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GAO

Report to Congressional Committees

June 2003

MASS TRANSIT

FTA Needs to Provide Clear Information and Additional Guidance on the New Starts Ratings Process

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GAO-03-701

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Highlights

Highlights of GAO-03-701, a report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, and the Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

Under the Transportation Equity Act for the 21st Century (TEA-21), Congress authorized federal funding for New Starts fixed guideway transit projects—including rail and bus rapid transit projects that met certain criteria. In response to an annual mandate under TEA-21, GAO assessed the New Starts evaluation and ratings process for the fiscal year 2004 cycle, including (1) changes to the process and any related issues and (2) any challenges related to New Starts initiatives contained in the administration's fiscal year 2004 budget proposal.

What GAO Recommends

To ensure that transit agencies have clear information on the New Starts program, Federal Transit Administration (FTA) should (1) amend its regulations governing the level of federal funding share for projects to reflect its current policy and (2) issue additional guidance to transit agencies on the use of local travel forecasting models in calculating the Transportation System User Benefits measure.

Department of Transportation officials generally agreed with the information provided in this report. They concurred with the recommendation about providing guidance on the user benefits measure and they will consider the recommendation about amending the regulations related to federal funding share.

www.gao.gov/cgi-bin/getrpt?GAO-03-701.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Rita Grieco at (202) 512-9047 or griecor@gao.gov

June 2003

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FTA Needs to Provide Clear Information and Additional Guidance on the New Starts Ratings Process

What GAO Found

FTA made two changes to the New Starts evaluation and ratings process for the fiscal year 2004 cycle. First, in response to language contained in a conference report prepared by the House Appropriations Committee, FTA adopted a 60 percent preference policy, which in effect, generally reduced the level of New Starts federal funding share for projects from 80 percent to 60 percent. Because FTA has not revised its program regulations to reflect this change, transit agencies, project sponsors, and the public did not have an opportunity to formally comment on the change. Explicitly stating its criteria and procedures in regulation would allow those involved in considering potential projects to make their investment decisions on the basis of a transparent process. Second, FTA revised some of the criteria used in the ratings process to include a new Transportation System User Benefits measure. Project sponsors GAO interviewed said that the measure was an improvement over the previous benefits measure because it considers benefits to both new and existing transit system riders. However, many project sponsors experienced difficulties in generating a value for the measure for a number of reasons, such as problems with their local forecasting models. FTA officials are working closely with project sponsors to correct these problems, but more guidance may be necessary to avert similar difficulties in the future.

The administration's fiscal year 2004 budget proposal requests that $1.5 billion be made available for New Starts for that year, a 25 percent increase over fiscal year 2003. The budget proposal contains three initiatives—reducing the federal share to 50 percent, allowing certain nonfixed guideway projects to be funded through New Starts, and establishing a streamlined ratings process for projects requesting less than $75 million in New Starts funding. These initiatives may allow FTA to fund more projects and give local communities flexibility in choosing among transit modes. However, they may also create challenges for some future transit projects, such as difficulties in generating an increased local funding share or a reduction in the number of smaller communities that will participate in New Starts.

Light Rail Transit System in Portland, Oregon

Source: Chris Fussell and TriMet, Portland, Oregon (reprinted with permission).

Contents

Abbreviations

BRT	Bus Rapid Transit
CTA	Chicago Transit Authority
DOT	Department of Transportation
FFGA	Full Funding Grant Agreement
FTA	Federal Transit Administration
FY	fiscal year
LIRR	Long Island Rail Road
LPA	Locally Preferred Alternative
MPO	Metropolitan Planning Organization
MTA	Metropolitan Transit Authority
NEPA	National Environmental Policy Act
PE	Preliminary Engineering
RTC	Regional Transportation Commission
TEA-21	Transportation Equity Act for the 21st Century
TSUB	Transportation System User Benefits

United States General Accounting Office
Washington, D.C. 20548

June 23, 2003

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Don Young
Chairman
The Honorable James L. Oberstar
Ranking Minority Member
Committee on Transportation and Infrastructure
House of Representatives

Since the early 1970s, the federal government has provided a large share of the nation's capital investment in mass transportation. Much of this investment has come through the Federal Transit Administration's (FTA) New Starts program, which awards full funding grant agreements for fixed guideway[1] rail, bus rapid transit, trolley, and ferry projects. A full funding grant agreement establishes the terms and conditions for federal participation in a project.[2] By statute, the federal funding share of a New Starts project cannot exceed 80 percent of its net cost. To obtain a grant agreement, a project must progress through a regional review of alternatives and meet a number of federal requirements, including providing data for the New Starts evaluation and ratings process. Ongoing and proposed New Starts projects are located in cities in every area of the country, and collectively will transport an estimated 190 million riders annually when completed, according to FTA. Because the demand for New Starts funding is high, FTA was directed to prioritize projects for funding on the basis of specific financial and project justification criteria. FTA

[1]Fixed guideway systems use and occupy a separate right-of-way for the exclusive use of public transportation services. They include fixed rail, exclusive lanes for buses and other high-occupancy vehicles, and other systems.

[2]According to FTA, the term "full funding grant agreement" refers to a multiyear contractual agreement between FTA and project sponsors for a specified amount of funding. The full amount of funding is committed to the projects over a set period.

evaluates and rates projects on multiple criteria and determines an overall rating for each project.[3]

Under the Transportation Equity Act for the 21st Century (TEA-21)[4] and subsequent amendments, Congress authorized approximately $10 billion for New Starts projects from fiscal years 1998 through 2003. Because TEA-21 expires at the end of fiscal year 2003, Congress is currently considering reauthorization legislation that will determine the amount of future funding for the New Starts program and any changes to the program's structure. TEA-21 requires GAO to report each year on FTA's processes and procedures for evaluating, rating, and recommending New Starts projects for federal funding.[5] This report discusses (1) changes made to the New Starts evaluation and ratings process for fiscal year 2004 and issues related to these changes, (2) the number of New Starts projects that were evaluated and rated and which projects FTA proposed for new grant agreements in fiscal year 2004, and (3) the proposed funding commitments and initiatives related to New Starts in the administration's fiscal year 2004 budget proposal and any challenges they might present for future projects.

Results in Brief

FTA made two changes to the New Starts evaluation and ratings process for the fiscal year 2004 cycle. First, in response to language contained in a conference report prepared by the House Appropriations Committee,[6] FTA instituted a preference policy in its ratings process favoring projects that seek no more than 60 percent of total New Starts funding from the federal government, which, in effect, generally reduced the level of New Starts

[3]The exception to the ratings process are projects that are statutorily "exempt" because they request less than $25 million in New Starts funding.

[4]Pub. L. 105-178 (1998).

