United States General Accounting Office

GAO

Report to Congressional Committees

June 2004

MASS TRANSIT

FTA Needs to Better Define and Assess Impact of Certain Policies on New Starts Program

Accountability ★ Integrity ★ Reliability

GAO-04-748

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-04-748, a report to congressional committees

June 2004

MASS TRANSIT

FTA Needs to Better Define and Assess Impact of Certain Policies on New Starts Program

Why GAO Did This Study

The Transportation Equity Act for the 21st Century (TEA-21) and subsequent legislation authorized about $8.3 billion in guaranteed funding for the Federal Transit Administration's (FTA) New Starts program, which funds fixed guideway transit projects, such as rail and trolley projects, through FFGAs. GAO assessed the New Starts process for the fiscal year 2005 cycle. GAO identified (1) the number of projects that were evaluated, rated, and proposed for new FFGAs and how recent changes to the process were reflected in ratings; (2) the proposed funding commitments in the administration's budget request and legislative reauthorization proposals; and (3) the extent to which amounts appropriated since 1998 fulfilled FFGAs.

What GAO Recommends

GAO recommends that the Secretary of Transportation direct the Administrator of FTA to (1) clearly explain the basis on which it decides which projects will be recommended for funding outside of FFGAs, such as projects considered to be meritorious, and what projects must do to qualify for such a recommendation and (2) examine the impact of FTA's policy favoring projects requesting less than 60 percent New Starts funds. Department officials generally agreed with the information provided and concurred with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-748.

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

What GAO Found

For the fiscal year 2005 cycle, FTA evaluated 38 projects, rated 29 projects, and proposed 7 projects for funding. FTA recommended 5 of the 7 projects for full funding grant agreements (FFGAs). FTA considered the remaining 2 projects to be meritorious and recommended a total of $50 million for these projects in fiscal year 2005. However, FTA does not clearly explain how it decides which projects will be recommended for funding outside of FFGAs or what project sponsors must do to qualify for such a recommendation. Last year, in response to language contained in appropriations committee reports, FTA instituted a policy favoring projects that seek a federal New Starts share of no more than 60 percent of the total project cost—even though the law allows projects to seek up to 80 percent—in its recommendation for FFGAs. According to FTA officials, this policy allows more projects to receive funding and ensures that local governments play a major role in funding such projects. FTA describes the 60 percent policy as a general preference; however, FTA's fiscal year 2005 New Starts report suggests that this policy is absolute in that projects proposing more than a 60 percent federal New Starts share will not be recommended for an FFGA. Therefore, FTA agreed to describe the policy as a general preference in future reporting instructions, thus allowing for the possibility of exceptions. Although most of the projects evaluated during the current cycle proposed a federal New Starts share of less than 60 percent of total project costs, some project sponsors GAO interviewed raised concerns about the difficulties of securing the local funding share. However, the overall impact of this policy on projects is unknown.

The administration's fiscal year 2005 budget proposal requests $1.5 billion for the New Starts program, a $225 million increase over the amount appropriated for the fiscal year 2004 cycle. Congress is currently considering legislative reauthorization proposals, which contain a number of provisions and initiatives for the New Starts program including streamlining the New Starts evaluation process for projects requesting less than $75 million in New Starts funds, expanding the definition of eligible projects, changing the ratings categories, and maintaining the maximum federal New Starts share at 80 percent of total project cost. Project sponsors GAO interviewed had varying views on these provisions, but most said that clear definitions would be needed for any proposed changes to the New Starts process.

All 26 projects with existing FFGAs have not received funds as scheduled—the amount of funding appropriated was less than the amount authorized and scheduled by the FFGA. According to FTA, all completed projects have received the total amount authorized in the FFGAs, but not necessarily according to the original FFGA schedule. As of March 2004, the 26 projects have received a total of $294 million, or 5 percent, less than the amount scheduled by the projects' FFGAs. The amount and timing of differences varied for each project. Project sponsors GAO interviewed have developed methods to mitigate the impact of receiving less than the scheduled annual amount for their project, but these methods can generate additional costs.

