



Testimony

Before the Committee on Government Reform, House of Representatives

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MASS TRANSIT

Information on the Federal Role in Funding the Washington Metropolitan Area Transit Authority

Statement for the Record by Katherine Siggerud, Director Physical Infrastructure Issues



G A O

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Highlights of [GAO-05-358T](#) a Statement for the Record for the Committee on Government Reform, House of Representatives

## Why GAO Did This Study

In recent years, the Washington Metropolitan Area Transit Authority (WMATA) has faced serious financial and budgetary problems as well as continuing challenges related to the safety and reliability of its transit services. At the same time, ridership is at an all-time high, and WMATA continues to provide critical services and considerable benefits to the Washington region's economic well-being and to the federal government.

This statement is based on preliminary results of our work on WMATA that GAO is performing at the request of the Chairman, House Committee on Government Reform, as well as on GAO's previous review of WMATA and other studies of WMATA's financial condition. It discusses (1) the extent to which WMATA relied on federal funding to build its Metrorail subway system and the federal government's rationale for providing that funding, (2) the extent to which WMATA has relied on other federal funding for capital improvements in recent years, and (3) the current funding challenges that WMATA faces and options that have been proposed to address those challenges.

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To view the full product, including the scope and methodology, click on the link above. For more information, contact Kate Siggerud at (202) 512-2834 or [siggerudk@gao.gov](mailto:siggerudk@gao.gov).

## MASS TRANSIT

# Information on the Federal Role in Funding the Washington Metropolitan Area Transit Authority

## What GAO Found

WMATA relied on federal funding to pay for over 60 percent of the costs to build its Metrorail subway system. From 1969 through 1999, the federal government provided about \$6.2 billion of the approximately \$10 billion that WMATA spent to construct the original 103-mile system. About two-thirds of this federal funding, or \$4.1 billion, came from direct appropriations. The remaining federal funding, about \$2.1 billion, came from unused federal Interstate highway funds. In addition, nonfederal entities provided about \$2.1 billion for Metrorail's construction, and about \$1.7 billion came from revenue bonds, and other sources. Beginning in the 1960s, Congress and the Executive Branch supported federal funding for building the Metrorail system, citing several reasons including (1) the federal government's large presence in the area, (2) the attraction of the nation's capital for tourists, (3) the overlapping needs of adjacent jurisdictions, and (4) the limitations faced in raising other revenue for transit needs.

WMATA has relied on other federal funding to cover over 40 percent of its capital improvement costs over the last 10 fiscal years. Of about \$3.5 billion in total funding that WMATA received from all sources for capital improvements from fiscal year 1995 through fiscal year 2005, about \$1.5 billion, or about 43 percent, came from the federal government, and about \$2.0 billion, or about 57 percent, came from the state and local jurisdictions that WMATA serves and from other sources. Most of the federal funding has come through grants administered by the Federal Transit Administration. Over the last 10 fiscal years, the federal grant funding has generally increased, but the nonfederal funding has varied. WMATA has combined and used its federal grant and nonfederal funds for eligible rail modernization, new construction and extensions, and bus rehabilitation programs and projects. WMATA also received and used about \$49.9 million for congressionally designated projects during fiscal years 1995 through 2005.

Over the years, WMATA has faced funding challenges, and options have been proposed to address them. Although WMATA has taken steps to improve its management, such as prioritizing its planned capital improvements, it lacks a dedicated funding source and must rely on contributions from local, regional, and federal organizations. These contributions can vary and have not been sufficient in recent years to fully fund WMATA's planned capital improvements. Proposed options would provide a dedicated funding source, such as a regional sales tax, and would include federal funding, particularly for capital maintenance and enhancement. This federal funding would be in addition to the federal grant funding that WMATA currently receives.

Mr. Chairman and Members of the Committee:

We are pleased to have the opportunity to provide information on the federal government's role in funding the Washington Metropolitan Area Transit Authority (WMATA). In recent years, WMATA has faced serious financial and budgetary problems as well as continuing challenges related to the safety and reliability of its transit services. At the same time, WMATA's ridership is at an all-time high, and the agency continues to provide critical services and considerable benefits to the National Capital Region's economic well-being and to the federal government.

Our statement today is based on preliminary results of our work on WMATA. We will discuss (1) the extent to which WMATA relied on federal funding to build its Metrorail subway system and the federal government's rationale for providing that funding, (2) the extent to which WMATA has relied on other federal funding for capital improvements over the past 10 fiscal years, and (3) the current funding challenges that WMATA faces and options that have been proposed to address those challenges. Our work is based on a review of the laws and regulations that have governed WMATA since its inception, an analysis of WMATA's budgetary and program data, a review of reports on WMATA's financial problems that we and others have issued, and interviews with officials in WMATA and in the Department of Transportation. This statement relies on data provided by WMATA; we did not have an opportunity to review the reliability of that data.

In summary:

- WMATA relied on federal funding to pay for over 60 percent of the costs to build its Metrorail subway system. Since the 1960s, Congress and the executive branch have supported federal funding for WMATA. From 1969 through 1999, the federal government provided about \$6.2 billion of the approximately \$10 billion that WMATA spent to construct the original 103-mile system. About two-thirds of this federal funding, or \$4.1 billion, came from direct appropriations authorized under three acts—the National Capital Transportation Act of 1969 (\$1.1 billion), the National Capital Transportation Amendments of 1979 (\$1.7 billion), and the National Capital Transportation Amendments of 1990 (\$1.3 billion).<sup>1</sup> The remaining federal funding, about \$2.1 billion, came from unused federal interstate highway funds that the District of Columbia was authorized to provide to WMATA to supplement the direct appropriations for Metrorail construction. (See app. I, table 1.) In addition, nonfederal entities provided about \$2.1 billion for Metrorail construction, and about \$1.7 billion came from other sources, including revenue bonds. Several factors contributed to the federal government's rationale for providing funding to construct a transit system in the District of Columbia. These included (1) the large presence of the federal government in the area with its attendant property, buildings, and workforce; (2) the attraction of the nation's

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<sup>1</sup> Congress authorized appropriations over a period of years for the construction of the Washington Metropolitan Area transit system in 1969, 1979, and 1990. The appropriations that were authorized in 1969 went directly to WMATA, while the appropriations that were authorized in 1979 and 1990 were directed to WMATA via the Department of Transportation. Subsequently, Congress appropriated funds in annual appropriation acts in accordance with these authorizing acts.

capital as a tourist destination; (3) the overlapping needs of adjacent jurisdictions; and (4) the limitations faced by the District of Columbia and by adjacent jurisdictions in raising revenue for transit needs.