[5]See U.S. General Accounting Office, *Mass Transit: FTA's New Starts Commitments for Fiscal Year 2003*, GAO-02-603 (Washington, D.C.: Apr. 30, 2002), *Mass Transit: FTA Could Relieve New Starts Program Funding Constraints*, GAO-01-987 (Washington, D.C.: Aug. 15, 2001), *Mass Transit: Implementation of FTA's New Starts Evaluation Process and FY 2001 Funding Proposals*, GAO/RCED-00-149 (Washington, D.C.: Apr. 28, 2000), and *Mass Transit: FTA's Progress in Developing and Implementing a New Starts Evaluation Process*, GAO/RCED-99-113 (Washington, D.C.: Apr. 26, 1999).

[6]H.R. Conf. Rep. No. 107-308, p. 114 (Nov. 30, 2001).

federal funding share for projects from 80 percent to 60 percent.[7] Although FTA has discretion in deciding how the local share of funding contributions should be considered in selecting New Starts projects for funding, the agency is required to issue regulations defining the criteria for evaluating and rating projects, including the degree of local financial commitment. However, FTA's 60 percent preference policy for the amount of federal funding share for New Starts projects is not reflected in its current regulations. By not amending its regulations to reflect this change, FTA has not provided an opportunity for public comment on this new policy. Furthermore, explicitly stating all of FTA's criteria and procedures in regulations would allow project sponsors, Metropolitan Planning Organizations, and others involved in considering potential New Starts projects to make their investment decisions on the basis of a transparent evaluation and ratings process.

A second change to the evaluation and ratings process involved FTA revising its cost-effectiveness and mobility improvements evaluation criteria for rating proposed New Starts projects to include a new measure for Transportation System User Benefits that gives equal weight to benefits for both new and existing transit system riders. Project sponsors we interviewed generally endorsed the new benefits measure, but implementing it has been difficult for both FTA and the project sponsors because of the variety of local travel forecasting models that exist and problems with the models. For example, FTA officials told us that some of the local models had errors in their underlying assumptions or in the data used to generate the measure. In addition, project sponsors reported that FTA did not provide adequate documentation on the computer software used to calculate the measure or how FTA used the measure in determining project ratings. As a result of these difficulties, 11 project sponsors were unable to generate accurate data needed to calculate a value for the new benefits measure. FTA officials have taken some steps to provide technical assistance, training, and guidance about the measure to project sponsors, but they also acknowledged the need to more systematically address the underlying problems related to the local models.

For the fiscal year 2004 cycle, FTA evaluated 52 projects, rated 32 projects, and proposed 4 projects for new full funding grant agreements as a result of

[7]While FTA's preference policy reduced the level of New Starts funding a project is likely to receive, the administration has proposed in its reauthorization legislation that project sponsors may seek additional federal funding from other sources.

its revised evaluation and ratings process. Twenty of the evaluated projects were statutorily exempt from the ratings process because they requested less than $25 million in New Starts funding.[8] In comparing fiscal year 2004 overall project ratings with fiscal year 2003, we found that a similar number of projects were evaluated, but significantly more projects were "not recommended" or "not rated" due to problems with complying with the reduced federal share, calculating the new user benefits measure, or resolving other data problems. From fiscal year 2003 to fiscal year 2004, the number of projects that received an overall rating of "not recommended" increased from 4 to 11 and the number that were "not rated" due to lack of data or other reasons increased from 2 to 7.

The administration's fiscal year 2004 budget proposal requests that $1.5 billion be made available for New Starts for that year. The budget proposal contains three initiatives—reducing the maximum federal statutory share to 50 percent, allowing nonfixed guideway projects to be funded through New Starts, and replacing the "exempt" classification with a streamlined ratings process for projects requesting less than $75 million in New Starts funding. These proposed initiatives have advantages and disadvantages. For example, they may allow FTA to fund more projects and give local communities more flexibility in choosing between transit modes. However, they may also create challenges for future transit projects. For example, proposed transit projects may have difficulties generating an increased local funding share. The initiatives may also change the original fixed guideway emphasis of New Starts by allowing nonfixed guideway projects to be funded through New Starts, which some project sponsors believe may disadvantage traditional New Starts projects. Additionally, replacing the "exempt" classification may reduce the number of smaller communities that will participate in New Starts.

This report makes recommendations to ensure that FTA's New Starts regulations reflect its current 60 percent preference policy on the federal share for projects and to address problems found in the implementation of the new user benefits measure by issuing additional guidance to transit agencies. Department of Transportation officials agreed with the information provided in this report and they concurred with the recommendation about

[8]According to FTA, statutorily exempt projects must meet all planning, environmental, project management, and other requirements that demonstrate their readiness to advance into preliminary engineering and final design. Statutorily exempt projects do not sign full funding grant agreements, rather they are funded annually through scheduled grants or congressional designation.

providing guidance on the user benefits measure. They also said that they will consider the recommendation about amending the regulations related to the federal funding share.

Background

TEA-21 authorized a total of $36 billion in "guaranteed" funding through fiscal year 2003 for a variety of transit programs, including financial assistance to states and localities to develop, operate, and maintain transit systems.[9] Under one of these programs, the New Starts program, FTA identifies and funds worthy fixed guideway transit projects, including heavy, light, and commuter rail, ferry, and certain bus projects (such as bus rapid transit). FTA funds New Starts projects through full funding grant agreements (FFGA), which establish the terms and conditions for federal participation in a project. By statute, the federal funding share of a New Starts project cannot exceed 80 percent of its net cost. To obtain a FFGA, a project must progress through a regional review of alternatives and meet a number of federal requirements, including providing data for the New Starts evaluation and ratings process.[10]

