 East Side Extension, four stations, 3.7 miles (suspended)
- Pasadena Blue Line, thirteen stations, 13.6 miles (suspended)
- Stations

Los Angeles Metro System



Source: Los Angeles Metropolitan Transportation Authority.



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GAO RESOURCES, COMMUNITY, AND  
ECONOMIC DEVELOPMENT DIVISION

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**REVIEW OF LOS ANGELES  
COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY'S  
(MTA) RESTRUCTURING PLAN**

June 16, 1998

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**GAO MTA RESTRUCTURING PLAN:  
GAO Review**

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- Because of long-term management and financial problems, the conference report for the FY'98 DOT Appropriations Act directs MTA to prepare a rail recovery plan that complies with the consent decree for enhanced bus service resulting from a 1994 lawsuit.
  - The report also directs GAO & DOT's IG to analyze MTA's plan before FY'98 appropriations for the Red Line subway are made available to MTA.
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**GAO**    **MTA RESTRUCTURING PLAN:  
Background**

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- MTA's Board approved its Restructuring Plan in May 1998 after suspending work on 2 of the 4 remaining Red Line subway extensions. The Red Line's segment 2 & North Hollywood (NH) extensions will be completed.
  - The Plan includes MTA's rail & bus programs but not highway program for FY'98-FY'04.
  - Bus acquisitions, construction of the Red Line's NH extension, & MTA bus consent decree activities are considered "fully funded"; but other areas have major funding shortfalls.
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**GAO MTA RESTRUCTURING PLAN:  
Background**

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- Plan's key assumptions:
    - County sales tax revenues rise by 4% (FY'98) and increase annually by .2% until reaching 5% (FY'03).
    - One year lag in receiving federal funding for NH.
    - State approval of \$207 million for NH.
    - No new sales tax revenue bonds for rail construction beyond NH.
    - MTA's planned bus activities will achieve compliance with consent decree.
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**GAO** MTA RESTRUCTURING PLAN:  
Review Objectives

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- Examine schedule, cost, and funding for completing the Red Line's Segment 2 & North Hollywood extensions;
  - Identify status and cost of MTA's activities to comply with bus consent decree;
  - Review other bus and rail programs and identify potential impacts of funding shortfalls.
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**GAO MTA RESTRUCTURING PLAN:  
Red Line--Segment 2**

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- As of April 1998, 94% constructed; current scheduled completion date--June 1999, 6 months later than date in grant agreement.
  - Current estimated total project cost is \$1.74 billion; \$354 million remaining costs to complete [local sales tax (\$343.4 million), Los Angeles (\$8.5 million), federal funds (\$2.5 million)].
  - \$719 million federal dollars spent, including \$667 million new starts funds.
  - Costs could increase (litigation & liability claims from third parties--insurance coverage limited to \$100 million per occurrence).
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**GAO** **MTA RESTRUCTURING PLAN:  
Red Line--North Hollywood**

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- As of April 1998, 65% constructed; current scheduled completion is May 2000, 8 months earlier than date in the grant agreement.
  - Current total project (forecasted) cost \$1.34 billion; grant agreement is \$1.31 billion.
  - \$711 million remaining costs to complete; budget is \$742.3 million, including \$31 million in remaining project reserves.
  - Costs could increase (claims, contract growth, or delays to schedule).
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**GAO MTA RESTRUCTURING PLAN:  
Red Line--North Hollywood**

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- Funding commitments identified but not totally secure (more state dollars/less local sales tax revenues than previously planned).
    - \$316 million federal new starts funding (assumes 1-year lag in federal allocations).
    - City funds (\$34.6 million) not yet finalized.
    - State funds (\$134 million) conditionally approved; \$73 million in reprogrammed funds approved in May 1998. State is requiring a transit alternatives study for suspended lines by Dec. 1998.
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## GAO MTA RESTRUCTURING PLAN: Financial Plan--North Hollywood

Dollars in millions (Plan assumes 1-year lag in receiving federal New Starts funds)

