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REPORT BY THE

Comptroller General

RELEASED

OF THE UNITED STATES

Changes In DOT's Grants To Public Transportation Projects In Nonurbanized Areas Would Be Beneficial

GAO found that (1) the Federal Highway Administration has encouraged funding operating and project administrative costs at the maximum allowable levels, which provides the opportunity for program funds to be substituted for funds previously provided by other Federal and non-Federal sources, (2) certain operating-type costs are being funded at a level that is inconsistent with the funding of similar costs in urban systems, (3) the requirement that grantees provide services to the general public is unclear, and (4) inadequacies in the program's information system make it difficult to assess program results.

This report presents the first two issues as matters for consideration by the Congress and makes recommendations for addressing the other issues.

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GAO/CED-82-24
MAY 28, 1982

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

B-203534

The Honorable Robert T. Stafford
Chairman, Committee on Environment
and Public Works
United States Senate

The Honorable Jennings Randolph
Ranking Minority Member
Committee on Environment and
Public Works
United States Senate

The Honorable Larry Pressler
United States Senate

As you requested, we have reviewed the Department of Transportation's program of formula grants to nonurbanized areas. This report presents information on the operation of the program, makes several recommendations to the Secretary of Transportation, and identifies several matters for the Congress to consider.

As part of your request you also asked for information on (1) how the program is working in the six States covered by our review, (2) program requirements for labor protection, elderly and handicapped accessibility, and service to the general public, and (3) rural transportation coordination. This information, as well as general information relating to the operation of the program, is being provided separately.

As you know, the Department has proposed that program funds not be used for operating costs beginning in fiscal year 1985.

As arranged with the Chairman's office, we are sending copies to the House Select Committee on Aging. Unless you publicly announce its contents earlier, no further distribution of this report will be made until 5 days from the date of the report. At that time, we will send copies to the Department of Transportation and other interested parties and make copies available to others upon request.

Charles A. Bowsher
Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT

CHANGES IN DOT's GRANTS TO PUBLIC TRANSPORTATION PROJECTS IN NONURBANIZED AREAS WOULD BE BENEFICIAL

D I G E S T

The Surface Transportation Assistance Act of 1978 authorizes the Federal Highway Administration (FHWA), Department of Transportation to provide grants to public transportation systems operating in nonurbanized areas (less than 50,000 population). Appropriations for the grant program--referred to as the section 18 program--are allocated by formula to the States and Territories, which in turn select and recommend projects for funding. Grant funds can be used for both capital and operating costs. A total of $301 million has been appropriated during the program's first 4 fiscal years, and as of February 28, 1982, approximately $157 million had been obligated. (See p. 2.)

PROGRAM FUNDING COULD REPLACE FUNDS PREVIOUSLY PROVIDED BY OTHER SOURCES

Section 18 funds are intended to "augment rather than supplant" other funding resources for transportation. The committee asked GAO to determine if there are any indications that program funds are replacing funding that was previously being provided from other Federal and non-Federal sources. Because adequate data was not available, GAO was not able to determine whether substitution was occurring. However, funding noncapital costs at the maximum allowable levels makes it possible for substitution to occur. (See pp. 6 to 9.)

If the Congress decides to authorize continued funding of operating costs under the program, it should clearly state whether or not it intends that the funding of operating costs should be carried out in a way that precludes substitution. (See p. 11.)

GAO/CED-82-24

MAY 28, 1982

FUNDING OF ADMINISTRATIVE COSTS IS INCONSISTENT WITH FUNDING SIMILAR COSTS IN URBAN SYSTEMS

The program legislation limits Federal funding for operating costs to 50 percent of net operating expenses. However, FHWA has chosen to exclude certain costs usually considered to be operating costs from this 50-percent funding limitation. FHWA has classified the costs of salaries for management and administrative personnel, rents, utilities, and travel as project administrative costs and allows 80 percent funding. Under generally accepted accounting principles these administrative costs are included in calculating net operating costs. Also, under a similar grant program for urban areas, administrative costs are considered to be a part of operating costs, thus they are limited to 50 percent funding. (See pp. 12 to 16.)

If the Congress believes that Federal funding of project administrative costs should be consistent with funding provided in the program for grants to urbanized areas, it should amend section 18 of the Urban Mass Transportation Act of 1964, as amended. The revised legislation should state that all noncapital costs be classified as operating costs and be subject to the 50-percent limitation. (See pp. 16 and 17.)

THE PROGRAM REQUIREMENT FOR SERVING THE GENERAL PUBLIC IS UNCLEAR

To receive program funding, transportation systems must provide service to the general public. However, many systems in rural areas serve primarily or exclusively specific groups, such as the elderly, handicapped, and poor. Although FHWA has encouraged these specialized systems to offer their services to the general public and thus qualify for program funding, it has not been very specific about what it will accept as meeting the general public requirement. As a result, considerable differences exist in what the States require from these specialized systems to qualify for section 18 funding. (See pp. 18 to 21.)

GAO recommends that the Secretary of Transportation direct the Federal Highway Administrator to provide formal guidance on the public service requirement. Such guidance should clearly identify the full range of actions that specialized providers could take and that FHWA will accept. (See p. 22.)

SHORTCOMINGS IN PROGRAM INFORMATION

FHWA's program data system is inaccurate and does not contain information that is important in assessing program results. GAO found numerous instances where the individual grants were misclassified as to types of cost being funded. Also, data was not being reported on the number and type of transportation systems being funded and whether or not the systems are new or were operating before receiving program funding. GAO believes that these shortcomings limit FHWA's ability to assess program results. (See pp. 23 to 25.)

GAO recommends that the Secretary of Transportation direct the Federal Highway Administrator to identify the elements of information that are critical for program management and evaluation and ensure that such data is collected. Also, to the extent possible, FHWA should correct the existing inaccuracies in the data base and ensure that future data is accurately reported. (See p. 26.)

AGENCY COMMENTS AND GAO's EVALUATION

The Department of Transportation disagrees with GAO's conclusions and recommendations. It believes that FHWA's practices are consistent with congressional intent and GAO's suggested changes would either (1) be unnecessarily burdensome or (2) create a hardship for individual systems by reducing the amount of noncapital costs that could be funded.

GAO continues to believe that the Congress needs to consider the appropriateness of current FHWA funding practices regarding project administrative costs and substitution.

GAO also believes that other recommended changes should be made because the Department has not demonstrated that they are either unnecessary or more burdensome than current practices. (See pp. 9 to 11, 17, 21 to 22, and 25 to 26.)

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This review was undertaken at the request of the Senate Committee on Environment and Public Works and is based on work done primarily at Federal Highway Administration headquarters and in six States--Iowa, Massachusetts, Missouri, North Carolina, Vermont, and West Virginia.

C o n t e n t s

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Background	1
	Objectives, scope, and methodology	3
2	PROGRAM FUNDING COULD REPLACE FUNDS PREVIOUSLY PROVIDED BY OTHER SOURCES	6
	Substitution could not be determined	6
	The potential for substitution exists	7
	Net operating costs previously had to be funded from other sources	7
	Funding at maximum allowable levels creates the opportunity for substitution	8
	The opportunity for substitution could be eliminated	8
	Continued support from other funding sources may not be possible	8
	Conclusion	9
	Agency comments and our evaluation	9
	Matters for consideration by the Congress	11
3	FUNDING ADMINISTRATIVE COSTS IS INCONSISTENT WITH FUNDING OF SIMILAR COSTS IN URBAN SYSTEMS	12
	Background on Federal funding of public transportation operating costs	12
	Funding of project administrative costs	13
	DOT's legislative authority	14
	Effect of 80-percent reimbursement	15
	Conclusions	16
	Matters for consideration by the Congress	16
	Agency comments and our evaluation	17
4	THE PROGRAM REQUIREMENT FOR SERVING THE GENERAL PUBLIC IS UNCLEAR	18
	The requirement to serve the general public	18
	FHWA guidance is unclear	19
	State requirements for serving the general public vary	19
	Conclusion	21
	Agency comments and our evaluation	21
	Recommendation	22

CHAPTER

		Page
5	SHORTCOMINGS IN PROGRAM INFORMATION	23
	FHWA is not collecting some useful program information	23
	Information collected contains inaccuracies	23
	Conclusion	25
	Agency comments and our evaluation	25
	Recommendation	26

APPENDIX

I	Letter dated January 25, 1982, from the Assistant Secretary for Administration, Department of Transportation	27

ABBREVIATIONS

AASHTO	American Association of State Highway and Transportation Officials
DOT	Department of Transportation
FHWA	Federal Highway Administration
GAO	General Accounting Office
HHS	Department of Health and Human Services
UMTA	Urban Mass Transportation Administration

CHAPTER 1

INTRODUCTION

The Senate Committee on Environment and Public Works asked us to review the section 18 program 1/ and provide it with information on various aspects of the program. In addition, the committee asked us to (1) determine if there are any indications that section 18 funds are being substituted for other Federal, State, or local funds and (2) to identify any aspects of the section 18 program or its operation for which changes should be considered. This report addresses substitution of section 18 funds for other funds and several aspects of the section 18 program's operation that we are either bringing to the attention of the Congress for its consideration or recommending changes. The information requested on various aspects of the section 18 program has been provided separately to the committee.