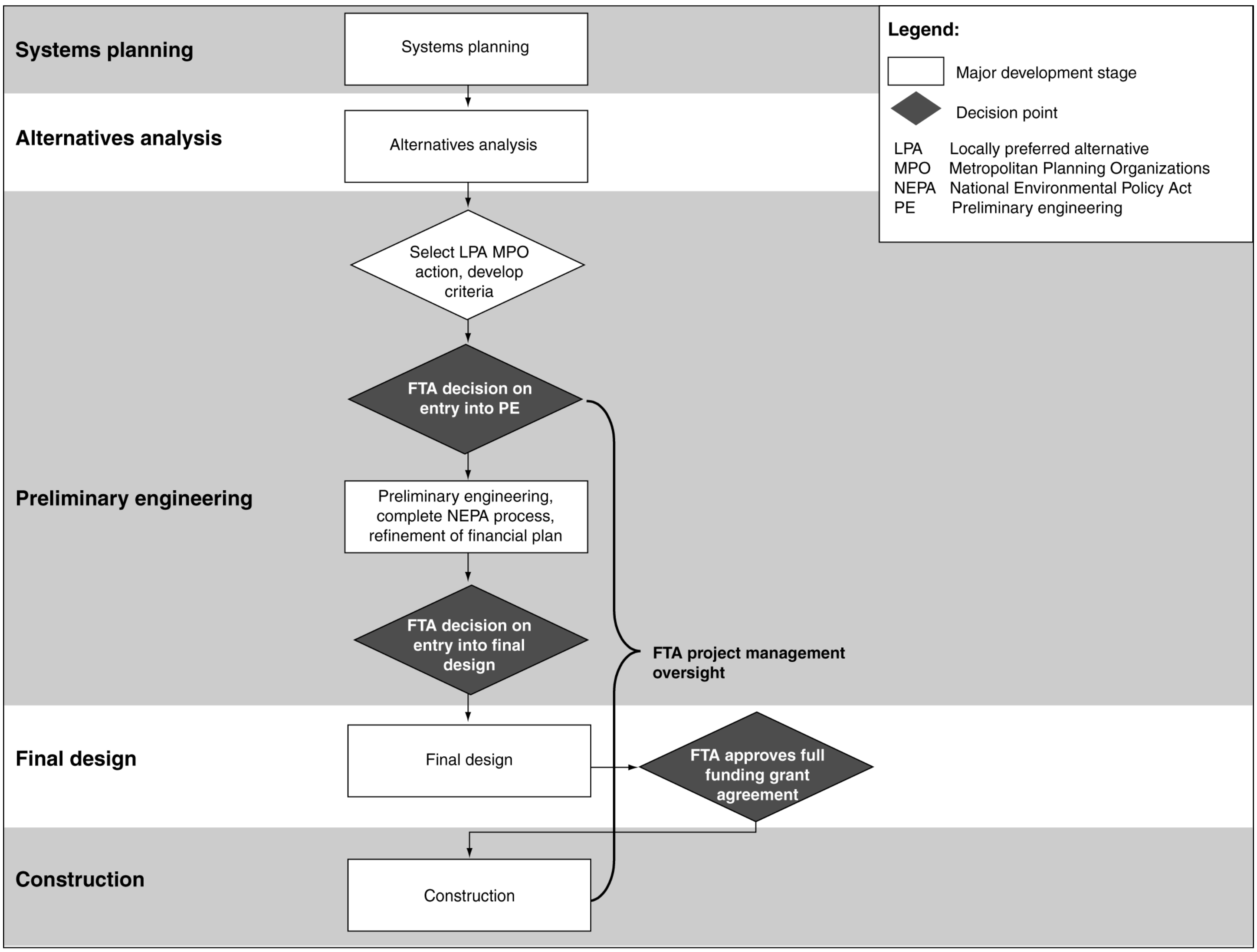
Projects presented to FTA for evaluation go through a lengthy process from planning to preliminary engineering and final design,[11] which may culminate in a FFGA and the actual construction phase. FTA conducts management oversight of projects from the preliminary engineering stage through construction. All projects that do not have an existing or pending FFGA and are in preliminary engineering or final design are considered to be in the New Starts pipeline. There are currently 52 projects in the pipeline. Figure 1 illustrates the overall planning and project development process for New Starts projects.

[9]"Guaranteed" funds are subject to a procedural mechanism designed to ensure that a minimum amount of funding is authorized each year.

[10]The alternatives analysis stage provides information on the benefits, costs, and impacts of alternative strategies leading to the selection of a locally preferred solution to the community's mobility needs.

[11]During the preliminary engineering phase, project sponsors refine the design of the proposal, taking into consideration all reasonable design alternatives, which results in estimates of costs, benefits, and impacts (e.g., environmental or financial). Final design is the last phase of project development before construction and may include right-of-way acquisition, utility relocation, and the preparation of final construction plans and cost estimates.

Figure 1: New Starts Planning and Project Development Process



Source: FTA.

To determine whether a project should receive federal funds, FTA's New Starts evaluation process assigns ratings based on a variety of financial and project justification criteria and then assigns an overall rating. These criteria are identified in TEA-21 and reflect a broad range of benefits and effects of the proposed projects, such as capital and operating finance plans, mobility improvements, and cost-effectiveness.[12] FTA assigns proposed projects a rating of *high*, *medium-high*, *medium*, *low-medium*, or *low* for each criterion. The individual criterion ratings are combined into the summary financial and project justification ratings. On the basis of these two summary ratings, FTA develops the overall project rating using the following decision rules:

- **Highly Recommended** requires at least a *medium-high* for both the financial and project justification summary ratings.

- **Recommended** requires at least a *medium* for both the financial and project justification summary ratings.

- **Not Recommended** is assigned to projects not rated at least *medium* for both the financial and project justification summary ratings.

- **Not Rated** indicates that FTA has serious concerns about the information submitted for the mobility improvements and cost-effectiveness criteria because the underlying assumptions used by the project sponsor may have inaccurately represented the benefits of the project.

- **Not Available** is the rating given to projects that did not submit complete data to FTA for evaluation for the fiscal year 2004 cycle.

Although many projects receive an overall rating of "recommended" or "highly recommended," only a few are proposed for FFGAs in a given fiscal year. FTA proposes "recommended" or "highly recommended" projects for FFGAs when it believes that the projects will be able to meet certain conditions during the fiscal year that the proposals are made. These conditions include the following:

- The local contribution to funding for the project must be made available for distribution.

[12]The exceptions to this process are statutorily "exempt" projects, which are those that request less than $25 million in New Starts funding. These projects are not required to submit project justification information and do not receive ratings from FTA.

- The project must be in the final design phase and have progressed to the point where uncertainties about costs, benefits, and impacts (e.g., environmental or financial) are minimized.

- The project must meet FTA's tests for readiness and technical capacity. These tests confirm that there are no cost, project scope, or local financial commitment issues remaining.

Changes to the New Starts Process for Fiscal Year 2004 Have Caused Difficulties for Some Project Sponsors

FTA implemented two changes to the New Starts process for fiscal year 2004. First, in response to language contained in a conference report prepared by the House Appropriations Committee, FTA instituted a preference policy in its ratings process favoring current and future projects that do not request more than a 60 percent federal share. Second, FTA revised its cost-effectiveness and mobility improvements criteria by adopting a Transportation System User Benefits (TSUB) measure that gives equal weight to benefits for both new and existing transit system riders. Project sponsors we interviewed endorsed the TSUB measure, but implementing it has been difficult for both FTA and the project sponsors because of the variety of local travel forecasting models that exist and problems with those models.[13] These difficulties resulted in some projects not being rated for the fiscal year 2004 cycle.