- WMATA has relied on other federal funding to cover over 40 percent of its capital improvement costs over the last 10 fiscal years. Of about \$3.5 billion in total funding that WMATA received from all sources for capital improvements from fiscal year 1995 through fiscal year 2005, about \$1.5 billion, or about 43 percent, came from the federal government, and about \$2.0 billion, or about 57 percent, came from the state and local jurisdictions that WMATA serves and from other sources. Most of the federal funding has come through grants administered by the Federal Transit Administration. Over the last 10 fiscal years, the federal grant funding has generally increased, but the nonfederal funding has varied. WMATA has combined and used its federal grant and nonfederal funds for eligible rail modernization, new construction and extension, and bus rehabilitation programs and projects. Finally, WMATA received and used about \$49.9 million for congressionally designated projects, including a new Metrorail station at New York Avenue in the District of Columbia, during fiscal years 1995 through 2005. (See app. I, table 2.)
- Over the years, WMATA has faced funding challenges, and options have been proposed to address them. In 2001, we reported that WMATA anticipated funding shortfalls through 2025,<sup>2</sup> and we recommended that, to improve its management, it document and prioritize its planned capital improvements. WMATA has taken these steps, but its funding challenges have grown as the Metrorail system has aged. WMATA lacks a dedicated source of funds to pay for its planned capital improvements and must rely on local, regional, and federal organizations for financial support. Their support can vary and has not been sufficient in recent years for WMATA to fully fund its planned capital improvements. Options proposed to address WMATA's funding challenges would provide a dedicated source of funds, such as a regional sales tax, and would include federal funding, particularly for capital maintenance and enhancement. This federal funding would be in addition to the grants that WMATA currently receives.

## Background

WMATA was created in 1967 by an interstate compact that resulted from the enactment of identical legislation by Virginia, Maryland, and the District of Columbia, with the concurrence of the U.S. Congress.<sup>3</sup> WMATA began building its Metrorail system in 1969, acquired four regional bus systems in 1973, and began the first phase of Metrorail operations in 1976. In January 2001, WMATA completed the originally planned 103-mile Metrorail system, which included 83 rail stations on five

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<sup>2</sup> See *Mass Transit: Many Management Successes at WMATA, but Capital Planning Could Be Enhanced*, GAO-01-744 (Washington, D.C.: July 3, 2001) and *Mass Transit: WMATA Is Addressing Many Challenges, but Capital Planning Could Be Improved*, GAO-01-1161T (Washington, D.C.: Sept. 21, 2001).

<sup>3</sup> Washington Metropolitan Area Transit Authority Compact, Pub. L. No. 89-774 (1966).

rail lines.<sup>4</sup> Currently, WMATA operates a massive transit system that serves a population of 3.5 million within a 1,500-square-mile service area covering numerous jurisdictions within Virginia, Maryland, and the District of Columbia.<sup>5</sup> The transit system encompasses (1) the Metrorail system, which now has 86 Metrorail stations on five rail lines and a fleet of about 900 rail cars; (2) the Metrobus system, which has a fleet of about 1,400 buses serving 350 routes; and (3) the MetroAccess ADA<sup>6</sup> complementary paratransit system, which provides specialized transportation services, as required by law, to persons with disabilities who are certified as being unable to access WMATA's fixed-route transit system.

WMATA operates in a complex environment, with many organizations influencing its decision-making and funding and providing oversight. WMATA is governed by a Board of Directors, which sets policies and oversees all of WMATA's activities, including budgeting, operations, development and expansion, safety, procurement, and other activities. In addition, a number of local, regional, and federal organizations affect WMATA's decision-making, including (1) state and local governments, which subject WMATA to a range of laws and requirements; (2) the Tri-State Oversight Committee, which oversees WMATA's safety activities and conducts safety reviews; (3) the National Capital Region Transportation Planning Board (TPB) of the Metropolitan Washington Council of Governments (COG), which develops the short- and long-range plans and programs that guide WMATA's capital investments; (4) the Federal Transit Administration (FTA), which provides oversight of WMATA's compliance with federal requirements; and (5) the National Transportation Safety Board, which investigates accidents on transit systems as well as other transportation modes.

WMATA estimates that its combined rail and bus ridership will total about 342 million passenger trips in fiscal year 2005, making it the second largest heavy rail rapid transit system and the fifth largest bus system in the United States, according to WMATA officials. WMATA's proposed fiscal year 2005 budget totals nearly \$1.3 billion. Of the total amount, about 76 percent, or \$977.9 million, is for operations and maintenance activities, including debt service, and the remaining 24 percent, or \$314.1 million, is for capital improvements. WMATA obtains its funding from a variety of sources, including the federal, state (Maryland and Virginia), District of Columbia, and local governments; passenger fares; and other sources. In general, WMATA relies on passenger fares and subsidies from its member jurisdictions to cover its operating costs, and it obtains its capital funds from the sources discussed in this statement.

### **WMATA Relied on Federal Funding to Cover over 60 Percent of Metrorail Construction Costs**

Over about 30 years, from 1969 through 1999, the federal government provided funding for Metrorail construction, through direct appropriations and unused highway funds.

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<sup>4</sup> WMATA operates five rail lines: red, blue, orange, green, and yellow.

<sup>5</sup> The WMATA service area consists of the northern Virginia counties of Arlington, Fairfax, and Loudoun and the cities of Alexandria, Fairfax, and Falls Church; the suburban Maryland counties of Montgomery and Prince George's; and the District of Columbia.

<sup>6</sup> The ADA is the Americans with Disabilities Act of 1990.

This funding covered about 62 percent of the transit system's construction costs. The remaining construction funds came from nonfederal entities and other sources. The federal contribution reflected the federal government's interest in and responsibility for a regional transit system.

Federal funding accounted for about \$6.2 billion of the approximately \$10.0 billion that WMATA spent to build the original 103-mile system. About two-thirds of this federal funding, or over \$4 billion, came from direct appropriations authorized in legislation enacted in 1969, 1979, and 1990.<sup>7</sup>

- The National Transportation Act of 1969<sup>8</sup> authorized \$1.1 billion for Metrorail construction.
- The National Capital Transportation Amendments of 1979<sup>9</sup> (also known as the Stark Harris bill) authorized \$1.7 billion for Metrorail construction.
- The National Capital Transportation Amendments of 1990<sup>10</sup> authorized \$1.3 billion for Metrorail construction.