Contents

Abbreviations

FFGA	full funding grant agreement
FTA	Federal Transit Administration
LRT	Light Rail Transit
MOS	minimal operating segment
TEA-21	Transportation Equity Act for the 21st Century
TSUB	Transportation System User Benefits

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

June 25, 2004

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. The New Starts program awards full funding grant agreements (FFGAs) for fixed-guideway rail, certain bus projects, trolley, and ferry projects.[1] An FFGA establishes the terms and conditions for federal participation in a project, including the maximum amount of federal funds available for the project, which by statute cannot exceed 80 percent of its net cost. Since 1998, FTA has funded or recommended 26 projects for FFGAs—the total estimated cost of these projects exceeds $17.5 billion.

Under the Transportation Equity Act for the 21st Century (TEA-21)[2] and subsequent amendments, Congress authorized approximately $8.3 billion

[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]Pub. L. No. 105-178, 112 Stat. 107 (1998).

in New Starts contract authority through 2003.[3] Although this level of funding was higher than it had ever been, the demand for these resources is also increasing. For example, in 1998, TEA-21 identified over 190 projects nationwide as eligible to compete for New Starts funding. Several additional projects not authorized in TEA-21 have since received congressional appropriations. Because of this demand, TEA-21 directed FTA to prioritize projects for funding by evaluating, rating, and recommending potential projects on the basis of specific financial and project justification criteria and to issue regulations outlining its evaluation and rating process. FTA issued the regulations for evaluating and rating New Starts projects in fiscal year 2001. For the fiscal year 2004 cycle, FTA made two changes to the evaluation and ratings process. First, FTA implemented the Transportation System User Benefits (TSUB) measure as a variable in the calculation of cost-effectiveness and mobility improvements. The new measure is intended to calculate the change in the amount of travel time and costs that people incur for taking a trip. Second, in response to language contained in appropriations committee reports, FTA instituted a preference policy favoring projects that seek a federal New Starts share of no more than 60 percent of the total project cost. Both of the changes are reflected in the project justification and financial ratings of a project, respectively, which, in turn, are combined to form a project's overall rating.

TEA-21 also requires us to report each year on FTA's processes and procedures for evaluating, rating, and recommending New Starts projects for federal funding and on the implementation of these processes and procedures. This report discusses (1) the number of projects that were evaluated, rated, and proposed for new FFGAs for fiscal year 2005 and on how the recent changes to the process were reflected in ratings; (2) the proposed funding commitments for New Starts in the administration's fiscal year 2005 budget request and legislative reauthorization proposals; and (3) the extent to which amounts appropriated since 1998 fulfilled FFGAs. To address these objectives, we reviewed the administration's fiscal year 2005 budget request and legislative reauthorization proposals as

[3]Contract authority is the amount of funding Congress has authorized FTA to commit to New Starts projects for a given authorization period. The Surface Transportation Extension Act of 2004, Part II, Pub. L. No. 108-224, 118 Stat. 627 (2004), extended TEA-21 until June 30, 2004. Proposed reauthorization legislation in both the House and Senate would authorize similar funding levels for the New Starts program. For example, S. 1072 would authorize $9.6 billion in New Starts contract authority over the next 6 years; H.R. 3550 would authorize $9.4 billion.

well as FTA's annual New Starts reports and records on funding authorized and appropriated to projects with existing FFGAs. We also interviewed FTA officials, representatives of the American Public Transportation Association and sponsors of 15 projects in preliminary engineering or final design, and 5 projects with existing FFGAs. In addition, we attended FTA's meeting with project sponsors, the New Starts Roundtable, in April 2004. We conducted our work from February 2004 through June 2004 in accordance with generally accepted government auditing standards. (See app. I for more information about our scope and methodology.)

Results in Brief

For the fiscal year 2005 cycle, FTA evaluated 38 projects, rated 29 projects, and proposed 7 projects for funding.[4] FTA recommended 5 of the 7 projects for full funding grant agreements (FFGAs). FTA considered the remaining 2 projects to be "meritorious and worthy of funding" and proposed a total of $50 million for the 2 projects—a substantial increase over amounts proposed for similar projects in prior years. FTA has not, however, clearly explained to project sponsors how it decides which projects will be recommended for funding outside of FFGAs or what they must do to qualify for such a recommendation. Last year, FTA made two changes to its evaluation and ratings process. First, FTA instituted a new measure to calculate a project's cost-effectiveness—the cost per hour of Transportation System User Benefits (TSUB)—to replace the "cost per new rider" measure. Project sponsors we interviewed generally believe the TSUB measure is an improvement over the old measure. Although FTA has provided training and technical assistance, many project sponsors continue to experience difficulties producing reliable local travel forecasts that are used in the calculation of the new measure. Second, in response to appropriations committee reports, FTA instituted a preference policy favoring projects that seek a federal New Starts share of no more than 60 percent of the total project cost—even though the law allows projects to seek up to 80 percent—in its recommendations for FFGAs. According to FTA officials, this policy will allow more projects to receive funding and ensure that local governments play a major role in funding such projects. Although FTA has the statutory authority to favorably rate proposed projects that request a lower New Starts share, in our view, FTA's policy is permissible as long as projects are not required to request less than an 80 percent federal New Starts share in order to be considered for a

