

WALKER 114464

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Soaring Transit Subsidies Must Be Controlled

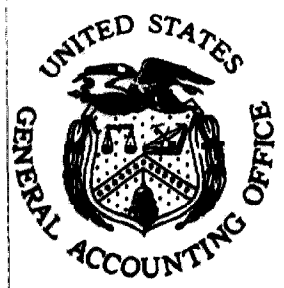
Demand for transit operating subsidies is approaching crisis proportions. Transit systems received \$2.2 billion in Federal, State, and local government operating subsidies in 1978--the latest actual figure available. By 1985 more than \$6 billion per year may be needed.



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This report tells why the demand for transit operating subsidies is growing, what can be done to control subsidy growth, and what improvements are needed in the Federal transit operating assistance program.

Transit systems must control costs and increase productivity if their subsidies are to be kept within acceptable limits. Transit systems must also adopt more realistic, efficient, and equitable fare policies. The Urban Mass Transportation Administration, which administers the Federal program, should help transit systems achieve these goals and should improve its administration of the Federal operating assistance program.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To The President of the Senate and the
Speaker of The House of Representatives

This report summarizes the results of our review to determine why transit deficits are rising so rapidly and what can be done at the Federal level to help control them and better administer the Federal operating assistance program. The report contains recommendations to the Congress to (1) reconsider the 1974 legislative finding that the continued increase in fares is undesirable and adopt a goal for the Federal subsidy program that promotes efficient and equitable transit pricing and (2) give State Governors greater flexibility in reallocating Federal operating assistance funds apportioned to them.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Transportation; the Secretary of Labor; interested congressional committees; and other parties.

A handwritten signature in black ink, reading "F. B. Atchley".

Comptroller General
of the United States

D I G E S T

One reason for growing subsidy demands is that transit operating costs, which increased from \$2.5 billion in 1973 to an estimated \$5.5 billion in 1979, are not being offset by productivity improvements. For example, the cost per vehicle mile, eliminating the effects of inflation, rose from \$1.31 in 1973 to \$1.53 in 1978, or about 17 percent. (See pp. 8 to 12.)

Transit systems must do more to control costs and increase productivity if operating subsidies are to be kept at acceptable limits. For example, the systems should give more emphasis to:

- Using labor efficiently. Although labor accounts for 70 to 80 percent of operating costs, transit has difficulty in using labor efficiently because demand peaks during commuter rush hours. Many transit systems are limited by their labor agreements from adopting possible solutions, such as hiring part-time labor, which could reduce costs. (See pp. 13 to 16.)
- Maintaining their bus and railcar fleets. Many systems (1) are not properly recruiting, training, and promoting their mechanics, (2) do not have adequate preventive maintenance programs, (3) are not properly controlling spare parts inventories, and, (4) have restrictive work rules preventing efficient use of maintenance personnel. (See pp. 17 to 20.)

Although the primary responsibility for improving transit operations rests with local transit systems and State and local governments, the Urban Mass Transportation Administration (UMTA), which administers the Federal program, can and should do more to help

transit systems control costs and increase productivity. GAO recommends that the Secretary of Transportation direct the UMTA Administrator to:

- Develop and issue policy guidelines defining UMTA's role and responsibility in encouraging transit productivity.
- Undertake specific actions to improve transit productivity, such as requiring management studies for all systems of a certain size that receive Federal funds. (See pp. 25 and 26.)

TRANSIT SYSTEMS MUST ADOPT
MORE REALISTIC, EFFICIENT,
AND EQUITABLE FARE POLICIES

Another reason for the growing demand for operating subsidies is that transit systems have adopted and maintained unrealistically low fares even though operating costs are increasing. Government subsidies are needed to fill the widening gap between farebox revenues and operating costs.

For example, in 1970 passenger fare revenues covered about 82 percent of transit operating costs and Government subsidies less than 12 percent. By 1978, fares covered only 48 percent of costs while Government subsidies had increased to 48 percent. (See p. 33.)

The availability of Government subsidies has encouraged many transit systems to de-emphasize fares as a revenue source. These systems try to keep fare structures as low and simple as possible. Consequently, they are not realizing as much revenue as they could from fares, which increases the need for subsidies. Many simple fare structures are also inequitable in that the short-trip, nonpeak hour, inner-city rider is generally paying much more per mile for his/her transit trip than the longer worktrip, suburban rider. (See pp. 35 to 37.)

Although the primary responsibility for developing realistic, efficient, and equitable fare policies rests with local transit systems and State and local governments, the Congress and UMTA can provide assistance. GAO recommends that:

--The Congress reconsider the 1974 legislative finding that the continued increase in fares is undesirable and adopt a goal for the Federal subsidy program that promotes efficient and equitable transit pricing. (See p. 41.)

GAO also recommends that the Secretary of Transportation:

--Take certain steps to have local areas (1) establish local goals for the proportion of short- and long-term costs that fare revenue should cover and (2) assess the efficiency and equity of present fares and examine alternative fare structures that might better reflect equity and costs.

--Direct the UMTA Administrator to develop and issue policy guidelines encouraging local areas to (1) recover more of their costs from passenger fares and (2) develop realistic, efficient, and equitable local fare policies and structures. (See pp. 41 and 42.)

FEDERAL RESOURCES APPORTIONED TO
STATE GOVERNORS SHOULD BE USED
MORE EFFICIENTLY

Federal operating assistance resources apportioned to State Governors for urbanized areas with populations between 50,000 and 200,000 are not being used efficiently. Substantial resources remain idle because State officials are

--allocating resources to urbanized areas even though they have no transit system or choose not to apply for Federal assistance,

- allocating more resources to some areas than can be used in one fiscal year, and
- not reallocating unused apportionments.

For example, 9 of the 21 eligible urbanized areas in the Texas Governor's apportionment were allocated \$12.9 million from fiscal year 1975 through 1979 even though the areas did not request Federal assistance and 7 of the areas did not have a transit system. (See p. 45.)

GAO recommends that the Congress amend the Urban Mass Transportation Assistance Act of 1964 to give Governors the authority to reallocate Federal operating assistance surpluses from urbanized areas with populations between 50,000 and 200,000 to other larger urbanized areas within the State. (See p. 49.)

ADMINISTRATION OF THE FEDERAL
OPERATING ASSISTANCE PROGRAM
NEEDS MAJOR IMPROVEMENTS

UMTA needs to make major improvements in its administration of the Federal operating assistance program. For example:

- UMTA should improve its automated information systems. The present systems are unreliable and cannot be used to properly account for resources, provide reliable reports to the Congress, and provide the data needed to manage the program. (See pp. 53 to 57.)
- UMTA should close out operating assistance projects and deobligate funds more quickly. The agency assigned project closeout a low priority and lacked procedures to deobligate and reapportion unused Federal funds. As a result, Federal resources remained idle, areas lost part of their apportionments unnecessarily because legislative time limits on the use of funds expired before UMTA deobligated unused grant funds, and recovery of overpayments was delayed. (See pp. 58 to 62.)

UMTA regional offices are not processing operating assistance applications quickly enough, which causes unnecessary delays. (See pp. 62 to 65.) The Department of Labor, in some cases, is contributing to these delays during its labor protection review. (See pp. 65 and 66.)

GAO recommends numerous actions the Secretaries of Labor and Transportation need to take to improve the administration of the operating assistance program. (See pp. 49, 67, and 68.)

AGENCY COMMENTS AND GAO'S EVALUATION

The Department of Transportation, although agreeing with many of GAO's conclusions and recommendations, believes that, in many cases, GAO failed to place these issues in the proper context.

For example, the Department stated that GAO failed to mention steps taken or being taken by the Department, such as its 1980 legislative proposal to restructure the Federal operating assistance program, and several policy initiatives to address the problem of increasing transit deficits. (See pp. 26 to 30.)

GAO believes the Department's 1980 legislative proposal would not do much to offset the potential increases in operating deficits and public subsidies. For example, one of the changes proposed by the Department could allow a transit system to increase its share of total formula grant funds by simply increasing the number of miles its transit vehicles travel in revenue service. There is no requirement that additional operating costs be offset by additional revenues. (See pp. 27 and 28.)

The policy initiatives referred to by the Department had not been finalized at the time of GAO's review, and therefore GAO could not evaluate the possible impact of these policies on issues discussed in the report. (See p. 29.)

The Department of Labor, in commenting on the section of the report discussing its labor protection review, stated that it generally agrees with GAO's conclusions and concurs, in part, with GAO's recommendations. (See pp. 70 and 71.)

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Background	1
Legislation authorizing Federal operating assistance	2
Objectives, scope, and methodology	6
2 TRANSIT SYSTEMS MUST DO MORE TO CONTROL COSTS AND INCREASE PRODUCTIVITY	8
Transit operating costs are increasing rapidly while available data indicates productivity is declining	8
Transit systems must address labor, maintenance, and service expansion problems to control costs and increase productivity	13
UMTA should do more to improve transit productivity	22
Conclusions	25
Recommendations to the Secretary of Transportation	25
Agency comments and our evaluation	26
3 TRANSIT SYSTEMS MUST ADOPT MORE REALISTIC, EFFICIENT, AND EQUITABLE FARE POLICIES	31
Government subsidies are replacing passenger fares as transit's major source of revenue	32
Transit systems unnecessarily deemphasize farebox revenues	35
Present Federal and most State policies do not encourage efficient and equitable fare policies	37
Conclusions	41
Recommendation to the Congress	41
Recommendations to the Secretary of Transportation	41
Agency comments and our evaluation	42

CHAPTER		<u>Page</u>
4	SECTION 5 RESOURCES APPORTIONED TO STATE GOVERNORS ARE NOT USED EFFICIENTLY	44
	Substantial resources remain idle	44
	State Governors allocate apportionments to areas not needing assistance and do not reallocate unused apportionments	45
	Section 5 resources not needed by urbanized areas in Governors' apportionments cannot be used elsewhere	47
	UMTA's revised regulations will resolve some problems, but additional actions are needed	48
	Conclusions	48
	Recommendation to the Congress	49
	Recommendations to the Secretary of Transportation	49
	Agency comments	49
5	UMTA's ADMINISTRATION OF THE SECTION 5 PROGRAM NEEDS SUBSTANTIAL IMPROVEMENTS	51
	More effective headquarters oversight and supervision is badly needed	52
	UMTA's automated information systems need to be substantially improved	53
	Section 5 projects must be closed out and funds deobligated more quickly	58
	UMTA should establish time standards and monitor regional grant processing	62
	The Labor Department needs to identify ways to expedite its certification process	65
	Conclusions	67
	Recommendations to the Secretary of Transportation	67
	Recommendation to the Secretary of Labor	68
	Agency comments and our evaluation	69

APPENDIX

I	Letter dated January 8, 1981, from the Department of Transportation	72
II	Letter dated December 22, 1980, from the Department of Labor	88

ABBREVIATIONS

APTA	American Public Transit Association
DOT	Department of Transportation
GAO	General Accounting Office
UMTA	Urban Mass Transportation Administration

CHAPTER 1

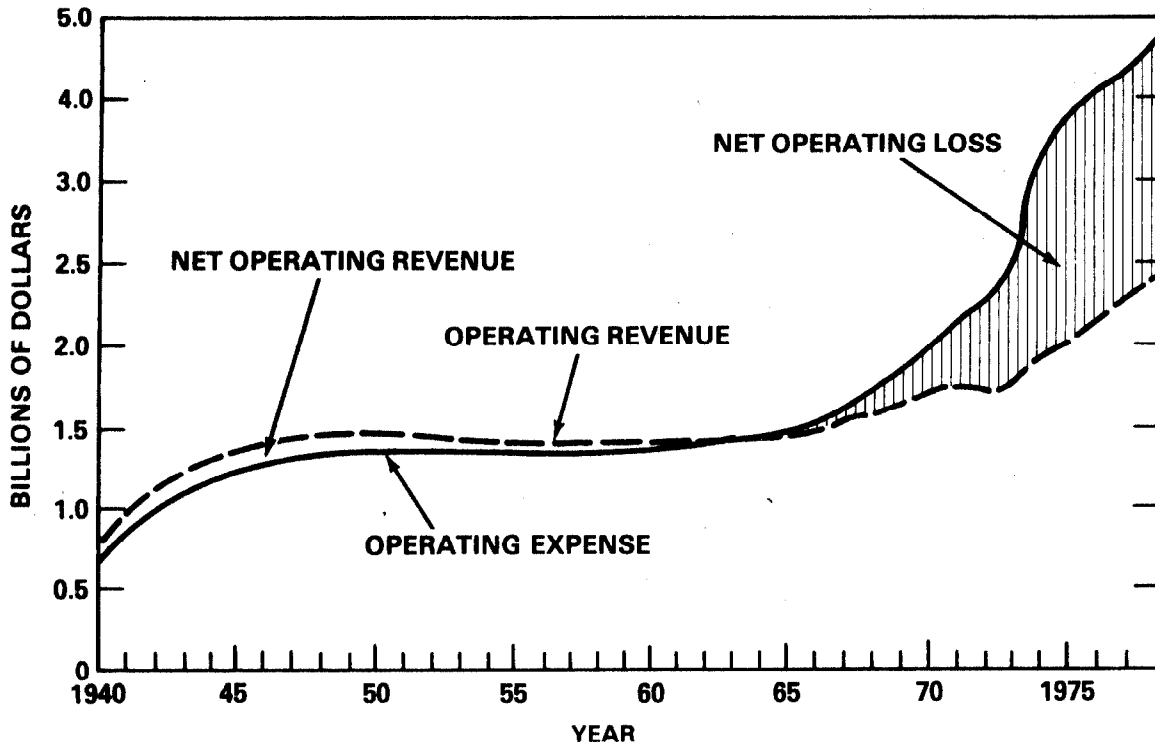
INTRODUCTION

Governments at all levels are facing a growing crisis in financing mass transit. Transit systems received \$2.2 billion in Federal, State, and local government operating subsidies in 1978. By 1985, if present trends continue, transit systems may need more than \$6 billion per year in Government subsidies.

The seriousness of transit's financial problems was recently illustrated by the 1-day shutdown of Boston's transit operations. On December 6, 1980, Boston's transit system, the Massachusetts Bay Transit Authority, shut down because of financial problems. Emergency legislation enacted the following day authorized \$41 million in additional subsidies to keep the system running through the end of the year and changes in the authority's structure to help it cut operating costs and improve productivity. A recent "Boston Herald American" editorial, however, warned that the transit authority's problems remain unsolved and the system must eventually choose between (1) a drastic cut in service and massive layoffs of the system's employees, (2) a giant-sized fare boost, or (3) a combination of both.

BACKGROUND

Not very long ago mass transit was able to pay its own way. As recently as the mid-1960s, transit systems nationwide were able to recover most of their costs through operating revenues. Since that time, however, the gap between operating costs and revenues has been increasing rapidly, as shown by the chart on the next page. Now, most transit authorities can operate only because of Government subsidies. These subsidies are growing every year and by 1985 UMTA estimates that they will amount to more than \$6 billion, up sharply from the \$2.2 billion in 1978. (See pp. 26 and 27 for a further discussion of the 1985 projected deficit figure and concerns raised by the Department of Transportation (DOT) about the accuracy of this estimate.)



Source: "Transit Fact Book," 1978-79 edition, published by the American Public Transit Association.

LEGISLATION AUTHORIZING
FEDERAL OPERATING ASSISTANCE

Although the Federal Government has been providing assistance to public transit since 1961, it was not until 1974 that the Congress authorized using Federal funds to pay mass transit operating expenses.

The Federal operating assistance program, commonly referred to as the section 5 program, is administered by DOT's Urban Mass Transportation Administration (UMTA). The program was authorized by the National Mass Transportation Assistance Act of 1974 and subsequently amended by the Surface Transportation Assistance Act of 1978.

National Mass Transportation Assistance Act of 1974

The National Mass Transportation Assistance Act of 1974, which created a new section 5 of the Urban Mass Transportation Act of 1964, authorizes funds to be apportioned to States based on a population and population density (measured as persons per square mile) formula for either capital or operating subsidies. 1/

Beginning with \$300 million in fiscal year 1975 and increasing to \$900 million by 1980, the Congress authorized nearly \$4 billion in section 5 assistance. Following are some of the section's key features.

- In urbanized areas of 200,000 people or more, a designated recipient for the formula funds is selected by the Governor, local officials, and officials of the transportation authority. The Governor receives formula funds for urbanized areas with populations between 50,000 and 200,000.
- Funds apportioned but not obligated during the fiscal year remain available for obligation 2 additional years.
- Funds can be used for both capital and operating costs. However, the Federal share for capital projects is limited to 80 percent of the capital costs and 50 percent of the project operating deficit.
- Funds made available under section 5 must be in addition to and not in lieu of operating assistance previously provided by State and local governments.

Surface Transportation Assistance Act of 1978

In November 1978, the Congress passed the Surface Transportation Assistance Act of 1978 which, in addition to authorizing greatly increased amounts for section 5 formula grants, significantly changed the section 5 program. Among other things, the act

- establishes four categories of funding that are described on page 5;

1/Our report entitled "Analysis of the Allocation Formula for Federal Mass Transit Subsidies" (PAD-79-47, Oct. 9, 1979) discusses in detail the Federal allocation formula and provides criteria by which alternative factors might be included in such a formula.