<b>Funding Source</b>	<b>FY'98</b>	<b>FY'99</b>	<b>FY'00</b>	<b>FY'01</b>	<b>FY'02</b>	<b>FY'03</b>	<b>Total</b>
<b>Federal</b>							
New Starts	\$69.5	\$37.5	\$62.0	\$50.0	\$50.0	\$47.8	\$316.8
Other fed funds		20.0					20.0
<b>State</b>							
TIP <sup>a</sup>	70.0	207.1					277.1
Other state \$		2.6					2.6
<b>Local</b>							
Sales tax rev & borrowings	50.6	6.7	20.0	20.0	18.0		115.3
City of LA	55.4		34.6				90.0
<b>Total</b>	<b>\$245.6</b>	<b>\$273.9</b>	<b>\$116.6</b>	<b>\$70.0</b>	<b>\$68.0</b>	<b>\$47.8</b>	<b>\$821.9<sup>b</sup></b>

<sup>a</sup>Transportation Improvement Program.

<sup>b</sup>MTA's plan assumes a surplus of \$79.6 million, which will be transferred for rail capital projects.

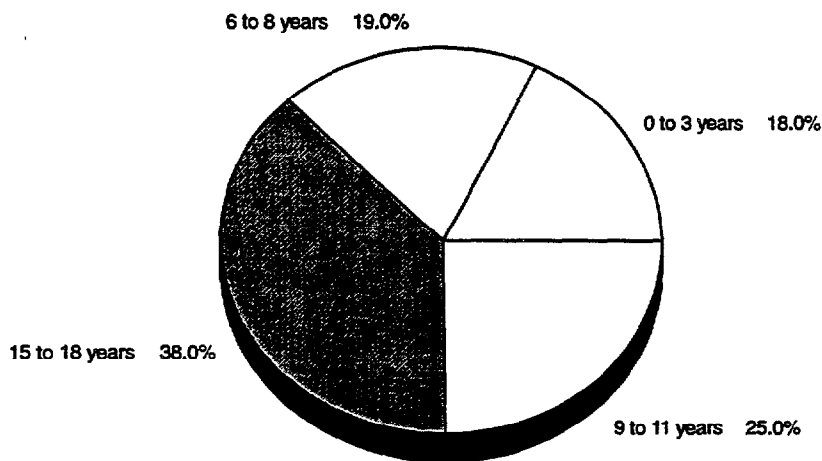
Source: GAO's analysis of MTA's data.

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GAO **MTA RESTRUCTURING PLAN:  
Status & Condition of Bus Fleet**

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- 38 percent of buses are 15 years or older



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Note: At this time, none of the buses in MTA's fleet are 3 to 6 years old or 11 to 15 years old.

Source: GAO's analysis of MTA's data as of May 17, 1998.

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**GAO MTA RESTRUCTURING PLAN:  
Status & Condition of Bus Fleet**

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- **Bus maintenance and reliability problems**
  - A March 1998 FTA consultant's study found that between FY'95 & FY'97, the average distance buses traveled before requiring on-the-road maintenance fell by 42%.

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**GAO** **MTA RESTRUCTURING PLAN:  
Status & Condition of Fleet**

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- Plan requires purchase of 1,313 buses (estimated cost of \$550 million) throughout plan period.
    - All new buses must use compressed natural gas fuel (MTA Board policy).
    - 18-month delivery schedule.
    - By 2009, all buses will be 12 years old or less; (273 new buses received since Oct. 1996).
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**GAO MTA RESTRUCTURING PLAN:  
Bus Consent Decree**

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- Oct. 1996 bus consent decree resulted from a lawsuit challenging adequacy of bus service to transit dependent riders.
  - Decree establishes process for resolving disputes including a Joint Working Group and Special Master selected by both parties and approved by federal court.
  - Decree remains in effect for 10 years, with option to end after 7 years (with a 5-year plan for maintaining benefits achieved under the decree.)
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**GAO MTA RESTRUCTURING PLAN:  
Bus Consent Decree**

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- **Key consent decree requirements**
    - Expanded bus service (102 additional buses by June 1997);
    - Bus pilot project (at least 50 buses) that would provide transit dependents improved access to job, health care, and education centers; and 5-year new service plan;
    - Reduce and/or adjust selected transit fares; and
    - Reduce load factors (the ratio of passengers to bus seats).
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**GAO MTA RESTRUCTURING PLAN:  
Bus Consent Decree**

