


## **REPORT OF THE CHIEF LEGISLATIVE ANALYST**

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DATE: March 20, 2015

TO: Honorable Members of the Arts, Parks, Health, Aging and River Committee

FROM: Sharon M. Tso   
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Assignment No: 15-03-0178

### **FINANCIAL ANALYSIS OF UPDATED ESTIMATED COSTS FOR THE LOS ANGELES RIVER ECOSYSTEM RESTORATION PLAN (C.F. 14-1158-S1)**

#### **SUMMARY**

Since 2006, the City has been working with the United States Army Corps of Engineers (USACE) on the Los Angeles River Ecosystem Restoration Feasibility Study (Study). The City Engineer, in consultation with the Office of the Mayor, has been representing the City in this endeavor. The Study is on track for completion in late 2015 and will result in the recommendation of a preferred plan to restore ecosystem values to approximately 11 miles of the Los Angeles River from Griffith Park to 1<sup>st</sup> Street in Downtown Los Angeles. The Study will also establish a cost share method between the City and federal government to fund the implementation of the preferred plan.

In a report from the City Engineer, dated February 20, 2015, the next steps required for the Study to proceed on its course to completion were recommended. These include completing and signing by March 31, 2015, a "Non-Federal Sponsor's Self-Certification of Financial Capability for Decision Documents" form by the City Administrative Officer (CAO) or equivalent official and the "Non-Federal Sponsor's Letter of Intent" by the City Engineer.

In a subsequent report, dated February 23, 2015, the CAO provided a preliminary funding framework for the City share of the Los Angeles River Ecosystem Restoration Plan (Plan) and recommended Council adoption of the preliminary funding framework before instructing the CAO to complete and sign the "Non-Federal Sponsor's Self-Certification of Financial Capability for Decision Documents" form.

At the February 23, 2015, meeting of the Arts, Parks, Health, Aging and River Committee, both reports and recommendations from the City Engineer and the CAO were discussed (C.F. 14-1158-S1). During the discussion, the CAO and City Engineer reported that estimated costs for the Plan, as well as, the City's share of costs had increased since the previous reporting to Council on this item. As a result, this Office was instructed to report back with a financial analysis of the escalated costs for the Los Angeles River Ecosystem Restoration Plan (Plan).

Subsequent to the February 23, 2015, Committee meeting, the City Engineer submitted a revised report dated, March 16, 2015, which modified the "Non-Federal Sponsor's Letter of Intent" to state that the City fully

understands the current USACE position on cost sharing options but reserves the right to seek further consideration of other cost sharing options. Both the “Non-Federal Sponsor’s Self-Certification of Financial Capability for Decision Documents” form and the “Non-Federal Sponsor’s Letter of Intent” attached to and recommended for approval in the revised City Engineer report continue to state that they do not financially commit the City to future expenditures without the execution of a formal agreement with the USACE.

Regarding the scope and estimated costs of the Plan, they will be determined by the Study. Therefore, current information on them is subject to change until the completion of the Study in late 2015.

As part of the Study, the City and the USACE have reviewed and analyzed an array of plan alternatives. At the conclusion of that review and analysis, the City and the USACE determined different plans as their preferred plan. The plan determined by the USACE as the preferred plan is referred to as the National Ecosystem Restoration (NER) Plan. The plan determined by the City as the preferred plan (C.F. 10-0270-S3) is referred to as the Locally Preferred (LP) Plan. The City Engineer report referred to the LP Plan as “Plan P.”

The current estimated costs of the NER Plan total \$704.5 million and the LP Plan total \$1.357 billion. The primary driver for cost escalation since previous reporting is land acquisition required by the ecosystem restoration plans. The USACE refers to these costs as LERRDs (lands, easements, rights-of-way, relocations, and dredged material disposal areas). The LERRDs estimated costs for the NER Plan total \$530 million and for the LP Plan total \$755 million.

Regarding the funding for either plan, the City and USACE are working on a cost sharing method that is acceptable to both parties. The cost sharing method would provide partial funding from the federal government. The City would assume the remaining share of costs. The current USACE position is that the City cost share of the NER Plan be \$535.1 million (76 percent of total costs) and of the LP Plan be \$1.183 billion (87 percent of total costs). Additionally, the USACE is considering an Option 2 cost share method for the LP Plan that would assign \$964.6 million (71 percent of total costs) to the City.

As previously stated, a preliminary funding framework for the City share of costs was provided by the CAO report, dated February 23, 2015. The CAO report states that existing City funds will likely only cover a portion of costs, which may necessitate the establishment of new funding sources that require voter approval. The report identified \$337 million in existing funding sources and \$1.03 billion in potential funding sources.

If the Council supports approval of the next steps required for the Study to proceed on its course to completion, this Office concurs with the CAO recommendations that the Council adopt the CAO preliminary funding framework for the Plan and instruct the CAO to complete and sign the “Non-Federal Sponsor’s Self-Certification of Financial Capability for Decision Documents” form, as well as authorize the City Engineer to complete and sign the “Non-Federal Sponsor’s Letter of Intent” and submit it with the CAO signed form to the USACE on behalf of the City. Both of these documents are attached to the revised City Engineer report, dated March 16, 2015, and state that the City reserves the right to seek further consideration of cost sharing options, and they do not financially commit the City to future expenditures without the execution of a formal agreement with the USACE.