Fiscal year 1999 was the last year WMATA received direct federal appropriations for Metrorail construction. For fiscal years 1995 through 1998, it was appropriated \$200 million a year, and for fiscal year 1999, it was appropriated \$50 million, for a total of \$850 million. The remaining federal funding, about \$2.1 billion, came from unused federal interstate highway funds that the District of Columbia was authorized to provide to WMATA to supplement the direct appropriations for Metrorail construction.<sup>11</sup> In addition, nonfederal entities provided about \$2.1 billion for Metrorail construction, and about \$1.7 billion came from other sources, including revenue bonds.

WMATA used the federal and other funding provided for construction to build the 103-mile Metrorail system, including 83 rail stations on five rail lines. More specifically, it used the funds to plan and design the rail system, dig tunnels, purchase rail cars, lay rails, construct stations, and establish a communication system.

The rationale of Congress and the executive branch for providing funding to construct a transit system in the District of Columbia dates back to the 1950s. According to this rationale, several factors related to the unique status of the District of Columbia as the nation's capital call for close federal involvement in planning for and funding a transit

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<sup>7</sup> Subsequently, Congress appropriated these authorized funds in annual appropriation acts.

<sup>8</sup> Pub. L. No. 91-143, 83 Stat. 320 (1969).

<sup>9</sup> Pub. L. No. 96-184, 93 Stat. 1320 (1980).

<sup>10</sup> Pub. L. No. 101-551, 104 Stat. 2733 (1990).

<sup>11</sup> The Federal Aid Highway Act of 1973 gave states the ability to use highway funds on transit projects. Beginning in 1975, WMATA began receiving interstate highway funds from the District of Columbia, which totaled \$2.1 billion as of 2004. Under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) the federal Highway Trust Fund continues to be used as the mechanism to account for federal highway user-tax receipts that fund various highway and transit programs.

system for the District and adjacent jurisdictions. These factors include (1) the large presence of the federal government in the area with its attendant property, buildings, and workforce; (2) the attraction of the nation's capital as a tourist destination; (3) the overlapping needs of adjacent jurisdictions; and (4) the limitations faced by the District of Columbia and by the adjacent jurisdictions in raising revenue for transit needs. Congress and the administration identified and considered these factors in legislation requiring the planning of mass transportation for the area and establishing WMATA, as well as in the three previously discussed acts that authorized direct appropriations for planning and constructing the Metrorail system. Highlights of this legislation follow; for a more detailed discussion, see appendix II.

- In 1952, Congress enacted and President Truman signed the National Capital Planning Act of 1952<sup>12</sup> (1952 Act), which provided for comprehensive planning for the physical development of the National Capital Region.<sup>13</sup> Congress created the National Capital Planning Commission as the central planning agency for the region's development and made it responsible for preparing a comprehensive regional transportation plan that would serve federal and the District of Columbia's needs for highways and mass transit.
- In 1960, Congress enacted and President Eisenhower signed the National Capital Transportation Act of 1960<sup>14</sup> (1960 Act) to promote the development of a transit system for the National Capital Region. This legislation found that an improved transportation system for the National Capital Region was essential for the federal government to perform its functions effectively and recognized that the District and local regional governments lacked the capacity to fund such a system. The 1960 Act established the National Capital Transportation Agency and made it responsible for preparing and periodically revising a Transit Development Program, as well as for submitting recommendations for organizational and financial arrangements for regional transportation, in consultation with local governments of the National Capital Region and interested federal agencies. These recommendations were to provide that users pay as much as possible of the regional transportation system's costs and that the federal, state, and local governments equitably share any remaining costs. Finally, the 1960 Act authorized Maryland, Virginia, and the District of Columbia to negotiate a compact<sup>15</sup> for the establishment of a regional planning and administrative organization whose functions would include the provision of regional transportation facilities.
- In 1965, Congress and President Johnson reaffirmed the federal government's role in developing a transit system for the National Capital Region in the National Capital Transportation Act of 1965 (1965 Act).<sup>16</sup> This legislation reiterated the

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<sup>12</sup> Pub. L. 592, Chapter 949, 60 Stat. 781, July 19, 1952.

<sup>13</sup> The National Capital Region includes the District of Columbia and various counties in Maryland and Virginia. 1952 Act, section 1(b). It is also referred to as the Washington Metropolitan Area.

<sup>14</sup> Pub. L. No. 86-669, 74 Stat. 537 (1960).

<sup>15</sup> Article I, Section 10, of the U.S. Constitution provides that no state shall enter into any agreement or compact with another state without the consent of Congress.

<sup>16</sup> Pub. L. No. 89-173, 79 Stat. 663 (1965).



importance of a coordinated regional transportation system to the effective performance of the federal functions located within the region and provided, as did the 1960 Act, for intergovernmental cooperation and financing by users, the federal government, and others.

- In 1966, at President Johnson's request, Congress authorized and approved a compact negotiated between the District of Columbia, Maryland, and Virginia that, among other things, proposed the creation of the Washington Metropolitan Area Transit Authority (WMATA),<sup>17</sup> and in 1967, WMATA was created. The preamble to the compact again emphasized the federal interest in a coordinated regional transportation system and again provided for intergovernmental cooperation and financing by users, the federal government, and others.

### **WMATA Has Relied on Federal Grants for over 40 Percent of Its Capital Improvement Program Funding**

In addition to relying on federal funding to construct Metrorail, WMATA has relied on other federal funding for capital improvements. Federal funding accounts for about \$1.5 billion, or about 43 percent, of the approximately \$3.5 billion that WMATA has received from all sources for its Capital Improvement Program from fiscal year 1995 through fiscal year 2005, and about \$2.0 billion, or about 57 percent, has come from the state and local jurisdictions that WMATA serves and from other sources. Most of this federal funding has come through formula and discretionary grants administered by FTA.<sup>18</sup> FTA's grant programs provide states, local and regional transportation providers, and others with funds for the construction, acquisition, improvement, and operation of transit systems and projects. These grants cover up to 80 percent of the costs for eligible capital projects, but, as we have reported, FTA has favored grant proposals for projects in at least one program that provide more than the minimum 20 percent from nonfederal sources.<sup>19</sup>

For fiscal years 1995 through 2005, WMATA has received \$778.0 million in urbanized area formula grants (title 5307 funds<sup>20</sup>). This figure is equivalent to \$824.8 million in fiscal year 2004 inflation-adjusted dollars. These grants, which are apportioned on the basis of legislative formulas,<sup>21</sup> are available to urbanized areas with populations of 50,000 or more for transit capital and transportation-related planning activities. Such activities include engineering design and other planning activities and capital assistance for buses, crime prevention; and security equipment; the construction of maintenance and passenger

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<sup>17</sup> President Johnson's letter of June 9, 1966, and attachments. Weekly Compilation of Presidential Documents, Monday June 13, 1966.