The information presented herein refers to the program as it was operating through mid-1981. Since that time the Department of Transportation (DOT) has proposed eliminating grants for operating expenses beginning with fiscal year 1985.

BACKGROUND

About one-third of the U.S. population and about one-half of the Nation's poor live outside metropolitan areas. Many of these people--especially poor, young, elderly, and handicapped--are isolated and immobile and find it difficult to gain access to jobs, health care, social services, shopping, recreation, and friends. Of the approximately 20,000 towns with populations of up to 50,000, less than one-third are served by a public transit system.

Before the section 18 program was established, numerous Federal social programs were funding transportation services in nonurbanized areas. Accurate data on the amount of this funding is not available; however, the Department of Health and Human Services (HHS) has estimated that health, welfare, and education programs were spending more than $500 million annually on transportation for their clients. These programs allow funds to be used to cover the costs of providing transportation services for the client groups of local social program agencies, and many of these services are provided because adequate public transportation services are unavailable. Transportation systems in nonurbanized areas could also apply for

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1/Formula Grant Program For Areas Other Than Urbanized Areas--section 18 of the Urban Mass Transportation Act of 1964 as amended by the Surface Transportation Assistance Act of 1978 (Public Law 95-599).

grants for capital expenses under section 3 and section 16(b)(2) of the Urban Mass Transportation Act of 1964, as amended. These grants were available to transportation systems in both urbanized and nonurbanized areas; thus nonurbanized areas had to compete with urbanized areas for available funds.

In November 1978 the section 18 program was established to help people in nonurbanized areas gain access to health care, shopping, education, recreation, public services, and employment by encouraging the maintenance, development, improvement, and use of passenger transportation systems. The section 18 program is the first public transit assistance grant program established specifically for nonurbanized areas and the first program to make grants available to transportation systems in nonurbanized areas to fund operating costs. For fiscal years 1979-82, $420 million was authorized to be appropriated for the section 18 program. For these 4 fiscal years, $301 million has actually been appropriated and apportioned to the States and Territories, and as of February 28, 1982, approximately $157 million had been obligated. The Federal Highway Administration (FHWA), DOT, administers the program.

Money appropriated for the section 18 program is apportioned by formula to each State. A State-designated agency (usually the State's transportation agency) is authorized to administer the program and receive the section 18 funds. This State agency develops procedures for allocating funds within the State, solicits and reviews grant requests, and makes recommendations for funding to FHWA. Each State may use up to 15 percent of its total apportionment without any additional State funding for program administration, project planning, technical assistance, management development, coordination, and research. The remaining funds are to be used for grants to selected public transportation systems that operate in nonurbanized areas of the State.

These funds are available for obligation for a period of 4 fiscal years--the fiscal year for which the sums are apportioned and the next 3 fiscal years. Any amounts remaining unobligated at the end of the fourth fiscal year of availability are to be reapportioned among the States for the succeeding fiscal year.

Individual transportation systems are selected and recommended to FHWA for funding by the designated State agency. When FHWA approves a grant request, it records the amount of approved funding as an obligation against available section 18 funding. The amount obligated reflects the estimated expenses of the section 18 grantee that will be funded. However, actual funding is provided by reimbursing the grantee as expenses are incurred.

FHWA approves grants to nonurbanized area transportation systems for three types of costs--capital costs, operating costs, and administrative costs. Capital costs are the costs of acquiring or constructing transportation equipment and facilities. The funding of these costs is limited by law to 80 percent. Operating costs are the direct costs incurred by a transportation system in providing transportation services, such as drivers salaries, fuel, and maintenance. The funding of operating costs is limited by law to 50 percent of net operating costs (operating costs less operating revenues). Administrative costs are all noncapital costs that are not considered to be operating costs as defined by FHWA and include salaries of a transit system's administrator/manager and administrative personnel, rents, utilities, and travel costs. FHWA limits section 18 funding of a transportation system's administrative costs to 80 percent. Initially, FHWA directed the States to fund capital and project administrative costs at 80 percent and operating costs at 50 percent of net operating costs. However, it subsequently allowed States the discretion to fund capital and project administrative costs at less than the 80 percent level and operating costs at less than the 50 percent level if they choose to do so.

Under the section 18 program, the portion of a transportation system's capital, administrative, and net operating costs that are not covered by section 18 funding must be funded locally. For instance, if a transportation system is receiving section 18 funding for 80 percent of its capital costs, 80 percent of its administrative costs, and 50 percent of its net operating costs, then local funding must be provided for the remaining 20 percent of capital and administrative costs and the remaining 50 percent of net operating costs. The States are not required to provide any funding to complement the Federal section 18 funds. However, some States do make State funds available to section 18 grant recipients and, when it is provided, the State funds can be used for the required local funding.

To help grantees meet the local matching requirements, the legislation allows the use of other unrestricted Federal funds for up to 50 percent of the local matching share.

OBJECTIVES, SCOPE, AND METHODOLOGY

The scope of our review, as agreed to by the committee, was to review how FHWA implemented the section 18 program and the program's operation in six States (Iowa, Massachusetts, Missouri, North Carolina, Vermont, and West Virginia) and to review FHWA data on the program's operation nationwide.

With committee agreement, the six States were selected judgmentally considering such factors as geographic dispersion, level of section 18 funding, and efforts to assist rural transportation.

In each of the six States we met and discussed the State's implementation of the section 18 program with officials of FHWA, the State transportation agency, and six section 18 grantees (selected judgmentally) to solicit their views on section 18 program policies, requirements, and procedures as well as their views on problems being experienced in the program.

We also reviewed program documents and information at FHWA headquarters, FHWA regional and division offices, the State transportation agencies, and individual section 18 grantees to develop information on the section 18 program and how it is working in each of the six States. We also contacted 87 1/ transportation providers in the six States that were not participating in the section 18 program to find out why they were not participating. Our work with each of the above groups consisted of the following.

FHWA offices--We reviewed policy and guidance documents to ascertain how the program is designed to be carried out and program data to identify program accomplishments.

State transportation agencies--We reviewed the States' (1) transportation plans, policy, and guidance documents to determine how States assist transportation in rural areas, (2) section 18 program documents to determine the States' approaches and objectives in using the section 18 program to address State transportation needs, (3) financial reports to determine the status of section 18 funding, State financial assistance to rural transportation, and the total level of Federal funds spent on transportation in the State, and (4) section 18 program application files to determine the number, type, and status of transportation systems being funded as well as the rate of section 18 obligations and the relative funding of various types of expenses.

Rural transportation providers--In addition to soliciting provider views about various aspects of the section 18 program, we reviewed the data provided with section 18 applications to determine the type of service being provided, system revenues and costs, and funding sources for past operating deficits.

We also surveyed numerous publications, reports, and studies about rural public transportation, transportation coordination, and the section 18 program.

DOT commented on a draft of the report. Its comments are included in total in app. I, and certain sections are included together with our evaluation in chapters 2, 3, 4, and 5.

1/We planned to select 20 providers in each State, but we were not able to identify at least 20 nonparticipating providers in every State. Consequently, in several States we contacted all the nonparticipating providers we could identify and in the other States we randomly contacted a nonstatistical sample of the nonparticipating providers we were able to identify.

Our work was performed in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

CHAPTER 2

PROGRAM FUNDING COULD REPLACE FUNDS

PREVIOUSLY PROVIDED BY OTHER SOURCES

Section 18 funds are intended to "augment rather than supplant" other funding resources for transportation. The Senate Committee on Environment and Public Works asked us to determine if there are any indications that section 18 funds are replacing funding that was previously being provided from other sources. Because adequate data was not available, we were not able to determine whether or not substitution was occurring. However, funding operating and project administrative costs at the maximum allowable levels, which has been advocated by FHWA, makes it possible for substitution to occur.

SUBSTITUTION COULD NOT BE DETERMINED

A large amount of Federal funding provided to support transportation in rural areas comes from various federally funded social programs. Local agencies responsible for carrying out these programs determine how much money will be spent for transportation. However, because transportation is not a primary program goal, many local agencies do not separately account for or report these expenses as transportation expenses. Rather, these expenses are frequently recorded as program administrative expenses and combined with other support expenses that are not transportation-related. Consequently, many of the Federal agencies responsible for these social programs do not have information on the level of transportation funding occurring in their programs.

