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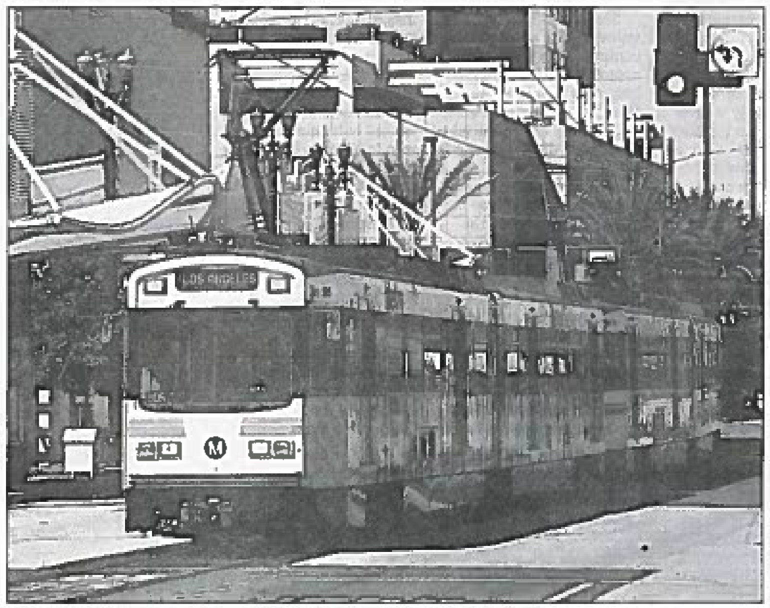
TRANSPORTATION

Measure M and Metro's other funding shortfalls

By Thomas A. Rubin and James E. Moore



SCOTT VARLEY — DAILY BREEZE/SCNG

A Metro Blue Line train pulls into the Downtown station on Long Beach Blvd in Long Beach on Friday, August 29, 2014.

On November 8, 2016, Los Angeles County voters approved the L.A. County Metropolitan Transportation Authority's Measure M, the L.A. County Traffic Improvement Plan, Metro's fourth half-cent sales tax for transportation; and extended indefinitely the sales tax authorized in 2008 under Measure R. The Measure M Plan projects $121,390 million in new revenues between fiscal years 2018-2057, with $860 million in 2018.

Measure M presented voters with very high sales tax revenue projections dedicated to a long list of projects; including nine rail projects in the next decade for which planning, design, or construction are underway at an estimated total cost of $16.7 billion. Metro is attempting to accelerate other major projects scheduled for subsequent decades by committing future funds to financing Public-Private Partnerships, which depend on the quality of Metro's tax revenue projections.

Unfortunately, Metro consistently overestimates future sales tax receipts. These distortions are presumably intended to convince voters that an extensive list of major new transportation projects can be completed in a short period.

We tried to replicate Metro's revenue projections, but couldn't, partially due to inconsistencies across values in the Measure M Plan. However, the plan's revenue grand total and subtotals can be closely approximated if Metro's sales tax revenues grow at an average annual compound rate of approximately 5.7 percent.

This is an implausibly high growth rate for sales tax revenues. Compare this to the actual revenue growth Metro experienced with its first half-cent sales tax, 1980's Measure A, which began in 1983. Over the last 34 years, the average annual compound growth rate for Measure A revenues was 2.6 percent, less than half the rate Metro projects for Measure M revenues. Most of this was due to inflation of 2.2 percent, leaving a real growth rate of less than 0.4 percent. Accounting for county population growth since 1983, real sales tax revenue per capita decreased.

The annual rate of inflation in metropolitan Los Angeles over the past ten years was just 1.8 percent. Metro's 2018 Budget shows Measure M's first year revenues as $761.9 million, already over 11 percent below the Plan's "First Year Amount" of $860 million, and shows $802.0 million in revenues for each of the previous sales tax measures. Combining this budget value, actual inflation rate for 2006-2016, and real sales tax revenue growth rate for 1983-2016 provides a realistic projected revenue growth rate of 2.2 percent; and a 40-year total of only $52.6 billion in Measure M revenues, or 57 percent less than Metro's $121.39 billion projection.

It gets worse. The Measure M Plan is a long-term financial and operating plan for the entire agency. The tax revenue growth Metro assumes for Measure M applies to revenues from Metro's other three half-cent sales taxes, Propositions A, C, and Measure R, and the quarter-cent Transportation Development Act sales tax. Measure M's revenue shortfalls apply to these taxes too, creating total 40-year shortfalls of over $300 billion. Further, Metro likely assumes funding matches from state and federal grants and loans and public-private partnerships. Their loss will increase the coming shortfalls.

Metro also has a history of underestimating transit project costs. The costs of the Blue, Green, Expo, Red, Purple, Pasadena, Gold, and East Side lines all exceeded by several times Metro's budget for each. Determining by just how many billions has required us to track down where Metro creatively concealed the excess costs.

Metro's project cost overruns and optimistic tax revenue projections will produce significant delays in starting some projects, and effective cancellations for others. Near term, revenue shortfalls leave Metro with a pernicious incentive to keep building by diverting funds from the bus system to rail construction, driving down total transit ridership.

Metro's fiscal brinksmanship is strategic. Rosy revenue forecasts amplify the benefits that voters believe new sales taxes will deliver, while shortfalls position Metro's next proposition to L.A. County's electorate, asking for new taxes in exchange for promises that Metro knows it can never afford to keep.

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