- makes one of the funding categories the source of routine capital activities (primarily bus purchases) formerly funded from another program;
- extends the period of funding availability from 2 to 3 years, after which the funds are reapportioned among all urbanized areas;
- allows the State Governor greater discretion in re-allocating unused section 5 apportionments among urbanized areas with populations between 50,000 and 200,000; and
- modifies the requirement that section 5 funds must be in addition to and not in lieu of operating assistance previously provided by State and local governments to allow them to substitute farebox revenues for reduced subsidies.

Summary of Section 5 Funding Categories
Authorized by the 1978 Legislation

<u>Category of funds</u>	<u>Items on which funds may be spent</u>	<u>Authorized funding levels by fiscal year</u>			
		<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
		----- (millions) -----			
First tier (or basic tier)	Any operating or capital expenses	\$ 850	\$ 900	\$ 900	\$ 900
Second tier (note a)	Any operating or capital expenses	250	250	250	250
Fixed guideway	Operating expenses for commuter rail systems (note b)	115	130	145	160
Bus replacement	Purchases of buses and related equipment and construction of bus-related facilities	300	300	370	455
Total		<u>\$1,515</u>	<u>\$1,580</u>	<u>\$1,665</u>	<u>\$1,765</u>

a/Second tier funds are first apportioned so that 85 percent go to urban areas with more than 750,000 people and 15 percent go to smaller urban areas. Population and population density are used to allocate among areas in each size category.

b/These funds are limited to operating assistance for commuter rail systems in 1979 only. For the remainder of the time covered by the Surface Transportation Assistance Act, these funds can be used for any capital or operating expenses for commuter rail or other fixed guideway systems.

Federal expenditures

Since the section 5 program was enacted, a total of about \$3 billion has been obligated through fiscal year 1979 as shown below. 1/

<u>Fiscal year</u>	<u>Obligations</u> (millions)
1975	\$ 151.6
1976	390.3
Transition quarter	52.1
1977	621.6
1978	742.4
1979	<u>1,134.5</u>
Total	<u>\$3,092.5</u>

The obligations were for both capital and operating projects. About 20 percent of fiscal year 1979 obligations was for capital projects.

OBJECTIVES, SCOPE, AND METHODOLOGY

Because of our previous experience with the section 5 program, we took a broad approach to reviewing the subsidy issue. We looked not only at the Federal subsidy program but also the transit industry's cost and revenue problems that led to the need for Government subsidies. To identify the issues warranting more detailed review, we initially undertook a comprehensive planning survey at UMTA's Chicago, Illinois, regional office; State transportation offices; regional planning organizations; and universities and transit authorities in California, Indiana, Pennsylvania, New York, Washington, and Wisconsin.

1/Annual appropriations are not shown because UMTA was operating under contract authority during this period--a form of budget authority under which contracts or other obligations may be entered into in advance of an appropriation. Contract authority must be funded by a subsequent appropriation.

We conducted this review to determine

- why the gap between transit revenues and expenses is increasing so rapidly and whether anything can be done at the Federal level to reduce the need for Federal assistance,
- whether UMTA is doing all it can to address the problems causing transit deficits, and
- whether the section 5 program is being adequately administered and whether it can be made more efficient and effective.

Our review was made at UMTA headquarters and the Department of Labor in Washington, D.C.; UMTA's regional offices in Fort Worth, Texas, New York, New York, and San Francisco, California; State transportation offices; regional planning organizations; and universities and transit authorities in California, Massachusetts, New Jersey, New York, and Texas. We conducted our review in those States to provide a wide geographical coverage of the various issues we were reviewing.

To determine why transit deficits are rising so rapidly and what can be done at the Federal level, we (1) reviewed numerous transit research reports and articles, management studies, and performance audits, (2) discussed transit problems and possible solutions with State and local transportation officials and university researchers, (3) reviewed transit fare policies at selected transit authorities and State transportation offices, (4) identified and discussed labor problems with selected transit authorities, (5) reviewed California's efforts to impose farebox recovery and part-time labor requirements, (6) reviewed in detail labor productivity problems at the Massachusetts Bay Transit Authority, Boston, Massachusetts, and (7) reviewed the adequacy of UMTA's efforts to deal with problems causing transit deficits.

To determine if the section 5 program is being adequately administered, we (1) interviewed UMTA, State, and local transportation officials, (2) reviewed applicable legislation and UMTA's policies and procedures to determine whether they were adequate and whether various UMTA activities complied with them, (3) tested the accuracy and completeness of UMTA's section 5 financial and program management information at UMTA headquarters and selected regional offices, (4) reviewed the Labor Department's procedures to conduct its labor review, and (5) reviewed the use of section 5 funds apportioned to the Governors of California, New Jersey, New York, Texas, and Wisconsin.

CHAPTER 2

TRANSIT SYSTEMS

MUST DO MORE TO CONTROL

COSTS AND INCREASE PRODUCTIVITY

Rapidly rising costs are not being offset by productivity or fare increases and are forcing local transit authorities to rely too much on Federal, State, and local subsidies. Transit systems must do more to control costs because pressures are growing to hold down Government subsidies. To operate efficiently and bring costs under control, transit systems must give more emphasis to

- using labor efficiently,
- maintaining their bus and railcar fleets, and
- expanding cost effectively into less densely populated areas.

The primary responsibility for improving transit productivity rests with local transit systems and State and local governments. But UMTA can and should do more to help and encourage transit systems and State and local governments in achieving this goal. UMTA should

- develop and issue policy guidelines defining UMTA's role and responsibilities in encouraging transit productivity and
- undertake specific actions to encourage local transit systems to operate more productively, such as requiring management evaluations for all systems of a certain size receiving Federal funds.

TRANSIT OPERATING COSTS ARE INCREASING RAPIDLY WHILE AVAILABLE DATA INDICATES PRODUCTIVITY IS DECLINING

The financial condition of the transit industry has deteriorated rapidly in recent years because

- transit operating expenses almost doubled between 1973 and 1978 and
- rising costs have not been offset by productivity improvements.

Transit operating costs are increasing rapidly

Transit operating expenses are increasing rapidly. From 1973 to 1978, transit operating expenses increased \$2.2 billion, or at an annual rate of 17 percent. Only part of this increase was due to inflation. Eliminating the effects of inflation, transit operating costs increased \$700 million as the following schedule shows

<u>Year</u>	<u>Operating costs</u>	
	<u>Current \$</u>	<u>Constant 1972 \$</u>
	----- (millions) -----	
1973	\$2,536	\$2,397
1974	3,239	2,793
1975	3,706	2,913
1976	4,021	3,005
1977	4,305	3,040
1978	4,712	3,098

Source: American Public Transit Association's "Transit Fact Book," 1978-79 edition, and U.S. Department of Commerce's GNP Implicit Price Deflator.

American Public Transit Association (APTA) data was not available for 1979 and 1980. However, if transit costs continued to increase at the annual rate of 17 percent, they would have amounted to \$5.5 billion and \$6.4 billion in 1979 and 1980, respectively.

UMTA has identified five factors behind the cost increases:

<u>Factor</u>	<u>Percent of cost increase since 1973 attributable to factor</u>
General inflation	63.8
Wage and fringe benefits exceeding inflation	13.3
Service expansion	12.3
Additional employees over those needed for service expansion	6.2
Diesel fuel cost increases over those attributable to inflation and service ex- pansion	<u>4.3</u>
Total	<u><u>99.9</u></u>

Source: DOT report, "An Evaluation of the Section 5 Program," December 1979.

Transit productivity is difficult
to measure but available data shows
it is declining

Measuring transit productivity is difficult, but existing data suggests that productivity in the 1970s has been declining. The difficulties in measurement arise because of unreliable and limited data and a lack of consensus about the most appropriate indicator(s) of productivity.

APTA collects transit information, but the data is limited because

- APTA surveys only transit system members,
- transit system responses are voluntary, and
- historically, transit systems used different accounting systems; thus, a given financial term generally involves different definitions depending on the accounting system used.

Also no consensus exists among transportation experts on the most appropriate indicator(s) of transit productivity. One reason for the lack of consensus is that the transit industry's output might be thought of as either a measure of service provided, such as vehicle miles, or a measure of service consumed, such as number of passengers. A second reason is that service can be provided at different levels of quality, so that a comparison of vehicle miles over time or between transit systems may not be strictly accurate.

Although measuring transit productivity is difficult, some aggregate measures of transit productivity can be developed. Two widely used indicators of transit productivity are operating cost per vehicle mile and per transit passenger. These indicators show increasing costs for miles operated and passengers carried.

For example, if the effects of inflation are eliminated, from 1973 to 1978 the cost per vehicle mile in constant 1972 dollars grew from \$1.31 to \$1.53 (3.4 percent annually) and the cost per passenger increased from \$0.45 to \$0.52 (3.1 percent annually), as the following schedule shows.

Year	Operating costs			
	Per vehicle mile		Per linked transit passenger (note a)	
	Current \$	Constant 1972 \$	Current \$	Constant 1972 \$
1973	1.38	1.31	0.48	0.45
1974	1.70	1.46	0.58	0.50
1975	1.86	1.46	0.66	0.52
1976	1.98	1.48	0.71	0.53
1977	2.13	1.50	0.75	0.53
1978	2.32	1.53	0.79	0.52

Source: APTA's "Transit Fact Book," 1978-79 edition, and U.S. Department of Commerce's GNP Implicit Price Deflator.

a/Linked passenger trips reported by APTA for 1977 and 1978 represent transit trips taken by originating transit riders paying a full fare, a reduced fare, or no fare and excludes transfer and charter rides. However, APTA's passenger trip data reported before 1977 excludes free-fare passengers. Thus, productivity measures based on passenger trips would show an improvement in 1977 and 1978 because free-fare passengers were included.

Indicators of transit labor productivity include passenger vehicle miles per employee and passenger trips per employee. Between 1973 and 1978, both of these indicators declined. As the table below indicates, passenger vehicle miles per employee declined 6 percent, from 13,042 to 12,261, and passenger trips per employee declined 4 percent, from 37,626 to 36,052. Although this last indicator shows an improvement in 1977 and 1978, it might be due to slightly different ridership definition used in these years. (See previous chart, footnote a).

<u>Year</u>	<u>Passenger vehicle miles per employee</u>	<u>Passenger trips (linked) per employee</u>
1973	13,042	37,626
1974	12,456	36,617
1975	12,453	35,313
1976	12,433	34,814
1977	12,436	35,216
1978	12,261	36,052

Source: APTA's "Transit Fact Book," 1978-79 edition.

Measuring transit productivity at the aggregate national level does provide a rough picture. But nationwide averages mask the bright as well as the trouble spots of individual transit authorities because they often obscure variations in transit performance due to local differences, such as policy-imposed service and fare requirements. Presently, the lack of reliable, comparable transit data prevents measuring the productivity of individual transit systems. However, transit systems receiving Federal funds were required to adopt a uniform reporting requirement ^{1/} by July 1978, and UMTA's first publication of the data was in December 1980. The UMTA section 15 project manager said, however, that it will require a minimum of 3 reporting years before UMTA can feel confident with the quality of the data.

While transit productivity remains difficult to measure and the causes of transit operating cost and productivity problems are complex, the following section discusses three causes that we believe are particularly important and in need of attention.

^{1/}Section 15 of the Urban Mass Transportation Act of 1964 requires the Secretary of Transportation to develop and prescribe a reporting system to accumulate public mass transportation financial and operation data by uniform categories and a uniform system of accounts and records.

TRANSIT SYSTEMS MUST ADDRESS
LABOR, MAINTENANCE, AND SERVICE
EXPANSION PROBLEMS TO CONTROL
COSTS AND INCREASE PRODUCTIVITY

Transit systems face many serious problems in operating efficiently and effectively. They have problems

- using their labor force efficiently;
- maintaining their bus and railcar fleets; and
- expanding cost effectively into suburban areas, which are more costly to serve than dense urban areas.

Peaking commuter patterns make it
difficult to use labor efficiently

Although labor frequently accounts for 70 to 80 percent of total expenses, using labor efficiently is difficult because:

- Transit systems must have enough vehicles and people to handle the peak morning and evening rush hours; however, much of the labor force and many of the buses and railcars may not be needed during the rest of the day.
- Many transit systems are limited by labor agreements from adopting possible solutions to the peaking problem, such as hiring part-time labor.

One State enacted legislation making State funding conditional on transit operators not being prevented from using part-time drivers, and as a result, transit systems reported savings through their use. However, due to the limited experience to date with part-time employees, union and some transit management officials are not convinced that part-time labor can reduce costs.

Peaking complicates transit's
labor requirements

Many transit systems carry more than 60 percent of their weekday passengers during two peak periods--the morning and evening rush hours. This peaking creates a problem because there may be a 10- to 13-hour time span between the beginning of the morning rush hour and end of the evening rush hour. Transit systems must have enough employees to handle the peak periods, but since each peak period may last only about 2

hours, employees on a straight 8-hour work shift can only work during one peak period, and some of them may not be needed during the off-peak period.

For example, one transit system we visited guaranteed each bus driver 8 hours of pay regardless of the hours actually worked. The system had two 2-hour peak periods during the day when it had to almost double the number of buses in service. This, in turn, required more drivers who were guaranteed 8 hours of pay, even though some assignments required fewer than 4 hours of work. To avoid paying drivers for not working, this system expanded midday and night service beyond actual demand. However, when faced with financial difficulties, the system decided it had to hold down the rate of increase in operating costs by using part-time drivers, which it got the union to accept.

The peaking problem appears to be worsening. One estimate indicated that the peak/base service ratio (the number of vehicles required to service the peak demand divided by the number required for normal service) increased from 1.80 to 2.04 between 1960 and 1974. In other words, about twice as many vehicles were required for peak-period service as for the rest of the day. Because of the problems involved in providing peak-period service, the cost of this service can be considerably higher than for off-peak service. The following schedule compares the peak versus midday service costs for three California systems:

	Average cost per passenger		
	<u>System 1</u>	<u>System 2</u>	<u>System 3</u>
	----- (cents) -----		
Midday	79.7	76.2	80.8
Peak	109.3	102.8	110.1

Source: UMTA sponsored study, "Efficiency and Equity Implications of Alternative Transit Fare Policies," September 1980.

Labor agreements restrict transit systems from adopting possible solutions to peaking problems

Many transit systems' labor agreements restrict the use of split shifts and prevent the hiring of part-time employees--two possible solutions to the peaking problem.

Restrictions affecting split shifts are common and can be costly. With split shifts, an employee works for several

hours, goes off duty on an unpaid break, and then returns to work for several more hours. Many transit systems' labor agreements, however, stipulate that (1) 50 or 60 percent of service be performed by employees working straight 8-hour work shifts, (2) the total permissible length of any split run be limited to 12 to 13 hours, and (3) employees receive premium pay for runs over a certain time, usually 10 to 12 hours.

Such restrictions can be very costly to transit systems. For instance, the Massachusetts Bay Transit Authority's passenger ridership is heaviest during two peak periods--7:00 to 9:00 a.m. and 4:00 to 6:00 p.m. The authority's labor agreements do not allow part-time operators but do allow split-shift workers, which the system uses. To meet its peak demand, an operator may start work at 6:30 a.m. and complete his or her day at 7:00 p.m., with a 4-1/2-hour mid-day break--a 12-1/2-hour workday. For the first 10 hours the operator is compensated for only 8 hours since there is a 2-hour unpaid break. After 10 hours, however, employees receive time-and-a-half pay, and after 11 hours they receive double-time pay. In the spring of 1980, 58 percent of the system's runs exceeded 10 hours and 28 percent exceeded 11 hours. In June 1980, the authority estimated that overtime payments were costing it more than \$2.5 million annually.

Reasons for restricting split shifts include the fact that they are sometimes not popular with employees since a long workday is required and the time off during the midday break is difficult to use.

In every State we visited during our review, some transit systems reported that their labor agreements prevented them from using part-time drivers. These restrictions often make it more costly to provide service. For example, transit demand in Albany, New York, peaks for about 4 hours during the morning and evening rush hours. Albany transit officials believe they could improve their productivity and reduce costs if they could reduce the 60 percent straight 8-hour work shift requirement and get the union to accept part-time employees. But a local union representative said that the union opposes part-time labor because it takes jobs away from full-time employees. Since a part-time labor provision has not been successfully negotiated, the system cannot use part-time labor.

California enacted legislation
requiring that transit operators
be allowed to use part-time drivers

In 1979 California enacted legislation making State funding for mass transit service conditional on transit operators having in their present or future union contracts a provision that does not prevent them from employing part-time drivers.

Of 18 California transit systems providing us with information, 15 stated that their union agreements do not prevent them from using part-time employees. Some of the 15 said, however, that certain restrictions exist. For example:

--Sacramento Regional Transit District officials said that they can have a maximum of 10 percent part-time employees.

--Among the restrictions in the Southern California Rapid Transit District's agreement are that (1) part-time operators cannot exceed 10 percent of the total number of operators, (2) part-time operators cannot work assignments of less than 2-1/2 hours, and (3) part-time operators cannot work more than one assignment per day and that assignment cannot be split.

Despite these restrictions, however, both systems reported savings in wages and benefits by using part-time drivers. Sacramento estimated \$500,000 in yearly savings and the Southern California Rapid Transit District estimated \$2,541,000 in savings.

Two of the remaining three systems indicated that, although their labor agreements either prevent using part-time labor or contain restrictive provisions, they hope to negotiate part-time labor agreements with their unions to meet State legislative requirements. The third transit system's union agreement does not contain any provisions for or against part-time drivers. However, since the agreement guarantees a minimum 8-hour day, it effectively prevents their use.

