

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: March 27, 2025

CAO File No. 0590-00126-0000

Council File No.

Council District: Citywide

To: The Mayor
Los Angeles City Council

From: Matthew W. Szabo, City Administrative Officer 

Reference: The 2024-25 Adopted Budget for the Street Damage Restoration Fee Fund

Subject: **2024-25 STREET DAMAGE RESTORATION FEE FUND BALANCING**

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor, approve \$13,532,676 of appropriation reductions to offset lower than expected 2024-25 revenue within the Street Damage Restoration Fee Fund as follows:

- 1) Reduce the 2024-25 General Services Department (GSD) appropriation by \$65,173 (from \$7,675,853 to \$7,610,680):
 - Reduce the 2024-25 GSD, Department 40, Fund 41A, Salaries, General Account 001010 by \$65,173.
- 2) Reduce the 2024-25 Bureau of Engineering (BOE) appropriation by \$98,768 (from \$743,000 to \$644,232):
 - Reduce the 2024-25 BOE, Department 78, Fund 41A, Salaries, General Account 001010 by \$98,768.
- 3) Reduce the 2024-25 Bureau of Contract Administration (BCA) appropriation by \$410,313 (from \$410,313 to 0):
 - Reduce the 2024-25 BOE, Department 76, Fund 41A, Salaries, General Account 001010 by \$410,313.
- 4) Reduce the following special purpose fund appropriations within the Street Damage Restoration Fund, Fund 41A:
 - Reduce the 2024-25 Mobility Plan Improvement Account, Department 50, Fund 41A, Account 50AMPI by \$2,000,000 (from \$2,000,000 to \$0);

- Reduce the 2024-25 Pavement Preservation – Access Ramps Account, Department 50, Fund 41A, Account 50AKJS, by \$199,296 (from \$199,296 to \$0);
 - Reduce the 2022-23 Pavement Preservation - Access Ramps Account by \$4,367,348, Department 50, Fund 41A, Account 50YKJS;
 - Reduce the 2024-25 Bureau of Street Services, Salaries General Account by \$425,746, Department 50, Fund 100, Department 86, Account 1010 – Salaries General; and,
 - Reduce the 2024-25 Bureau of Street Services Construction Expense Account by \$5,966,032 Fund 100, Department 86, Account 3030 – Construction Expense.
- 5) Authorize the City Administrative Officer to make any necessary technical corrections to effectuate the intent of the Mayor and Council.
- 6) Instruct the Bureau of Engineering, with the assistance of the Bureau of Street Services, the Board of Public Works, the City Attorney and the City Administrative Officer (CAO), to report to Council with recommendations on the reassessment of the SDRF Fees, the fee collection process, and a historical analysis of fees collected over the last three years.

SUMMARY

The 2024-25 Adopted Budget includes \$63,000,000 in anticipated revenue from the Street Damage Restoration Fee (SDRF) Fund. To date, in 2024-25, the SDRF has received \$26,906,107 in revenues through the first three weeks of March 2025. In addition, the Board of Public Works has reported, that due to a technical glitch, there is a delay in the receipt of \$7,993,500 of SDRF fees from the Department of Water and Power (DWP) for the months of November 2024, December 2024, and January 2025.

Assuming the DWP revenue issue will be resolved and revenues received, total SDRF receipts would amount to \$34,899,607 through the third week of March 2025. This is an average of \$3,988.53 per month for a projected SDRF year-end total of \$47,862,318 calculated using a 12-month straight line. It is also projected that the Fund will receive \$405,006 in SDRF interest which is down from \$1.8 million. Lastly, the SDRF fund also receives \$3,000,000 annually from the Bureau of Sanitation Sewer Construction and Maintenance Fund which will be received towards the end of the year. The projected SDRF year-end total is \$51,267,324. Therefore, as demonstrated on Table 1, there is a projected SDRF shortfall in the amount of \$13,532,676.

Table 1

| STREET DAMAGE RESTORATION FEE FUND | | | |
|---|------------------------|-------------------------------------|------------------------|
| | 2024-25 Adopted Budget | 2024-25 Adjusted Revenue Projection | 2024-25 Shortfall |
| SDRF Revenue | \$ 60,000,000 | \$ 47,862,318 | \$ (12,137,682) |
| SDRF Interest | \$ 1,800,000 | \$ 405,006 | \$ (1,394,994) |
| SCM Fund* | \$ 3,000,000 | \$ 3,000,000 | \$ - |
| TOTAL | \$ 64,800,000 | \$ 51,267,324 | \$ (13,532,676) |

*Sewer Construction and Maintenance Fund

This Office has reviewed the availability of other special funds and the General Fund as alternatives to offset the loss of the SDRF revenue and, due to constrained budgetary conditions, does not recommend funding swaps at this time.