[4]Nine of the projects were statutorily exempt from the rating process because project sponsors requested less than $25 million in New Starts funding.

recommendation for an FFGA. FTA describes the policy as a general preference; however, FTA's fiscal year 2005 New Starts report suggests that this policy is absolute in that projects proposing more than a 60 percent federal New Starts share will not be recommended for an FFGA. Therefore, FTA agreed to describe the policy as a general preference in future reporting instructions, thus allowing for the possibility of exceptions. Although the majority of the projects evaluated during the current cycle proposed a federal New Starts share of less than 60 percent, some project sponsors we contacted raised concerns about the difficulties of securing the local funding share and state that FTA's push for a lower federal New Starts share would likely affect other transit projects in their area or their decision to advance future transit projects. However, the overall impact of this policy on projects is unknown.

The administration's fiscal year 2005 budget proposal requests $1.5 billion for the New Starts program, a $225 million increase over the amount appropriated for the fiscal year 2004 cycle. The majority of the $1.5 billion, $931 million or 61 percent, would be allocated to existing FFGAs. In addition to the fiscal year 2005 budget for New Starts, Congress is currently considering legislation to reauthorize federal surface transportation programs, including the New Starts program. Proposed reauthorization in both the Senate and House bills contains a number of provisions and initiatives for the New Starts program.[5] Some of the key provisions would streamline the New Starts evaluation process for projects requesting less than $75 million in New Starts funds, expand the definition of eligible projects, change the rating categories, and maintain the maximum federal funding share for a New Starts project at 80 percent of the project's net cost. The project sponsors we interviewed had varying views on these provisions, but most said that clear definitions would be needed for any proposed changes to the New Starts process. For example, most project sponsors we interviewed were supportive of implementing a streamlined evaluation process for less expensive projects, but stated that clearly defined criteria would be necessary in implementing the new process.

All 26 projects with existing FFGAs have not received the level of federal funding that was scheduled and authorized by the projects' FFGAs. Variances in funding can occur for several reasons, including congressional decision making and project management oversight costs. As of March 2004, the 26 projects have received a total of $294 million, or 5 percent, less

[5]H.R. 3550, 108th Cong. (2004), and S. 1072, 108th Cong. (2004).

than the amount authorized by the projects' FFGAs. The amount and timing of these differences in funding varied for each project. According to FTA, all completed projects have received the total amount authorized in the FFGAs but not necessarily according to the original FFGA schedule. FTA officials also stated that FTA will continue to request funds to be appropriated to fulfill the amounts authorized in existing FFGAs. Project sponsors we interviewed have developed methods to mitigate the impact of receiving less than the scheduled annual amount for their project. For example, some project sponsors entered into partnerships with the state and/or local government, while others implemented interim funding mechanisms to cover any funding differences, including issuing bonds or loans to generate necessary funds. Although project sponsors have used these methods to avoid delays and changes in scope, they can generate additional costs.

We are making two recommendations to the Secretary of Transportation to direct the Administrator, FTA, to (1) clearly explain the basis on which it decides which projects will be recommended for funding outside of FFGAs, such as projects considered to be meritorious, and what projects must do to qualify for such a recommendation and (2) examine the impact of the preference policy on projects seeking or considering New Starts funding and examine whether its policy results in maximizing New Starts funds and local participation.

The Department of Transportation, including FTA, reviewed a draft of this report. FTA officials generally agreed with the information provided and concurred with its recommendations.