Union and some transit management
officials are not convinced part-
time employees will reduce costs

Potential cost savings from using part-time employees could be substantial, but union and some transit management officials are not convinced because experience to date with part-time employees has been limited.

For example, at an April 1979 labor management conference sponsored by UMTA, both union and some management representatives expressed concern that using part-time employees might not be practical. They said that transit systems have not had enough experience with part-time employees to know whether projected savings would be realized or whether they would be eroded by contractual restrictions and unforeseen costs associated with introducing and training part-time labor. Union officials felt that part-time employees might threaten the jobs of union members and reduce opportunities for overtime earnings. Also, union representatives expressed concern about the effect part-time employees might have on the quality of service and safety.

Transit systems are experiencing serious problems in maintaining their bus and railcar fleets

Transit systems are experiencing serious problems in maintaining their bus and railcar fleets. For example, one east coast transit system had more than 70,000 missed trips in 1979 solely because the maintenance force could not keep its vehicles in service. Another major east coast transit system had each of its buses break down an average of nine times during the last 5 months of 1979. We found the following maintenance problems:

- Mechanics are not being properly recruited, trained, and promoted.
- Transit systems do not have adequate preventive maintenance programs.
- Spare-parts inventories are not properly controlled and maintained.
- Restrictive work rules prevent using maintenance personnel efficiently.

Mechanics are not being properly recruited, trained, and promoted

One reason for maintenance problems appears to be the lack of procedures for recruiting, hiring, and training mechanics. For instance, UMTA estimates that 35 percent of all bus repairs are improperly done and attributes this high rate partly to recruiting, hiring, and training problems.

Typically, general mechanics are hired and promoted largely on the basis of seniority rather than aptitude or performance. At one large transit authority we studied

- virtually no attempt was made to assure that persons hired possessed the necessary aptitude to become mechanics;
- advancement from a bus cleaner to a mechanic was based primarily on seniority, rather than acquired skill or mechanical aptitude; and
- promotions through the three levels of mechanic were based almost exclusively on seniority rather than merit.

Inadequate training is also a problem. For example, at one transit authority we visited, mechanics received no on-the-job or classroom training. Another transit authority we visited had a training facility, but union officials told us that although they believe all mechanics need training programs and refresher courses, only new employees receive classroom training because of financial problems.

These types of problems are widespread. A 1977 study funded by UMTA found only about a dozen transit systems (out of 1,000) that conducted their own formal maintenance training programs. A larger number of transit systems used formal training courses offered by equipment vendors, but such courses were used only irregularly.

Some systems lack effective preventive maintenance programs

Some transit systems lack effective maintenance programs, which are essential to minimize repairs and reduce vehicles out of service. Such a program could include three levels of inspections--an overall visual inspection during daily cleaning and refueling; a minor inspection weekly; and a major, comprehensive inspection based on some established mileage interval, such as every 6,000 miles.

Ineffective preventive maintenance can lead to serious problems. In one large Texas system, for example, about 90 out of 381 buses on a typical weekday broke down, causing significant 1/ interruption in service. This system did

1/The transit system classifies significant interruptions as those that interrupt service for more than 8 minutes.

not follow any part of an overall preventive maintenance program. Daily inspections were not made; weekly inspections were being performed every 1-1/2 to 2 weeks; major inspections, which were planned for every 6,000 miles, were done anywhere from 6,000 to 28,000 miles.

In 1979 a large east coast transit system had budgeted \$600,000 for unavoidable bus maintenance overtime. The actual overtime costs totaled roughly \$2 million, or \$1.4 million over budget. Transit officials noted that most of the \$1.4 million was spent on repair work that might not have been necessary if systematic preventive maintenance had been available. (At the time of our review, the system was just beginning to establish a preventive maintenance program. To ensure that the Federal investment in the buses would be adequately protected, a UMTA regional office refused to approve that system's application for additional buses until it established a preventive maintenance program.)

The problem also exists at smaller systems. For example, an audit of a small system in Indiana found that the system had no regular schedule for repairs based on either time or mileage for doing tuneups, oil changes, lubrications, or brake jobs. The maintenance staff did tuneups when an engine seemed to be running rough, oil changes and lubrications when they were judged to be necessary, and brake jobs when brakes failed or performed poorly.

Spare parts inventories are not being properly controlled and maintained

In one of the Nation's largest transit systems, 100 buses (out of about 1,900) typically were out of service due to a lack of parts. In addition, an estimated 80 drivers a day were idle because the buses they were scheduled to drive were out of service. One of the factors union officials mentioned as contributing to this problem was chaotic inventory records, which were caused in part by storeroom employees having shorter work hours than those in maintenance. Thus, maintenance personnel got their own parts when the storeroom was unstaffed.

Inadequate inventory control was cited as a problem in five of nine performance audits of smaller systems conducted by the Institute for Urban Transportation, Indiana University. These audits found:

- At one system, the maintenance staff often ran out of parts and were forced to delay repairs until the parts could be obtained.

--At another system, the storage room was not locked and records of supplies brought into or taken out of the supply room were not kept.

Restrictive work rules may hinder efficient maintenance operations

Maintenance practices and labor contract provisions exist that appear to unnecessarily increase costs. We found the following practices at one large transit system we studied.

--Two persons must respond to every call for road repair service even though only one may be needed.

--Several repair facilities are located along a railcar track, but certain overtime repair work at any facility must be offered on a seniority basis regardless of the employee's work location. Obviously, this means additional overtime costs if the senior employee has to travel to another repair facility.

--Employees, when assigned to work locations other than their permanent ones, report at the beginning and end of each day to their permanent station and are compensated for the travel time between work locations.

At another transit system we visited, which has two work locations, the labor agreement prevents the temporary switching of operators or mechanics from one location to another, even if the operators or mechanics are idle.

Transit systems are expanding into lower density suburban areas that are more costly to serve

Transit systems are expanding into lower density suburban areas that are costly to serve. Government assistance encouraged this expansion without having transit systems consider the potential adverse effects on operating costs, deficits, and subsidies.

To be most cost effective, transit generally requires high density areas. However, in response to the postwar move to the suburbs and the decline of the central city as a work place and residency, transit has expanded into suburban areas.

Between 1960 and 1970, the population outside central cities increased by 34 percent as opposed to 1.5 percent in

central cities. Urban land areas nearly tripled between 1950 and 1970--from 12,733 to 35,081 square miles.

In trying to provide service to the suburban areas, transit planners have encountered several problems. First, because these areas are less densely populated, there may be fewer passengers per vehicle. Also, there may be more dead-heading (nonrevenue time) because vehicles must start their routes further from the central garage or bus storage area. Because of these factors and the longer distance of suburban routes, costs are much higher for suburban service.

For example, at one transit system we visited, the cost per passenger was \$0.94 for local service and \$3.29 for express service to outlying areas. In other words, it cost 250 percent more to provide a passenger with express service than local service. This marked difference in passenger cost was only slightly reflected in increased revenue per passenger--revenue per passenger for local service was \$0.21 compared with \$0.38 for express service. Thus, the subsidy required for a local rider was \$0.73 compared with \$2.91 for the express rider.

Transit services to suburban areas may be required by local public officials to provide social benefits such as energy conservation, improved mobility, and to gain suburban political support for transit. But, this service can have a devastating effect on a transit system's financial posture. For example, one transit system we visited noted that it received almost \$30 million from the county to expand service in 1973-74. Before the county's financial assistance for expanded coverage, the transit system's revenues covered 53 percent of its expenses, but this figure dropped to 32 percent when the transit system expanded service and simplified its fare structure.

Government assistance has encouraged and is likely to continue to encourage transit to expand to outlying areas. UMTA reported that 58 percent of transit officials responding to a survey stated that section 5 assistance resulted in transit service to neighborhoods and communities that previously had not been served. Moreover, the Secretary of Transportation has proposed to the Congress the Transportation Energy Efficiency Act, which calls for increased mass transit funding to expand transit capacities by 50 percent to accommodate a 50-percent ridership increase by 1990. The source of the proposed increased funding would come from windfall profits tax revenues. Specifically, the proposal, as revised, calls for a \$13 billion supplement to be included in the total \$43 billion planned Federal capital assistance during the 1980s.

This level of funding, along with the objective of increasing transit ridership, may encourage transit authorities to expand their service areas. We previously reported 1/ our concern that the decision to support transit expansion is being unduly influenced by the energy situation and the availability of windfall profits tax revenues and that not enough consideration has been given to potential adverse impacts on transit operating costs, deficits, and subsidies.

UMTA SHOULD DO MORE TO IMPROVE
TRANSIT PRODUCTIVITY

UMTA can and should do more to improve transit productivity. UMTA generally follows an informal policy of not intervening in local transit operations and restricts its efforts to improving transit operations mainly to workshops, seminars, and other outreach programs. These efforts, however, are having a limited impact. UMTA officials also differ over whether they can and should get involved in local transit operations.

UMTA generally follows a "hands off"
policy and limits efforts
to improve transit operations

Although section 5(d)(2) of the Urban Mass Transportation Act of 1964, as amended, authorizes the Secretary of Transportation to issue requirements for promoting efficient mass transit, UMTA generally follows a "hands off" policy concerning local transit efficiency. The major action the agency has taken under this section is to issue the Transportation System Management requirement for an urban area's transportation plan.

This Transportation System Management requirement is aimed at making better use of present urban transportation systems. While no specific actions are required, actions are listed for consideration, such as establishing maintenance policies that assure greater equipment reliability. We previously reported, 2/ however, that the Transportation System Management regulations have not been as effective as they could have been and that actions with the most potential for

1/"Increasing Commuting by Transit and Ridesharing: Many Factors Should Be Considered" (CED-81-13, Nov. 14, 1980).

2/"Stronger Federal Direction Needed To Promote Better Use of Present Urban Transportation Systems" (CED-79-126, Oct. 4, 1979).

improving the efficiency of existing transportation systems have not been widely adopted.

UMTA's Transportation Management Office stated that it focuses on improving transit productivity, with special emphasis on developing transit maintenance procedures and increasing the use of automated data systems. While adopting techniques or methods developed by this office is encouraged through workshops, seminars, and other outreach programs, UMTA does not require transit systems to adopt improvement techniques or methods.

For example, UMTA developed a computer program (referred to as RUCUS) that automates driver-operator scheduling procedures to greatly improve the efficiency of the scheduling process. UMTA says that transit systems claim potential annual savings of from 1 to 9 percent in operator wages and that the computer system pays back its one-time investment costs in less than a year. However, in spite of the potential savings, only 25 systems, out of a potential 240 systems or more, are either using or testing RUCUS.

UMTA officials are uncertain
as to the agency's role in
improving transit operations

Our review disclosed that UMTA officials were uncertain about UMTA's responsibilities for improving transit operations and that as a result UMTA's regional offices were following inconsistent policies.

For example, UMTA headquarters project managers expressed uncertainty as to how much UMTA should get involved in reviewing transit systems' maintenance programs and how much UMTA should do to ensure that projects to improve productivity are used by the transit industry. A UMTA project manager also said that UMTA has never defined the responsibilities its regional offices have in encouraging systems to use UMTA's research and demonstration projects.

UMTA's regional officials also expressed differing opinions about their responsibilities to local transit operations, and they followed different policies.

For example, at a meeting with a UMTA regional director and grant officers, we were told that UMTA could not meddle in local affairs such as fare policies and service expansion. Similarly, a division chief in another UMTA region said that his office was not authorized to tell transit systems how to run their operations. He also said that UMTA has no responsibility regarding vehicle maintenance. But at another UMTA

region, the regional director said that the region refused to approve a discretionary grant for 100 new buses until the applicant approved and funded a preventive maintenance program for its buses.

A UMTA headquarters program specialist acknowledged that differences exist in how much UMTA regional offices involve themselves in transit operations. For instance, the official said that as a precondition of approving a grant to purchase transit vehicles, some but not all UMTA regional offices would require the system to establish a preventive maintenance program if it did not have one.

What more can UMTA do?

We believe there are several ways UMTA can legitimately encourage and influence transit systems' productivity. UMTA could (1) encourage or require management evaluations of transit systems and monitor transit systems' responses to the audit evaluation recommendations, (2) require, as a precondition of approving a grant application for buses, that the applicant have an effective preventive maintenance program, and (3) issue policy guidance to help transit systems assess the cost effectiveness of expanding service.

For example, management evaluations that examine the causes of problems affecting a transit system and recommend specific corrective measures can provide valuable information; UMTA technical grants can be used to fund such studies. UMTA could require management evaluations for transit systems of a certain size receiving Federal funds. UMTA could also use its regional offices to monitor how transit systems respond to recommendations in management evaluations and consider that information when evaluating requests for Federal grant funds.

Currently, however, UMTA does not require management evaluations because it believes the decision to conduct such studies should be made locally. In addition, when the studies are conducted, UMTA headquarters may not receive a copy, and when it does, there is no UMTA policy about what to do with the results.

An audit report of a large Texas system illustrates the potential benefits of these studies. When the report disclosed serious maintenance problems, the transit system responded by saying that it had initiated an aggressive maintenance improvement program and begun a new training program to upgrade the quality of its mechanics.

Some other actions UMTA could undertake include:

- Requiring, as a precondition of approving a grant application for transit vehicles, the applicant to have an effective preventive maintenance program or implement one before the buses are delivered. This requirement would help assure that the Federal investment in new buses would be protected and would also promote more efficient and effective use of transit resources.
- More thoroughly studying, evaluating, and demonstrating the results of using part-time labor to cope with peaking problems. Since part-time labor may offer significant cost and productivity savings, transit and labor unions should be encouraged to accept part-time labor if potential savings can be proven.
- Requiring transit systems to assess the cost effectiveness of expanding service.

CONCLUSIONS

Transit systems must do more to control costs because pressures are growing to hold down Government subsidies. To operate efficiently and bring costs under control transit systems must give more emphasis to

- using labor efficiently,
- maintaining their bus and railcar fleets, and
- expanding cost effectively into less densely populated areas.

UMTA can and should play a role in improving transit operations. It cannot continue a "hands off" policy if the substantial public investment in mass transit is to be protected. As a first step, UMTA needs to clarify its internal policies concerning transit operations and make clear that it does have an important role and responsibility in assuring efficiency and effectiveness.

RECOMMENDATIONS TO THE SECRETARY OF TRANSPORTATION

We recommend that the Secretary of Transportation direct the UMTA Administrator to:

- Develop and issue policy guidelines defining UMTA's role and responsibilities in encouraging transit productivity.
- Develop and undertake specific actions to improve transit productivity. These actions could include:
 - Requiring management evaluations for all systems of a certain size receiving Federal funds.
 - Requiring UMTA regional offices to monitor transit systems' responses to recommendations in management evaluations and consider the findings of such studies when evaluating requests for Federal funds.
 - Requiring, as a precondition of approving an application for transit vehicles, that the applicant have an effective preventive maintenance program or implement one before transit vehicles are delivered.
 - Issuing policy guidance to help transit systems assess the cost effectiveness of expanding service in suburban areas.
 - More thoroughly studying, evaluating, and demonstrating the results of using part-time labor to cope with peaking problems.

AGENCY COMMENTS AND OUR EVALUATION

DOT, in its letter dated January 8, 1981 (see app. I), stated that the \$6.7 billion figure we cited in chapter 1 as the amount of operating subsidies transit systems would need in 1985 was based on a straight line projection using data and assumptions that were no longer valid at the time of our study. DOT further stated that the projection is already inaccurate due to fare increases adopted in several of the largest urbanized areas during 1980.

The projected deficit figure was taken from a December 1979 DOT study of the section 5 program that assumes yearly increases of 1.5 percent in vehicle miles, 11 percent in expense per vehicle mile, 7 percent in fares, and 2 percent in ridership. Although DOT now maintains that these assumptions are no longer valid and the 1985 estimate is inaccurate, it did not provide more valid assumptions or a more accurate projection. In addition, we question whether fare

increases in several large urbanized areas will invalidate the projected deficit figure because:

--These urban areas' yearly fare increases through 1985 may not exceed 7 percent a year, which was one assumption used to calculate the 1985 deficit.

--Fare increases may be offset if the transit systems in these cities experience cost increases in excess of 11 percent per vehicle mile, which was also an assumption used to project the deficit.

Since the \$6.7 billion is an estimate and DOT did not provide what it would consider to be a more accurate estimate, we retained the figure in our final report as representing the only known estimate available.

DOT also stated that although we expressed concern with increasing operating deficits and with the fact that the section 5 program appears to reward increases in operating deficits with eligibility for proportionate increases in grant awards, we did not mention steps taken or being taken by DOT to remedy the situation. In particular, DOT said that its 1980 legislative proposal to restructure the section 5 program addressed these problems.

One of DOT's proposals was to change the apportionment formula to include a performance factor based on the number of revenue miles traveled by transit vehicles. DOT said that when this formula change is enacted, it should increase transit productivity by matching the distribution of assistance with a measure of actual service output within a given community. Another proposal was to change the limitation on the amount of formula grant funds that could be used to offset operating expenses, from 50 percent of operating deficit to 43 percent of operating expenses in 1982, decreasing gradually to 34 percent by 1985. The third change would provide bonus funds to systems that increased ridership 5 percent or whose ratio of operating revenue to operating expense exceeded the national median of all transit systems.