To determine whether changes occurred in the level of Federal funding in the six States we visited, we sought information from these States on the total amount of Federal funding from all sources for fiscal years 1978-80 for transportation in their respective States. However, none of the States had sufficient information to identify if changes occurred in the total amount of Federal funds used for transportation in their States. 1/ Therefore, because of the lack of adequate before and after data, we were unable to determine the impact section 18 funding had on funding from other Federal sources.

We also reviewed individual project applications and met with individual grantees in an attempt to determine if section 18 funds were replacing funds previously provided from other sources. However the data available to us was not sufficient for us to determine whether or not substitution was occurring.

1/Iowa has attempted to have all expenditures of Federal funds for transportation reported statewide; however, the data currently being reported is incomplete. Also, North Carolina attempted to collect such data in 1977 but did so only for that year.

THE POTENTIAL FOR SUBSTITUTION EXISTS

Section 18 grants for operating costs are only available to those transportation systems that incur a loss from operations; that is, operating costs are greater than operating revenues. Before section 18 funding, transportation systems that were operating at a loss had to fund their net operating costs from sources other than the section 18 program. If such a system is provided section 18 funding for operating and project administrative costs at the maximum allowable levels, the amount of funding needed from other sources could be substantially reduced from what had previously been provided. Substituting section 18 funds for funds previously provided from other sources could limit the number of transportation systems that can be funded under the program.

Net operating costs previously had to be funded from other sources

Section 18 funding is available for transportation systems that were operating before the section 18 program was established as well as for new transportation systems that were established since the program began. Before the section 18 program, a non-urbanized area transportation system could get Federal funding for 80 percent of its capital costs through several UMTA programs (see app. I); however, no specific Federal program of grant assistance existed for a transportation system's noncapital costs. Consequently, before section 18, the noncapital costs of managing and operating the transportation system that were in excess of its operating revenues had to be subsidized with funds from other sources. These other funding sources could include local and State governments, charitable organizations, local agencies funded by various other Federal programs such as titles III and VII of the Older Americans Act of 1965 and titles XIX and XX of the Social Services Amendments of 1974, and other Federal programs such as Headstart, ACTION, and the Comprehensive Employment and Training Act of 1973.

Many systems being funded by section 18 were operating before the section 18 program was enacted. For instance, section 18 grants made through December 31, 1980, in the six States we reviewed went to 70 different transportation systems. Only 10 of these systems were new systems. The other 60 were transportation systems that had been operating before the section 18 program. We were not able to determine the number or percentage of transportation systems nationwide that were operating systems before the section 18 program because this data is not being reported (see ch. 5.). However, in the six States we reviewed, approximately 86 percent of the funded systems were operating systems before the section 18 program.

Funding at maximum allowable levels creates the opportunity for substitution

Section 18 grants to transportation systems for operating costs and administrative costs were generally made at the maximum allowable levels (50 percent of net operating costs and 80 percent of administrative costs). Unless a transportation system's operating deficit were to at least double from what it was before section 18 funding, paying 50 percent of net operating costs (total operating costs less total operating revenues) and 80 percent of administrative costs with section 18 funds will result in a lower amount of funding being needed from these other sources than was previously provided.

THE OPPORTUNITY FOR SUBSTITUTION COULD BE ELIMINATED

The opportunity for substitution could be eliminated if section 18 funding for operating and administrative costs were limited to the increase in a transportation system's operating loss from what it was in its last year of operations before section 18 funding. Under this alternative approach, the combined level of funding previously provided from sources at the local level (State and local taxes, contributions, and funding provided by local social service agencies from various other Federal categorical program funds) would have to be maintained and section 18 funds used to fund 100 percent of the increase in the operating deficit over the base year deficit. 1/ In this way, 100 percent of the increase in the net cost of operations resulting from inflation, system expansion, and system improvements would be funded with section 18 funds, thereby creating an incentive to improve and expand services. (One hundred percent funding of these increased costs would be possible up to the point where the increase in net operating costs over the base year became larger than an amount equal to 50 percent of total net operating costs plus 80 percent of project administrative costs--the maximum allowable funding limits.)

CONTINUED SUPPORT FROM OTHER FUNDING SOURCES MAY NOT BE POSSIBLE

Before section 18, many transportation systems were funding their operating losses with funding provided by local social service agencies, which are funded by Federal human service programs that face reduced appropriations for the next several fiscal years. These reductions may limit the ability of local social service agencies to continue to fund transportation systems at the same levels. If the amount of other Federal funds

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1/The base year deficit would be the net operating costs (total operating and project administrative costs less total operating revenues) in the last year of system operations without section 18 funding.

provided to transportation systems by these local agencies is reduced, the alternative funding method for section 18 would require local and/or State funding to make up the difference. It is uncertain if they would be either able or willing to do so.

CONCLUSION

We could not determine whether section 18 funds were replacing funds previously provided from other sources. We did note that (1) the practice of funding operating costs and project administrative costs at the maximum allowable levels creates the opportunity for substitution and (2) this opportunity for substitution could be eliminated by limiting section 18 funding to the increase in a transportation system's operating loss from what it was in its last year of operation before section 18 funding.

However, it is uncertain whether funding from other sources could or would be maintained at previous levels in the face of recent and proposed funding cutbacks in the other Federal programs that have been providing funds to rural transportation systems. If rural transportation systems were not able to obtain the past level of funding from these other Federal sources, the alternative funding approach would require local and/or State governments to make up any reduction in funding from these other Federal sources; however, their ability and willingness to do so is uncertain.

AGENCY COMMENTS AND OUR EVALUATION

In our draft report we suggested a change in the funding of noncapital costs under the section 18 program to preclude substitution. Specifically, we suggested that the Secretary of Transportation direct the Federal Highway Administrator to limit section 18 funding of noncapital costs to the lesser of (1) the increase in a transportation system's net operating deficit from what it was in the fiscal year prior to its initial section 18 funding or (2) an amount equal to 80 percent of the transportation system's administrative costs plus 50 percent of its net operating costs as is presently done.

In its January 25, 1982 letter (app. I), DOT disagreed with our focus, analysis, findings, and recommendations regarding the question of substitution of funds and presented several arguments in support of its position. Each of the DOT arguments are presented below and underlined with our comments following.

The recommendation for using two methods for calculating the section 18 share is burdensome and complicated for FHWA, the States, and the recipients and would violate the repeated congressional charge to minimize bureaucratic red tape for this program. FHWA believes that its current procedure adequately addresses the possible problem of local fund substitution.

The current procedure requires each project applicant to provide a description of the

> "amount and sources of funds used to purchase and operate vehicles in the 2 previous years, if applicable, and a description of efforts to maximize the integration of these funds with funds being applied for the section 18 program."

Applicants must also provide estimates of operating costs, project administrative costs, and operating revenues for the current year.

For the alternative funding approach, applicants would have to provide the following information as part of their applications.

--A summary of the costs they incurred in managing and operating their systems during the base year.

--A summary of the operating revenues they received from their systems' operations in the base year.

--A listing of the amounts of funds by source that were used to fund their operating deficits for the base year.

--An estimate of the total costs of managing and operating their systems during the funding year and the estimated operating revenues expected.

The kind and amount of data the applicant would have to submit for the alternative approach is similar to and would be no more burdensome to the applicant than that which is required to be submitted by the present requirement. In fact it is reasonable in our opinion to argue that the alternative may be less burdensome to the applicants because they would not have to provide a description of efforts to maximize the integration of funds used to purchase and operate vehicles in the 2 previous years with the funds being applied for under the section 18 program.

The two calculations required are not complex and should not be a burden to either the State or FHWA. The calculation of 50 percent of net operating costs and 80 percent of administrative costs is already being done by the applicant and the State. The only other calculation needed is the simple calculation of the estimated increase in the operating deficit between the funding year and the base year. Consequently, we do not consider the alternative method to be either complicated or burdensome.

The draft report relies on a hypothetical balance sheet example that ignores many of the conditions affecting rural public transportation. The draft report does not adequately consider that many of these existing systems were human service transportation providers financed largely by categorical Federal funds. It also does not consider severe inflation costs, service increases, the expansion to public service, or the fact that the number of these systems was steadily declining before the section 18 program.

The purpose of the hypothetical example in the draft report was to illustrate how funding of operating costs and administrative costs at the maximum allowable levels, which the legislation does not require, creates the opportunity for substitution to occur. The hypothetical example was not used in the final report.