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- MTA's actions to comply--plan assumes that program meets consent decree's requirements
    - 106 additional buses added to service;
    - bus pilot project established--5-year plan not completed (due in Dec. 1998);
    - transit fares reduced and/or adjusted; and
    - buses to be added during peak periods to reduce load factor (192 buses thru 2002).
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**GAO MTA RESTRUCTURING PLAN:  
Bus Consent Decree**

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- **Load-factor disagreement**
    - Bus Riders Union & MTA disagree on interpretation of load-factor data.
    - Disagreement presented to the Special Master in May 1998. Ruling not expected until after summer 1998.
    - Outcome uncertain but adverse ruling could result in increased bus costs for MTA. Special Master could require specific additional actions to achieve load factor targets.
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**GAO MTA RESTRUCTURING PLAN:  
Capital and Operating Shortfalls**

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- MTA's analysis identifies a potential shortfall of \$1.14 billion thru 2004, including:
  - \$377 million in bus capital (bus maintenance overhauls and rehabilitation, fueling facilities, etc.)
  - \$540 million in bus operations (labor, general maintenance, etc.)

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**GAO** **MTA RESTRUCTURING PLAN:**  
**Capital and Operating Shortfalls**


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Dollars in millions

<b>Program</b>	<b>Total needs identified FY'98-04</b>	<b>Shortfalls shown in MTA plan</b>
Bus capital	\$578	\$377
Bus operating	\$4,903	\$540
Rail capital	\$289	\$71
Rail operating	\$ 905	\$104
Administrative projects	\$ 133	\$47
<b>Total</b>	<b>\$6,808</b>	<b>\$1,139</b>

Source: GAO's analysis of MTA's data.

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**GAO MTA RESTRUCTURING PLAN:  
Capital and Operating Shortfalls**

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- Potential MTA identified funding shortfalls, if not addressed, could result in the following impacts through 2004:
    - Inability to purchase about 83% of planned light rail cars;
    - Red Line subway service reduced by about 10%;
    - Inability to fund about 73% of bus service maintenance capital needs; and
    - Bus service reduced by about 10-15%.
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**GAO MTA RESTRUCTURING PLAN:  
Capital and Operating Shortfalls**

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- GAO's analysis identifies additional risks that could reduce further revenues or increase costs by \$325 million.
    - Assumed bus (\$179 million) and rail (\$22 million) fare revenue increases require public hearings and MTA Board approval.
    - Recent MTA Board decision to purchase 50 buses not included in restructuring plan (\$19 million).
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**GAO** **MTA RESTRUCTURING PLAN:  
Capital and Operating Shortfalls**

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- Red Line surplus (transfer of \$79.6 million from NH) may not occur because of project cost increases.
  - \$25 million reserve in state funds may not be available for rail capital costs.
  - Other cost increases could impact shortfall (consent decree rulings and additional investment in transit service in suspended and other areas).
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GAO MTA RESTRUCTURING PLAN:  
Capital and Operating Shortfalls

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- MTA strategies and projections for resolving shortfalls:
    - Federal funding increases under the newly passed Transportation Equity Act for the 21st century;
    - ♦ *MTA projects that LA County could receive about \$1.5 billion in additional federal funding thru 2003, of which about \$310 million would be available for transit projects.*
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**GAO** **MTA RESTRUCTURING PLAN:**  
**Capital and Operating Shortfalls**

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- Savings from budget workout teams conducting cost-reduction reviews;
  - ◆ *MTA projects that total savings from workout team solutions could reduce bus and rail operating shortfalls by \$392 million.*
  - Increased borrowings; and
  - Last resort--fare increases and/or service reductions.
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**GAO MTA RESTRUCTURING PLAN:  
Other Issues**

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- **Suspended projects**
    - Estimated shutdown costs (\$34.6 million for Eastside and \$2.1 million for MidCity of the Red Line; \$28.9 million for Pasadena Blue Line).
    - Alternative transit studies required by the state to be completed by Dec. 1998.
    - Continued transit investment in suspended and other areas may be required.
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**GAO** **MTA RESTRUCTURING PLAN:**  
**Conclusions**

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- If MTA receives expected federal and state funding, the Red Line could be completed on schedule and near budget.
  - MTA assumes its plan will meet bus consent decree requirements, but the load-factor ruling may result in increased activities and costs.
  - MTA is making progress but still faces serious potential capital/operating shortfalls that may impact its ability to meet the consent decree requirements and maintain the current level of service at existing fares.
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