In our report entitled "Increasing Commuting by Transit and Ridesharing: Many Factors Should Be Considered" (CED-81-13, Nov. 14, 1980), we commented on these proposals and stated that, in our opinion, the proposed reforms would not do much to offset the potential increases in transit operating deficits and public subsidies. We cited the following reasons:

1. The first proposed change could allow a transit system to increase its share of total formula grant funds by simply increasing the number of

miles its transit vehicles travel in revenue service. There is no requirement that additional operating costs be offset by additional revenues.

2. Under the second proposed change, many transit systems would be allowed to use a larger portion of their formula funds to offset operating expenses than would be allowed under the 50 percent of operating deficit limitation. For instance, in 1978 revenues of transit systems nationwide averaged 51.2 percent of total operating expenses. Therefore, under the present limitation, a transit system that conforms to the nationwide average could use Federal formula grants to offset 24.4 percent of its operating costs ($100 - 51.2 = 48.8 \times 0.5 = 24.4$). Under the proposed change, the same transit authority could use formula grant funds to offset 43 percent of its operating expenses in 1982 and 34 percent in 1985.
3. The third proposed change would give a transit system additional funds--a bonus--if (1) it increased its ridership by 5 percent, even if the additional cost of doing so would be greater than the additional revenues produced or (2) its ratio of operating revenues to operating expenses exceeded the national median, even if its ratio had deteriorated from the prior year.

In addition, we disagree that a formula based on a revenue vehicle mile service factor would increase transit productivity. Although we suggested in our report entitled "Analysis of the Allocation Formula for Federal Mass Transit Subsidies" (PAD 79-47, Oct. 9, 1979) that a measure of transit output, such as vehicle miles, should be included in the section 5 allocation formula, we also pointed out that using a formula based solely on this factor risks introducing service for which there is little or no demand because an urban area's share of available funds would not depend on ridership. Local transit authorities would have incentives to provide as many miles of service as possible with their fleet of vehicles. This might cause them to increase their service on long, high-speed routes, such as suburban-downtown express routes, and decrease service on shorter, slower, intracity routes. As a result, productivity, particularly when measured by operating cost per rider, may decline.

DOT disagreed with a statement we included in our draft report that the Federal Government is expected to fund a major share of the projected transit deficit. DOT stated

that both the Secretary of Transportation and the UMTA Administrator have stated in congressional testimony that local officials and the transit industry must recognize that the Federal role in subsidizing operating costs will continue to be secondary to State and local efforts. Furthermore, DOT stated that no documentation exists to support the hypothesis that Federal funding levels will permit DOT to meet even one-third of this projected demand, much less any greater portion that could be construed as "major."

We deleted from our final report the statement that the Federal Government would be expected to fund a major share of the projected transit deficit. However, we believe the potential exists for State and local governments and the transit industry to exert pressures on the Federal Government and the Congress to finance an increased share of the deficit. In addition, we believe DOT's 1980 proposed legislative change to limit Federal formula grant funds to a percentage of operating costs instead of a percentage of the deficit, which we previously discussed, signals the transit industry that the Federal Government may be willing, subject to funding limitations, to fund a larger share of transit costs than it now does.

DOT also stated that although we are critical of UMTA's policies or lack of policies regarding transit systems' internal operations, such as the maintenance of vehicles and spare parts inventories, we did not discuss UMTA's efforts during the past year to develop, within the limits of its statutory authority, a vehicle maintenance policy and a spare parts policy that would contain guidance, requirements, and possible sanctions.

We did not discuss UMTA's proposed policies because they were still being developed at the time of our review. Therefore, since the policies had not been finalized, we could not assess how such policies would address the problems discussed in our report.

Finally, DOT stated that we failed to draw the connection between two issues discussed in this chapter--the potentially high cost of providing transit service to low-density, outlying areas and the costly elements of typical transit labor agreements--or to discuss efforts underway in numerous communities and UMTA to encourage lower cost alternatives

to conventional transit service. According to DOT, UMTA intends to issue a policy pertaining to paratransit services 1/ that would require localities to consider these services in low density areas and whenever they might prove an economic alternative to conventional transit. DOT stated that 13(c) labor agreements have been certified by the Department of Labor that have allowed transit unions to prevent both the replacement of conventional transit by paratransit and the provision of paratransit services by private enterprise in a competitive environment.

Further, DOT stated the Labor Department has indicated that it may institute a prevailing wage rate to be applied to certain paratransit services, which may greatly inflate their cost.

We are aware that UMTA has been planning for several years to issue a paratransit policy. However, since the policy has not been finalized we could not assess the potential impact of the policy.

We agree that section 13(c), which requires that fair and equitable arrangements be made to protect the interests of employees affected by Federal assistance, could potentially be used by labor unions to block transit systems from implementing cost-saving measures or substituting more cost-effective alternatives to conventional bus or rail service. During our review, we asked transit officials whether this is happening. Some officials indicated that 13(c) was used to block their efforts to improve transit operations while others indicated that 13(c) was not a problem. Those officials who indicated that 13(c) was a problem, however, were not able to provide us with documentation to support their allegations. Since we could not adequately document cases where 13(c) prevented transit systems from improving their operations, we did not discuss this issue in our report.

1/Paratransit services are those forms of intraurban passenger transportation that are available to the public, are distinct from conventional transit (scheduled bus and rail), and can operate over the highway and street system. An example would be using a small bus to provide dial-a-ride or subscription service.

CHAPTER 3

TRANSIT SYSTEMS MUST ADOPT

MORE REALISTIC, EFFICIENT, AND

EQUITABLE FARE POLICIES

Government subsidies are replacing passenger fares as transit's major source of revenue. Until the mid-1960s, when many transit systems were privately owned, the transit industry was able to pay most of its operating costs with farebox revenues. Today, most transit systems are publicly owned and passenger fares cover only about half of transit operating costs; the remainder must be financed with Government subsidies.

Government subsidies are intended to help transit systems pay operating costs that they cannot cover with passenger fares. However, one effect of Federal, State, and local subsidies has been to encourage transit systems to deemphasize fares as a source of revenue. Many transit systems have adopted and maintained unrealistically low fares even though operating costs are increasing. Such fares are frequently inefficient and inequitable, providing more subsidies to some riders than others, and failing to produce as much revenue as they could. The result has been to further widen the gap between farebox revenues and operating costs and increase the need for Government subsidies.

Little is being done at the Federal level to encourage realistic, efficient, and equitable transit pricing. For example, (1) the Federal formula does not influence fares, but other aspects of the section 5 program encourage low fares, (2) UMTA considers fare policies a local matter and does not intervene, and (3) Federal short-range transportation planning regulations do little to encourage local areas to develop realistic, efficient, and equitable fare policies.

Transit systems must adopt more realistic fare policies if the growth of Government operating subsidies is to be controlled. Fare policies and levels are and should be a local responsibility; however, the Federal Government can do more to help and encourage local areas to develop realistic, efficient, and equitable fare policies. In particular:

- The Congress should reconsider the 1974 legislative finding that the continued increase in fares is undesirable and adopt a goal for the section 5 program that would encourage realistic, efficient, and equitable fare policies.

- The Department of Transportation should take certain steps to have local areas (1) give greater emphasis to passenger fares as a revenue source and (2) assess the efficiency and equity of their fare structures.
- UMTA should issue a fare-policy statement indicating that it desires local areas to give greater consideration to passenger fares as a revenue source and to develop realistic, efficient, and equitable fare structures.

GOVERNMENT SUBSIDIES ARE REPLACING PASSENGER
FARES AS TRANSIT'S MAJOR SOURCE OF REVENUE

As recently as the mid-1960s, most of the transit industry's operating costs were covered by revenues from passenger fares. Today, fares cover only about half of operating costs, and Government subsidies are replacing passenger fares as the primary source of transit revenues, as the schedule on the following page illustrates.

State, Local, and Federal Operating Assistance
as a Percentage of Operating Expenses Compared
with Percent Met by Transit Fares
for Selected Years

<u>Year</u>	<u>Operating expenses</u>	<u>Government operating assistance</u>			<u>Transit fares</u>	
		<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>	
	(millions)	-----				(percent)-----
1966	\$1,516	-	-	-	-	91
1970	1,996	-	-	12	12	82
1974	3,239	-	12	21	33	56
1975	3,706	8	11	19	38	50
1976	4,021	11	9	21	41	50
1977	4,305	14	11	20	45	50
1978	4,712	15	12	21	48	48

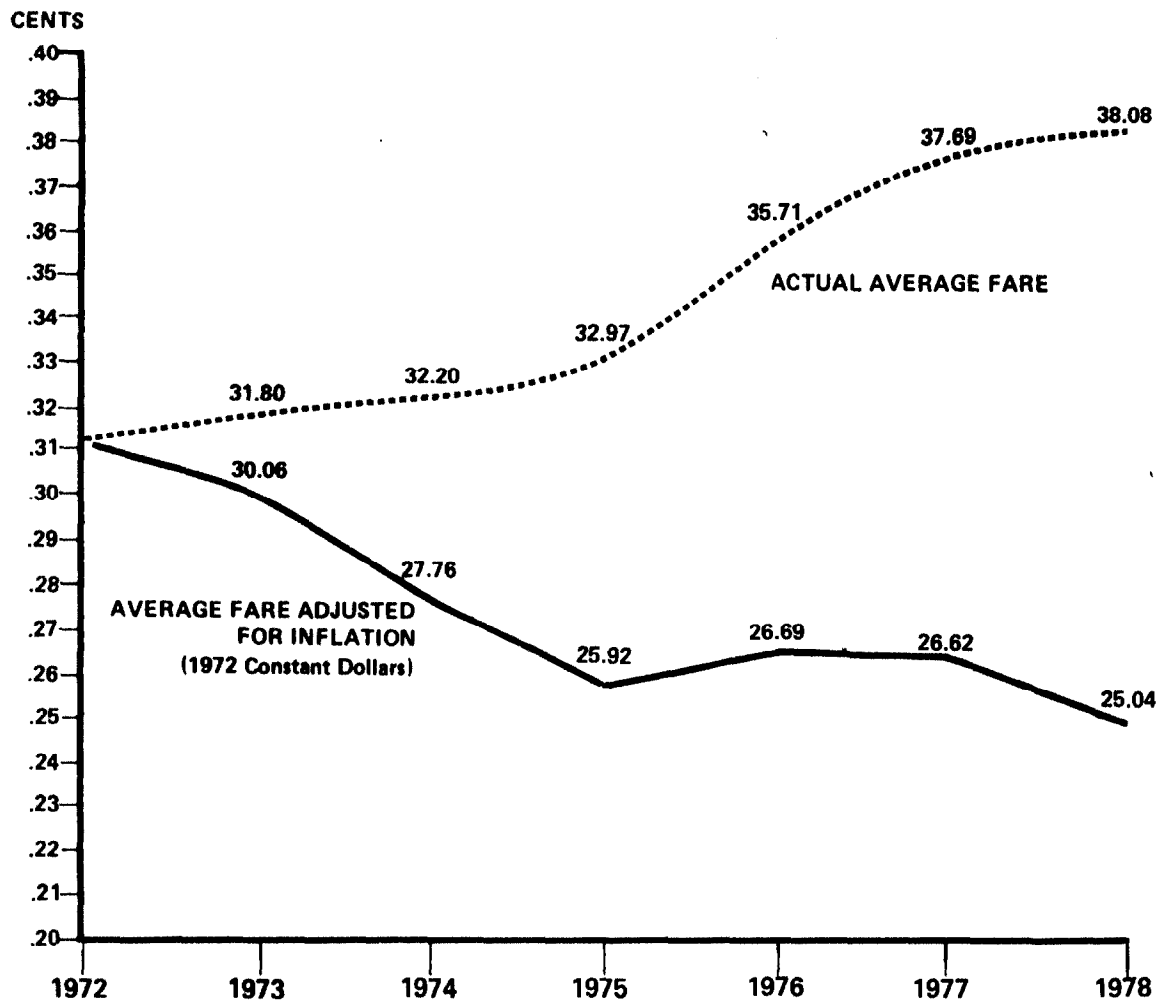
Source: APTA's "Transit Fact Book," 1978-79 edition, and DOT report, "An Evaluation of the Section 5 Program," December 1979.

Note: The above percentages will not add to 100 percent because a portion of operating costs are financed from nonfare sources such as advertising.

Federal subsidies have been steadily increasing. Beginning in 1975 the Federal share of operating expenses was about 8 percent. This increased to 10.5 percent in 1976 (surpassing the State's share), 13.6 percent in 1977, and 14.6 percent in 1978.

While Government subsidies have been increasing, transit fare revenue has been declining. Between 1973 and 1978, the average fare increased from 32 cents to 38 cents. This rate of increase amounted to only 3.9 percent annually--far less than the inflation rate for the period. The net effect has been a 16.7-percent decrease in fares in real terms, as the following chart illustrates.

THE EFFECT OF INFLATION ON TRANSIT FARES



Source: APTA's "Transit Fact Book," 1978-79 edition and U.S. Department of Commerce's GNP Implicit Price Deflator

TRANSIT SYSTEMS UNNECESSARILY
DEEMPHASIZE FAREBOX REVENUES

The availability of Federal, State, and local subsidies has enabled many transit systems to deemphasize transit fares as a major source of revenue. Instead, many systems try to keep their fares as low and as simple as possible. These systems are not realizing as much revenue as they could through passenger fares, which increases demand for even more subsidies. In addition, many of the simplified fare structures are inequitable.

Transit systems place less emphasis
on recovering costs through
fares because of subsidies

Transit systems frequently lack fare policies specifying the percentage of costs that should be met through fare revenues. The availability of subsidies tends to encourage systems to rely less on fares as a revenue source.

In our review, only 13 of 26 transit authorities in six States had local fare policies that specified the percentage of expenses that should be met through fare revenues. For example, one transit authority had an informal policy of recovering 30 percent of its operating expenses from the farebox.

Many transit systems we contacted did not have policies or goals that clearly indicated the extent to which fares should support their operations. Several of these systems stated that their fare policy is to maintain minimum fares or the lowest fare possible. The most commonly cited reason for this policy was to increase ridership. Other reasons were that transit is a public or municipal service and must serve those who depend on transit, such as the poor.

A survey conducted by Seattle Metro confirmed our findings. Out of 18 systems responding to Seattle's survey, only 6 indicated that they had a fare recovery policy and only 2 others indicated that they were addressing the need to have a policy--leaving 10 systems (56 percent of the respondents) with no fare recovery policy.

The availability of subsidies tends to encourage transit systems to reduce their reliance on fares as a revenue source. For example, several transit officials told us that their fare levels are determined by the amount of Government subsidies they receive. Officials of a California system

explained that their fare structure is developed by first determining the amount of Federal, State, and local subsidies available in the coming budget year and then tailoring the level of fares and, if necessary, services to make up the difference between projected expenses and available subsidies.

What is happening to fares in this country as a result of subsidies has occurred in other countries. The European Conference of Ministers of Transport in a 1979 study of transit subsidies in 16 countries, including the United States, found that each 10-percent increase in operating costs covered by subsidies is linked to a 5- to 7-percent fall in fare levels.

Fare structures are frequently inefficient and inequitable

Transit systems that try to keep their fares low and simple are not realizing as much revenue as possible through fares. Also, in some cases the fares are inequitable (that is, those who least can afford to, pay disproportionately more per mile than those who can afford to pay more).

Many transit systems have not raised their passenger fares for several years. Seven of 19 systems that provided information, or 37 percent, had not raised their fares within the last 5 years. Twelve had not had a fare increase within the last 3 years.

Trying to keep fare structures as simple as possible can be inefficient and inequitable. For instance, many systems charge flat fares, meaning that the fare is the same regardless of when or how far a passenger travels. The problem with this type of fare is that the transit systems do not collect sufficient revenues from peak-period commuters and long-distance travelers, who impose the greatest costs on transit systems. Transit costs are markedly higher during peak periods and for long trips because additional employees must be hired to accommodate rush hour demands and driver runs must be extended to serve outlying areas.

Simple fare structures can also be inequitable because the short-trip, nonpeak period, inner-city riders, who are generally less well off, pay much more per mile for their trips than the more affluent suburban riders. For example, the midday off-peak rider of a transit system in Albany, New York, pays an average fare per mile of 21.2 cents, while a rider during the more costly evening peak hours pays only 13.8 cents. The rider taking a trip of less than 10 minutes on the system pays an average fare per mile of 32.7 cents,

while the rider taking a trip lasting 70 minutes or more pays only 3 cents per mile.

Even when transit systems charge higher fares for more costly services, such as express service, the higher fares may not cover the higher costs. For example, three California transit systems had a base fare for local service plus a supplemental charge for express service. Yet in all three systems, the riders who paid the lowest fare per mile of travel were generally the ones whose trips had the highest unit cost; longer trips incurred costs that exceeded revenues, while shorter trips produced higher revenues than costs.

Of the transit systems that provided us with information on this issue, 14 out of 23, or 61 percent, had flat-fare structures. A UMTA-sponsored study found that at the end of 1978, 50 of 89 transit systems studied, or 56 percent, had flat fares.

PRESENT FEDERAL AND MOST STATE
POLICIES DO NOT ENCOURAGE EFFICIENT
AND EQUITABLE FARE POLICIES

Little is being done at the Federal level to encourage transit systems to develop equitable and efficient fare policies. In fact, present Federal policies, and in some cases the lack of policies, may be encouraging transit systems to deemphasize fares. For example:

- the Federal formula does not influence fares, but other aspects of the section 5 program encourage low fares;
- UMTA considers fare policies a local responsibility and has not adopted a policy encouraging efficient and equitable fare policies; and
- Federal planning requirements do little to encourage equitable and efficient fare-pricing strategies.