The report acknowledges that many of these existing systems were being funded by local social service agencies with Federal funds from various Federal categorical programs and that funding for many of the categorical programs has been reduced. For this reason and because DOT is proposing the elimination of grants for operating expenses we are not recommending that section 18 funding practices be changed. Instead we are raising the issue as a matter for the Congress to consider and suggesting that if the Congress acts to continue funding operating costs, it should state its intent regarding substitution.

Regarding the costs of inflation, service increases, and expansion to public service, the alternative funding approach would provide 100 percent funding of these costs up to the maximum allowable funding level.

MATTERS FOR CONSIDERATION BY THE CONGRESS

In light of (1) recent and planned cutbacks in funding for Federal social programs whose funds have been used by local social service agencies to fund transportation services in rural areas and (2) the Department of Transportation's proposal to eliminate section 18 funding of operating costs, we are not making any recommendations. Rather, we are bringing the situation regarding the potential for substitution to the attention of the Congress for its consideration when it acts on DOT's proposed changes to the section 18 program. If the Congress decides to authorize continued funding of operating costs under the section 18 program, we believe it should clearly state whether or not it intends that the funding of operating costs should be carried out in a way that precludes substitution.

CHAPTER 3

FUNDING OF ADMINISTRATIVE COSTS IS INCONSISTENT

WITH FUNDING OF SIMILAR COSTS IN URBAN SYSTEMS

The section 18 legislation limits the percentage of a transportation system's capital and operating costs that can be funded with section 18 funds to 80 percent of capital costs and 50 percent of net operating costs. The legislation gives the Secretary of Transportation broad authority for carrying out the section 18 program in terms of setting terms and conditions for grants and defining operating expenses.

In exercising this authority the Secretary has chosen to define operating costs in a way that excludes such costs as administrator/manager and administrative personnel salaries, rents, utilities, and travel (categorized by FHWA as project administrative costs). The Secretary's definition exempted these costs from the 50-percent legislative funding limit on operating costs and allowed them to be funded at 80 percent as established by the Secretary.

Under generally accepted accounting principles these administrative costs are considered as a cost of operating in calculating net operating costs. Also, exempting these costs from the legislative limit on the funding of operating costs is the opposite of how these costs are treated in the similar grant program for urbanized areas. The program of grants for urbanized areas considers these administrative costs to be operating costs and subject to the 50-percent funding limitation. The major effect of funding project administrative costs at 80 percent of the total is to provide a higher level of funding to individual systems and limit funding to a smaller number of transportation systems.

For these reasons and because the section 18 legislation and the legislative history contain no references to the funding of project administrative costs, we are bringing this situation to the attention of the Congress so it can decide if it favors the different treatment of project administrative costs between the programs for nonurbanized and urbanized areas.

BACKGROUND ON FEDERAL FUNDING OF PUBLIC TRANSPORTATION OPERATING COSTS

Before fiscal year 1975, Federal mass transit grants to public transportation systems had been limited to grants for capital projects. In November 1974 the National Mass Transportation Assistance Act of 1974 authorized the section 5 1/ program of

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1/Section 5 of the Urban Mass Transportation Act of 1964, as amended by the National Mass Transportation Assistance Act of 1974.

formula grants to urbanized areas (population of 50,000 or more). These formula grants could be used to fund operating costs. However, the amount of the funds that could be used for operating costs was limited by law to an amount equal to 50 percent of a transportation system's net operating costs (operating costs less operating revenues). In administering this program, the Urban Mass Transportation Administration (UMTA) considers all noncapital costs associated with managing and operating the transportation system to be operating costs for the purpose of calculating net operating costs.

Transportation systems in nonurbanized areas were not eligible for assistance under the section 5 program. Thus, Federal operating assistance remained unavailable to transportation systems in nonurbanized areas until the Congress established the section 18 program. Like the section 5 program, the section 18 program limits grants for operating assistance to 50 percent of net operating costs.

FUNDING OF PROJECT ADMINISTRATIVE COSTS

For funding purposes, FHWA separates noncapital costs associated with establishing, managing, and operating transportation systems into two categories--operating costs and administrative costs. Operating costs, as specified by FHWA, include drivers' salaries, fuel, and maintenance. Section 18 grants for operating costs are limited by law to 50 percent of net operating costs (operating loss or deficit). Administrative costs are all noncapital costs that FHWA does not consider operating costs and include salaries of transit systems' administrators/managers and administrative personnel, rents, utilities, and travel costs. FHWA allows grantees to receive section 18 grants for up to 80 percent of their administrative costs.

FHWA reasons for not treating administrative costs as operating costs and for funding them at 80 percent with section 18 grants are as follows.

--Administrative costs were considered as nonoperating costs under FHWA's section 147 Rural Highway Public Transportation Demonstration Program. When the section 18 program was established, many of the provisions of the section 147 program were adopted for the section 18 program to hasten its implementation and provide a smooth transition from the section 147 program.

--A major conclusion of the section 147 demonstration program was that good management was most difficult to attain for rural transit operations because of low wages and training. The decision to fund project administrative costs at 80 percent was made to provide incentives to transportation systems to initiate and promote good management.

Under generally accepted accounting principles the types of costs being categorized as administrative costs are usually included as a cost of operations in calculating the net cost of operations (profit or loss). Also, as indicated previously, treating these costs as other than operating cost differs from how UMTA treats these costs under the section 5 program of operating assistance grants for transportation systems in urbanized areas.

DOT's LEGISLATIVE AUTHORITY

FHWA cites two provisions of the legislation--section 18(e) and 18(f)--as providing the authority for funding project administrative costs at 80 percent. Section 18(e) gives the Secretary the authority to define operating expenses and section 18(f) authorizes the Secretary to prescribe the "terms and conditions" for the grant program that meet the "special needs" of rural areas. Therefore, according to FHWA,

--under the authority to define operating expenses, the Secretary can rule that project administrative expenses are not operating expenses and thus are not subject to the 50-percent limitation on the funding of net operating expenses and

--under the authority to prescribe "terms and conditions" to meet the "special needs" of rural areas, the Secretary can prescribe the level at which project administrative costs will be funded.

To support FHWA's interpretation of the act, the section 18 program must be viewed as a broad authorization by the Congress to fund 100 percent of all approved public transportation program costs except (1) those expenses that the Congress expressly limited in the act or (2) those that the Secretary limits pursuant to his authority under section 18(f) to prescribe "terms and conditions" for transportation grants. Project expenses that fall outside those categories of expenses limited under sections 18(d) and (e) of the act (such as administrative project costs), could arguably be funded at up to 100 percent since such funds would be used for "public transportation projects" in rural areas. Furthermore, the Secretary would have the authority to limit these funds to an 80 percent level pursuant to his authority to prescribe the "terms and conditions" for transportation grants.

In the absence of clear reasons that demonstrate that FHWA's interpretation is incorrect and because the act confers broad discretion upon the Secretary, FHWA's interpretation is accorded deference since FHWA is charged with implementing the act. Therefore, we presume that FHWA has not exceeded its authority by funding 80 percent of the administrative costs of rural transportation projects.

EFFECT OF 80-PERCENT REIMBURSEMENT

Reimbursing administrative costs at 80 percent gives selected systems more funds but funds fewer systems than could be funded if reimbursement were at 50 percent.

Based on obligations for the 12-month period July 1, 1980, to June 30, 1981, we found that 23 States were awarding section 18 grant funds at an annual rate that was greater than their average annual apportionment of section 18 funds. Three 1/ of the States visited--Massachusetts, Missouri, and North Carolina--are in this situation and also reimburse administrative costs at 80 percent. The following table shows the additional money that would be available to fund other systems if 50-percent reimbursement were used.

Additional Grant Funds Available
in Three States from 50-Percent
Funding of Project Administrative Costs

	Mass.	Mo.	N.C.	Total
Project administrative grants (80 percent reimbursement)	$393,300	$114,112	$440,190	$947,602
Less grant amounts if reimbursed at 50 percent	245,813	71,320	275,119	592,252
Possible funding reduction	$147,487	$ 42,792	$165,071	$355,350

Through June 30, 1981, these three States had made 54 grants for operating expenses. Thirty-two of these grants (59 percent) were for $50,000 or less, and the average amount of all 54 grants was $75,621.

Accurate data was not available on the amount of section 18 funds nationwide that have been provided for project administrative costs at the 80-percent level. (See ch. 5 for more information about shortcomings in FHWA's program information.) Therefore we are unable to estimate the total impact of 50-percent versus 80-percent funding of administrative costs.

1/Vermont also funds project administrative costs at 80 percent but the State allocation is so small in relation to demands that the funding provided to individual systems does not exceed the equivalent of 50 percent of their net operating costs.