Background

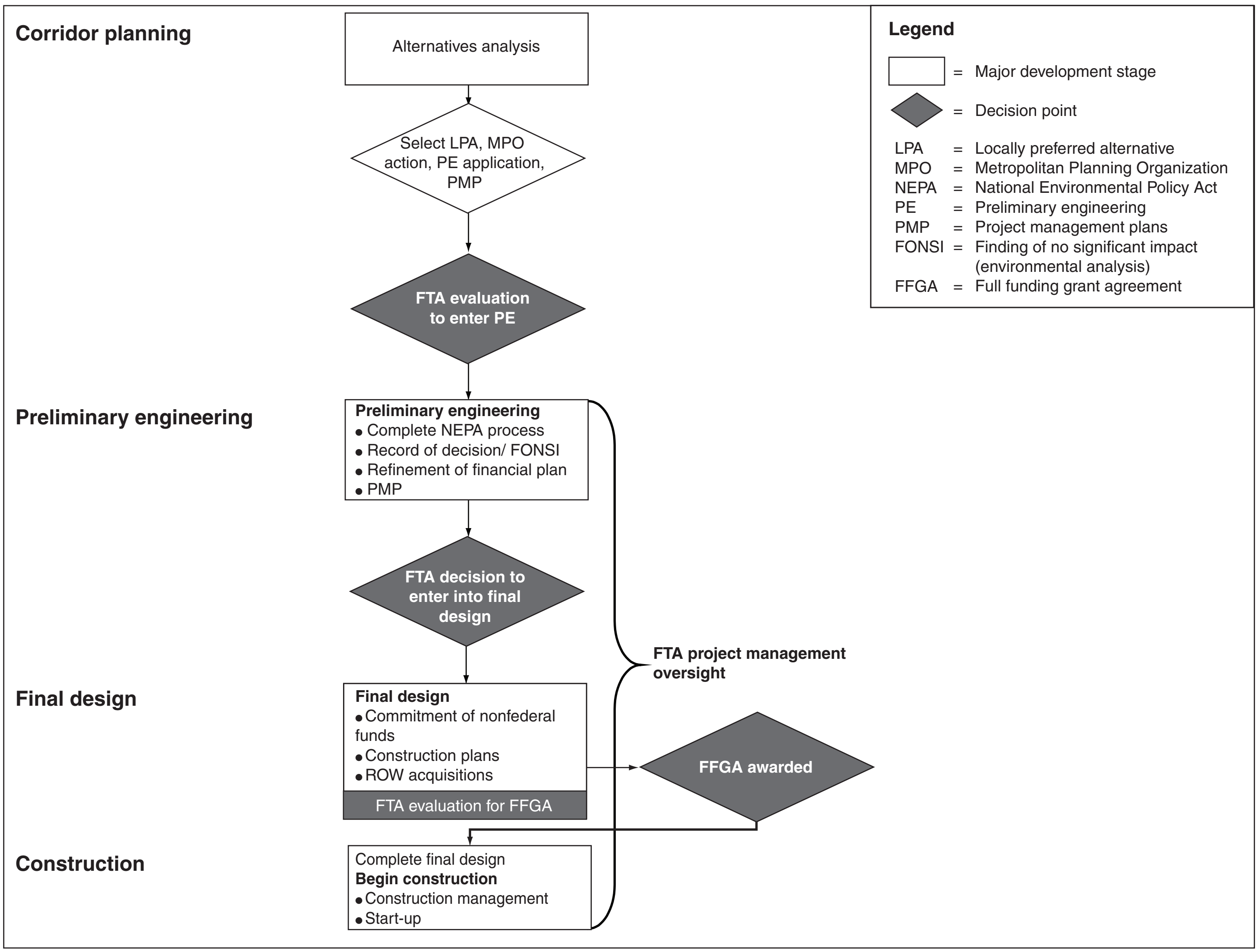
TEA-21 authorized a total of $36 billion in "guaranteed" funding for a variety of transit programs, including financial assistance to states and localities to develop, operate, and maintain transit systems.[6] Under one of these programs, New Starts, FTA identifies and funds worthy fixed-guideway transit projects, including heavy, light, and commuter rail; ferry; and certain bus projects (such as bus rapid transit). We have recognized the New Starts program as a model that the federal government could use for approving other transportation projects.