Most States also do not have policies aimed at containing subsidy requirements or promoting efficient and equitable fares.

The section 5 formula does
not influence fares

The section 5 formula provides no incentive for raising or lowering fares but could be changed to do so. If it included a ridership factor, it could lead to reduced revenues, whereas if it included a farebox revenue factor, it could increase revenues.

Formula factors used to allocate section 5 funds among urbanized areas are neutral on using farebox revenues or State and local subsidies to cover the nonfederally funded portion of operating costs. Section 5 factors, population and population density, are not affected by local decisions on fares. Therefore, no incentive exists to either raise or lower fares to obtain additional Federal funds. Other factors could be used to influence fares. For instance, if an urbanized area's share of section 5 funds was based on annual ridership, there would be a bias toward low fares because by reducing fares an area might be able to increase its ridership and thus its Federal subsidy. If, on the other hand, the Federal Government wanted to use the formula to provide incentives for transit operators to rely more on farebox revenues, the formula could be changed to one that bases an urbanized area's share on farebox revenue collected. 1/

The section 5 program encourages low fares

The section 5 program encourages low fares through certain eligibility requirements and one of the 1974 legislative findings. For instance, to be eligible for Federal operating assistance, transit systems were required to (1) charge no more than half fares to elderly and handicapped riders during off-peak hours, (2) match any Federal operating assistance with nonfare revenues, and (3) maintain the same level of State and local funding that they averaged for the 2 prior years. These last two requirements, which were modified in 1978, have kept fares low because they discouraged substituting fare revenue for Government subsidies. The 1978 legislation allows fare revenue increases to be substituted for reduced local subsidies; thus, this barrier to raising fares has been eliminated.

One of the 1974 legislative findings also encourages low fares. The Congress found in 1974 that the continued increase in fares was undesirable. Based on this congressional finding and other considerations, UMTA made maintaining low fares one of the section 5 program goals. UMTA concluded, based on its evaluation, that this goal has been achieved. It reported that 76 percent of transit officials responding to its survey believed section 5 assistance resulted in stabilized or lower fares.

1/For information on potential section 5 formula factors that could influence transit fares, see pages 54 to 56 of our report, "Analysis of the Allocation Formula for Federal Mass Transit Subsidies" (PAD-79-47, Oct. 9, 1979).

UMTA considers fare policies
a local responsibility

UMTA considers decisions regarding fare structures to be the responsibility of local officials. A UMTA program director said that UMTA does not have a fare policy because it believes UMTA cannot be very prescriptive in establishing fares. He believes the Federal role should be to provide guidance and information about fares and let local officials decide on fare levels. Likewise, another UMTA official said that UMTA is not endorsing any fare policy because its policy is to stay out of such local decisions.

Federal planning requirements
do little to encourage equitable
and efficient fare policies

Federal planning requirements, although aimed at making better use of urban transportation systems, do little to encourage local areas to develop efficient and equitable fare policies.

In 1975 UMTA and the Federal Highway Administration jointly issued regulations requiring metropolitan planning organizations, 1/ in cooperation with State and public transit systems, to develop short-range transportation plans aimed at making better use of urban transportation systems. The requirement, however, does little to encourage efficient and equitable fare policies.

For example, one of the two fare actions the Federal regulations list for consideration in developing plans--simplifying fare collection systems and policies--can result in inefficient and inequitable fare structures as we previously discussed in this chapter.

Several short-range transportation plans we reviewed gave little consideration to the role of transit fares in financing operating costs. The plans did not (1) establish goals for the proportion of short- and long-term costs that fare revenues should cover, (2) assess the efficiency and equity of present fares, or (3) analyze alternative fare structures that might better reflect equity and costs.

For example, a stated goal in one plan was to operate as efficiently and economically as possible to provide service

1/These organizations provide a forum for cooperative decision-making by principal elected officials of local governments.

at the lowest cost to the user and taxpayer. The plan included fare information, such as noting that the system had a flat fare, and passenger subsidies ranged from less than \$0.50 to almost \$3.00. The plan did not, however, set a goal for how much of operating costs should be met from fares or discuss the cost effectiveness of charging all passengers the same fare, the equity resulting from passenger subsidies varying widely, or what fare changes would increase revenues.

State governments generally do not have policies emphasizing increased reliance on transit fares

Most State governments do not have fare policies aimed at limiting subsidy requirements and promoting efficient and equitable fares. Of the four State governments we reviewed:

- California adopted a farebox recovery requirement in 1979 as a condition of eligibility for State assistance. This requirement caused some systems to raise their fares.
- New Jersey is analyzing the fare situation but does not plan to set minimum standards for the amount of operating costs that must be met by operating revenues. This is because such policies are considered difficult to implement and would require fare increases due to continually rising costs. New Jersey would like to keep fares as low as possible to attract riders.
- New York has a legislative objective of maintaining or increasing service levels and maintaining or decreasing fares. New York, however, is reconsidering its fare stabilization policy. State officials have proposed a number of possible State-level policies to make fares more equitable and link passenger revenues and local government aid to operating costs.
- Texas does not provide operating assistance and has no fare or financing policy.

The New York Department of Transportation reported in late 1979 that, although approximately 25 States had operating assistance programs, only 5--California, Connecticut, Georgia, Minnesota, and Pennsylvania--had requirements that set the minimum portion of operating costs that must be covered by passenger fares.

CONCLUSIONS

Government subsidies are replacing transit fares as transit's major means of financing operating costs. This trend is likely to continue because the availability of subsidies has enabled many transit systems to deemphasize passenger fares as a revenue source.

Transit systems frequently do not give adequate consideration to the role of fares in financing their rapidly rising operating costs. Instead, many systems try to keep fare structures as low and as simple as possible. As a result, they are not realizing as much revenue as they could from fares, thus increasing the need for subsidies. In addition, many of the simple fare structures are inequitable.

Although Federal subsidies are growing rapidly, little is being done at the Federal level to encourage more efficient and equitable fare policies.

Transit systems must adopt more realistic, efficient, and equitable fare policies if the growth of Government subsidies is to be controlled. Fare levels and policies are and should be the responsibility of local transit systems. However, the Congress and UMTA can do more to help and encourage local areas to adopt more realistic fare policies.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress reconsider the 1974 legislative finding that the continued increase in fares is undesirable and adopt a goal for the section 5 program that promotes efficient and equitable transit pricing.

RECOMMENDATIONS TO THE SECRETARY OF TRANSPORTATION

We recommend that the Secretary of Transportation take certain steps to have local areas place greater emphasis on the role of passenger fares as a source of transit revenue. In particular, the Secretary should require the appropriate organizations in their transportation plans to

- establish local goals for the proportion of short- and long-term costs that fare revenue should cover and
- assess the efficiency and equity of present fares and examine alternative fare structures that might better reflect equity and cost.

We also recommend that the Secretary of Transportation require the UMTA Administrator to issue a fare-policy statement indicating that UMTA desires local areas to give greater consideration to passenger fares as a revenue source and to developing efficient and equitable fare policies.

AGENCY COMMENTS AND OUR EVALUATION

DOT stated that UMTA has taken the position that fare policy is essentially a State and local issue. DOT stated that this position is a result of two factors: first, a philosophical belief that the Federal Government should avoid intruding in a matter that is more appropriately the responsibility of State and local governments due to variations in economic and social objectives associated with the provision of transit service among the States; and second, because DOT believes section 12(d) 1/ of the Urban Mass Transportation Act prohibits DOT regulation of fare-policy matters.

We agree that fare policies should essentially be a State and local issue and not regulated by the Federal Government. Nevertheless, we believe the Federal Government can do more to encourage State and local officials to adopt more realistic fare policies. As we pointed out on pages 39 and 40, the Federal Government requires transportation plans to be developed by metropolitan planning organizations (local elected officials) in cooperation with State and public transit systems. We believe this body is the appropriate one to establish fare-recovery goals and assess present and alternative fare structures.

DOT stated that it believes that although decisions as to the tradeoff between farebox revenue and State and local subsidies are a State and local issue, there is a Federal interest in (1) ensuring that State and local governments bear primary responsibility for financing transit operations, (2) placing limits on local reliance on Federal transit operating subsidies, and (3) encouraging efficient and cost-effective system operations.

We support the three interests mentioned by DOT and believe the interests could be reinforced by issuing a fare-policy statement.

1/Section 12(d) prohibits the Secretary of Transportation from regulating in any manner the operation of mass transit systems when a section 3 (discretionary) grant is made.

DOT also stated that our criticism of UMTA's fare policy is based on the assumption that ridership levels are unaffected by transit fares. Therefore, operators can and should cover a greater portion of operating costs by increasing fares.

We did not assume ridership levels are unaffected by transit fares. We recognize fare increases can adversely affect ridership levels. Nevertheless, we believe that many transit operators can and should cover a greater portion of their operating costs by selectively increasing fares. We believe selective fare changes are needed because fare changes affect different groups differently--there is no single transit market. For the senior citizen, offpeak, and low-income markets, price is a significant consideration and fare increases may cause trips to be foregone. However, higher income and peak-period (work trip) markets are less sensitive to fare increases.

DOT said that it has asked each of the State and local jurisdictions that are parties to the Washington Metrorail construction agreement to put in place a "stable and reliable" source of funding for constructing and operating the system as a precondition to receiving additional Federal funds. DOT said that UMTA is moving to develop a similar stable and reliable requirement for those grantees requesting UMTA funds for major new investments.

Since UMTA is moving to develop, but does not yet have, a stable and reliable funding requirement for those grantees requesting UMTA funds for major new investments, we cannot comment on what effect such a requirement may have or the feasibility of applying the requirement to other grantees.

CHAPTER 4

SECTION 5 RESOURCES

APPORTIONED TO STATE GOVERNORS ARE

NOT USED EFFICIENTLY

The section 5 apportionments to State Governors are not being used efficiently in the five States we reviewed. Substantial resources remain idle because:

--State officials allocate apportionments to all urbanized areas in Governors' apportionments, regardless of whether the areas have transit systems, choose to participate in the program, or can use all their allocated apportionments. In most cases, State officials do not reallocate unused apportionments.

--State officials cannot reallocate apportionments that are not used or not needed by urbanized areas within the Governors' apportionments to larger, more transit-dependent urbanized areas within the State.

Section 5 authorizations are apportioned to urbanized areas based on a Federal population formula. Urbanized areas with populations of 200,000 or more receive their apportionments directly. Those areas with populations between 50,000 and 200,000 receive their apportionments through the State Governor. Governors may distribute their apportionments among urbanized areas in any fair and equitable manner. However, a Governor's apportionment cannot be distributed outside a State or to areas with populations of more than 200,000.

SUBSTANTIAL RESOURCES REMAIN IDLE

Our analysis of how five State Governors used section 5 apportionments revealed that a substantial amount of the apportionments remained idle, as the following schedule shows:

<u>State</u>	<u>Total funds apportioned to areas from fiscal years 1975-79</u>	<u>Total apportionments obligated in fiscal years 1975-79</u>	<u>Percent of apportionments used through fiscal years 1975-79</u>
	(millions)		
Texas	\$37.6	\$ 9.2	24.5
California	25.9	15.2	58.7
Wisconsin	16.3	10.7	65.6
New York	12.9	6.3	48.8
New Jersey	4.9	2.6	53.1

About 10 percent of Texas' apportionments, or \$3.8 million, lapsed because the apportionments were not used and the availability period expired.

Reliable nationwide information on the use of State Governors' apportionments is not available. Although the Surface Transportation Assistance Act of 1978 requires State Governors to report annually on how they allocated their section 5 funds, UMTA did not require these reports until August 1980.

STATE GOVERNORS ALLOCATE APPORTIONMENTS TO AREAS NOT NEEDING ASSISTANCE AND DO NOT REALLOCATE UNUSED APPORTIONMENTS

State officials in the five States we reviewed distributed the Governor's apportionments using the legislatively mandated formula even though the urbanized areas that received funds did not need any or some of the apportionments allocated to them. The officials did not reallocate unused apportionments.

Generally, the areas that do not use any or all of their apportionments are those areas that do not have transit systems, are not participating in the program, or were allocated more resources than they could use. For example:

--In Texas, 9 of the 21 urbanized areas apportioned funds by the Governor did not participate in the program. Seven of these areas had no transit system and two had private systems but chose not to participate. Nevertheless, they were allocated \$12.9 million, or 34 percent, of the total Governor's apportionment for fiscal years 1975-79.

--In New Jersey, one of the two areas apportioned funds had no transit system.

--In Wisconsin, although all seven urbanized areas had transit systems, six of the seven accumulated surplus balances each fiscal year from 1975 to 1979. In fiscal years 1978 and 1979, some of these areas began using their surpluses to purchase buses and related equipment which, according to planning documents and our discussions with transit officials, will satisfy major capital needs well into the 1980s. These areas will then again accumulate surpluses.

UMTA did not provide guidance
on reallocating apportionments
to State officials

Although the 1978 transit legislation gave State Governors more flexibility to reallocate their apportionments, UMTA did not provide guidance to State officials interpreting the legislation until August 1980. As a result, many State officials were not aware of their increased flexibility to reallocate their apportionments.

State officials generally pointed to the legislation as the reason for not reallocating apportionments. UMTA interpreted the 1974 legislation as allowing Governors to use their discretion in allocating each year's apportionment, provided that the distribution of all funds at the end of the 6-year life of the program equals that which would have occurred by formula. This stipulation makes it difficult for the Governor to reallocate funds because the Governor must assure that any funds reallocated from one area to another would be replaced before the end of the 6-year period.

UMTA interpreted the 1978 legislation as giving Governors greater discretion in reallocating apportionments. UMTA provided interim guidance on this discretion in a notice dated May 1, 1979, which stated that if an urbanized area cannot use its apportionment, the Governor may reallocate the unused portion to other urbanized areas. The notice requires the Governor to inform the UMTA regional director in writing of his or her intentions and to provide justification for the action.

Although the May 1979 interim guidance notice was distributed to UMTA headquarters and regional offices, State officials responsible for administering the Governors' apportionment were not provided copies. State officials in four of the five States we reviewed told us that they had never received a copy of the 1979 notice and most were not aware of the change. An official of the fifth State told us

that he obtained a copy of the notice in June 1980 only because a State employee visiting Washington happened to become aware of its existence.

Further, UMTA's Fort Worth regional officials we talked with did not know about the change. For example, State officials in Texas were considering reallocating an unused part of the Governor's apportionment to an urbanized area that requested additional section 5 funds. State officials told us that they were unsure whether they could reallocate apportionments so they requested guidance from the UMTA Fort Worth region in July 1979. UMTA's response, however, did not refer to the interim guidance. State officials did not find out about the change until we showed them a copy of the notice in April 1980. UMTA regional officials acknowledged that they were not familiar with the guidance although they had a copy in the regional files.

SECTION 5 RESOURCES NOT NEEDED BY
URBANIZED AREAS IN GOVERNORS' APPOR-
TIONMENTS CANNOT BE USED ELSEWHERE

Although Governors can reallocate section 5 apportionments among urbanized areas with populations between 50,000 and 200,000, UMTA has interpreted the legislation as preventing them from reallocating funds to urbanized areas with populations above 200,000. Therefore, if urbanized areas in a State Governor's apportionment cannot fully use available apportionments, some apportionments will remain idle.

For example, State officials in Texas acknowledged that a substantial surplus will remain unused as long as reallocations are limited to urbanized areas with populations between 50,000 and 200,000. The unused surplus will occur because 9 of the 21 urbanized areas in the Governor's apportionment do not participate in the program and those areas that do cannot use the Governor's total apportionment. UMTA regional officials estimated in June 1980 that it would take nearly 2 years before Texas' 1978 apportionment would be spent. UMTA regional and State officials also told us that urbanized areas in Texas with populations above 200,000 needed these funds.

A Wisconsin State transit official also stated that he would favor giving Governors the authority to reallocate section 5 apportionments to urbanized areas with populations above 200,000. He said that his State has one area in this category that urgently needed transit resources, while some smaller areas were accumulating surplus apportionments.

UMTA'S REVISED REGULATIONS WILL RESOLVE SOME PROBLEMS, BUT ADDITIONAL ACTIONS ARE NEEDED

After we completed our field work, UMTA published revised section 5 regulations that will correct two problems we noted during our review. However, UMTA needs to take additional actions.

First, the revised regulations, published on August 25, 1980, require Governors to report annually on the allocation of section 5 apportionments. (UMTA previously had not required such a report.) This requirement will give UMTA information on the status and use of section 5 funds apportioned to State Governors.

Secondly, the revised regulations provide guidance on the Governors' authority to reallocate apportionments among urbanized areas. Many State officials that we contacted were uncertain as to their authority to reallocate apportionments; this guidance may reduce their confusion. The regulations will also enable State officials to better use funds apportioned to Governors.

Despite these changes, UMTA needs to take additional actions. Although the revised regulations now require Governors to report annually, they do not specify when the report should be submitted. We believe the annual report should be submitted before the Governor allocates the apportionments so UMTA can review and comment on the proposed allocation.

Further, although the revised regulations require Governors to submit their annual reports to the appropriate UMTA regional offices, UMTA has not issued any guidance to its regional offices as to what they are to do with the reports. We believe UMTA needs to issue such guidance to ensure that funds apportioned to State Governors will be used efficiently.