In responding to a survey conducted in 1981 by the American Association of State Highway and Transportation Officials (AASHTO), most States said that they favored funding project administrative costs at 80 percent. However, 16 of 48 States said that they favored removing the distinction between operating and project administrative grants. Four of these were States that we reviewed. The major reason cited by these four States was that funding at 80 percent requires a higher percentage of available money to fund an individual system and thus limits the number of systems that can be funded.

Two of the State officials we contacted said that the 80-percent funding of project administrative costs presents some administrative problems, but they offered no evidence in support of their views. They commented as follows.

--The Massachusetts section 18 coordinator said that the higher funding for administrative costs under section 18 might encourage transit systems being funded under both section 5 and section 18 to try and charge more of their administrative expenses to the section 18 program.

--A Missouri official stated that other Federal and State programs that provide funding for transit, such as HHS' title III and XX programs, do not require that distinctions be made between administrative costs and other operating costs. Therefore, providers that receive funds from these other programs as well as the section 18 program have to account for project administrative costs differently for the section 18 program than for these other programs.

CONCLUSIONS

The section 18 legislation does not prohibit FHWA from classifying certain noncapital costs as project administrative costs and funding them at a higher level than is allowed for the same type of costs under the section 5 program. However, FHWA's actions in this regard, in addition to being inconsistent with treatment of like costs between the two programs, are inconsistent with generally accepted accounting principles. The Congress should consider whether Federal capital and noncapital transit assistance to nonurbanized areas should be of the same type and matching ratios as that which is available to urbanized areas.

The major effect of funding project administrative costs at 80 percent of the total is to provide a higher level of funding to individual transportation systems and limit funding to a smaller number of transportation systems.

MATTERS FOR CONSIDERATION BY THE CONGRESS

If the Congress believes that Federal funding of project administrative costs should be consistent with the program of grants to urbanized areas, it should amend section 18 of the Urban Mass Transportation Act of 1964, as amended. Revised legislation should state that all eligible noncapital costs be classified as operating costs and subject to the 50-percent of net operating cost limitation.

AGENCY COMMENTS AND OUR EVALUATION

DOT, in its January 25, 1982, letter (app. I) commenting on our draft report, states that funding administrative costs at 80 percent is consistent with congressional intent and it supports continuing the funding of project administrative costs at an 80-percent Federal share.

Our report states that the Secretary has acted within his authority in the way he has chosen to treat project administrative costs under the section 18 program. Our report also cites the reasons for the decision to fund project administrative costs at a higher level in nonurbanized areas than in urbanized areas. Contrary to DOT's comment, we have not recommended against the funding of project administrative costs at an 80-percent Federal share. Our purpose is to inform the Congress of the way the Secretary used his broad authority with respect to the funding of project administrative costs so that the Congress can decide if it favors more extensive funding for transportation systems' administrative costs in nonurbanized areas than in urbanized areas.

CHAPTER 4

THE PROGRAM REQUIREMENT FOR SERVING THE GENERAL PUBLIC IS UNCLEAR

Many transportation systems in rural areas provide transportation primarily or exclusively to special groups, such as the elderly, handicapped, and poor. These specialized transportation systems generally provide services to the clients of local social service agencies and may even be operated by these agencies. FHWA believes that these specialized transportation systems can be funded under the section 18 program if they also provide some service to the general public. To promote coordination among transportation services, FHWA has encouraged these specialized systems to make their services available to the general public and apply for section 18 funding. However, FHWA's guidance on service to the general public does not identify the range of actions that a specialized transportation service could take to serve the general public that FHWA will accept as qualifying it for section 18 funding. In the absence of this guidance, States are establishing different requirements for qualifying for section 18 funding. Consequently, specialized providers from one State may have to do more to qualify for section 18 funding than specialized providers from another State.

THE REQUIREMENT TO SERVE THE GENERAL PUBLIC

One objective of the section 18 program is to provide for the maximum feasible coordination of public transportation services funded under section 18 with transportation services assisted by other Federal sources. To promote such coordination, FHWA encourages providers of specialized transportation systems, which are frequently supported with various Federal human service program funds, to make their services available to the general public and thus be eligible for section 18 funding.

FHWA's Associate Administrator for Planning and Policy Development cited the following factors for FHWA's encouraging specialized transportation systems to qualify for section 18 funding by opening up their services to the general public.

--A major thrust of the section 18 program is to coordinate the many sources of Federal funds now available to support transportation and not to supplant or replace other funding sources.

--Encouraging coordination through participation in the section 18 program can be accomplished in two ways:

(1) fund existing specialized transportation services that will then transition to a public transportation system or (2) fund a public system that will contract with human service agencies to provide the specialized transportation services needed by their clients (that is, the elderly, handicapped, and poor).

FHWA is pursuing both approaches and has encouraged specialized transportation providers to make their services available to the general public and apply for section 18 funding.

FHWA GUIDANCE IS UNCLEAR

FHWA has not issued guidance that identifies the specific kinds of actions by specialized transportation systems, in terms of opening up their services to the general public, that FHWA will accept as satisfying the requirement for section 18 funding. FHWA has provided some information about service to the general public through various memorandums it has sent to its regional offices. These memorandums are not specifically directed at this requirement but discuss many aspects of the section 18 program. To determine FHWA's guidance regarding this requirement, one has to review all the memorandums issued by FHWA that mention the requirement to serve the general public. Our review of these documents indicates that FHWA's guidance about what is required of a specialized transportation system, in terms of serving the general public in order to qualify for section 18 funding, consists of the following.

--A specialized provider's transportation system will be eligible for funding if it provides service to the general public.

--Providing service only to special client groups will not qualify as providing service to the general public.

--The general public does not have to be served on a priority basis, and a specific level of ridership does not have to be achieved.

--Service to the general public can be phased in over a reasonable period of time.

This guidance, however, does not specifically identify the kinds of actions that would make a specialized provider eligible for section 18 funding. As a result, the requirements that specialized providers must satisfy vary from State to State.

STATE REQUIREMENTS FOR SERVING THE GENERAL PUBLIC VARY

The States we visited are interpreting FHWA's guidance and imposing differing requirements as follows.

--North Carolina has established the following requirements regarding what specialized transportation systems must do to be funded under the section 18 program.

1. The applicant must either annually publish routes and schedules of services that are open to the general public or whenever a significant change occurs.

2. The applicant must post its routes and schedules in public places.

3. The applicant must submit, with the project application, the system's policy for charging fares to the general public and procedures for contracting transportation services to other agencies.

4. An applicant's vehicles must be clearly marked as open-to-public use.

5. The applicant's level of service to the public should be based upon the travel demand of the public and public comments and suggestions regarding service availability. A procedure for receiving these comments should be developed and submitted with the project application.

6. The applicant must submit, with the project application, an assurance substantiating that the transportation system is or would be available to serve the general public.

--Massachusetts requires only that some provision be made so the public has access to the services receiving section 18 funds. It does not specify what those provisions must be.

--West Virginia requires section 18 participants to advertise that their vehicles are open to the general public and to submit copies of their advertisements to the State section 18 agency. For fiscal year 1982, the State has established a minimum 10-percent general ridership requirement for all systems funded under section 18.

--Iowa requires applicants to keep all vehicles open to the general public and clearly mark them as being open for public use. It also requires section 18 grantees to submit marketing information to show that the service is open to the general public.

The absence of more specific guidance from FHWA means that each State must make its own judgments about which types of actions will satisfy the requirement. The information presented above indicates that these judgments can differ considerably from State to State.

CONCLUSION

FHWA guidance is not specific about what specialized transportation systems can do about serving the general public in order to qualify for section 18 funding. In the absence of more specific guidance States are establishing differing requirements. In approving section 18 grants to specialized providers, FHWA is accepting a range of actions by specialized providers as satisfying the public service requirement. We believe it would be beneficial for FHWA to issue formal guidance that clearly identifies the full range of actions that FHWA will accept as satisfying the public service requirement.

AGENCY COMMENTS AND OUR EVALUATION

In its January 25, 1982, letter (app. I) DOT said that it disagrees with our suggestion that FHWA develop a definitive policy on service to the general public that identifies the minimum actions for a specific transportation provider to qualify for section 18 funding. FHWA endorses differing State requirements as a strength of the program because it recognizes and provides for diversity among the States. Secondly, it considers the reluctance of specialized providers to participate in the section 18 program to be due to the requirement itself and not to confusion over what is required.

FHWA encourages specialized transportation providers to participate in the section 18 program because it views their participation as a means of achieving the maximum feasible coordination that is stipulated in the section 18 legislation. For specialized providers to participate in the section 18 program they must provide public transportation and therefore these specialized providers must provide some service to the general public. FHWA has stated that the requirement for service to the general public is not satisfied by serving only specialized client groups. However, FHWA guidance does not identify the specific types of actions or combination of actions that it will accept as satisfying the requirement.