FTA Made Two Changes to the New Starts Process for Fiscal Year 2004

The New Starts evaluation and ratings process for fiscal year 2004 was generally similar to that of fiscal year 2003, but FTA implemented two changes that are described in its *Annual Report on New Starts for Fiscal Year 2004*.[14] First, in response to language contained in a conference report prepared by the House Appropriations Committee, FTA instituted a preference policy in its ratings process favoring current and future projects that do not request more than a 60 percent federal share. To achieve this, FTA changed its criterion related to capital finance plans to give projects seeking a federal share greater than 60 percent a "low" financial rating. A

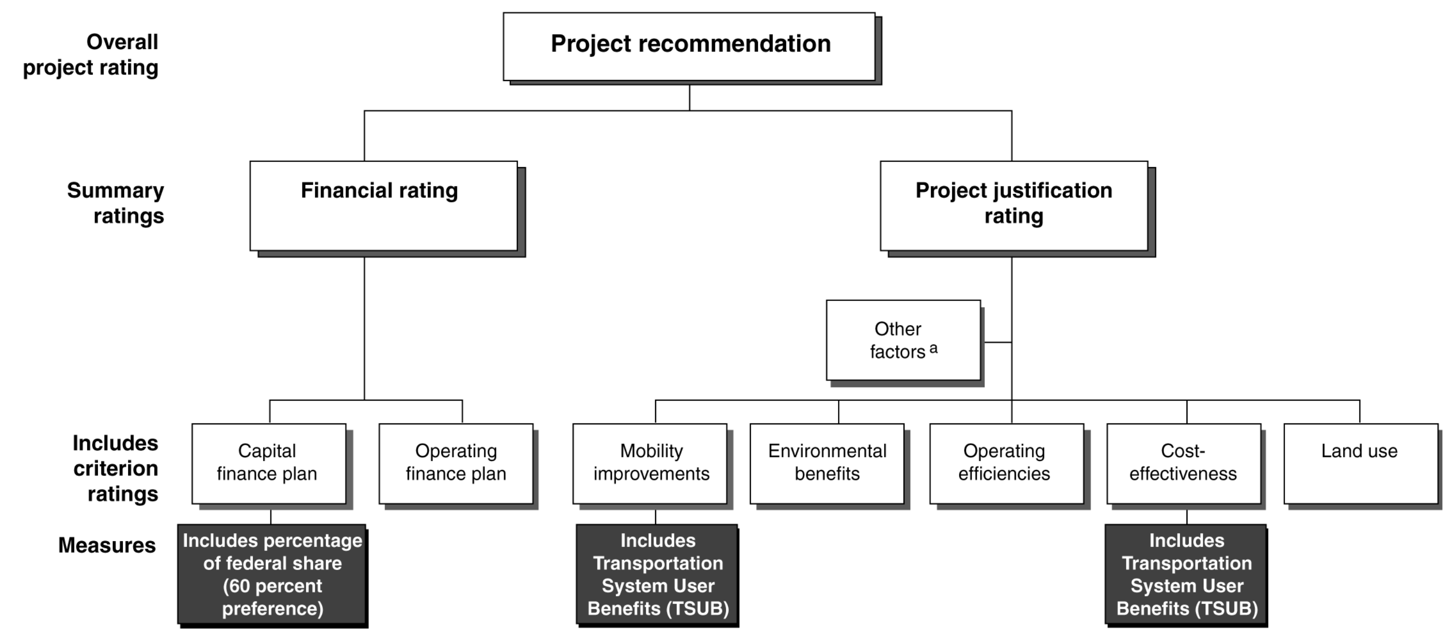
[13]We interviewed 11 sponsors of ongoing New Starts projects who were chosen to include a cross-section of projects based on geographic distribution, project size, and a range of cost-effectiveness and financial ratings. For a more detailed description of interviewees, see the Scope and Methodology section and app. II.

[14]See Federal Transit Administration, *Annual Report on New Starts: Proposed Allocations of Funds for Fiscal Year 2004* (Washington, D.C.: Feb. 3, 2003).

"low" financial rating is likely to result in a "not recommended" overall rating. Second, FTA changed the calculation of the cost-effectiveness and mobility improvements criteria by adopting the TSUB measure. The TSUB measure replaced the "cost per new rider" measure that had been used in past ratings cycles. According to FTA, the new TSUB measure reflects an important goal of any major transportation investment—reducing the amount of travel time and out-of-pocket costs that people incur for taking a trip (i.e., the cost of mobility). In contrast to the previous "cost per new rider" measure, the TSUB measure gives equal weight to both new and existing transit system riders by measuring not only the benefits to people who change transportation modes (e.g., highways to transit) but also benefits to existing transit riders and highway users.

Figure 2 illustrates the New Starts evaluation and ratings process, including the changes made to the process for fiscal year 2004.

Figure 2: Changes to the New Starts Evaluation and Ratings Process for Fiscal Year 2004



Source: FTA.

Note: The shaded boxes indicate areas where changes were made to the process for fiscal year 2004.

[a]According to FTA, this optional criterion of "other factors" gives grantees the opportunity to provide additional information about a project's likelihood for overall success.

FTA Regulations Do Not Reflect Its Current Preference Policy Favoring Projects with a Federal Funding Share That Does Not Exceed 60 Percent of Total Project Funding

The TEA-21 legislation that authorizes the New Starts program states that federal grants are to be made "for 80 percent of the net project cost, unless the grant recipient requests a lower grant percentage."[15] The legislation further provides that, in evaluating grant applications, FTA shall consider the degree of local financial commitment and the extent to which the local commitment exceeds the minimum nonfederal share of 20 percent. For the fiscal year 2004 cycle, FTA instituted a 60 percent preference policy that ultimately is likely to result in an overall rating of "not recommended" for projects that seek more than a 60 percent federal share.

Although TEA-21 authorized FTA to consider local financial commitments that increase the local share of net project cost, and it vested FTA with discretion as to how to achieve this, the Secretary of Transportation is required by law to issue regulations defining the manner in which projects will be evaluated and rated.[16] In December 2000, FTA finalized a regulation that stated that the evaluation and ratings process would consider, among other things, the extent to which projects have a local financial commitment that exceeds the 20 percent minimum. Essentially, this regulation merely restated the TEA-21 statutory criteria. Also, when FTA implemented its 60 percent preference policy, it did not amend its regulations to support the change in policy or its current procedures. By not amending its regulations, which have the full force and effect of law, to reflect this change, FTA has not provided an opportunity for public comment on its new policy. Furthermore, explicitly stating all of FTA's criteria and procedures in regulations would help to ensure that project sponsors, Metropolitan Planning Organizations, and others involved in considering potential New Starts projects were fully aware of FTA's preference policy and could make their investment decisions on the basis of a transparent evaluation and ratings process.

FTA has stated that in instituting the 60 percent preference policy, it was following congressional direction as expressed in a conference report prepared by the House Appropriations Committee.[17] That report states "the conferees direct FTA not to sign any new full funding grant agreements after September 30, 2002, that have a maximum federal share of higher than

[15] 49 U.S.C. § 5309.

[16] 49 U.S.C. § 5309(e)(5).

[17] H.R. Conf. Rep. No. 107-308, p. 114 (Nov. 30, 2001).

60 percent."[18] As stated previously, TEA-21 provides FTA with discretion to give priority to projects that have a federal share lower than 80 percent. FTA officials told us that favoring projects with a federal share that does not exceed 60 percent would allow more projects to receive New Starts funding and would help ensure that local governments play a major role in funding such projects.