CONCLUSIONS

Section 5 funds apportioned to State Governors are not being used efficiently. Substantial apportionments remain idle because State Governors are (1) making allocations to urbanized areas having no transit systems or to areas choosing not to apply for assistance and allocating more than some areas can use in one fiscal year and (2) not reallocating unused apportionments. UMTA contributed to this problem by not providing guidance to State officials clarifying their authority to reallocate apportionments under the 1978 legislation until August 1980.

Although UMTA has issued revised regulations which provide guidance on reallocating the Governor's apportionment, UMTA still needs to take some additional actions.

In some States the Governors' apportionments cannot be used fully. Present legislation, however, prevents these resources from being allocated to the larger areas within States that need them.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress amend the Urban Mass Transportation Assistance Act of 1964 to give Governors the authority to reallocate section 5 surpluses from urbanized areas with populations between 50,000 and 200,000 to other larger urbanized areas within the State that need the funds. This change could be accomplished by amending section 5(b) (2) of the Urban Mass Transportation Act of 1964, 49 U.S.C. 1604 (b)(2), by inserting after the first sentence the following new sentence:

"Any unobligated funds allocated to urbanized areas of less than 200,000 population determined by the Governor to be excess to the needs of these areas may be made available by the Governor in a fair and equitable way to urbanized areas of 200,000 or more population."

RECOMMENDATIONS TO THE SECRETARY OF TRANSPORTATION

We recommend that the Secretary of Transportation require the UMTA Administrator to

- require that annual Governors' reports be submitted before the Governor allocates the apportionments and
- provide guidance to regional offices on their responsibilities for monitoring the allocation and use of apportionments by State Governors to ensure that such resources are being used efficiently.

AGENCY COMMENTS

UMTA agreed with our conclusions and recommendations. UMTA noted that it has tried to remedy the problem of idle resources in the Governors' apportionments by proposing to the Congress legislative changes in 1978 and 1980.

UMTA also stated that it has corrected the proposed section 5 program regulations by requesting that the annual Governors' reports be submitted at the beginning of each fiscal year. In addition, UMTA stated that it is developing guidance for its regional offices on the use of the Governors' reports in their administration of the section 5 program.

CHAPTER 5

UMTA's ADMINISTRATION OF THE SECTION 5 PROGRAM

NEEDS SUBSTANTIAL IMPROVEMENTS

UMTA is not adequately administering the section 5 program.

- UMTA headquarters has not given the regions adequate guidance and has not evaluated their administration of the program.
- UMTA's automated management and financial information systems are not meeting the needs of the regions and headquarters offices that administer and control the program.
- UMTA is not closing out projects quickly enough and has no procedures to "deobligate" 1/ and reallocate or reapportion funds.
- UMTA has not established time limits for processing grant applications and is not collecting the data it needs to monitor the region's grant-processing activities.

As a result,

- section 5 apportionments are not being properly accounted for, and uncertainty exists about the availability of apportionments;
- reports to the Congress about the program have been delayed and may not be reliable;
- resources remain idle, funds lapse unnecessarily, and the recovery of overpayments is delayed;
- regional and headquarters program offices have been forced to use manual records to monitor section 5 funds; and

1/A downward adjustment of previously recorded obligations. In the case of section 5 operating assistance projects, deobligations may occur because the original obligation was based on the grantee's projected operating costs and exceeds the grantee's actual eligible reimbursement determined after financial data becomes available.

--applications for operating assistance are not processed as quickly as possible.

In addition to these problems, the Department of Labor is not completing the legislatively required labor protection review as quickly as it could, which delays UMTA's approval of operating assistance grant applications.

MORE EFFECTIVE HEADQUARTERS OVERSIGHT
AND SUPERVISION IS BADLY NEEDED

Although section 5 is administered by UMTA's 10 regional offices, UMTA headquarters offices are responsible for developing policy and procedures; providing budget, accounting, and program guidance; and monitoring and coordinating the work done by the regions. However, the headquarters offices provided little oversight and supervision, which has caused many of the problems discussed in this chapter.

Officials from all the regional offices we visited expressed concern over the lack of guidance from headquarters. They said that headquarters rarely made staff assistance visits, frequently did not respond to procedural questions, did not coordinate section 5 fund balances with regions and urbanized areas annually, and did not provide formal training in program administration for regional transit representatives and program managers.

Our discussions with headquarters officials confirmed regional staff criticism that UMTA headquarters is not providing adequate oversight and supervision. For instance:

--The director of the UMTA office responsible for monitoring regional grant administration and answering regional office questions about administrative procedures told us that his monitoring responsibility should be eliminated because (1) he does not have sufficient staff to perform this function and (2) section 5 is one of the best understood grant programs administered by UMTA; therefore, he feels only minimal headquarters oversight is needed.

--Another official who was responsible for developing policies and procedures and providing guidance to the regions on project management activities such as project closeout told us that he had no idea how well the regions performed these functions because he never visited them due to staff limitations.

--A UMTA budget official said that her office had visited the regions when they were newly created but

had not visited them recently due to staff limitations. She said that she did not know how regional budgets were managed.

Section 5 guidance is inadequate

Section 5 guidance is duplicative, outdated, and in some instances does not exist. For example:

- Instructions for specific tasks, such as processing section 5 applications and requisitions or closing out projects, are contained in more than one document.
- A budget directive requires the accounting office to provide a monthly report to regional offices. However, neither accounting nor budget officials were aware of the reporting requirement. The Director, Office of Budget, also told us that the report is no longer needed.
- Headquarters does not provide guidance to regional personnel for reviewing (1) applications for section 5 capital grants and (2) planning documents submitted by urbanized areas to support planned capital and operating expenditures, even though these documents must be approved before a section 5 grant application can be approved.

The lack of adequate guidance has occurred because UMTA's staff does not understand and support UMTA's directive system. For example, in February 1980 officials responsible for publishing all of UMTA's directives advised the Administrator that the agency's staff did not understand the purpose and use of the directives system and did not provide good or timely responses when directives were being coordinated. The National Archives and Record Service in its April 1980 report on UMTA's overall directive system concluded that the lack of adequate staff support had resulted in obsolete, vague, incomplete, outdated, or nonexistent directives.

UMTA's AUTOMATED INFORMATION SYSTEMS NEED TO BE SUBSTANTIALLY IMPROVED

UMTA needs accurate and reliable section 5 financial and project information for processing and monitoring grant applications; accounting for apportionments, obligations, and disbursements; and developing budgets and reports to the Congress. Such information is generally not available because the automated systems that contain the information are unreliable.

Automated financial information
is unreliable

UMTA has an automated system intended to provide management with financial information on the section 5 program and other UMTA programs. However, the automated system is considered unreliable by both regional and headquarters officials; manual records are used for most purposes.

UMTA's regional directors approve section 5 grant applications and obligate section 5 funds. These actions require access to current financial data, including the balance of funds available by region, State, and urbanized area. The automated system cannot provide the necessary information because it

- does not display funds carried over from a specific prior year, making it impossible for the regions to obligate the oldest available funds as UMTA regulations require;
- does not alert regional staff when prior-year funds are in danger of lapsing;
- cannot be used to determine funds available to State Governors for distribution to smaller urbanized areas; and
- does not immediately update available balances as new entries are made.

Because of these limitations, the regions have designed and implemented their own manual record systems, deemphasized using the automated system, and do not input data as required by UMTA regulations. For example, UMTA's accounting office tested the automated system in April 1980 to determine if obligations were being properly entered by regional offices. Of 431 grants sampled, 132 obligations, or about 30 percent, were not in the system. A second test conducted a month later on the same grants, after regional offices had been advised of the first test results, found that 39 obligations, or about 10 percent, still had not been entered.

The manual record systems used by the regions are not of consistent design and, like the automated system, have limitations that prevent compliance with UMTA procedures. For example, we reviewed the manual systems in three regions and found that, as required by UMTA regulations,

--two systems identified available funds with the year of apportionment while the other system did not and

--one system allocated funds for urbanized areas with less than 200,000 people to the Governor for statewide use while the other two systems did not.

UMTA headquarters officials also consider the automated system inadequate. The Chief, Policy and Programs Division, told us that the system is so unreliable that it cannot be used to determine how much of last year's planned activity was implemented. As a result, UMTA headquarters also uses a manual records system.

These limitations have rendered the automated system unusable for the section 5 budget and have made it difficult to use the system to develop timely and reliable external financial reports. For example, UMTA is required by the Surface Transportation Assistance Act of 1978 to submit quarterly reports of commitments, reservations, and obligations to the Congress. The automated system was used to compile data for the first three quarterly reports of fiscal year 1979. However, UMTA had to rely on its manual records for the last quarterly report when officials found that the automated system did not include more than \$0.5 billion of obligations for all UMTA programs. As a result, this report was submitted more than 7 months late.

UMTA's top management officials acknowledged that the agency does not have complete and reliable data on what has been spent, what has been lapsed from the program, and what prior-year funds have been carried forward for use in the future. In response to our request for such data, the officials stated that the agency plans to publish in the Federal Register available section 5 balances compiled from existing UMTA records by urbanized areas for review by the areas and State Governors. UMTA then hopes to reach agreement with each urbanized area and State Governor about available funding balances.

Automated project information system is unreliable

UMTA's automated project information system is supposed to contain a complete history of each grant project and give program managers a means of recording and monitoring each project's progress from receipt of the application through project closeout. However, this system contains inaccurate and incomplete data and is difficult to update.

At UMTA's New York and San Francisco regional offices, we compared documentation in project files with data in the management systems. In some instances there was no information in the project file to support data in the management system; in other cases the information apparently had been incorrectly entered.

The Triton Corporation, as a part of its "Manpower Analysis for Selected UMTA Organizational Entities," reported that

"* * * regional managers feel the automated system does not do what it was intended to do. Their major criticism is that the system is unable to produce updated information, therefore rendering it useless in tracking the status of grants and projects. They also believe that oftentimes, the data produced from the computer is inaccurate, and therefore, unreliable as an aid to decisionmaking."

The office of the Associate Administrator for Transit Assistance has been trying unsuccessfully since 1976 to have the management information system modified to meet its program needs. According to memorandums written by officials in this office, the system does not provide information quickly enough to aid in decisionmaking nor does it provide information needed for grant management and tracking. For example, the system cannot distinguish

- information on new rail systems from existing systems,
- projects that extend existing rail systems from system modernizations, and
- projects to replace existing buses from projects providing additional buses to expand transit systems.

Because the project file does not provide the grant-tracking capability needed by the Office of Transit Assistance, that office has taken action to explore the feasibility of developing its own automated system. On October 30, 1979, the Acting Associate Administrator for Transit Assistance entered into an agreement with a commercial contractor to explore the possibility of automating his office's manual program status reporting system, which includes information on the section 5 program. This agreement violated UMTA's criteria for automated data processing management because it was not approved by the UMTA office responsible for managing such activities.

Reports produced by automated systems are inaccurate

We reviewed selected reports produced by the automated systems. All were inaccurate. For example,

--at UMTA's San Francisco regional office, we reviewed a February 7, 1980, report of cumulative active projects and found that 13 of 14 section 5 projects closed between May 1978 and December 1979 had not been deleted and

--at UMTA headquarters, we reviewed two reports of section 5 fund balances with the Director of Management Systems, who agreed that both reports contained inaccurate data and would, therefore, be of little or no value.

UMTA headquarters staff said that it was difficult to obtain accurate, timely reports from the automated system to reply to congressional and administration questions. For example, at the request of the House Committee on Appropriations, Subcommittee on Transportation, a program manager at UMTA headquarters tried to update a summary of grants awarded through fiscal year 1979. After two earlier versions were found to be inaccurate, a third version of the summary was forwarded to the committee. A fourth version, said to be more accurate, was subsequently provided by the Office of Management Systems, but not forwarded to the committee.

Other management studies have also found UMTA's automated management information systems to be a major impediment to satisfactory grant management. For example, the National Archives and Record Service inspected UMTA's records management functions in 1979. Its April 1980 report concluded:

"UMTA's MIS [management information system] has been a problem since its inception. NARS [National Archives and Records Service] inspectors encountered few persons in the agency who found it satisfactory. The system, which cost close to \$1 million per year, places a burden on the people it is supposed to support. Program officials get relatively little in return for the time spent feeding data input into the system or in reviewing the reports that the system produces."

A UMTA official responsible for the automated systems told us that he was not aware that the reports being produced were inaccurate until we brought it to his attention. He also

said that he would continue to produce these reports, hoping that someone in UMTA will note the discrepancies and correct them.

SECTION 5 PROJECTS MUST BE CLOSED OUT
AND FUNDS DEOBLIGATED MORE QUICKLY

UMTA is not promptly closing out section 5 projects and deobligating remaining grant balances because (1) UMTA's regional offices assign project closeout a low priority due to insufficient staff and (2) the agency lacks procedures to deobligate and reappportion funds. As a result:

- Section 5 funds remain idle and lose purchasing power.
- Funds are not being deobligated and reappportioned for subsequent use.
- Funds lapse unnecessarily.
- Overpayments or payments for ineligible expenses are not promptly identified.

UMTA approves section 5 operating grants based on the grantee's estimated operating costs and deficits. UMTA regulations require that the grantee submit an audited financial statement at the close of its operating year. It is important that UMTA review these statements promptly and close out the grants. Then, UMTA should deobligate (and reappportion if the original period of availability has passed) any remaining balances and recover overpayments or payments for ineligible expenses.

Project closeout has a low priority

Few projects were getting closed out because UMTA's regional offices and DOT's Inspector General auditors we visited gave closing out section 5 projects a low priority.

The Program Management Division at each UMTA regional office is responsible for project closeout activities--the division must ask the grantee to submit final audited financial statements and other project information within 90 days after the project period ends. After the division reviews the documentation, it is supposed to request a final audit by DOT's Inspector General.

The Chief, Program Management Division, at UMTA's New York regional office told us that he gives project closeout a low priority because he prefers to deal with ongoing projects that UMTA can still influence rather than projects

that are already completed. This region referred only one section 5 project to the Inspector General for final audit in 1979.

UMTA's San Francisco regional office had about 120 section 5 projects eligible for closeout. The Director, Program Management Division, at this region attributed the large backlog to insufficient staff. One of the region's program management specialists estimated that it would take one additional staff member a full year to clear the present backlog.

Although UMTA's chief administrative officer has stressed the need for project closeout since 1977, little has been done. For example, he reported in November 1977 that 132 section 5 projects should be closed out. In June 1979 he again reported to the UMTA Administrator the need for project closeout and indicated that the number of section 5 grants needing closeout had grown to 219.

The Inspector General offices we visited also assigned a low priority to section 5 audits. For example, the auditor-in-charge in New York told us that section 5 audits were not assigned as high a priority as other audit work because section 5 grants are usually for less money than other UMTA grants and have previously been audited by State or private sector auditors. The Inspector General's staff of two at New York audited only three section 5 projects in calendar year 1979 from an estimated backlog of 83 grants.

San Francisco's Inspector General staff had a backlog of 49 section 5 operating grants as of April 1980. The Assistant Regional Manager for Audit told us that section 5 audits had a low priority on the region's work plan. Audits for economy and efficiency; audits for fraud, waste, and abuse; and audits of high-value capital grants were considered higher priority. Six section 5 operating grants were audited in 1979.

UMTA lacked procedures to deobligate and reallocate or reapportion funds

After a section 5 grant is audited, regional offices submit a request to UMTA headquarters to deobligate any remaining grant balance. UMTA headquarters should promptly deobligate and then either reallocate or lapse the funds. This was not happening because

--UMTA headquarters offices were not properly controlling and responding to regional requests for deobligations and

--the agency had no procedures to reallocate deobligated funds to regional offices.

Officials at the regional offices we visited did not know what happened after they submitted deobligation requests to UMTA headquarters. For example, one region did not know about one of the three section 5 grants UMTA's accounting office had deobligated for the region during fiscal year 1978. Also, regional officials had no idea how deobligated funds were reapportioned to urbanized areas. Another region, in May 1979, sent a memorandum to UMTA headquarters stating:

"What is more troubling is the question of deobligations. The 'system' says when a grant is closed out, the money comes back to the specific urbanized area account and through the first-in-first-out principle, the urbanized area's total amount of money increases. To the best of my knowledge, this rarely happens. I do not even know who is responsible for this now that we are decentralized."

The Chief, Division of Transit Assistance at the region, who wrote the memorandum asked several questions in an attempt to clarify the deobligation process. The questions were not answered and the regional official sent another memorandum in November 1979 asking similar questions. It was forwarded to the accounting office in December by the headquarters program office asking: "Is there a process or can we initiate one which will keep this office and the appropriate region advised of these events [deobligations]?" This memorandum also remained unanswered.

Attempting to follow up on these memorandums, we found that:

--UMTA's accounting office had no record of regional requests for deobligations and had to review individual grant files to compile a list of outstanding requests. Seventy-four requests for deobligations were found, 40 of which had remaining balances totaling more than \$5 million.

--UMTA's budget office had no procedure to reallocate the approximately \$2.3 million deobligated by the accounting office since the program began. In fact,

budget officials acknowledged that they were not advised when deobligations were made.

We brought this problem to UMTA's attention, and at the close of our review, the agency was in the process of developing procedures to deobligate and reapportion remaining grant balances.

Idle resources, lapsed funds, and delayed recovery of overpayments are caused by failure to close out projects

The failure of UMTA and DOT's Inspector General to promptly close out completed section 5 grants and deobligate remaining grant balances has caused serious problems:

- Substantial section 5 resources are remaining idle for long periods of time.
- Urban areas are losing parts of their apportionments unnecessarily.
- Grant overpayments and payments for ineligible expenses are not being promptly identified.