<sup>18</sup> Formula grants are allocated to eligible entities on the basis of a statutory formula; discretionary grants are awarded to eligible entities through a process that may involve competition.

<sup>19</sup> See *Mass Transit: FTA Needs to Provide Clear Information and Additional Guidance on the New Starts Ratings Process*, [GAO-03-701](#) (Washington, D.C.: June 23, 2003).

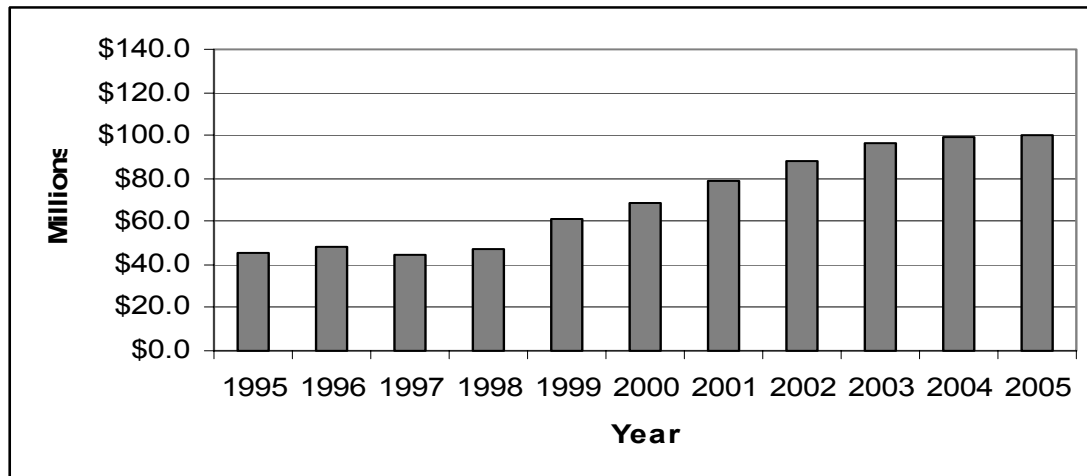
<sup>20</sup> 49 U.S.C. § 5307.

<sup>21</sup> The formulas take into consideration a combination of factors, including bus revenue vehicle miles, bus passenger miles, rail revenue vehicle miles, rail route miles, population, population density, and other factors.



facilities; and rolling stock, track, signals, communication equipment, and other types of equipment. As figure 1 shows, WMATA’s federal urbanized area formula grant funding has generally increased over the last 10 fiscal years.<sup>22</sup> For fiscal year 2005, this grant funding accounts for 45 percent of the federal funds that WMATA will receive.

**Figure 1: Federal Urbanized Area Formula Grants Provided to WMATA, Fiscal Years 1995 through 2005**



Source: GAO presentation of data provided by WMATA.

Note: Data are in nominal dollars (not adjusted for inflation).

For fiscal years 1995 through 2005, WMATA has received \$621.0 million through federal Capital Investment grants (title 5309 funds<sup>23</sup>).<sup>24</sup> This figure is equivalent to \$642.6 million in fiscal year 2004 inflation-adjusted dollars. These grants are available to states, municipalities, and public entities such as transit agencies through three programs:

- The rail and fixed guideway modernization program provides formula grants for fixed guideway modernization projects, such as heavy rail, commuter rail, light rail, automated guideway transit, and the portion of motor bus service operated on busways or high-occupancy-vehicle lanes.
- The major capital investments in transit (New Starts) program provides discretionary grants for constructing new fixed guideway systems or extensions of existing fixed guideway systems such as those identified under the fixed guideway modernization program.
- The bus and bus facilities program provides discretionary grants for bus and bus-related capital projects.

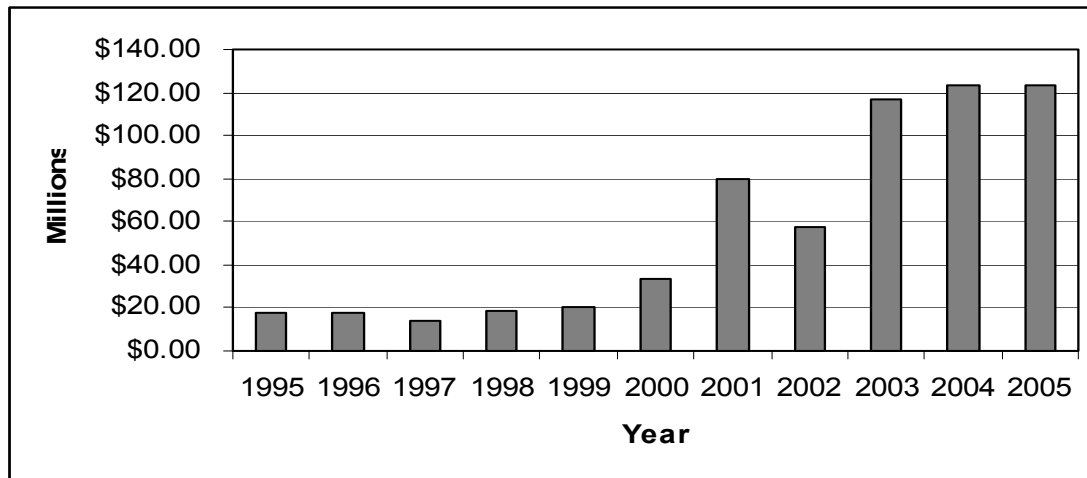
<sup>22</sup> Even after adjustments for inflation, this funding generally has increased over the last 10 fiscal years.

<sup>23</sup> 49 U.S.C. § 5309.

<sup>24</sup> See *GAO Transit Grants*, [GAO/RCED-00-260](#), pp. 1, 3, and appendix I; and *Benefits and Costs of Transportation Investments*, [GAO-05-172](#), p. 8.

As figure 2 shows, WMATA’s funding from the federal Capital Investment grant programs has generally increased over the past 10 fiscal years.<sup>25</sup> For fiscal year 2005, this grant funding accounts for 55 percent of the federal funds WMATA will receive.

**Figure 2: Federal Capital Investment Grants Provided to WMATA, Fiscal Years 1995 through 2005**



Source: GAO presentation of data provided by WMATA.