**BACKGROUND**

The USACE describes the NER Plan as the plan alternative having maximum beneficial effects over costs as determined by an established method of analysis. The USACE utilizes a measure for quantifying restoration benefits called Habitat Unit (HU), which is defined as follows: A quantitative environmental assessment value, considered the biological currency of Combined Habitat Assessment Protocol (CHAP) habitat evaluation process. Habitat Units in general are calculated by combining the area of available habitat (quantity) with the quality of the habitat for each community.

After its review and analysis of all plan alternatives, the USACE determined Alternative 13v as the NER Plan. The NER Plan would restore 598 acres and provide 5,989 HU benefits of restoration at an estimated cost of \$704.5 million.

After its review and analysis of all plan alternatives, the City determined Alternative 20 as the LP Plan. This was based on a Council action from August 23, 2013 (C.F. 10-270-S3), which endorsed the selection of a plan alternative that would result in the most expansive ecosystem restoration. The LP Plan would restore 719 acres and provide 6,782 HU benefits of restoration at an estimated cost of \$1.357 billion.

Both plans include the same eight general locations (each referred to as a “reach”) for ecosystem restoration along an 11-mile stretch of the Los Angeles River, but differ on the acres restored within each reach. Table 1 compares both plans regarding the approximate acres that would be restored within each reach.

Table 1  
Approximate Acres Restored within Reach Area by Plan

Reach	General Location of Ecosystem Restoration Area	NER Plan	LP Plan
1	Pollywog Park/Headworks to Midpoint of Bette Davis Park	82	82
2	Midpoint of Bette Davis Park to Upstream End of Ferraro Fields	39	59
3	Ferraro Fields to Brazil Street	50	80
4	Brazil Street to Los Feliz Boulevard	59	59
5	Los Feliz Boulevard to Glendale Freeway	41	68
6	Glendale Freeway to I-5 Freeway	159	159
7	I-5 Freeway to Main Street	59	59
8	Main Street to First Street	109	153
Totals		598	719

The current estimated costs of the NER Plan total \$704.5 million and the LP Plan total \$1.357 billion. The primary driver for cost escalation since previous reporting is land acquisition required by the ecosystem restoration plans. The USACE refers to these costs as LERRDs (lands, easements, rights-of-way, relocations, and dredged material disposal areas). The LERRDs estimated costs for the NER Plan total \$530 million and for the LP Plan total \$755 million.

Regarding the funding for either plan, the City and USACE are working on a cost sharing method that is acceptable to both parties. The cost sharing method would provide partial funding from the federal government. The City would assume the remaining share of costs. The current USACE position is that the City cost share of the NER Plan be \$535.1 million (76 percent of total costs) and of the LP Plan be \$1.183 billion (87 percent of total costs). Additionally, the USACE is considering an Option 2 cost share method for the LP Plan that would assign \$964.6 million (71 percent of total costs) to the City.

USACE policy regarding cost sharing between the City and the federal government traditionally has the federal government contributing more than half of the ecosystem restoration plan costs, but their policy indicates that plans with LERRDs costs exceeding 25 percent of total plan costs are not likely to be given high priority. Additionally, when the NER Plan differs from the LP Plan, traditional USACE policy calls for non-standard cost sharing between the City and the federal government for the LP Plan. Therefore, a non-standard cost sharing method acceptable to both parties must be established.

The following are descriptions of the current USACE positions regarding the non-standard cost sharing methods for both the NER Plan and LP Plan, as well as Option 2 for the LP Plan. As previously stated, there may be changes in this area when the Study is completed in late 2015.

Project Components of Ecosystem Restoration Plan for Cost Sharing Purposes

The basis of the following cost sharing methods entails the separation of plan costs into two project components: Ecosystem Restoration and Recreation. Table 2 illustrates estimated costs for the NER Plan and LP Plan by project component:

Project Component	NER Plan	LP Plan
Ecosystem Restoration	\$ 694,157,000	\$ 1,338,628,000
Recreation	\$ 10,310,000	\$ 17,980,000
Total	\$ 704,467,000	\$ 1,356,608,000

The Ecosystem Restoration project component includes the costs associated with LERRDs, as well as costs for the design and construction of the ecosystem restoration associated with the Habitat Unit (HU) measurement.

The Recreation project component includes the costs associated with the design and construction of recreation items that are compatible with the Ecosystem Restoration project component and enhance the visitation experience. The Recreation project component must build upon the Ecosystem Restoration project component by taking advantage of the restored resources rather than detract from them. Examples of recreation items include: trails and access points; signage; pedestrian access bridges and tunnels; restrooms; paved parking lots; and, wildlife viewing points.