Reduction in Federal Share Affected Some Ongoing New Starts Projects and May Adversely Affect Future Projects

Of the 32 projects that were rated for the fiscal year 2004 cycle, 4 received a "low" financial rating and a "not recommended" overall rating because, among other reasons, they proposed a federal share above 60 percent.[19] According to FTA, since the release of FTA's Annual Report in February 2003, one of these projects—the San Juan Tren Urbano Minillas Extension project—was withdrawn and the three remaining projects are continuing to address their financial issues. FTA officials expressed the view that reducing the level of federal share to 60 percent has a minimal impact because, over the last 10 years, the federal share for New Starts projects' grant agreements has averaged around 50 percent and has been trending lower. However, many of the project sponsors we interviewed (7 of the 11) noted that the reduced federal share did, in fact, have an impact on their projects' schedule and financing, which had to be revised prior to or during the ratings process.

FTA's decision to institute its preference policy for projects that seek no more than a 60 percent federal share may also adversely affect future projects, according to project sponsors that we interviewed, as the following examples illustrate.

- Six of the 11 project sponsors said that continuing a 60 percent preference policy for the amount of the federal share for projects might reduce the number of future projects because of difficulties faced by local and state governments in providing an increased local share. Transit industry officials we interviewed agreed with this statement.

[18]We note that statements in a committee or conference report do not have the force or effect of law and cannot supercede or repeal statutory requirements. See U.S. General Accounting Office, *Welfare Reform: Competitive Grant Selection Requirement for DOT's Job Access Program Was Not Followed*, GAO-02-213 (Washington, D.C.: Dec. 7, 2001), 11.

[19]The four projects proposing a federal share greater than 60 percent were San Juan Tren Urbano Minillas Extension, Ft. Collins Mason Street Transportation Corridor, Philadelphia Schuylkill Valley Metrorail, and San Francisco New Central Subway.

- Nine of the 11 project sponsors said that the unequal federal share for highway and transit projects could bias the local decision-making process in favor of highway projects. Highway projects generally receive a federal share of 80 percent or more, in contrast to the current preference policy of a 60 percent federal share for New Starts transit projects.

FTA's New Cost-effectiveness Criterion Was Endorsed by Project Sponsors but Resulted in Some Implementation Difficulties

The nine project sponsors we interviewed who were affected by the TSUB measure believed it was an improvement over the previous "cost per new rider" measure because the TSUB measure takes into account a broader set of costs and benefits to the overall transit system.[20] For example, the measure considers mobility benefits related to improved travel time for all users of a transportation corridor, rather than benefits accruing from only new riders. However, many project sponsors encountered difficulties in providing accurate data needed to calculate the new TSUB measure.

To implement the TSUB measure, FTA developed a software package, called Summit, to extract certain data from local travel forecasting models that are used in planning transit projects. FTA hired contractors to assist project sponsors in using the Summit software to calculate the TSUB value. During the implementation process, FTA discovered that many of the local travel forecasting models had underlying errors. Some of these errors were significant due to faulty design and assumptions made in some of the local travel forecasting models; others were simple coding errors in the models. As a result, many projects experienced difficulties that prevented them from calculating an acceptable value for the TSUB measure.

According to *FTA's Annual Report*, 11 of the 32 projects rated for the fiscal year 2004 cycle were identified as being unable to calculate a valid TSUB value.[21] As a result, these projects were "not rated" for the cost-effectiveness criterion. Additionally, 7 of the 9 project sponsors we interviewed who were affected by the TSUB measure encountered difficulties in the measure's implementation:

[20]We interviewed a total of 11 project sponsors, but 2 of these sponsors were exempt from the evaluation and ratings process because they are seeking less than $25 million in New Starts funding and, therefore, were not affected by the TSUB measure.

[21]There were 52 projects evaluated in the fiscal year 2004 cycle. However, 20 of these were exempt from the ratings process and not affected by the TSUB measure because they requested less than $25 million in New Starts funding.

- 5 had difficulty getting their local transit forecasting models to generate the data needed for FTA's software to calculate the measure,
- 3 did not have adequate data to develop the measure, and
- 2 said that FTA did not provide enough documentation about the measure and the software used to calculate the TSUB.

As described above, FTA officials told us that they believe the major problem in implementing the TSUB measure stemmed from problems with the underlying local travel forecasting models, not FTA's software or guidance on the measure. Nonetheless, FTA is taking some steps to address the problems raised in the implementation of the TSUB measure. For example, FTA hired contractors to work with transit sponsors to correct problems with the local travel forecasting models and the software used to calculate the TSUB measure. These contractors provided technical support to all affected project sponsors and assisted some sponsors in correcting the underlying problems identified in their local travel forecasting models. FTA officials also told us that they are continuing to work closely with the 11 project sponsors who were unable to calculate values for the TSUB measure. When the problems in the projects' local travel forecasting models are corrected and data are resubmitted to FTA for evaluation, FTA plans to re-rate these projects. As soon as a project receives a revised rating, FTA officials told us that they would inform Congress and other appropriate parties.

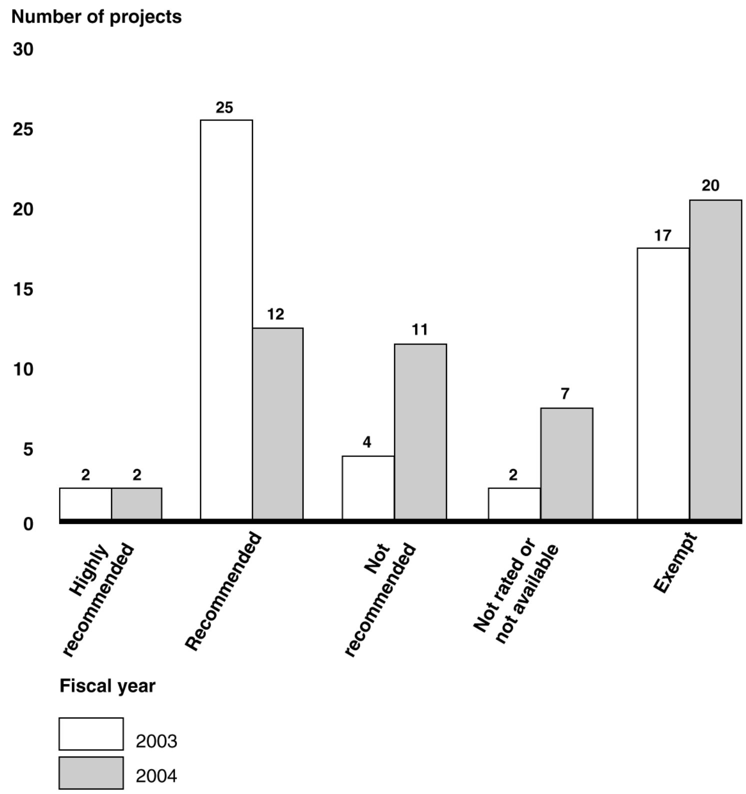
Project sponsors we interviewed told us that they would have benefited from additional guidance and other technical support, such as documentation for the software used to calculate the TSUB measure. They also requested additional opportunities to discuss their concerns and provide input to FTA officials about the measure. FTA officials told us that they are developing software documentation for the TSUB measure and plan to release it in June 2003. Furthermore, FTA has held a series of four roundtable discussions with project sponsors and transit industry officials, specifically on the TSUB measure and its implementation. FTA plans to hold two additional roundtable discussions during fiscal year 2004.