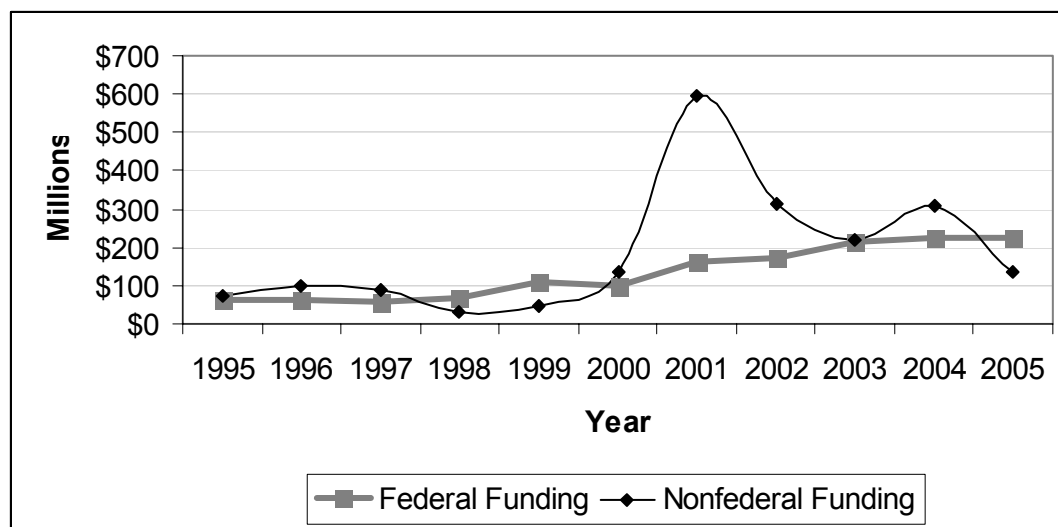
Note: Data in nominal dollars (not adjusted for inflation).

According to WMATA officials, over the past 10 fiscal years, WMATA has used 100 percent of its federal urbanized area formula grant funding for rehabilitating and replacing its existing rail system and bus assets. During the same 10-year period, the officials said, it has used 63 percent of its federal Capital Investment grants for rehabilitating and replacing rail system assets and 37 percent for system expansion and growth.

While WMATA’s federal formula and discretionary grant funding has generally increased over the past 10 fiscal years, its nonfederal funding for capital improvements has varied over the same period, as shown in figure 3. Notably, in fiscal year 2001, the nonfederal funding level increased dramatically compared with the previous and subsequent years’ funding levels. As part of our ongoing work, we plan to examine changes in WMATA’s nonfederal funding levels in greater detail.

<sup>25</sup> Even after adjustments for inflation, this funding generally has increased over the last 10 fiscal years.

**Figure 3: Federal and Nonfederal Contributions to WMATA’s Capital Improvement Program, Fiscal Years 1995 through 2005**



Source: GAO presentation of data provided by WMATA.

Note: Data are in nominal dollars (not adjusted for inflation).

WMATA combines its federal grant funds with its nonfederal funds and uses them for eligible projects in its own Capital Improvement Program. WMATA established this program in 2002 in response to recommendations that we and others made that WMATA document and prioritize its capital funding needs. For fiscal year 2005, the Capital Improvement Program consists of three major elements<sup>26</sup> that are designed to address all aspects of the agency’s capital investments:

- The Infrastructure Renewal Program (IRP) uses funds to rehabilitate or replace WMATA’s existing assets, including rail cars, buses, maintenance facilities, tracks and other structures and systems. This program accounted for the largest share, or about 92 percent, of the total funding for WMATA’s Capital Improvement Program funding in fiscal year 2005.
- The System Access and Capacity Program (SAP) uses funds to improve access to and increase the capacity of the transit system by providing additional rail cars and buses, parking facilities, and support activities to accommodate growth in ridership.
- The System Expansion Program (SEP) uses funds to expand fixed guideway services, selectively add stations and entrances to the existing Metrorail system,

<sup>26</sup> In its proposed fiscal year 2006 budget, WMATA has expanded the Capital Improvement Program to include a number of other capital activities—including purchases of new rail cars and buses and the construction of new security and credit facilities—that were proposed as part of an initiative entitled “Metro Matters.” This initiative is discussed in detail later in this statement.

and improve bus service levels and expand service areas.

In addition to its federal grant funds, WMATA received about \$49.9 million for congressionally designated projects during fiscal years 1995 through 2005. It used these funds for capital projects, including about \$25 million for a station located at New York Avenue in the District of Columbia.<sup>27</sup>

### **Options for Addressing WMATA’s Funding Challenges Would Generally Establish a Dedicated Revenue Source and Include a Federal Contribution**

Over the years, WMATA has faced funding challenges, and options have been proposed to address them. Although WMATA has taken steps to improve its management, such as prioritizing its planned capital improvements, it lacks a dedicated funding source and must rely on variable, sometimes insufficient contributions from local, regional, and federal organizations to pay for its planned capital improvements. Proposed options would provide a dedicated funding source, such as a regional sales tax, and would increase federal funding for capital improvements.

### WMATA and Others Project Continuing Shortfalls in Its Capital and Operating Budgets

In 2001, we reported and testified that WMATA faced uncertainties in obtaining the funding for its planned capital spending for the Infrastructure Renewal and System Access Programs.<sup>28</sup> At that time, WMATA anticipated a shortfall of \$3.7 billion in the funding for these programs over the 25-year period from fiscal year 2001 through fiscal year 2025.

Since that time, in response to recommendations that we and others made, WMATA has spent considerable time documenting and prioritizing its planned capital funding requirements, and in November 2002, its Board of Directors adopted a comprehensive 10-year Capital Improvement Plan calling for \$12.2 billion. Then, in September 2003, WMATA launched a campaign, called “Metro Matters,” to obtain \$1.5 billion in capital funding over a 6-year period to avert what WMATA believed was a crisis in its ability to sustain service levels and system reliability and to meet future demands for service. In response, WMATA’s Board of Directors approved a \$3.3 billion funding plan for fiscal years 2005 through 2010 to help pay for WMATA’s most pressing short-term capital investment priorities.<sup>29</sup> This plan calls for an additional \$403 million in federal assistance over the 6-year period, to be used for rail cars and security improvements. WMATA officials told us that the agency has requested this additional funding from the federal government, which has not yet acted on the request.

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<sup>27</sup> District of Columbia Appropriations Act for Fiscal Year 2001, Pub.L. No. 106-522, 114 Stat. 2440 (2000).