Non-Standard Cost Share for NER Plan

Table 3 illustrates the current USACE position regarding the cost sharing between the City and federal government in present value dollar amounts and percentage of total, as well as the LERRDs portion of the Ecosystem Restoration project component.

Table 3

National Ecosystem Restoration (NER) Plan

Project Component		Cost Share		Total	LERRDs
		Federal	City		
Ecosystem Restoration	Amount	\$ 164,237,000	\$ 529,920,000	\$ 694,157,000	\$ 529,920,000
	Percent	24%	76%	100%	76%
Recreation	Amount	\$ 5,155,000	\$ 5,155,000	\$ 10,310,000	\$ -
	Percent	50%	50%	100%	0%
Total	Amount	\$ 169,392,000	\$ 535,075,000	\$ 704,467,000	\$ 529,920,000
	Percent	24%	76%	100%	75%

Please note that a standard cost share method for an NER Plan would assign 65 percent of the Ecosystem Restoration amount and 50 percent of the Recreation amount to the federal government with the remaining portion assigned to the City. Because of the significant estimated LERRDs costs, the Table 3 non-standard cost sharing method proposed by USACE assigns 100 percent of the LERRDs amount of the Ecosystem Restoration amount to the City and the remaining non-LERRDs Ecosystem Restoration Amount to the federal government. The Recreation project component remains a standard 50/50 cost sharing between the City and the federal government.

Non-Standard Cost Share for LP Plan - Option 1

Table 4 illustrates the current USACE position regarding the cost sharing between the City and federal government in present value dollar amounts and percentage of total, as well as the LERRDs portion of the Ecosystem Restoration project component.

Table 4

Locally Preferred (LP) Plan

Project Component		Cost Share - Option 1		Total	LERRDs
		Federal	City		
Ecosystem Restoration	Amount	\$ 164,237,000	\$ 1,174,391,000	\$ 1,338,628,000	\$ 754,847,000
	Percent	12%	88%	100%	56%
Recreation	Amount	\$ 8,990,000	\$ 8,990,000	\$ 17,980,000	\$ -
	Percent	50%	50%	100%	0%
Total	Amount	\$ 173,227,000	\$ 1,183,381,000	\$ 1,356,608,000	\$ 754,847,000
	Percent	13%	87%	100%	56%

This non-standard cost sharing method proposed by USACE maintains the federal cost share for the Ecosystem Restoration project component at the NER Plan (Table 3) amount of \$164.2 million with the remaining balance of this project component assigned to the City. The Recreation project component remains a standard 50/50 cost sharing between the City and the federal government.

Non-Standard Cost Share for LP Plan - Option 2

Table 5 illustrates an Option 2 that the USACE is considering in regards to the cost sharing for the LP Plan between the City and federal government in present value dollar amounts and percentage of total, as well as the LERRDs portion of the Ecosystem Restoration project component.

Table 5

Locally Preferred (LP) Plan

		Cost Share - Option 2			
Project Component		Federal	City	Total	LERRDs
Ecosystem Restoration	Amount	\$ 382,987,000	\$ 955,641,000	\$ 1,338,628,000	\$ 754,847,000
	Percent	29%	71%	100%	56%
Recreation	Amount	\$ 8,990,000	\$ 8,990,000	\$ 17,980,000	\$ -
	Percent	50%	50%	100%	0%
Total	Amount	\$ 391,977,000	\$ 964,631,000	\$ 1,356,608,000	\$ 754,847,000
	Percent	29%	71%	100%	56%

This non-standard cost sharing method being considered by the USACE assigns 100 percent of the LERRDs amount of the Ecosystem Restoration amount plus 15 percent of the total Ecosystem Restoration project component amount to the City with the remaining Ecosystem Restoration Amount assigned to the federal government. The Recreation project component remains a standard 50/50 cost sharing between the City and the federal government.

**CONCLUSION**

The information provided in this report represents the requested financial analysis of the Los Angeles River Ecosystem Restoration Study, including plan alternatives, present value costs and potential cost sharing arrangements between the City and federal government. The information is intended to provide the Committee greater clarity as to the plan arrangements formulated by the City Engineer in consultation with the Office of the Mayor.

As previously stated in the report, the final scope of the Los Angeles River Ecosystem Restoration Feasibility Study (Study) and cost sharing method are anticipated to be completed in late 2015. Given its ongoing development, these components are subject to change and the Study may require further review to assess the latest financial impact.

Finally, if the Council supports approval of the next steps required for the Study to proceed on its course to completion, this Office concurs with the CAO recommendations that the Council adopt the CAO preliminary funding framework for the Plan and instruct the CAO to complete and sign the “Non-Federal Sponsor’s Self-Certification of Financial Capability for Decision Documents” form, as well as authorize the City Engineer to complete and sign the “Non-Federal Sponsor’s Letter of Intent” and submit it with the CAO signed form to the USACE on behalf of the City. Both of these documents are attached to the revised City Engineer report, dated March 16, 2015, and state that the City reserves the right to seek further consideration of cost sharing options and they do not financially commit the City to future expenditures without the execution of a formal agreement with the USACE.