The size of this revenue shortfall requires immediate action to balance the Fund. This Office worked extensively with the Bureau of Street Services to determine the solution for the SDRF shortfall. To address this shortfall it is recommended that the following appropriation reductions, displayed on Table 2, be approved:

Table 2

| 2024-25 SDRF SHORTFALL SOLUTION | REDUCTION AMOUNT | SERVICE LEVEL IMPACT |
|--|----------------------|--|
| Reduce the 2024-25 GSD Appropriation | \$ 65,173 | One position (Frozen) |
| Reduce the 2024-25 BOE Appropriation | \$ 98,768 | One position (Frozen) |
| Reduce the 2024-25 BCA Appropriation | \$ 410,313 | Four Positions (Frozen_ |
| Eliminate the 2024-25 Mobility Account | \$ 2,000,000 | Mobility Plan improvements |
| BSS - Pavement Preservation - Access Ramps (Special Fund Schedule) | \$ 199,296 | Funding for approximately four access ramps |
| BSS - Pavement Preservation - Access Ramps (Special Fund Schedule) | \$ 4,367,348 | Funding for approximately 87 access ramps |
| Reduce BSS appropriations within Fund 100, Department 86, Account 1010 - Salaries General. | \$ 425,746 | Funding for approximately 230 lane miles of sl |
| Reduce BSS appropriations within Fund 100, Department 86, Account 3030 - Construction Expense. | \$ 5,966,032 | |
| TOTAL | \$ 13,532,676 | |

The cumulative service level impact due to the above funding reductions will be a reduction in:

- Slurry seal operations by approximately 230 lane miles;
- The ability to complete approximately 274 access ramps;
- The ability to fund additional scope improvements when the Mobility Plan streets are resurfaced; and,
- The filling of six positions for the remainder of 2024-25 as follows:
 - One Heavy Duty Equipment Mechanic in the Department of General Services;
 - One Field Engineering Aide in the Bureau of Engineering; and,
 - Three Construction Inspectors and one Senior Construction Inspector in the Bureau of Contract Administration.

Although the reduction of this special fund revenue source is a strain on the City budget, the purpose of the SDRF was not intended to achieve significant revenue. The purpose is to incentivize the cooperation between utilities and the City in a manner that reduces incidences where a newly resurfaced or reconstructed street is damaged by trenching activity and to compensate the City for damages incurred as a result of such cuts. The SDRF reimburses the City for the loss of value in the street asset and the need to perform more frequent maintenance and repair activity as a result of the trenching activity. Therefore, it is possible that lower revenue corresponds to less damage to newly repaired City streets.

According to the City’s Financial Management System, in the past four years, SDRF annual revenues have ranged from a low of \$55,124,156 in 2022 to a high of \$84,646,006 in 2023. As shown on Table 3, annual SDRF revenues averaged \$64,331,822 between 2021 and 2024.

Table 3

| SDRF REVENUES | | |
|---------------|----------------|----------------|
| YEAR | REVENUES | 4-YEAR AVERAGE |
| 2024 | \$ 60,476,494 | \$64,331,822 |
| 2023 | \$ 84,646,006 | |
| 2022 | \$ 55,124,156 | |
| 2021 | \$ 57,080,632 | |
| TOTAL | \$ 257,327,288 | - |

This Office consulted with the BSS, BOE, and BCA and the cause for the drop in SDRF revenue is unknown at this time.

BACKGROUND

In 2018, the Mayor and Council adopted an ordinance (Ordinance No. 185818) amending Section 62.06 of the Los Angeles Municipal Code (LAMC) to update and increase the Street Damage Restoration Fee and Section 5.121.6 of the Los Angeles Administrative Code (LAAC) to update the SDRF Fund (C.F. 14-1571). The LAMC requires that any entity, public or private, is required to obtain a permit to excavate in a public street or alley and must pay a SDRF Fee at the time of obtaining a permit. The SDRF Fee per square foot is \$8.24 on residential streets and \$19.44 for major streets that require thicker pavement to accommodate greater traffic loads. In addition, the ordinance authorized the Bureau of Engineering to collect a fee in the amount of \$18.50 for the cost of calculating and collecting the SDRF fee.

A 2018 Bureau of Street Services report issued a summary of recommendations provided by Dr. Shahin and Associates who conducted a comprehensive analysis of the impact of utility trenching on street pavements. Based on the loss of structural life due to utility cut patching, the author determined that \$8.24 and \$19.44 fees were appropriate.

However, since 2018, the City has experienced growth in labor costs and construction expenses that would support revising the SDRF. It is, therefore, recommended that the Council instruct the Bureau of Engineering, with the assistance of the Bureau of Street Services, the Board of Public Works, and this Office, to report to Council with recommendations on the reassessment of the SDRF Fees, the fee collection process, and a historical analysis of fees collected over the last three years.

FISCAL IMPACT STATEMENT

Approval of the recommendations will eliminate a projected \$13,532,676 deficit in the Street Damage Restoration Fee Fund during Fiscal Year 2024-25. The recommendations included in this report will prevent the use of the General Fund to cover potential SDRF over-expenditures. The potential delay of slurry seal activity and the construction or repair of access ramps will increase the cost of these activities.

FINANCIAL POLICIES STATEMENT

These recommendations are consistent with the City Financial Policies as they ensure that projected special fund appropriations are balanced with projected available funds.

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