FTA officials and a FTA consultant told us that they anticipate that fewer projects will have difficulties calculating accurate TSUB values in future New Starts evaluation and ratings cycles. FTA plans to continue addressing technical problems related to inaccurate local travel forecasting models on a case-by-case basis. FTA officials also acknowledged the need to develop a more systematic approach for dealing with these problems.

FTA Evaluated 52 Projects for the Fiscal Year 2004 Cycle, Rated 32, and Proposed 4 for New Grant Agreements

Of the 52 projects FTA evaluated for the fiscal year 2004 cycle, 32 were rated and 20 were statutorily exempt from the ratings process because they requested less than $25 million in New Starts funding. Figure 3 shows the results of the process for the fiscal year 2004 cycle and how they compare with those of fiscal year 2003, when 50 projects were evaluated. From fiscal years 2003 to 2004, the number of "recommended" projects decreased from 25 to 12, while the number of projects that received a rating of "not recommended" rose from 4 to 11. The primary reasons for these changes were (1) lower financial ratings, which resulted from the inability of some projects to conform to the reduced federal share, and (2) "low" ratings received on the cost-effectiveness and mobility improvements criteria resulting from implementation of the new TSUB measure. In addition, the number of projects that were "not rated" or "not available" rose from 2 to 7, largely due to difficulties project sponsors had in determining a value for the TSUB measure.

Figure 3: Distribution of New Starts Project Ratings for Fiscal Years 2003 and 2004



Source: FTA.

Following the fiscal year 2004 New Starts evaluation and ratings process, FTA proposed four projects for new federal funding commitments. Inclusion of one of them—the Chicago Ravenswood Line Expansion project—is unusual because FTA assigned it an overall project rating of "not rated" even though, on the basis of FTA's New Starts regulations, a project must have an overall rating of at least "recommended" to receive a grant agreement. According to FTA officials, this project could not be rated because its local travel forecasting data and models did not support calculation of the new benefits measure. However, the officials told us that they decided to select this project for a proposed grant agreement because they believed that the data problems would be corrected, and the project would be able to achieve a "recommended" rating. Along with the other three proposed projects, FTA officials believe that the Chicago Ravenswood Line Expansion project will be ready for a grant agreement by the end of fiscal year 2004. Officials said that other projects that received overall ratings of “recommended” or “highly recommended” would not be ready at that time. Figure 4 summarizes the ratings of the four proposed projects, which are further described in appendix I.

Figure 4: Ratings of Projects Proposed for New Starts Funding in Fiscal Year 2004

		Financial criteria			Project justification criteria					
Project	Overall project rating	Financial rating	Capital financial rating	Operational financial rating	Project justification rating	Mobility rating (includes TSUB)	Environmental rating	Operational effectiveness rating	Cost-effectiveness rating (includes TSUB)	Land use rating
Chicago - Ravenswood Line Expansion	**Not rated**	**Medium**	Medium	Medium high	**Not rated**	Not rated	High	Medium	Not rated	High
Las Vegas - Resort Corridor	**Recommended**	**Medium**	Medium	Medium	**Medium high**	Medium	High	Medium	High	Medium
New York - East Side Access	**Recommended**	**Medium**	Medium high	Medium	**Medium high**	High	High	Medium	Medium	High
Seattle - Central Link	**Highly recommended**	**Medium high**	Medium high	Medium high	**Medium high**	Medium	Medium	Medium	Medium	Medium high

Source: FTA.

Note: According to FTA officials, some ratings criteria are weighted more heavily than others when the project justification summary rating is determined.

Proposed Initiatives in FTA's Fiscal Year 2004 Budget Proposal Have Some Advantages, but May Create Challenges for Future New Starts Projects

The administration's fiscal year 2004 budget proposal requests that $1.5 billion be made available for New Starts, a $0.3 billion increase over the fiscal year 2003 level. The budget proposal also contains three initiatives—reducing the federal share to 50 percent, allowing nonfixed guideway projects to be funded through New Starts, and replacing the "exempt" classification with a streamlined ratings process for projects requesting less than $75 million in New Starts funding.

Administration's Proposed Fiscal Year 2004 Budget Requests 25 Percent Increase in New Starts Funding

The administration's budget proposal for fiscal year 2004 requests that $1.5 billion be made available for the construction of new transit systems and expansion of existing systems through the New Starts program—an increase of $0.3 billion, or 25 percent over the $1.2 billion appropriated for fiscal year 2003. The commitment authority for fiscal year 2004 and beyond will be addressed in the next surface transportation authorization legislation.[22] Because FTA's fiscal year 2004 budget proposes that $1.5 billion in commitments be made available for the New Starts program, FTA expects that the new commitment authority adopted in the authorization legislation will, at a minimum, be sufficient to cover this amount.[23]

Figure 5 illustrates the specific allocations FTA has requested for fiscal year 2004. It shows that

- $1.08 billion would be allocated among 21 projects with existing grant agreements;
- $235 million would be allocated among the 4 projects proposed for new FFGAs;

[22]FTA's New Starts commitment authority is the amount of funding Congress has authorized FTA to commit to New Starts projects for a given authorization period.

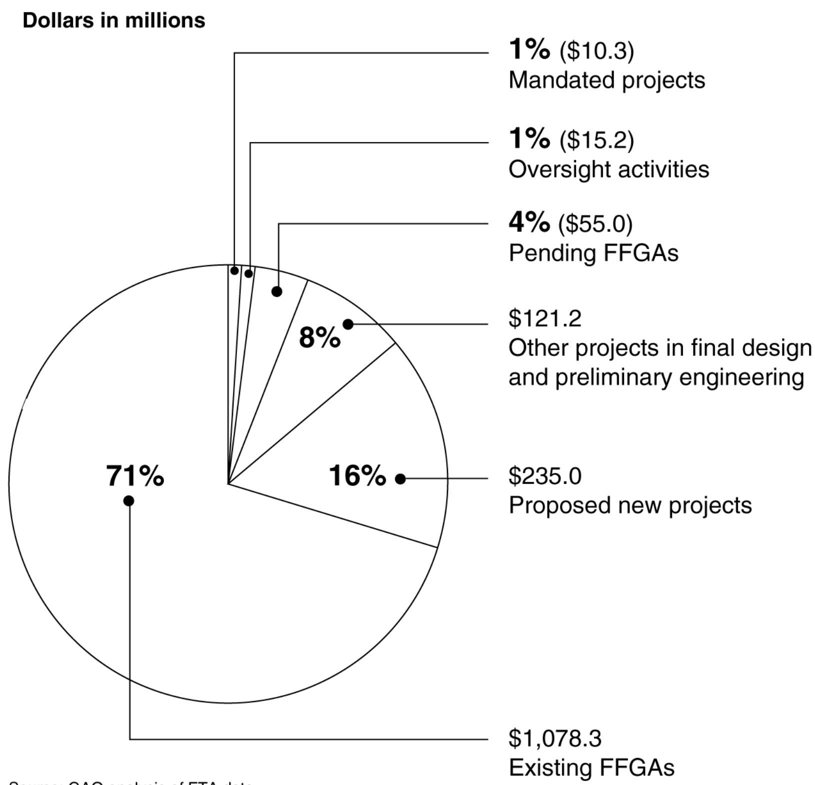
[23]FTA expects to end fiscal year 2003 with about $0.2 billion in unused commitment authority. Under TEA-21 and subsequent amendments, Congress authorized approximately $10.0 billion in total New Starts commitment authority from fiscal year 1998 through fiscal year 2003. FTA committed about $9.8 billion for New Starts projects during those years, resulting in the $0.2 billion in unused commitment authority.