In approving individual grants to specialized transportation systems, FHWA is in effect accepting certain actions by these providers as satisfying the requirements. Our recommendation is directed at having FHWA identify the kinds of actions taken by specialized providers to serve the general public that FHWA has accepted as satisfying the requirement and formally disseminating this information to the State section 18 offices to make them aware of the range of actions that are acceptable in meeting the requirement. For instance, all that has been required of specialized providers in some States is that they advertise the availability of their service to the general public and carry general public riders on a space available basis. If FHWA will accept these actions as satisfying the requirement, we believe it should communicate to all the State section 18 offices that these actions will be acceptable. This kind of information would provide the

States with a better understanding of the range of actions that FHWA will accept and give them a better understanding of the options available to them in dealing with the specialized providers in their States.

Regarding DOT's second point, we agree that the reluctance of specialized providers to participate in the section 18 program is primarily due to the requirement itself. The organization of information in our draft report inferred that confusion over what is required contributed to providers reluctance to participate in the section 18 program. In our final report we have changed the organization of the chapter to remove that inference.

RECOMMENDATION

We recommend that the Secretary direct the Federal Highway Administrator to provide formal guidance on the public service requirement. Such guidance should clearly identify the full range of actions that specialized providers could take and that FHWA will accept as satisfying the public service requirement.

CHAPTER 5

SHORTCOMINGS IN PROGRAM INFORMATION

The committee asked us for information such as (1) the number of transportation systems being funded, (2) how many of the funded systems were new systems and how many were operating before being funded by section 18, and (3) to what extent section 18 funds are being used for capital costs, operating costs, and project administrative costs. We could not provide this information nationwide because the information was either not being collected by FHWA nationwide or when it was being collected nationwide, it was inaccurate. This situation limits FHWA's ability to assess program results and accurately inform the Congress about what is being accomplished under the program.

FHWA IS NOT COLLECTING SOME USEFUL PROGRAM INFORMATION

Certain information is reported to FHWA headquarters on each section 18 grant. However, some program information, which we believe is important in assessing program results, is not being reported. For instance, the information reported on individual grants does not identify the grantee. As a result, FHWA cannot identify the number of transportation systems nationwide that have been funded and are presently being funded under section 18. (A recent nationwide survey conducted by AASHTO indicated that as of June 30, 1981, about 700 transportation systems were being funded by the section 18 program). Also, the reported data does not include any information on

--the type of transportation services provided by the grantee (that is, fixed route and schedule, dial-a-ride, advanced reservation, etc.);

--whether the transportation system is a new system or one that existed before the section 18 program was established; and

--whether or not the transportation system has expanded or reduced services since being funded under section 18.

The section 18 program's objective is to encourage maintaining, developing, improving, and using passenger transportation systems in nonurbanized areas. We believe the above information would be important in managing the program and assessing results against the program objective.

INFORMATION COLLECTED CONTAINS INACCURACIES

The information reported to FHWA headquarters on each section 18 grant does identify the amount of each grant that will be used for capital costs, operating costs, and project administrative costs. In reviewing the reported data to develop the information requested by the committee, we found many errors in the classification of grant amounts as to whether they were for capital, operating, or project administrative costs.

We found the following types of errors in the reported data:

--Grants for bus purchases were classified as grants for operating expenses.

--Grants for project administrative expenses were classified as grants for operating expenses.

--Grants for State expenses in administering the section 18 program were classified as grants for either operating expenses or capital expenses.

--Grants were classified as something other than capital, operating, or project administrative expenses.

The above errors were identifiable because the Federal share as a percentage of the total costs varied considerably from the percentage level at which they are generally funded. For instance, the Federal share of capital costs (bus purchases) is generally 80 percent, but we found many grants coded as bus purchases for which the reported Federal share was only 50 percent. Likewise, we found many grants coded as operating expenses for which the reported Federal share was equal to 80 percent of total costs--Federal funding for operating costs is limited by law to 50 percent. By checking these obvious errors in grants from the six States we reviewed against the approved grants at the State's section 18 agency, we confirmed that grants had been miscoded. The types of errors indicated above were found in the FHWA data base on grants as of March 31, 1981. This data base contained information on 1,320 grants, and we found 115 of these (8.7 percent) were apparently miscoded. These obvious errors were found in grants from 23 States. We brought these errors to the attention of the responsible FHWA officials, and they notified the FHWA offices in each State to correct the errors. We subsequently reviewed the information in the data base as of June 30, 1981, and found that some of the errors had been corrected but most had not.

It was not within the scope of our work to make a detailed review of the FHWA information system. Consequently, we do not know the full extent of inaccuracies in the data being reported. Nevertheless, the numerous obvious errors we did identify lead us to believe that the reported data may contain other, less obvious, inaccuracies. For instance, grants for capital and project administrative costs are both funded at up to 80 percent. Miscodings between these two types of grants would not be detected by analyzing the reported data but would require checking the reported data with the individual grant files which are kept by each State.

CONCLUSION

Because of the numerous errors in the section 18 program expense categories, FHWA does not know how much of the program funds are being obligated nationwide for capital costs, administrative costs, and operating costs. Also, because the data it does collect is limited, monitoring and assessing program accomplishments is impeded. As a result, FHWA cannot accurately inform the Congress about the program.

AGENCY COMMENTS AND OUR EVALUATION

DOT, in its January 25, 1982, letter (app. I), acknowledged that grant data has been miscoded and stated that steps are being taken to correct this problem. It considers the problem a minor one that has had no measurable impact on FHWA's ability to assess and evaluate the section 18 program's progress.

DOT also indicated disagreement with our suggestion to submit more project information to headquarters on a continuing basis. It believes this would be inconsistent with congressional intent to reduce red tape and would not be cost-effective. It believes it is more cost effective to rely on information from other sources, such as AASHTO's annual surveys.

We do not believe that miscodings are as minor a problem as FHWA states. For instance, DOT has proposed a major change in the section 18 program--the elimination of section 18 funding for operating costs. In our opinion, information about the extent to which section 18 funds were being used for operating costs and project administrative costs as opposed to capital costs would be important in assessing the potential impact of such a change during the decision process that led up to the DOT decision to recommend the change. However, because of the numerous errors in the data reported to FHWA, FHWA's nationwide data is inaccurate and may be misleading. Therefore, we believe that correcting the errors in FHWA's data is important. FHWA indicates that it is taking steps to make these corrections.

We disagree with DOT's position that having more data reported to FHWA headquarters would be inconsistent with congressional intent to reduce red tape and would not be cost-effective for the following reasons.

The goal of the section 18 program is to enhance the access of people in nonurbanized areas by encouraging the maintenance, development, improvement, and use of passenger transportation systems. In assessing the results of the section 18 program against this goal, several questions need to be addressed, including the following.

--How many systems are being funded under section 18 and how has this changed from year to year?

--How many systems being funded were in operation before section 18 funding?

--How many new transportation systems have been funded under section 18?

--Of the systems being funded, how many have expanded service since receiving section 18 funding?

--How many funded systems have experienced ridership increases? How many have experienced ridership decreases? What is the extent of the ridership changes?

The data needed to answer these types of questions is, for the most part, already required of transportation providers as part of the section 18 application process. This data, in turn, is reviewed by FHWA field offices in reviewing individual grants before FHWA approval. However, this type of data is not being reported to and collated by FHWA headquarters. Consequently, we disagree with DOT's comment that collecting such data would increase red tape. FHWA field offices already have access to most of this data through their review of grant application packages. Our recommendation would only require that FHWA field offices extract some additional data from the application packages and include it in the information they report to FHWA headquarters for inclusion in FHWA's data base.

FHWA would incur some additional cost associated with extracting, reporting, and processing the additional data, but we do not believe it would be substantial. In fact, by collecting this additional information and having it available in the data base, (1) the amount of information that is being collected through annual surveys, such as the AASHTO annual survey, should be reduced and (2) the effort required of State transportation agencies associated with responding to such annual surveys and other ad hoc requests for data might also be reduced. Therefore, we continue to believe our suggestions are valid.

RECOMMENDATION

We recommend that the Secretary of Transportation direct the FHWA Administrator to identify the elements of information that are critical for program management and evaluation and ensure that such data is collected. Also, to the extent possible, FHWA should correct the existing inaccuracies in the data base and ensure that future data is accurately reported.

U.S. Department of Transportation

Assistant Secretary
for Administration

400 Seventh St., S.W.
Washington, D.C.

JAN 25 1982

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 (DOT) reply to the General Accounting Office (GAO) draft report, "Available Grant Funds For Transportation Systems In Nonurbanized Areas Are Not Achieving Their Full Impact," dated December 10, 1981.