A February 1980 UMTA report listed 182 section 5 operating grants with remaining balances that had not been closed out even though they had not been disbursed against since November 1978. The total balance remaining for these grants was approximately \$27.5 million. In addition to tying up scarce resources for several years, the failure to promptly close these projects means that some urban areas will lose resources unnecessarily. This loss occurs because \$8.6 million, or about 31 percent of the \$27.5 million, was obligated in fiscal years 1975 and 1976 and the transition quarter and therefore has lapsed to the urbanized area to which originally apportioned because the legislative availability period for these funds has expired. According to UMTA's interpretation of the legislation, these funds will remain available to UMTA for reapportionment to all urbanized areas once they are deobligated. However, had these projects been closed out more quickly, the funds could have been made available to the area to which they were originally apportioned for use in future years.

Grant overpayments and payments for ineligible expenses are also not being identified promptly because few section 5 grants are being audited. The need to promptly audit these grants can be seen by the following:

--Six of the 11 grants audited by the Chicago Inspector General auditor during fiscal year 1979 contained overpayments of about \$80,000, and New York auditors uncovered an overpayment of about \$5 million on one grant.

--The Inspector General auditor in Chicago told us that grantees are including costs associated with other programs in their applications for operating assistance. Such expenses are ineligible for section 5 assistance and only serve to inflate project costs and result in overpayments. He said that this problem occurred in approximately 75 percent of the grants he audited.

UMTA SHOULD ESTABLISH TIME
STANDARDS AND MONITOR
REGIONAL GRANT PROCESSING

Section 5 operating assistance is intended to help transit systems meet their operating costs. To administer the program effectively, UMTA should quickly determine if transit systems qualify for Federal assistance and then provide assistance expeditiously.

However, UMTA has not established time standards for processing section 5 grant applications, does not adequately train the regional personnel who process grants, and has no information on how much time regional offices take to process applications. As a result, the agency has no assurance that its regional offices are processing grant applications correctly or promptly. We found several instances where unnecessary delays occurred.

Processing times vary and
unnecessary delays occur

The time required to process section 5 grant applications varied among the regional offices we reviewed. In some cases, unnecessary delays occurred.

The following schedule summarizes the average time that three UMTA regional offices took to process 41 operating assistance grant applications during three stages: (1) the time needed for the UMTA regional office to submit a copy of the grant application to the Department of Labor for a legislatively required labor protection review, (2) the time needed by the Labor Department to complete this review, and (3) the time needed for the UMTA region to approve the grant application after receiving the Labor Department's approval.

Average number of days required for

<u>UMTA region</u>	<u>Number of grants analyzed</u>	<u>Submission to Labor</u>	<u>Review by Labor</u>	<u>Regional approval after Labor review is completed</u>	<u>Total average time</u>
New York	16	19	135	87	241
San Francisco	8	22	131	52	205
Ft. Worth	17	4	150	70	224

As the schedule shows, the Labor Department's review accounted for a substantial part of the processing time. This aspect of grant processing is discussed in more detail on pages 65 and 66.

Our analysis of the times required to submit copies of grant applications to the Labor Department showed wide variances among the regions. For example, New York and San Francisco took an average of 19 and 22 days, respectively, to forward a copy to the Department, with times ranging from 1 day to 68 days. Ft. Worth, on the other hand, took an average of only 4 days and on 6 of its 17 grants submitted a copy to the Department the same day it received the application.

The time required by New York and San Francisco to submit applications to the Labor Department seemed unnecessarily long; regional personnel only have to give the application a control number and forward two copies to the Labor Department. Regional personnel generally cited workload as the reason for the delay. For example, officials at UMTA's San Francisco region stated that it took about 30 days to send two grant applications from the same grantee to the Labor Department because the region was trying to finish processing applications for the prior fiscal year (1979). We noted, however, that although one of the applications was for fiscal year 1980 operating assistance, the other was for fiscal year 1979 assistance. Delays in submitting applications to the Labor Department only prolong the processing time because UMTA cannot approve a grant application without Labor's approval.

Because grant files lacked evidence of discussions between the grantee and UMTA and because there was no evidence of review by UMTA regional personnel, we could not, in most cases, determine whether the time the regions took to approve grant applications after Labor's approval was reasonable. Regional officials cited workload, incomplete grantee information, and unapproved planning documents as the major

reasons for delays during this stage. However, our detailed review of five grants at the New York region showed that on at least two grants the region contributed to the delay by not promptly requesting information.

--On one grant, which took 22 months to process, the only record of UMTA requesting additional information from the grantee was about 10 months after the region received the grant application.

--On another grant, which took 8 months to process, the regional official responsible for the grant acknowledged that he probably did not request additional information from the grantee until about 5 months after the region received the application.

Headquarters has not established processing time limits, has not provided training, and lacks data to monitor regional performance

Although UMTA headquarters has published some guidance to help its regional personnel process operating assistance applications, more guidance and assistance are needed because

--no time limits have been established for regional offices to complete various processing stages,

--no data is being collected to monitor regional processing times, and

--no formal training is being given to regional personnel that review and process grant applications.

These deficiencies contribute to the overly lengthy processing times and delays that occur.

UMTA headquarters has outlined the steps and procedures regional personnel must follow in processing applications. However, it has not established any time limits for regional offices to follow in completing the various processing steps. For example, no time limits exist for when regional personnel should forward a copy of the grant application to the Labor Department or when they should complete their review of the application to determine if the grantee needs to submit additional information.

No one within UMTA was aware of how long it took to process applications. Although officials did give us estimates, based on their experience, of the time required for various processing stages, they did not have any data to substantiate these estimates. One region official

responsible for grant processing acknowledged that he had never studied the time his region took to process grants.

An official at one UMTA region told us that there is a definite lack of grant processing training in the field. He said that UMTA offers no internal or formal training programs. UMTA attributed the lack of training to the fact that since the regions were all initially staffed with headquarters personnel, it was assumed that these individuals would train new employees in the region.

THE LABOR DEPARTMENT NEEDS TO IDENTIFY WAYS TO EXPEDITE ITS CERTIFICATION PROCESS

The Labor Department is not certifying operating grant application requests as quickly as it could, primarily because of typing delays. Since UMTA cannot award a section 5 operating grant until the Secretary of Labor certifies that fair and equitable arrangements have been made to protect the interests of employees who may be affected by the grant, Labor needs to identify ways to expedite its certification process.

A model or national employee protective agreement was developed for operating assistance grants in 1975 to, among other things, help expedite the certification process. When Labor receives a request from UMTA to certify a grant application in which the grantee and labor union have signed the agreement, it reviews the application package for content and compliance with legislative labor protection requirements. A letter is then sent to the union advising it that Labor will certify the grant application based on the model agreement after 2 weeks, unless the union notifies Labor that special circumstances exist that require changes in the model agreement or supplemental arrangements.

Labor should be able to certify applications involving a model agreement quickly because

--the Secretary of Labor has already determined that the model agreement provides fair and equitable arrangements to protect the interests of employees in operating assistance projects and

--labor unions rarely indicate that special circumstances exist, according to Labor officials.

This is not happening. Labor took an average of 100 days to process 333 operating assistance applications during

fiscal year 1979. Of the 333 applications, 108 were subject to the model agreement. Labor took an average of 96 days to process these applications--only 4 days faster than the average time required for processing all applications.

Typing delays account for a substantial amount of the time needed to process applications subject to the model agreement. For instance, Labor took an average of 30 days to send the union a notification letter on 17 applications subject to the model agreement that we reviewed. Twelve days of this time were required to type the notification letter, which involves typing the name and address of the union and a salutation on a form letter.

After the union is notified, typing continues to be a problem. Although Labor could certify an application subject to the model agreement two weeks after notifying the union, it took Labor an average of 36 days to certify the 17 applications we reviewed. Labor officials attributed these delays to a typing backlog. For example:

--On one application, a union notification letter was sent on June 16, 1980. After the union advised Labor that it had no problems with the application, the responsible Labor official drafted a certification letter and submitted it for typing on June 23, 1980. The certification letter was typed on August 7, 1980--45 days later.

--On another application, a union notification letter was sent on February 8, 1980. After the union advised Labor that it had no problems with the application, a certification letter was drafted and submitted for typing on February 21, 1980. It was typed on March 21, 1980--29 days later.

Since model and nonmodel operating agreement applications are taking about the same length of time to process, a Labor official said that the agency was considering expediting processing of model agreement applications by putting them in a "rush" category. However, this action would probably result in further delays in processing other applications, without eliminating the problem of lengthy processing. Unless additional typists are hired or Labor identifies alternatives to its present processing method, we do not believe Labor's certification process will be as timely as it could or should be.

CONCLUSIONS

Virtually every aspect of UMTA's program administration needs to be improved. Apportionments have not been properly accounted for; reports to the Congress on the program have been delayed and are of questionable reliability; projects are not being closed out; remaining grant balances are not being promptly deobligated; and deobligated funds are not being reallocated or reapportioned. As a result, some section 5 resources remain idle, funds lapse unnecessarily, the recovery of grant overpayments are delayed, and there is no assurance that operating assistance grant applications are being processed on a timely basis.

Ineffective headquarters oversight and supervision of regional office activities is the primary cause for most administrative problems. Headquarters offices rarely make staff assistance visits, frequently do not respond to procedural questions raised by regional offices, do not provide formal training for regional personnel or adequate program guidance, and do not monitor the administrative performance of its regional offices.

UMTA's unreliable automated information systems also cause problems. They must be improved substantially and used much more efficiently to properly account for section 5 apportionments, provide reliable financial and other reports to the Congress, and provide the data necessary to monitor and manage section 5 activities and regional office performance.

UMTA's approval of section 5 operating assistance grant applications is delayed unnecessarily, in some cases because the Labor Department is not completing its labor protection review as quickly as it could.

RECOMMENDATIONS TO THE SECRETARY OF TRANSPORTATION

We recommend that the Secretary of Transportation direct the UMTA Administrator to:

--Improve headquarters oversight and supervision of regional office section 5 activities by

--assuring that adequate program guidance is issued to UMTA regions for all section 5 and related responsibilities,

- establishing time standards for processing section 5 operating grant applications and obtaining the data needed to monitor regional office adherence to these standards, and
- providing formal training in administrative procedures for regional staff responsible for section 5 program activities.
- Assure that section 5 grants are promptly closed out and the remaining grant balances deobligated and either lapsed or reapportioned. (The existing backlog of projects eligible for closeout should be processed as quickly as possible to avoid having funds remain idle and lapse unnecessarily.)
- Give top priority to determining the agency's needs for automated information systems, initiating appropriate action to fulfill these needs, and assuring that the agency efficiently uses existing automated information systems.
- Give priority to determining the amount of apportionments available to urbanized areas and State Governors and assuring that these apportionments are properly accounted for.

RECOMMENDATION TO THE
SECRETARY OF LABOR

To realize the benefits intended by the model employee protective agreement and avoid unnecessarily delaying UMTA's approval of section 5 operating assistance grant applications, we recommend that the Secretary of Labor review the typing workload associated with certifying operating grant application requests subject to the model agreement and either (1) obtain additional typing help or (2) seek alternatives to formal typing such as

- using form letters with handwritten inserts and
- notifying UMTA informally after Labor decides to certify a grant rather than waiting for a formal certification letter to be typed.

AGENCY COMMENTS AND OUR EVALUATION

UMTA generally agreed with our conclusions and recommendations and stated that it is taking numerous steps to improve program administration.

In response to our concerns about the lack of uniform program administration among its 10 regional offices, UMTA stated that it has assigned its Office of Grants Assistance responsibility for ensuring that the regional offices are both aware of and uniformly implement the agency's policies and procedures.

Since UMTA did not provide details as to how the Office of Grants Assistance will carry out its responsibilities, we cannot comment as to whether this action will correct many of the program administration problems we found. We believe, however, that improved headquarters oversight and supervision of the regional offices are essential to improving administration of the section 5 program.

Concerning our criticism of its management information system, UMTA stated that it intends to pursue a thorough assessment of program and financial information needs and to develop a system with the necessary capabilities. Until such a long-term solution can be put in place, UMTA stated that it is continuing its efforts to verify and reconcile the program data currently in the system. UMTA stated that it also plans to establish a uniform system of recordkeeping for its regional offices.

UMTA stated that our concerns with the project closeout and fund deobligation process are generally well founded and shared by UMTA. It maintained, however, that contrary to our report findings, it had specific procedures for closing out projects and deobligating unused funds that were in place before the operating assistance program began.

We agree that UMTA had specific procedures for closing out projects and deobligating unused funds. As we point out in our report, however, these procedures were not being followed. In addition, we noted that UMTA had no procedures to reallocate or reapportion to urbanized areas and its regional offices funds deobligated from closed out grants. Therefore, even though UMTA may have properly closed out a grant and deobligated any remaining grant funds, these unused funds were never reallocated for subsequent use to urbanized areas.

UMTA stated that the primary cause of closeout delays--the need for a specific audit and audit resolution--has been

modified recently by Office of Management and Budget Circular A-102, which establishes standard administrative requirements for Federal grants-in-aid to State and local governments, in attachments P and L. UMTA further stated that it is developing streamlined closeout/deobligation procedures to reflect the changes.

We disagree that the need for a specific audit and audit resolution was the primary delaying factor in closing out section 5 grants. Attachment L to Office of Management and Budget Circular A-102, which was issued in September 1972, allows Federal agencies to close out grants before the final audit. UMTA, however, prohibited its regional offices from closing out a grant until the Inspector General completed its final audit--an unnecessary requirement in the closeout process since UMTA can recover any disallowed costs resulting from the final audit even though the grant has been closed.

DOT's Inspector General stated that our statements implying that his office had been unresponsive in reducing the audit backlog of section 5 grants do not reflect specific actions taken by the Inspector General. According to the Inspector General, shortly after taking office in May 1979, he took immediate action to reduce the backlog of unaudited grants, including those of UMTA. The Inspector General further stated that in July 1979, he identified as a high priority the liquidation of unaudited grants, and this high priority for grantee audits has continued in the annual planning guidance to the Inspector General regional managers.

We did not intend to imply that the Inspector General was unresponsive to reducing the audit backlog of section 5 grants. Rather, we indicated that the Inspector General auditors we visited assigned low priority to section 5 audits because of their limited resources and the fact that they considered other auditing activities to have higher priorities. Although the Inspector General identified as a high priority the liquidation of unaudited grants in July 1979, we found no evidence at the Inspector General regional offices we visited to indicate that the backlog of section 5 audits was being significantly reduced. In fact, the backlog was growing at all these offices.

The Department of Labor, in its letter dated December 22, 1980 (see app. II), stated that it concurs that its certification time for operating assistance grant requests has not been as timely as desired and concurs, in part, with our recommendation.

The Labor Department stated that to achieve efficiencies in processing operating grant requests, a method of ranking the internal review and typing of operating grant requests was initiated in August 1980. A Labor official told us that the ranking method consists of assigning recurring operating assistance grants priority typing. The Department claims that since August 1980 all operating grant applications certified were processed in an average of 75 days and that applications subject to the model agreement averaged 57 days.

We believe more timely processing of operating grant applications may result from their being assigned priority typing. However, as we point out on page 66, this may also result in further delays in processing other applications. We did not verify the Department's claimed processing time for operating grant applications since August 1980. However, we believe that a longer period will be needed to assess whether processing times are improving.

The Department stated that master form letters are being prepared for standard types of certification and referral letters that can be filled in with typewritten inserts. The Department believes handwritten inserts would create undue administrative problems and increase the likelihood of errors to an unacceptable level.

While master form letters were previously used for referral letters, we believe their application to standard certification letters should result in more timely processing. We do not understand why handwritten inserts would create undue administrative problems and increase the likelihood of errors.

The Department believes that orally notifying UMTA of certifications on a routine basis would create greater administrative problems than presently exist. The Department also stated that a certification letter is needed to satisfy legal and recordkeeping concerns.

We are not saying that a certification letter is not needed. Rather, our point is that as soon as Labor determines that an application will be certified, Labor officials could informally notify UMTA of the impending certification status. UMTA could then proceed with its final processing rather than wait until it receives a formal certification letter from Labor. If it is considered necessary, UMTA could delay final approval of the grant application until it receives the formal certification letter.



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Assistant Secretary
for Administration

400 Seventh Street, S.W.
Washington, D.C. 20590

JAN 8 1980

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have enclosed two copies of the Department of Transportation's reply to the General Accounting Office draft report, "Transit Operating Subsidies-- Urgent Need To Control Subsidy Growth And Better Administer The Federal Program," dated November 17, 1980.

We commend the GAO team on their effort to conduct a thorough and accurate investigation of the Urban Mass Transportation Administration's (UMTA) Section 5 program and of issues relating to the provisions of transit operating subsidies. We believe, however, that in many cases the report fails to place these issues in their proper context. While we agree with many of the conclusions and recommendations presented in the report, we believe the enclosed statement will provide for a more comprehensive understanding of the issues discussed, and will provide information omitted by GAO on corrective actions undertaken by UMTA.

The GAO statements implying that the Inspector General (IG) has been unresponsive in reducing the audit backlog of Section 5 operating assistance grants do not reflect specific actions taken by the IG. The IG advises that shortly after taking office in May 1979 he took immediate action to reduce the backlog of unaudited grants including those of UMTA. In July 1979, the IG identified as a high priority the liquidation of unaudited grants. This high priority for grantee audits has continued in the annual planning guidance to the IG Regional Managers.