- $121.2 million would be allocated among other projects in final design and preliminary engineering that do not have existing, pending, or proposed FFGAs (these projects may include those designated by Congress);

- $55 million would be allocated to 1 project with a pending grant agreement (i.e., the FFGA was proposed in an earlier year, but has not yet been completed); and

- the remainder of the funds would be allocated to other mandated projects and oversight activities.

Figure 5: New Starts Funding Proposals for Fiscal Year 2004



Source: GAO analysis of FTA data.

Note: The percentages in the figure do not total 100 percent due to rounding.

Proposed Initiatives in FTA's Fiscal Year 2004 Budget Proposal Have Advantages and Disadvantages

The administration has proposed that the federal share of New Starts project costs be reduced from the current statutory maximum level of 80 percent to a statutory maximum of 50 percent.[24] The possible advantages of this proposed reduction would be similar to those cited by FTA officials as justification for the 60 percent preference policy—that is, the change may allow FTA to fund additional projects and the local governments sponsoring the projects would be encouraged to provide a greater degree of financial commitment. However, a reduction in the federal share may adversely affect some future projects. Nine of the 11 project sponsors we interviewed were opposed to a reduction of the federal share for projects from the current statutory level of 80 percent to 50 percent. These sponsors said that a reduced federal share may make it more difficult for communities to participate in the New Starts program because they will have to provide an increased local share. It may also affect local decision making because it would make the federal share for transit projects higher than that required for most highway projects, which generally receive a federal share of 80 percent or more. We reported in 2002 that a number of the nation's leading transportation experts had suggested that federal matching requirements should be equal for all transportation modes to avoid creating incentives for local decision makers to pursue projects in one mode that might be less effective than projects in other modes.[25] However, as we noted earlier, over the past 10 years requests for federal assistance for New Starts projects have averaged around 50 percent and have been trending lower.

Another initiative proposed in the administration's fiscal year 2004 budget proposal would allow certain nonfixed guideway transit projects (e.g., regular or express bus service) to be eligible for New Starts funding. Currently, New Starts projects are exclusively on fixed guideways and occupy a separate right-of-way. According to FTA, the proposal would allow project sponsors to choose the most appropriate mode to serve specific corridors. Three of the 11 project sponsors we interviewed supported the initiative because they believed that it gives local communities greater flexibility when choosing types of transit projects.

[24] FTA first proposed reducing the statutory maximum level of the federal share to 50 percent in its fiscal year 2002 budget proposal. Congress rejected the proposal.

[25] See U.S. General Accounting Office, *Surface and Maritime Transportation: Developing Strategies for Enhancing Mobility: A National Challenge*, GAO-02-775 (Washington, D.C.: Aug. 30, 2002).

Seven of the 11 project sponsors we interviewed questioned the need for allowing nonfixed guideway projects into the New Starts process. They were concerned that there would be less emphasis on traditional fixed guideway New Starts projects. Transit industry officials we interviewed shared this concern.

Finally, the administration has proposed replacing the “exempt” classification with a streamlined ratings process for projects requesting less than $75 million in New Starts funding. Currently, projects seeking less than $25 million in New Starts funding are exempt from the ratings process and are not evaluated on the same project justification criteria as projects requesting more than $25 million. By eliminating the “exempt” classification and replacing it with a streamlined ratings process for projects requesting less than $75 million, FTA would ensure that all projects receive a rating and are evaluated on the basis of the same criteria. This is a hallmark of performance-oriented evaluation. However, 6 of 11 project sponsors we interviewed opposed eliminating the “exempt” classification. These project sponsors believed that elimination of the “exempt” classification would reduce the number of funding applications from smaller cities because of the cost and time involved in providing the full evaluation data.

Figure 6 summarizes the advantages and disadvantages of the three proposed initiatives in the administration’s fiscal year 2004 budget proposal, as expressed by FTA officials and project sponsors we interviewed.

Figure 6: Advantages and Disadvantages of Proposed New Starts Initiatives

Proposed initiatives for fiscal year 2004	Advantages	Disadvantages
Reduce statutory maximum level of federal share to 50 percent	May allow more projects to be funded	May be more difficult for communities to provide increased local share and may create inequitable funding for transit when compared to highways
Allow nonfixed guideway projects to be funded through New Starts	Gives local communities greater flexibility in choosing among transit modes	Changes the original emphasis of New Starts, which some project sponsors believe will disadvantage traditional fixed guideway New Starts projects
Replace the "exempt" provision with a streamlined rating process for projects requesting less than $75 million dollars	All projects will receive a rating and this may promote greater performance-oriented evaluation	May cause smaller projects and smaller communities to not participate in New Starts

Source: GAO analysis of interview comments from FTA officials and local sponsors.

Conclusions

Although FTA has the authority to favorably rate proposed projects that request a lower federal share, it also has a responsibility to fully inform all transit agencies of changes that are made to the evaluation and ratings process. Because FTA has not revised its regulations to reflect its 60 percent preference policy, transit sponsors, other members of the transit community, and the public may not be fully aware of FTA's preference policy and have not had the opportunity to formally comment on it. By revising its regulations to reflect its current policy, FTA would have the opportunity to obtain public comments on its proposed rulemaking, thus increasing the transparency of the agency's decision-making process and ensuring that the views of affected transit agencies and other interested parties are considered in that process.

In its implementation of the Transportation System User Benefits measure, FTA discovered that many local travel forecasting models used by project sponsors in planning New Starts projects were flawed or had difficulty generating the required data. FTA officials considered this to be a major problem and they acknowledged the need for a more systematic way to address the problem across all transit agencies that are current or future New Starts project sponsors. FTA has assisted project sponsors on a case-by-case basis and plans to do so in the future. Additional guidance from FTA on what specific information is required from local travel forecasting models could help transit agencies generate accurate data for the measure.

Recommendations for Executive Action

To ensure that the New Starts regulations reflect FTA's actual evaluation and ratings process and procedures, the Secretary of Transportation should direct the Administrator, FTA, to amend the agency's regulations governing the level of federal funding share for projects to reflect its current policy.