We disagree with the GAO findings and recommendations which indicate that the program under Section 18 of the Urban Mass Transportation Act of 1964 is not achieving its intended impact. In fact, the high level of state financial involvement in the program, the large number of rural transit systems established since the program was initiated, the substantial increase in rural transportation ridership and a recent reversal of the declining trend in fixed-route/fixed-schedule system in small towns all suggest a significant level of achievement in the improvement of rural transportation systems attributable to the Section 18 program. Furthermore, a recent Departmental Office of Inspector General review of the program supported our assessment that the program's primary goal was being achieved.

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

Sincerely,

Robert L. Fairman

Enclosures

Department of Transportation Reply
To
GAO Draft Report
On
Available Grant Funds for Transportation
Systems in Nonurbanized Areas
Are Not Achieving Their
Full Impact (345558)

Summary of General Accounting Office (GAO) Findings and Recommendations

The GAO reviewed the Department of Transportation's (DOT's) grants program to public transportation systems in nonurbanized areas under Section 18 of the Urban Mass Transportation Act of 1964, as amended in 1978. Appropriations for the grant program - referred to as the Section 18 program - are apportioned by formula to the States and Territories, which in turn select and recommend projects for funding. The program is administered by the Federal Highway Administration (FHWA) and the Urban Mass Transportation (UMTA), in accordance with a 1978 memorandum of understanding between the two agencies.

The GAO found that (1) certain operating - type costs were being funded at a level that may not be consistent with congressional intent, (2) contrary to the program's stated intention, Section 18 funds are being substituted for other funds, (3) the requirement that services be provided to the general public is unclear, and (4) inadequacies in the program's information system make it difficult to assess program results.

The GAO recommends, among other things, that the Secretary of Transportation direct the FHWA Administrator to: (1) adopt a new method of funding operating costs that will eliminate the substitution of Section 18 funds for funds from other sources, (2) define specific actions that specialized transportation services must take to serve the general public and thus qualify for Section 18 funding, and (3) identify the elements of information that are critical for program management and evaluation and institute procedures for collecting such data. The GAO also recommends that Congress clarify its intent as to funding levels for administrative costs of the program. The program currently allows 80 percent of these costs to be paid with grant funds, or about 30 percent more than the GAO believes is allowable under legislation.

Summary of DOT's Position

The DOT disagrees with the GAO findings and recommendations which indicate that the Section 18 program is not achieving its intended impact. In fact, the high level of State financial involvement in the program, the large number of new rural transit systems which have been established since the program was initiated, the substantial increase in rural transportation ridership and a recent reversal of the declining trend in fixed-route, fixed-schedule systems in small towns all suggest a significant level of achievement in the improvement of rural transportation systems attributable to the Section 18 program. Furthermore, a recent DOT Office of Inspector General (OIG) review of the program agreed with our assessment that the program's primary goal was being achieved.

Position Statement

The title of this report implies that GAO completed a comprehensive assessment of the Section 18 program and its potential and real impacts. The GAO did not focus on impacts or even accomplishments as originally requested by the Committee on Environment and Public Works. Furthermore, GAO did not describe the criteria by which its measurements were made.

The GAO should describe initially the progress made by the Section 18 program, as listed below. Then GAO should explain how, in its judgement, this progress is insufficient to achieve the full impact of the Section 18 program. Until this is done, the title should be modified.

- o The OIG, in its November 20, 1981, memorandum to FHWA's Associate Administrator of Planning and Policy Development concluded after a 6-month assessment that the Section 18 program's primary objective of enhancing nonurban public transportation was being achieved and was resulting in economical public transportation (see attachment).

- o The declining trend in fixed-route, fixed-schedule systems in small towns that has been experienced since 1971 has been reversed. Dropping from 402 systems in 1971 to 268 in 1979, the latest count in 1981 is 339.

- o Counting fixed-route and demand-responsive systems, AASHTO claims that at least 275 new rural transit systems have begun since the Section 18 program was initiated.

- o Accompanying the number of new transit systems is an increase in rural transportation ridership. For example, the Idaho Transportation Department claims ridership jumped from a steady 21,000 per month in 1979, to a high of 93,000 in March and a low of 35,000 in May during 1980. Similarly, a northeast Arkansas operation reports an 87 percent increase in ridership since 1980, and a Kentucky project claims a 51 percent increase in ridership. Idaho, Arkansas, and Kentucky credit the Section 18 program with this marked increase in ridership.

- o The States are claiming an average of only 8 percent of their annual apportionments for technical assistance and administration.

Finally, DOT believes that the program changes proposed by the Administration to improve the cost-effectiveness of the program by eliminating Federal operating subsidies should be mentioned in the final GAO report.

[GAO COMMENT: The OIG report was based upon a limited review of three bus acquisition projects and three operating expense grants. Our review, in contrast, did not attempt to assess the overall impact of the program but rather was directed toward reviewing how well the program had been implemented in six States. However, we agree with DOT that our original title was misleading. Consequently, the title was changed to more clearly describe the message of the report.]

Funding 80 Percent of Administrative Costs May Not be Consistent With Congressional Intent

The DOT disagrees with the GAO recommendation against the funding of project administrative costs at an 80 percent Federal share. The report recognizes the Secretary's legal authority in this matter, but the report also states the GAO opinion that the 80 percent level may be contrary to Congressional intent, and that Section 18 was intended to be consistent with the urban mass transit program.

The House of Representatives report on Section 18 (H. 1485) explicitly recognized the differences between the economics of operating urban versus rural transit systems. The House report also recommended that FHWA should jointly administer the Section 18 program with UMTA due to the experience gained by FHWA in administering the Section 147 Rural Highway Public Transportation Demonstration program. Project administration costs under Section 147 were classified as nonoperating costs and the Section 147 summary report recommended incentives to improve the quality of project administration.

During Senate debate on the Section 18 program, Senator Patrick Leahy, Chairman, Subcommittee on Rural Development, stated, "I believe that these smaller communities need greater flexibility in matching requirements than is in larger cities." (Vol. 124, D.C.R., p. S16400, September 28, 1978). Senator Leahy later held an oversight hearing on Section 18, at which time FHWA Administrator Bowers announced his intention to continue the 80 percent level for project administration. In his reaction to this announcement, Senator Leahy said, "...I am delighted to hear about that. We had a chat about that earlier this morning. It is a matter of welcome news to rural areas." (Report of the Senate Subcommittee on Rural Development, Rural Public Transportation Oversight Hearing, October 24, 1979, p. 41).

These and other statements in the legislative history of Section 18 have led the FHWA to conclude that the 80 percent Federal share for project administration is, in fact, consistent with Congressional intent. The DOT believes that the funding policy should be continued unless specific direction is provided by Congress to the contrary.

Also, the discussion under "Background on Federal Funding of Public Transportation Operating Costs" in Chapter 3 and "Net Operating Costs Were Previously Funded from Other Sources" should note that the Appalachian Regional Commission (ARC) did provide operating assistance prior to 1975, even though no DOT programs provided operating assistance on a continuing basis until 1978.

[GAO COMMENT: SEE "AGENCY COMMENT AND OUR EVALUATION" section on p. 17.]

Section 18 Funds Replace Funds Previously Provided by Other Sources

The DOT disagrees with the focus, analysis, findings, and recommendations of the GAO regarding the question of substitution of funds and believes GAO has missed the most important issue related to funding substitution. The FHWA's concern in this matter relates to the need to understand and address the problem of proposed reductions of other Federal transportation assistance program appropriations. From discussions with staff from the Senate Environment and Public Works Committee, it was our understanding that this was to be the focus of the GAO study. The concern about this problem was generated by the Administration of Aging plans to cut transportation funding by $30 million in FY 1981 since Section 18 had become available.

The GAO did not address the substitution by other Federal funds, but instead, concentrated solely on the possibility of reduced local funding. In the absence of any evidence on this matter, the GAO report relies on a hypothetical balance sheet example which ignores many of the conditions affecting rural public transportation. The report does not adequately consider that many of these existing systems were human service transportation providers financed largely by categorical Federal funds. It also does not consider the severe inflation costs, service increases, the expansion to public service, or the fact that the number of these systems was steadily declining prior to Section 18. The DOT, therefore, disputes the validity of the analysis and the conclusions.

In addition, we believe that GAO's recommendation for using two methods for calculating the Section 18 share is burdensome and complicated for the FHWA, the States, and the recipients. This would violate the repeated Congressional charge to minimize bureaucratic red tape for this program. We believe that the current procedure adequately addresses the possible problem of local fund substitution. As one element of the project application supporting information, FHWA currently requires each applicant to provide a description of the:

> "Amount and sources of funds used to purchase and operate vehicles in the two previous years, if applicable, and description of efforts to maximize the integration of these funds with funds being applied for under the Section 18 program." (23 CFR 825, Appendix A, 3.b.(2)(c))

[GAO COMMENT: SEE "AGENCY COMMENT AND OUR EVALUATION" section on pp. 9 to 11.]