<sup>28</sup> See GAO, *Mass Transit: Many Management Successes at WMATA, but Capital Planning Could Be Enhanced*, [GAO-01-744](#) (Washington, D.C.: July 3, 2001) and *Mass Transit: WMATA Is Addressing Many Challenges, but Capital Planning Could Be Improved*, [GAO-01-1161T](#) (Washington, D.C.: Sept. 21, 2001).

<sup>29</sup> The \$3.3 billion included \$1.8 billion in previously pledged funding and \$1.5 billion in new commitments called for in “Metro Matters.”

As concerns about WMATA’s funding grew, a regional panel—cosponsored by the Washington Metropolitan Council of Governments, the Greater Washington Board of Trade, and the Federal City Council<sup>30</sup>—was formed in September 2004 to research funding options for the public transit system. This panel, known as the Metro Funding Panel, reported in January 2005 that during fiscal years 2005 through 2015, WMATA will continue to experience substantial capital and operating funding shortfalls totaling about \$2.4 billion—including a \$0.5 billion shortfall in the operating budgets and a \$1.9 billion shortfall in the capital budgets for those years.<sup>31</sup> In addition, the panel estimated that WMATA’s MetroAccess paratransit program would have a \$1.1 billion shortfall in its budgets for fiscal years 2005 through 2015. The panel noted that it did not incorporate the funding needs of the MetroAccess paratransit program in its calculations of WMATA’s overall budgetary shortfalls because it believes that paratransit services, which are important to the well-being of residents in the Washington region, are “of a different nature from the basic WMATA mission” and should be funded through creative packaging of the revenue sources that flow into the region from social service, medical, and other nontransportation resources. Although we have not had an opportunity to review the assumptions underlying the Metro Funding Panel’s estimates of WMATA’s budgetary shortfalls, we note that WMATA is required by the Americans with Disabilities Act (ADA) of 1990<sup>32</sup> to provide ADA-complementary paratransit services to those who are unable to use the agency’s fixed-route transit system.

#### Proposed Options Could Address Concerns about WMATA’s Lack of a Dedicated Revenue Source

In our 2001 report and testimony,<sup>33</sup> we noted that WMATA’s funding comes from a variety of federal, state, and local sources, but that unlike most other major transit systems, WMATA does not have a dedicated source of revenues, such as local sales tax revenues, that are automatically directed to the transit authority. As far back as April 1979, we reported on the need for a revenue source dedicated to pay the costs of mass transportation in the Washington region.<sup>34</sup> In that report, we outlined reasons why the cost estimates for building the Metrorail system had escalated and pointed out that the Department of Transportation (DOT), as well as WMATA, agreed that a dedicated revenue source was needed to address the increasing deficits in WMATA’s capital construction and operating budgets.

In January 1983, we again raised concerns about the level of funding available to operate the Metrorail system and recommended that DOT issue guidance requiring periodic reevaluations of the stability and reliability of the revenue sources, associated with

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<sup>30</sup> The Federal City Council is a non-profit organization—composed of 170 of the Washington region’s business, professional, educational, and civic leaders—that addresses major issues through a variety of projects involving the private sector, the federal government, and the District of Columbia government.

<sup>31</sup> The formal name of the panel is “Panel on the Analysis of and Potential for Alternate Dedicated Revenue Sources for WMATA”. See PB Consult Inc., *Report of the Metro Funding Panel* (Washington, D.C.: Jan. 6, 2005).

<sup>32</sup> Pub. L. 101-336.

<sup>33</sup> [GAO-01-744](#) and [GAO-01-1161T](#).

<sup>34</sup> GAO, *Issues Being Faced by the Washington Metropolitan Area Transit Authority*, CED-79-52 (Washington, D.C.: Apr. 10, 1979).

WMATA's member jurisdictions, which are used to fund the operation of WMATA's transit system.<sup>35</sup> In making this recommendation, we noted that the National Capital Transportation Amendments of 1979 (Stark Harris) required that WMATA's member jurisdictions demonstrate that they have "stable and reliable" revenue sources available to fund WMATA's operating costs, including debt service. Although DOT had told Congress in 1982 that WMATA's jurisdictions had established such revenue sources, our report raised a number of concerns. Specifically, it noted that (1) WMATA's operating deficits had risen faster than the rate of inflation and were expected to continue to rise so that future local government revenue sources could become inadequate, (2) local jurisdictions considered WMATA's costs burdensome, and (3) WMATA's estimates for its 1990 operating deficit had proved to be optimistic—that is, the deficit had proved to be larger than expected. Consequently, we recommended that DOT issue criteria on what constitutes a "stable and reliable" funding source and periodically reevaluate those revenue sources.

The concerns about WMATA's lack of dedicated revenues surfaced again in reports issued by the Brookings Institution in June 2004<sup>36</sup> and by the Metro Funding Panel in January 2005.<sup>37</sup> According to the Brookings report, WMATA's lack of dedicated revenues makes WMATA's core funding uniquely vulnerable and at risk as its member jurisdictions struggle with their own fiscal difficulties. The report further stated that the Washington region needs to develop a dedicated source of revenue, and it evaluated the advantages and disadvantages of a menu of revenue options that could support the dedicated revenue source, including gasoline taxes, sales taxes, congestion charges, parking taxes, land-value capture, and payroll taxes. Similarly, the report of the Metro Funding Panel concluded that although WMATA has provided numerous benefits to both the Washington region and the federal government over the years, it will require a commitment of new revenue sources to continue that progress. Accordingly, the Panel made the following recommendations:

- The compact jurisdictions of Maryland, Virginia, and the District of Columbia should mutually create and implement a single regional dedicated revenue source to address WMATA's budgetary shortfalls.
- The most viable dedicated revenue source that could be implemented on a regional basis is a sales tax.
- The federal government should participate "significantly" in addressing WMATA's budgetary shortfalls, particularly for capital maintenance and system enhancement.
- Federal and regional authorities should consider alternate methods for funding the paratransit needs of the region.

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<sup>35</sup> GAO, *Applying DOT's Rail Policy to Washington, D.C.'s Metrorail System Could Save Federal Funds*, GAO/RCED-83-24 (Washington, D.C.: Jan. 12, 1983).

<sup>36</sup> Robert Puentes, *Washington's Metro: Deficits by Design* (Washington, D.C.: Brookings Institution Series on Transportation Reform, June 2004).

<sup>37</sup> *Report of the Metro Funding Panel* (2005).