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

FTA generally funds New Starts projects through full funding grant agreements (FFGAs). An FFGA establishes the terms and conditions for federal participation in a project, including the maximum amount of federal funds available for the project, as well as the project's scope, schedule, and cost. By statute, the federal funding share for a New Starts project cannot exceed 80 percent of its net cost. To obtain an FFGA, projects must go through an extensive process from a regional multimodal transportation planning process to preliminary engineering to final design and construction. (See fig. 1.) As required by TEA-21, New Starts projects must emerge from a regional, multimodal transportation planning process. The first two phases of the New Starts process—systems planning and alternatives analysis—address this requirement. The systems planning phase identifies the transportation needs of a region, while the alternatives analysis phase provides information on the benefits, costs, and impacts of different corridor-level options, such as rail lines or bus routes. The alternatives analysis phase results in the selection of a locally preferred alternative—which is intended to be the New Starts project that FTA evaluates for funding. After a locally preferred alternative is selected, project sponsors submit a request to FTA for entry into the preliminary engineering phase.[7] Following completion of preliminary engineering, the project may be approved by FTA to advance into final design, after which the project may be approved by FTA for an FFGA and proceed to construction. FTA oversees the management of projects from the preliminary engineering phase through construction and evaluates the projects for advancement into each phase of the process, as well as annually for the New Starts report to Congress.

[7]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., financial or environmental). According to FTA officials, to gain approval for entry into preliminary engineering, a project must (1) have been identified through the alternatives analysis process, (2) be included in the region's long-term transportation plan, (3) meet the statutorily defined project justification and financial criteria, and (4) demonstrate that the sponsors have the technical capability to manage the project during preliminary engineering.

Figure 1: New Starts Planning and Project Development Process



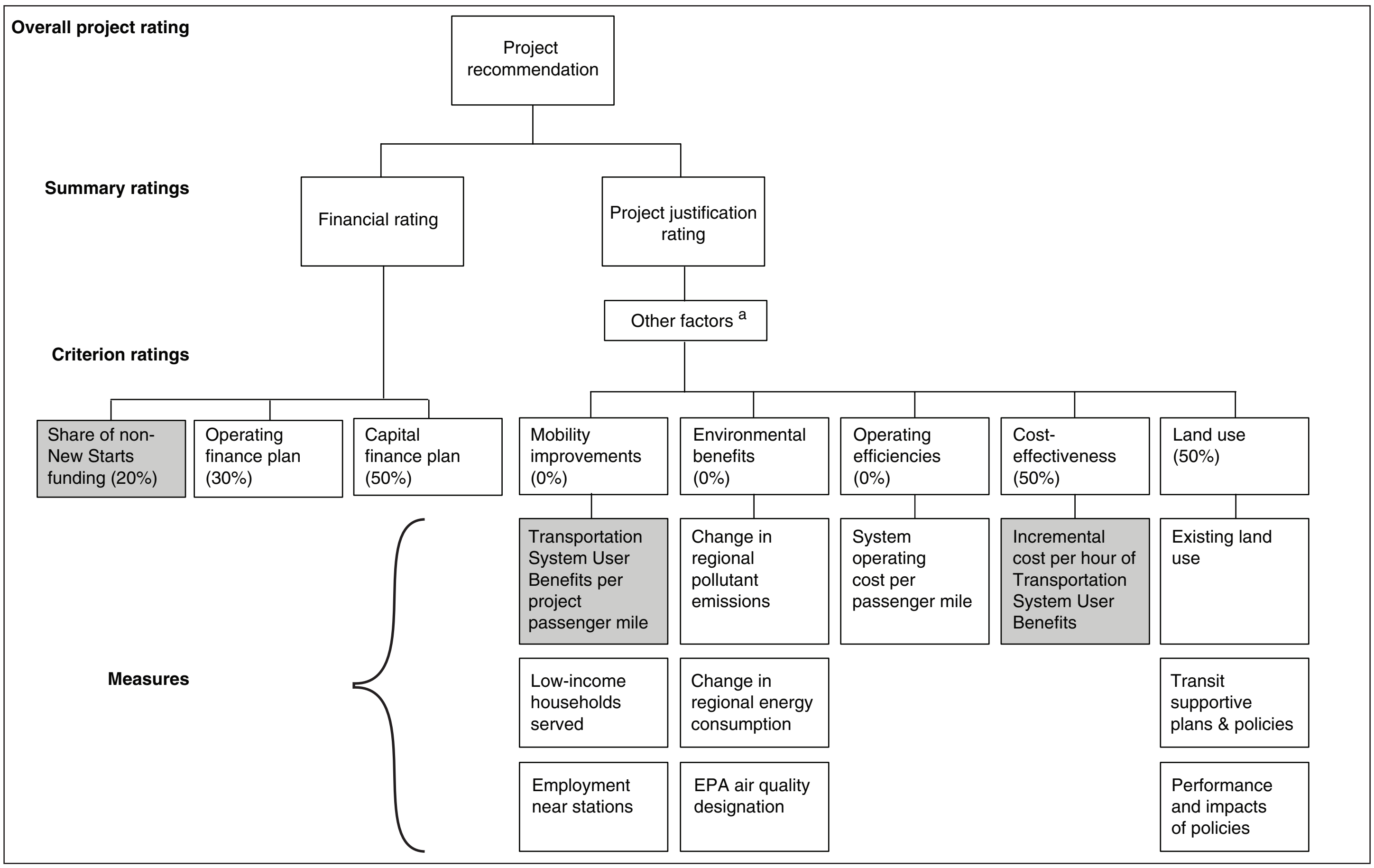
Source: FTA.