The Requirement for Serving the General Public is Unclear

The DOT does not agree with the GAO recommendation for FHWA to develop a definitive policy on service to the general public, including minimum actions for a special transportation provider to qualify for Section 18 funding. A definitive policy is not a solution to the two problems that GAO discusses in Chapter 5. These problems are:

1. States are establishing different requirements regarding what specialized transportation systems must do to qualify for Section 18 funding.

2. Some specialized systems are confused about the requirements for public service and are reluctant to participate in the Section 18 program.

With regard to the first, Congress intended that this be a State administered program (consistent with Federal requirements) so that it would best meet the needs of the States and local areas. The FHWA has therefore provided a high degree of discretion to States in appropriate administration matters. States have developed different applicant requirements as evidenced by GAO's examples, but all are consistent with (1) the definition of public transportation in the law, and (2) FHWA's various memoranda giving guidance on public transportation. Thus, FHWA views the different State requirements as evidence of States flexibility to tailor the program to meet their special needs, fully consistent with Congressional intent. The FHWA would consider the establishment of separate requirements for specialized transportation systems to be unfair and inconsistent with reducing red tape and simplifying the delivery of Section 18 funds.

With regard to the second problem, GAO found that 16 of 87 systems were reluctant to participate in the Section 18 program. The GAO's assertion of widespread confusion over program requirements is misleading. In fact, GAO only identified one State, Kansas, where specialized transportation providers were confused. The principal reason why such specialized systems did not apply for Section 18 funds was the statutory requirement that all applicants provide public transportation. The FHWA recognized this problem and gave the States the flexibility to deal with it, including allowing projects to transition from a closed door to public transportation service, as in Nebraska.

In summary, DOT does not consider the first point to be a problem, but instead endorses it as a strength consistent with Congressional intent to recognize and provide for diversity among States. Secondly, it does not consider the reluctance of specialized systems to be involved in the Section 18 program to be due to confusion over program requirements. The FHWA and the States are continuing to give guidance and to encourage specialized systems to achieve Section 18 goals consistent with eligibility and coordination requirements. A definitive FHWA policy is not the solution, as made clear in August 1980 letter from the Secretary of Transportation to the Pennsylvania DOT, "... my Department does not and should not attempt to define a required percentage of participation by the general public or by special clients. Conditions, needs, and available funding are too diverse among the States, and you are in the best position to decide on these matters."

[GAO COMMENT: SEE "AGENCY COMMENT AND OUR EVALUATION" section on pp. 21 to 22.]

Data Reported on the Section 18 Program is Limited and Inaccurate

The FHWA acknowledges there have been coding errors in the Section 18 program's fiscal form PR-37. The errors are the result of miscoding by field office clerical staff unfamiliar with the codes for the Section 18 program and steps are being taken to correct this minor problem. To date, however, these coding errors have had no measurable impact on FHWA's ability to assess and evaluate the Section 18 program's progress.

The FHWA disagrees with GAO's recommendation to submit more project information (e.g., new or existing system and service changes) to Headquarters on a continuing basis. This would be inconsistent with Congressional intent to reduce red tape. Further, the experience with the Section 147 Rural Highway Public Transportation Demonstration program shows that collecting such data is not cost effective. Therefore, FHWA only collects information which is not already available from AASHTO's annual surveys and other sources on as needed basis. This approach is cost effective and can be accomplished in a timely manner.

[GAO COMMENT: SEE "AGENCY COMMENT AND OUR EVALUATION" section on pp. 25 to 26.]

Employee Protection Requirement and the Section 18 Program

The DOT disagrees with GAO's conclusion that 13(c) will not have a long term impact on participation in the Section 18 program. The DOT believes that 13(c) had and continue to have a long term negative impact on the Section 18 program. We have heard, but are unable to document, that many rural areas have not applied for Section 18 because of the 13(c) liability. Also, we think it is significant that the States of Washington, Delaware, Oklahoma, and Rhode Island have not accepted the warranty or reached agreement with the Department of Labor (DOL) after two and one half years. Further, we believe that waivers have not been a viable alternative as Congress intended. Only 5 of 1,400 projects have applied for a waiver and none have been granted by the DOL.

In the future, there will be less Federal funding and more emphasis on private enterprise participation. Since there is no clear statement of liability when communities purchase service, communities may stop operating rather than contract for service, because of potential 13(c) implication.

In summary, we believe that 13(c) is and will have a significant long term impact on nonurbanized public transportation.

[GAO COMMENT: The draft report contained an appendix that provided information on the section 13(c) requirement relative to the section 18 program. This appendix is not included in the final report.]

Memorandum

U.S. Department of Transportation

Office of the Secretary of Transportation

Date: November 20, 1981 Reply to Attn. of: JA-10

Subject: INFORMATION: Audit of Nonurban Formula Grant Program, Federal Highway Administration (FHWA) Report No. AS-FH-2-002

From: Harry R. Jansen
Director, Office of Surface Transportation Programs, OIG

To: Associate Administrator for Planning, FHWA

I. Introduction and Background

In response to FHWA's request, we made a review of selected aspects of the Nonurban Formula Grant Program. Our review showed that the program's primary goal was being achieved.

The objectives of the audit were to determine whether nonurban formula grants were (1) enhancing nonurban public transportation and (2) resulting in economical public transportation services. We also sought to determine the potential impact that proposed legislation to discontinue Federal operating subsidies would have on nonurban public transportation.

Section 18 of the Urban Mass Transportation Act of 1964, as amended, authorizes a formula grant program which provides Federal assistance to the States for public transportation projects in nonurban areas. The goal of the program is to enhance access of people in nonurbanized areas for purposes such as health care, shopping, education, recreation, public service, and employment by encouraging the maintenance, development, improvement, and use of passenger transportation systems. This is accomplished through capital and operating grants. Funds appropriated for this program for Fiscal Years 1979, 1980, and 1981 were $75,000,000, $85,000,000, and $72,500,000, respectively. As of April 30, 1981, $100.5 million had been obligated. The program is administered by FHWA in accordance with a 1978 memorandum of understanding between FHWA and the Urban Mass Transportation Administration (UMTA).

II. Scope of Audit

The audit generally covered current program activities. It included selected reviews of three active bus acquisition projects in FHWA Regions III and IV. These projects were located in Johnsonburg, Pennsylvania; Jackson, Tennessee; and Sumter, South Carolina. The Federal share of funds expended on these projects as of April 30, 1981, amounted to $2.2 million. This represents 25 percent of the total amount of Federal funds expended for Section 18 bus acquisition projects.

A limited review of three projects in FHWA Region I by our field audit staff was also made. This covered operating expense grants of approximately $460,000 in Federal expenditures on projects located in Hyannis and Worcester, Massachusetts; and Portland, Maine.

The audit was performed in accordance with auditing standards prescribed by the Comptroller General and included such tests as we considered necessary in the circumstances. Our reviews included evaluations of (1) justification supporting the need for buses, (2) bus utilization, (3) coordination of rural transportation services, (4) project administrative expenses, and (5) program guidelines implemented by the States.

III. Results of Review

We concluded that the bus acquisition projects covered by our review were enhancing nonurban public transportation because these projects increased the availability and improved the transportation services being provided to the public. Additionally, we determined that as a result of the coordination of rural transportation required by Section 18, several federally subsidized programs discontinued providing transportation services. These transportation services were consolidated into the Section 18 grantee's program. Consequently, more economical public transportation was being provided than existed prior to the consolidation of services.

Our review also disclosed that discontinuing Section 18 operating assistance may adversely impact the level of nonurban transportation service being provided by grantees, depending on the ability of State and local governments to increase their support of operating costs. For example, transportation services being provided by the Area Transportation Authority (ATA) in Johnsonburg, Pennsylvania could be significantly reduced because four of six local counties may be unable to provide the necessary additional local share of funds necessary to maintain the service. This specific situation could also adversely impact the programs of social service agencies that rely on ATA for transit service. These agencies would have to resume providing their own transportation or cease operation of their programs. Other transit operators covered by our audit may also face service cutbacks but the impact of such reductions does not seem as severe as the case described above.

I appreciate the cooperation provided by your staff during this review. Also, I would be pleased to discuss this review with you in more detail if you so desire. We believe that followup action on this report is not necessary.

A copy of the report is being furnished the Associate Administrator for Transit Assistance, UMTA.

- # -

cc:
Associate Administrator for Transit Assistance, UMTA

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