WMATA and the Metro Funding Panel's cosponsoring organizations have endorsed the panel's report and recommendations. At the Chairman's request of February 9, 2005, we plan to address WMATA's funding issues in more detail, as well as concerns about the agency's overall operations and management, in a comprehensive study of WMATA. In that study, we plan to address

- WMATA's unique responsibilities for serving the interests of the federal government—including the agency's role in transporting federal employees and supporting homeland security for the Washington metropolitan region—and the extent to which the federal government has provided WMATA with financial support over the years in recognition of its responsibility for a regional transit system;
- the extent to which WMATA is still experiencing the types of challenges laid out in our 2001 report and the actions WMATA has taken to implement our recommendations for improving its capital planning practices; and
- the current funding challenges that WMATA faces and the pros and cons of various options proposed by the Metro Funding Panel and others for addressing these challenges.

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In summary, WMATA has relied on federal funding to a great extent, first to construct the Metrorail system and then to rehabilitate its existing assets and to purchase new capital. As the original rail system ages, WMATA will probably request more federal funds for rehabilitation, but as its ridership grows, it will also need to purchase new capital to accommodate the increased demands on the system. Because WMATA lacks a dedicated revenue source, it relies on federal and nonfederal contributions, which can vary and may not be sufficient, making capital planning difficult.

### **Contacts and Acknowledgments**

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Appendix I

**Federal Funding Provided to the Washington Metropolitan Area Transit Authority for Metrorail Construction and for Capital Improvements**

**Table 1: Federal Funding Provided for Metrorail Construction**

Dollars in billions

<b>Federal funding</b>	<b>Authorizing legislation</b>	<b>Amount provided</b>
Appropriations		
	National Transportation Act of 1969	\$1.1
	The National Capital Transportation Act Amendments of 1979	1.7
	The National Capital Transportation Act of 1990	1.3 <sup>a</sup>
<b>Subtotal</b>		<b>\$4.1</b>
Interstate highway funds	Federal Aid Highway Act of 1973	\$2.1
<b>Total</b>		<b>\$6.2</b>

Source: GAO presentation of data provided by the Washington Metropolitan Area Transit Authority (WMATA).

<sup>a</sup>Of this amount, \$850 million was appropriated during fiscal years 1995 through 1999—\$200 million in each fiscal year from 1995 through 1998 and \$50 million in fiscal year 1999.

**Table 2: Grants and Other Federal Funding Provided for WMATA's Capital Improvements**

Dollars in millions

<b>Fiscal year</b>	<b>Congressionally designated projects</b>	<b>Urbanized area formula grants (Title 5307)</b>	<b>Capital investment grants (Title 5309)<sup>a</sup></b>			<b>Total</b>	
			<b>Rail modernization</b>	<b>New Starts</b>	<b>Bus-related</b>	<b>Nominal</b>	<b>Adjusted</b>
1995	0	\$45.8	\$17.3	0	0	\$63.1	\$74.1
1996	0	48.0	17.2	0	0	\$65.2	\$75.1
1997	0	44.3	14.0	0	0	\$58.3	\$66.0
1998	0	47.7	18.3	0	0	\$66.0	\$73.8
1999	\$25.0	61.6	20.5	0	0	\$107.1	\$118.3
2000	0	68.3	33.4	0	0	\$101.7	\$110.1
2001	0	78.8	44.7	\$32.0	\$2.6	\$158.1	\$167.2
2002	24.9	88.1	48.7	7.4	1.4	\$170.5	\$177.0
2003	0	96.2	58.2	54.5	4.5	\$213.4	\$217.6
2004	0	99.0	62.5	59.0	1.9	\$222.4	\$222.4
2005	0	100.2	59.2	64.0	0	\$223.4	\$219.0
<b>Total</b>	<b>\$49.9</b>	<b>\$778.0</b>	<b>\$394.0</b>	<b>\$216.9</b>	<b>\$10.4</b>	<b>\$1,449.2</b>	<b>\$1,520.6</b>

Source: GAO presentation of data provided by WMATA.

<sup>a</sup>These are a mixture of formula (rail modernization) and discretionary (New Starts and bus-related) grants.

## Appendix II

### **Legislation Establishing the Washington Metropolitan Area Transit Authority and Authorizing Funding for It**

From the early 1950s, Congress and the executive branch recognized several factors related to the District of Columbia's unique status as the nation's capital that led them to determine that the federal government needed to be closely involved in the planning and funding for a transit system for the District of Columbia and adjacent jurisdictions. These factors include the large presence of the federal government in the area with its attendant property, buildings and workforce; the attraction of the nation's capital as a tourist destination; the overlapping needs of adjacent jurisdictions; and the limitations faced by the District of Columbia and the adjacent jurisdictions in raising revenue for transit needs. Congress and the executive branch identified and considered these factors in legislation requiring the planning of mass transportation for the area, establishing the Washington Metropolitan Area Transit Authority (WMATA), directly appropriating funds for the planning and construction of the transit system, and providing grant funds through Federal Transit Administration (FTA) programs.

#### **Federal Involvement in Determining the Need for and Planning of a Transit System for the District of Columbia**

Congress determined over 50 years ago that comprehensive transportation planning for the District of Columbia and the adjoining metropolitan area was an important priority for the federal government's operations. In 1952, Congress enacted and President Truman signed the National Capital Planning Act of 1952<sup>38</sup> (1952 Act), which provided for comprehensive planning for the physical development of the National Capital Region.<sup>39</sup> Congress made several findings in the 1952 Act, including the following:

- The location of the seat of the federal government in the District of Columbia brought about the development of a metropolitan region extending into Maryland and Virginia, and comprehensive planning was necessary on a regional basis and of continuing importance to the federal government.<sup>40</sup>
- The distribution of federal installations throughout the region had been and would continue to be a major influence in determining the extent and character of the region's development.<sup>41</sup>
- There was a need for a central planning agency for the National Capital Region to coordinate the developmental activities of the many different agencies in the federal and District of Columbia governments, and there was "an increasing mutuality of interest and responsibility between the various levels of government

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<sup>38</sup> Pub. L. 592, Chapter 949, 60 Stat. 781, July 19, 1952.

<sup>39</sup> The National Capital Region includes the District of Columbia and various counties in Maryland and Virginia. 1952 Act, section 1(b). It is also referred to as the Washington Metropolitan Area.

<sup>40</sup> 1952 Act, section 1(a).