If we can further assist you, please let us know.

Sincerely,


Robert L. Fairman
Acting

Enclosures

Urban Mass Transportation Administration

Reply To

GAO Draft Report of November 17, 1980

On

**Transit Operating Subsidies--
Urgent Need to Control Subsidy Growth
And Better Administer the Federal Program**

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

- I. GAO recommends that the Secretary of Transportation direct the UMTA Administrator to:
 - A. Develop and issue clear policy guidelines defining UMTA's role and responsibility in encouraging efficiency and productivity.
 - B. Assign a high priority to encouraging efficiency and productivity in local transit operations as a key element in all UMTA activities and decisionmaking.
 - C. Consider undertaking specific actions to improve transit efficiency and productivity, such as requiring performance audits for all systems of a certain size receiving Federal funds.
- II. GAO recommends that:
 - A. The Congress amend the legislation to modify the goal of low fares for the Federal subsidy program. Although such a goal may have been appropriate when the assistance program was first started, it is more appropriate now to adopt a goal which promotes realistic, efficient and equitable transit pricing.
 - B. The Secretary of Transportation revise the present short-range transportation requirement regulations in order to require local areas to give greater consideration to the efficiency and equity of local transit fares.
 - C. The Secretary of Transportation direct the UMTA Administrator to develop and issue clear policy guidelines encouraging local areas to 1) recover more of their costs from passenger fares and 2) develop realistic, efficient and equitable local fare policies and structures.
- III. UMTA needs to make major improvements in its administration of the Federal operating assistance program. For example:
 - A. UMTA should improve its automated information system. The present systems are unreliable and cannot be used to properly account for resources, provide reliable reports to the Congress, and provide the data needed to manage the program.
 - B. UMTA should close-out operating assistance projects and deobligate funds on a more timely basis. The agency assigns project close-out a low priority and lacks procedures to deobligate and reapportion unused Federal funds. As a result, Federal resources remain idle, areas lose part of their apportionments unnecessarily because the legislative availability period expires before UMTA deobligates remaining project balances, and recovery of overpayments is delayed.

- IV. GAO recommends numerous actions the Secretaries of Labor and Transportation need to take to improve the administration of the operating assistance program.
- V. GAO recommends that the Congress amend the Urban Mass Transportation Assistance Act of 1964 to give governors the authority to reallocate Federal operating assistance surpluses from urbanized areas with populations between 50,000 and 200,000 to other larger urbanized areas within the State.

UMTA RESPONSE TO THE GAO DRAFT REPORT

I would like to preface my comments on the study by the General Accounting Office (GAO) of the UMTA Section 5 operating assistance program with an expression of appreciation to the members of the GAO study team for assisting this agency in our effort to focus attention on elements of the program requiring improved management and oversight. The GAO's cooperation and constructive approach to conducting this study has aided UMTA in our ongoing examination of current practices and in identifying additional areas requiring the development of policy and procedural guidance to meet changing program demands.

We commend the GAO team on their effort to conduct a thorough and accurate investigation of the Section 5 program and of issues relating to the provision of transit operating subsidies. We believe, however, that in many cases the report fails to place these issues in their proper context because the report omits discussion of several significant legislative and policy initiatives proposed by UMTA both prior to and during the GAO's investigation, provides an incomplete discussion of complex issues, and premises conclusions on inadequately documented and potentially misleading information, observations and statistics. While we agree with many of the conclusions and recommendations presented in the report, I believe our comments will provide for a more comprehensive understanding of the issues discussed, and will provide information omitted by GAO on corrective actions undertaken by UMTA.

GAO NOTE: Chapter references have been changed to correspond to our final report.

The opening statement in the Digest and Chapter I discusses government subsidies in 1978, projected subsidy demands in 1985, and the Federal share of this projected subsidy level. The report fails to make clear that the \$2.2 billion in government subsidies in 1978 is from State and local governments as well as the Federal government. It should also be mentioned that the Federal share of the \$2.2 billion is less than one third of the total. The GAO states, that "if present trends continue, transit systems will need \$6.7 billion per year in operating subsidies by 1985...." This estimate of government subsidy needs was based on a straight line projection using data and assumptions which were no longer valid at the time of GAO study. The projection is already inaccurate due to fare increases adopted in several of the largest urbanized areas during 1980.

The statement is made that the Federal government is "...expected to fund a major share" of the projected demand, though the report does not define "major share". Both Secretary Goldschmidt and Administrator Lutz have stated in Congressional testimony that local officials and the transit industry must recognize that the Federal role in subsidizing operating costs will continue to be secondary to State and local efforts. Furthermore, no documentation exists to support the hypothesis that Federal funding levels will permit this agency to meet even one-third of this projected demand, much less any greater portion which could be construed as "major".

In the first chapter of the report, the GAO expresses concern with increasing operating deficits being incurred by transit systems and with the fact that the Section 5 program appears to reward increases in operating deficits with eligibility for proportionate increases in grant awards. The report does not, however, discuss the steps taken or being taken by the Department to remedy this situation. The Department proposed a formula for operating assistance as part of the 1978 legislation which would limit operating assistance to one third of operating expenses--regardless of the deficit level--thereby removing any appearance of incentive for rising operating deficits. A similar formula, to be phased in over a period of years, was proposed for the 1980 legislation. Most importantly, the Department's 1980 legislative proposal called for a formula based on a revenue vehicle mile service factor. When enacted, this initiative should increase transit productivity by matching the distribution of assistance with a measure of actual service output within a given community. The current population based formula does not reward communities that provide greater levels of transit service. Under our 1980 legislative proposal, a limit would also be placed on the level of Federal participation in transit systems' operating costs equal to 43%, in 1982, of a system's operating costs, and this ceiling would be reduced to 35% by 1985. In conjunction with establishing this ceiling on Federal participation in operating costs, existing Maintenance of Effort requirements would be abolished in order to remove any incentive to seek State and local subsidies in lieu of increasing fares.

Further, an incentive tier has been proposed for inclusion in the 1980 legislation which would award additional funds to operators for improvements in the ratio of operating revenue to cost.

The study is critical of UMTA's policies or lack of policies as regards transit systems' internal operations such as the maintenance of vehicles and spare parts inventories. The report did not, however, discuss the agency's efforts during the past year to develop, within the limits of our statutory authority, a vehicle maintenance policy and a spare parts policy which would contain guidance, requirements, and possibly sanctions.

In this chapter, the GAO discusses the potentially high cost of providing conventional transit service to low density, outlying areas and also looks at several costly elements of typical transit labor agreements. The GAO fails, however, to draw the connection between the two issues or to discuss the efforts underway in numerous communities and UMTA to encourage lower cost alternatives to conventional transit service. UMTA intends to issue its policy pertaining to paratransit services which would require localities to consider these services in low density areas and wherever they might prove an economic alternative to conventional transit. However, 13(c) labor agreements have been certified by the Department of Labor (DOL) that have allowed transit unions to prevent both the replacement of conventional transit by paratransit and the provision of paratransit services by private enterprise in a competitive environment. Additionally, DOL has indicated that it may institute a prevailing wage rate to be applied to certain paratransit services which may greatly inflate their cost.

A case in which the statistics cited by the GAO should be treated with some caution and deserve more thorough analysis than is provided by the report is the discussion and related tables pertaining to operating costs and transit productivity. The lack of agreement among transit experts as to what constitutes the most accurate indicator(s) of transit productivity, and the fact that certain types of data needed for such calculations are not currently available in a sufficiently reliable and verifiable form to be used, provide the basis for urging that care be taken in drawing conclusions from this data.

GAO's examination of governmental fare policies (Chapter 3) is an example of an issue which has not been placed in its proper context. The issue of establishing fare policy is more complex than the report suggests. As stated by GAO, UMTA has taken the position that fare policy or, more specifically, the balance between revenues

generated from the farebox versus revenues from State and local subsidies, is essentially a State and local issue. This position is a result of two factors: first, a philosophical belief that the Federal government should avoid intruding in a matter which is more appropriately the responsibility of State and local governments due to variations in economic and social objectives associated with the provision of transit service among the States; and, second, because we believe that Section 12(d) of the Urban Mass Transportation Act prohibits Department of Transportation regulation of local operation and fare policy matters. This provision of the UMT Act should be clarified if the Congress disagrees with our current interpretation and believes that more substantial involvement in operations and fare policy should be undertaken.

While we believe that decisions as to the tradeoff between farebox revenue and State and local subsidies are a State and local issue, we are thoroughly cognizant of the Federal interest in ensuring that State and local governments bear primary responsibility for financing transit operations and, concomitantly, in placing limits on local reliance on Federal transit operating subsidies, and also in encouraging efficient and cost-effective system operations. As an example, the Department has requested each of the State and local jurisdictions which are parties to the Washington Metrorail construction agreement to put in place a "stable and reliable" source of funding for the construction and operations of the system as a

precondition for the receipt of additional Federal funds. UMTA is moving to develop a similar "stable and reliable" funding requirement for those grantees requesting UMTA funds for major new investments.

Much of the GAO's criticism of UMTA's fare policy is premised on the assumption that ridership levels are unaffected by transit fares and, therefore, that operators can and should cover a greater portion of operating costs by increasing fares. The issue of fares, both level and structure, has been studied extensively by this agency. As a result of our work in this area, the Department worked for an amendment in 1978 to the statutory maintenance of effort requirements which would reward operators for increases in farebox revenues. It should be pointed out that this incentive is for increases in farebox revenues, regardless of the means, and is not directed strictly at increased fares.

Chapter 5 is highly critical of the management information system used for the operating assistance program and cites this system as the reason for the lack of accurate and easily accessible program data. The report does not, however, note that the management information system discussed was designed and implemented more than two years prior to the existence of the Section 5 program. We are aware of the current system's inability to track the operating assistance program as well as we would like. To begin to address

this problem, numerous modifications have been made to the existing system. UMTA intends to pursue a thorough assessment of program and financial information needs and to develop a system with the necessary capabilities. Until such a long term solution can be put in place, the agency is continuing its efforts to verify and reconcile the program data currently in the system. These efforts include the establishment of a uniform system of record keeping for our regional offices.

In the area of financial resource management, GAO criticized current UMTA practices and the absence of procedures to counteract existing problems. The problem of "idle" funds, that is, apportionments which are not obligated soon after being made available, and the steps this agency has taken to correct it are discussed in our comments on Chapter 4 regarding the Governors' apportionment to urbanized areas under 200,000 population. The GAO report also criticizes the process followed by UMTA for closing out projects, deobligating funds and reapportioning these funds stating in each case that UMTA has no uniform procedures to be followed with the result that funds are lapsing unnecessarily. In fact, UMTA has specific procedures for closing out projects and deobligating unused funds which were in place prior to the inception of the operating assistance program. Despite the existence of these procedures,

GAO's concerns with the project close-out and fund deobligation process are generally well founded and shared by UMTA. The primary cause of delay, i.e. the need for a specific audit and audit resolution, is a result of procedural requirements issued by the Office of Management and Budget. These requirements have been modified recently (Attachments L and P to OMB Circulars A-102 and A-110), and the agency is developing streamlined close-out/deobligation procedures to reflect the changes. We expect to issue the new procedures shortly. The GAO report also criticizes the agency's lack of a formal procedure for reapportionment of unobligated or deobligated funds. UMTA does not intend to establish a new procedure for reapportioning the funds which return to the agency after their four year period of availability, but, rather, will follow the procedures currently in place for the original apportionment of funds.

The report is particularly critical of the lack of uniformity in program administration among the ten UMTA regional offices. While a certain degree of nonstandardization is the inevitable result of bringing program delivery closer to those being assisted, we do concur in the GAO's concern over the nonuniform implementation of UMTA policies and procedures. In response to this concern, the agency has assigned the Office of Grants Assistance responsibility for ensuring that our Regional Offices are both aware of and uniformly implement the policies and procedures developed by UMTA.

In Chapter 4, which discusses the Governor's Section 5 apportionment, the GAO report states that UMTA has interpreted Section 5 legislation as precluding us from shifting funds from areas with little or no need for Section 5 assistance to those areas that can readily use the monies, but does not state that we have sought to remedy this problem legislatively, both in 1978 and with our current legislative proposal. UMTA proposed a process which was adopted in the 1978 amendments to the UMT Act which allows Governors great flexibility to allocate the funds for their urbanized areas under 200,000 population to those areas with the greatest need for assistance. As a result of these amendments, UMTA has developed a process to shift monies which are being underutilized to areas with projects ready for funding. Further, language was developed for the 1980 legislation which would allow the transfer between urbanized areas over and under 200,000 population within a State of up to 25 percent of the funds apportioned to an urbanized area in order to ameliorate the problem of "idle" funds. This provision was included in the Howard Bill adopted by the House on December 4, 1980.

The GAO report also questioned the timing of the submission of the required report on the Governor's allocation. UMTA has corrected the proposed Section 5 program regulations, requesting that the reports be submitted at the beginning of each fiscal year. In conjunction with this action, we are developing guidance to our

Regional Offices on the use of the Governors' Reports in their administration of the Section 5 program.

In addition to the comments we have made in regard to the primary issues discussed in each chapter of the GAO report, we would like to raise some additional concerns.

- The summary of Section 5 funding categories which appears in Chapter I is based on authorization levels for the program for fiscal years 1979 through 1982 while the table which follows summarizes obligations of funds between fiscal years 1975 through 1979. In the absence of any attempt to relate authorizations and obligations to annual appropriations, and in the absence of authorization, obligation, and appropriations data for comparable periods to time, the reader should be cautioned to avoid attempting to draw correlations or conclusions based on the data provided.
- Throughout the report, the GAO presents figures, observations, and statements without clearly identifying their source. While we do not expect individuals to be named in the report, an accurate assessment of the validity and significance of this information cannot be made without a more precise identification of the organizational source.

- ° The GAO has identified numerous issues and activities in which it believes UMTA should be involved in some manner. While our earlier comments indicate that UMTA has already taken numerous steps to develop policy and procedural guidance and to improve program administration and we agree that a great deal remains to be done, existing staff limitations place significant constraints on the type and range of activities which we are able to undertake. We believe that many of the report findings and recommendations point to a need for additional staff to improve the administration of the Section 5 program.

- ° An additional and significant issue which we would urge GAO to address more thoroughly so as to present a more complete assessment of Federal concerns is the issue of the Section 13(c) process as it pertains to transit cost and productivity. GAO should examine the extent to which Section 13(c) acts to reinforce inefficient transit operations and labor practices and constitutes a deterrent to work rule changes by means of its use in labor negotiations as a lever to force agreement in order to avoid the cutoff of Federal funds.

U. S. Department of Labor
Inspector General

DEC 22 1980

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your letter to Secretary Marshall requesting comments on the draft GAO Report entitled "Transit Operating Subsidies - - Urgent Need to Control Subsidy Growth and Better Administer the Federal Program". The Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,



Ronald Goldstock
Acting Inspector General

Enclosure

U.S. Department of Labor's Response
to the Draft of a Proposed General
Accounting Report Entitled--

Transit Operating Subsidies--
Urgent Need to Control Subsidy
Growth and Better Administer
the Federal Program

Recommendation:

Review the typing workload associated with certifying operating grant requests subject to the model agreement and either (1) obtain additional typing help if considered warranted or (2) seek alternatives to formal typing such as:

- issuing form letters with handwritten inserts
- notifying UMTA informally once Labor decides to certify a grant rather than waiting for a formal certification letter to be typed

Response:

The Department concurs that its certification time for operating assistance grant requests has not been as timely as desired and concurs, in part, with the GAO draft recommendations.

In order to achieve efficiencies in processing operating grant requests, a method of prioritizing the internal review and typing of operating grant requests was initiated in August of 1980. Since that time all operating grant applications certified have been processed in an average of 75 days. Where parties have previously endorsed the Model 13(c) agreement DOL processing time has averaged 57 days.

Also, master form letters are being prepared for standard types of certification and referral letters which can be filled in with typewritten inserts to reflect dates and particular conditions to be applied. We believe handwritten inserts would create undue administrative problems and increase the likelihood of errors to an unacceptable level.

DOL believes that oral notification to UMTA of certifications on an institutionalized basis would create greater administrative problems than presently exist. Because of legal and record keeping concerns, as well as the need for a certification letter to be referenced or in some cases included in

its entirety in the Federal grant contract of assistance prior to final approval, we do not believe this should be adopted on a formal basis. However, in many instances, especially where the timing of a certification is critical to project approval, informal notification is given by DOL project representatives of certification dates on an ad hoc basis. DOL will continue this informal practice through already established channels of communication.

Comments:

The total of 1,051 certifications processed by DOL in FY 1980 was accomplished only through the use of extensive overtime, temporaries, and the aid of typing pools involving personnel from other offices. Based on UMTA's budgetary increase from \$4.0 billion in FY 1980 appropriations to \$4.6 billion in FY 1981 we expect a corresponding 15 percent increase in grant requests in FY 1981. Additional pressures will be created in FY 1981 by a new Congressional mandate that UMTA award 70 percent of its transit program by June 30, 1981.

The problems in overcoming typing bottlenecks and administrative delays have been exacerbated by the lack of adequate clerical staffing. DOL certified 1,051 grants in FY 1980 with the same number of clerical positions devoted to certifications that were available in FY 1979, when 716 certifications were issued. Also, a substantial portion of clerical time must be devoted to new administrative responsibilities created by the Small Urban and Rural Transportation Program, which was implemented in May of 1979.

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