To systematically address the problems with the implementation of the Transportation System User Benefits measure, the Secretary of Transportation should direct the Administrator, FTA, to issue additional guidance to transit agencies describing FTA's expectations regarding the local travel forecasting models and the specific type of data FTA requires to calculate the measure.

Agency Comments

We obtained oral comments on a draft of this report from the Department of Transportation. Department officials generally agreed with the information presented in the report and they provided technical clarifications, which we incorporated as appropriate. They concurred with the recommendation about providing guidance on the user benefits measure and said that they will consider the recommendation about amending the regulations related to federal funding share.

Scope and Methodology

To describe the changes in the New Starts process, we analyzed information in FTA's *Annual Report on New Starts for Fiscal Year 2004*. To identify any issues related to those changes, we interviewed

- FTA officials and contractors hired by FTA to implement those changes;

- 11 of the 52 sponsors of fixed guideway transit projects being considered for New Starts funding in fiscal year 2004;[26]

- Metropolitan Planning Organization (MPO) officials involved in 5 of the projects whose sponsors we interviewed; and

- transit industry officials, including senior officials at the American Public Transportation Association and the Chair of the New Starts Working Group—an organization of New Starts project sponsors, MPOs, and private transit industry firms, who advocate improvements to the New Starts evaluation and ratings process.

To determine how many New Starts projects were evaluated, rated, and proposed for funding in fiscal year 2004, we analyzed information in FTA's *Annual Report* and in various budget and financial documents prepared by FTA. To identify proposed funding commitments and initiatives related to New Starts in the administration's fiscal year 2004 budget proposal—and the challenges they might present for future projects—we reviewed pertinent FTA documents, including its *Annual Report* and proposed budget, and we interviewed a wide variety of officials affected by the changes. These included the individuals listed above (FTA officials, project sponsors, MPO officials, and transit industry representatives). We conducted our review from March 2003 through June 2003 in accordance with generally accepted government auditing standards.

We are sending copies of this report to congressional committees with responsibilities for transit issues; the Secretary of Transportation; the Administrator, Federal Transit Administration; and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, this report will be available at no charge on our Web site at http://www.gao.gov.

[26]The views expressed by the 11 transit sponsors we interviewed may not reflect the views of all sponsors of New Starts projects, but they are a sample chosen to include a cross-section of projects based on geographic distribution, project size, and a range of cost-effectiveness and financial ratings.

If you or your staffs have any questions on matters discussed in this report, please contact me at siggerudk@gao.gov. An additional key GAO contact and contributors to this report are listed in appendix III.

Katherine A. Siggerud
Acting Director, Physical Infrastructure Issues

Additional Information on Four Projects Proposed for New Full Funding Grant Agreements in Fiscal Year 2004

Chicago Ravenswood Line Expansion Project

- The Chicago Transit Authority (CTA) is planning a series of capital improvements to enhance the operation of the Ravenswood heavy rail line, which currently experiences capacity problems through a high-density 9.3-mile corridor.
- The Ravenswood Line Expansion Project would allow CTA to expand platforms and stations along the existing line to accommodate longer trains.
- The overall capital cost of the project is estimated at $529.9 million. The federal share requested is $245.5 million (46 percent).
- At present, this project has been identified as “not rated” due to concerns about some of the information underlying the calculation of the Transportation System User Benefits (TSUB) measure. However, on the basis of work conducted to date, the Federal Transit Administration (FTA) believes that the remaining issues will be resolved in the near future and that an overall project rating of “recommended” is likely to be granted.

Las Vegas Resort Corridor Project

- The Las Vegas Regional Transportation Commission (RTC) is proposing a 2.28-mile Resort Corridor Automated Guideway Transit (elevated monorail) project.
- The monorail will serve the Las Vegas central business district and the resort corridor along the Las Vegas “strip.”
- The estimated capital cost for the project is $324.8 million. RTC is seeking $159.7 million (50 percent) in New Starts funding.
- The Las Vegas Resort Corridor Project received a “high” rating for cost-effectiveness, as demonstrated by its high transit system user benefits.

New York East Side Access Project

- The New York Metropolitan Transit Authority (MTA) is designing a direct access for Long Island Rail Road (LIRR) passengers to a new passenger concourse in Grand Central Station in Midtown Manhattan.

- The 4-mile, two-station commuter rail extension under the East River will contribute to the overall growth of the nation's largest commuter rail system.

- The projected capital cost of the project is $5.3 billion. MTA is requesting $2.6 billion (49 percent) in New Starts funding.

- LIRR has 162,000 daily riders, and this project will allow them to access the east side of New York by connecting LIRR with Grand Central Station. FTA officials believe that the project will reduce travel time for many riders.

Seattle Central Link Project

- The Central Puget Sound Regional Transit Authority (Sound Transit) is proposing a 24-mile Central Link light rail transit line from central Seattle toward, but not connecting to, the Seattle-Tacoma airport.

- The total capital cost for the project is estimated at $2.5 billion. Sound Transit is expected to seek $500 million (20 percent) in New Starts funding.

- The Central Link project entered Preliminary Engineering in July 1997 and Final Design in February 2000. FTA originally entered into a full funding grant agreement for the "Seattle Sound Move Corridor" project in January 2001.

- Congress and the Department of Transportation's Office of the Inspector General raised significant questions about the project costs and directed Sound Transit to reexamine the entire project to reduce risks and better meet budget limitations. Sound Transit identified the Central Link component of the larger Seattle Sound Move Corridor project as its new minimum operable segment.

Transit Sponsors and Metropolitan Planning Organizations Contacted by GAO

Project	Transit agencies contacted
Chicago (Ravenswood Line Expansion)	Chicago Transit Authority
Cleveland (Euclid Corridor Bus Rapid Transit)	Greater Cleveland Regional Transit Authority
Las Vegas (Resort Corridor Fixed Guideway)	Regional Transportation Commission of Clark County
Little Rock (River Rail Project)	Central Arkansas Transit Authority
Nashville (East Corridor Commuter Rail)	Regional Transportation Authority
New York (Long Island Railroad Eastside Access)	Metropolitan Transportation Authority
Philadelphia (Schuylkill Valley Metrorail)	Southeastern Pennsylvania Transportation Authority
Pittsburgh (North Shore Connector Light Rail Transit)	Port Authority of Allegheny County
San Francisco (New Central Subway Project)	San Francisco Municipal Railway
Seattle (Central Link Initial Segment)	Puget Sound Regional Transit Authority
Washington, D.C. (Dulles Corridor Bus Rapid Transit)	Washington Metropolitan Area Transportation Authority
Geographic location	**Metropolitan Planning Organizations contacted**
Chicago, Illinois	Chicago Area Transportation Study
Las Vegas, Nevada	Regional Transportation Commission of Clark County
Philadelphia, Pennsylvania	Delaware Valley Regional Planning Commission
Seattle, Washington	Puget Sound Regional Council
Washington, D.C.	National Capital Region Transportation Planning Board at the Metropolitan Washington Council of Governments

Source: GAO.

GAO Contact and Staff Acknowledgments

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