<sup>41</sup> 1952 Act, section 1(a).

that calls for coordinate and unified policies in planning both Federal and local development in the interest of order and economy . . . the planning of which requires collaboration between Federal, State and local governments in the interest of equity and constructive action.”<sup>42</sup>

Congress created the National Capital Planning Commission as the central planning agency for development of the National Capital Region, with responsibility for:

- planning for the major movements of people and goods throughout the region including “the general location, arrangement, character, and extent of highways . . . subways, major thoroughfares, and other facilities for the handling of traffic,” and plans for mass transportation,<sup>43</sup> and
- preparing a comprehensive plan that included a major thoroughfare and mass transportation plan that would serve federal and District of Columbia needs.<sup>44</sup>

In 1960, Congress further developed its findings that the federal government’s interests and functioning would be served by the development of a transit system for the National Capital Region. Congress enacted and President Eisenhower signed the National Capital Transportation Act of 1960<sup>45</sup> (1960 Act) to promote the development of a transit system for the National Capital Region. Congress made several findings in the 1960 Act, including the following:

- An improved transportation system for the National Capital Region was “essential for the continued and effective performance of the functions of the Government of the United States.”<sup>46</sup>
- Planning for a transportation system would be needed on a regional basis and required cooperation among the federal, state, and local governments of the region.
- The financial participation of the federal government would be required because the creation of certain major transportation facilities would be beyond the financial capacity or borrowing power of the public carriers, the District of Columbia, and the local governments of the region.
- Finally, “it is the continuing policy and responsibility of the Federal Government, in cooperation with the State and local governments of the National Capital Region, and making full use of private enterprise whenever appropriate, to

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<sup>42</sup> 1952 Act, section 1 (a).

<sup>43</sup> 1952 Act, section 4(b) and (c).

<sup>44</sup> 1952 Act, section 6(a) and (b). Congress appropriated \$200,000 for fiscal year 1956 to the National Capital Planning Commission to conduct a survey of the present and future mass transportation needs of the National Capital Region. Pub. L. 24, 84<sup>th</sup> Cong., ch. 6, 69 Stat. 33 (1955).

<sup>45</sup> Pub. L. No. 86-669, 74 Stat. 537 (1960).

<sup>46</sup> 1960 Act, section 102.

encourage and aid in the planning and development of a unified and coordinated transportation system for the National Capital Region.”<sup>47</sup>

As part of the 1960 Act, Congress took several steps to provide for direct executive branch involvement and continued federal interest and responsibilities for the planning and financing of a transit system, including

- establishing the National Capital Transportation Agency, subject to the direction and supervision of the President and headed by an Administrator appointed by the President subject to Senate confirmation;<sup>48</sup>
- making the National Capital Transportation Agency responsible for preparing and periodically revising a Transit Development Program consisting of plans for the general location of transportation facilities, a timetable for the provision of such facilities, and comprehensive financial reports including costs, revenues and benefits;<sup>49</sup>
- requiring the National Capital Transportation Agency to submit recommendations for organization and financial arrangements for transportation in the region to the President for transmittal to Congress;<sup>50</sup>
- requiring the National Capital Transportation Agency to consult with local governments of the National Capital Region and the federal agencies having an interest in transportation in that region;<sup>51</sup>
- ensuring that the agency’s recommendations provide that payment of all costs be borne as much as possible by persons using or benefiting from regional transportation facilities and services, and that any remaining costs be shared equitably among the federal, state and local governments.<sup>52</sup>
- authorizing the states of Maryland and Virginia and the District of Columbia to negotiate a compact<sup>53</sup> for the establishment of an organization to serve as the means of consultation and cooperation among the federal, state, and local governments in the National Capital Region; to plan for the development of the region; and to perform governmental functions including the provision of regional transportation facilities.<sup>54</sup>

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<sup>47</sup> 1960 Act, section 102.

<sup>48</sup> 1960 Act, section 201(a).

<sup>49</sup> 1960 Act, section 204(a).

<sup>50</sup> 1960 Act, section 204(g).

<sup>51</sup> 1960 Act, section 204(g).

<sup>52</sup> 1960 Act, section 204(g).

<sup>53</sup> Article I, Section 10, of the U.S. Constitution provides that no state shall enter into any agreement or compact with another state without the consent of Congress.

<sup>54</sup> 1960 Act, section 301(a).

In 1965, Congress and President Johnson reaffirmed the federal government’s role in developing a transit system for the National Capital Region in the National Capital Transportation Act of 1965 (1965 Act).<sup>55</sup> As part of its findings and purposes, Congress stated the following:

- A coordinated system of rail transit, bus transportation, and highways is essential in the National Capital Region for several reasons, including “the effective performance of the functions of the United States Government located within the Region.”
- This transportation system should be developed cooperatively by the federal, state, and local governments of the National Capital Region, “with the costs of the necessary facilities financed, as far as possible, by persons using or benefiting from such facilities and the remaining costs shared equitably among the Federal, State, and local governments.”

#### The Washington Metropolitan Area Transit Authority Compact

On June 9, 1966, President Johnson transmitted to Congress a request for the authorization and approval of the compact that had been negotiated between the District of Columbia, Maryland, and Virginia, which among other things proposed the creation of the Washington Metropolitan Area Transit Authority (WMATA).<sup>56</sup> President Johnson noted that the proposed bill would adequately provide for the protection of the federal interest and that the proposed Transit Authority would be reviewed by the President and Congress before federal contributions are appropriated to ensure that the plans adequately protect the interests of the federal government.

Congress granted its consent<sup>57</sup> for the compact in the Washington Metropolitan Area Transit Authority Compact,<sup>58</sup> and WMATA was created in 1967. In the preamble to the compact, Congress reaffirmed findings from the legislation it had enacted throughout the 1950s and 1960s, including the following:

- A coordinated system of rail transit, bus transportation, and highways is essential in the National Capital Region for several reasons, including “the effective performance of the functions of the United States Government located within the Region.”
- This transportation system should be developed cooperatively by the federal, state, and local governments of the National Capital Region, “with the costs of the necessary facilities financed, as far as possible, by persons using or benefiting

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<sup>55</sup> Pub. L. No. 89-173, 79 Stat. 663 (1965).

<sup>56</sup> President Johnson’s letter of June 9, 1966 and attachments. Weekly Compilation of Presidential Documents, Monday June 13, 1966.

<sup>57</sup> Pub. L. No. 89-774, 80 Stat. 1324 (1966).

<sup>58</sup> Pub. L. No. 89-774, 80 Stat. 1324 (1966).

from such facilities and the remaining costs shared equitably among the Federal, State, and local governments.”<sup>59</sup>

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<sup>59</sup> The compact provides further details on policy and plans for financing and budgets.

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