To determine whether a project should receive federal funds, FTA's New Starts evaluation process assigns ratings on the basis of a variety of financial and project justification criteria and determines 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. As figure 2 shows, FTA has developed a series of measures for the project justification criteria. 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. However, FTA does not weigh each individual criterion equally when calculating the summary financial and project justification ratings. For the summary project justification rating, FTA uses primarily two criteria—cost-effectiveness and land use.[8] Each of these criteria account for 50 percent of the summary project justification. Although FTA considers the full range of criteria, according to an FTA official, the other criteria do not produce meaningful distinctions among projects and, therefore, are not given an official weight in the ratings process.[9] FTA plans to consider revisions to the measures for the other criteria after the authorizing legislation is passed.

[8]The land use criterion examines the extent to which the levels of population, employment, and other trip generators in the area are sufficient to support a major transit investment, as well as the community's commitment to land use policies that will facilitate and promote transit use.

[9]According to FTA, these criteria may be considered by the administration and Congress as funding recommendations and decisions are made.

Figure 2: New Starts Evaluation and Ratings Process



Source: FTA.

Note: The shaded boxes indicate changes in the evaluation process made in fiscal year 2004. The share of non-New Starts funding has always been a measure used in the New Starts evaluation; however, for the fiscal year 2004 cycle, FTA instituted a policy favoring projects that request less than 60 percent.

[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.

On the basis of the summary project justification and financial ratings, FTA develops the overall project rating. (Table 1 describes the criteria FTA uses to assign overall project ratings.) The exceptions to the evaluation process are statutorily “exempt” projects, which are those that request less than $25 million in New Starts funding.[10] These projects are not required to submit project justification information and do not receive ratings.

Table 1: FTA's Criteria for Assigning Overall Project Ratings

Overall rating category	Criteria
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	Assigned to projects not rated at least "medium" for both the financial and project justification summary ratings.
Not rated	Indicates that insufficient information was submitted or that FTA has serious concerns about the information submitted for the mobility improvements and cost-effectiveness criteria because the underlying travel forecasting assumptions used by the project sponsor may have inaccurately represented the benefits of the project.

Source: FTA.

Last year, we reported that FTA implemented two changes to the New Starts process for the fiscal year 2004 cycle.[11] (These changes are shaded in fig. 2.) First, FTA changed the calculation of the cost-effectiveness and mobility improvements criteria by adopting the Transportation System User Benefits (TSUB) measure. This measure replaced the "cost per new rider" measure that had been used in past ratings cycles. According to FTA, the new measure reflects an important goal of any major transportation investment—reducing the amount of travel time that people incur for taking a trip (i.e., the cost of mobility). In contrast to the "cost per new rider" measure, the new measure considers travel time savings to both new and existing transit system riders. Second, in response to appropriations committee reports, FTA instituted a preference policy favoring projects that seek a federal New Starts share of no more than 60 percent of the total

[10] 49 U.S.C. 5309(e)(8)(A).

[11] U.S. General Accounting Office, *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).

project cost. Under this preference policy, FTA gives projects seeking a federal share of New Starts funding greater than 60 percent a “low” financial rating, which further results in a “not recommended” overall project rating.[12]

As required by statute, FTA uses the evaluation and ratings process, along with its consideration of the stage of development of New Starts projects, to decide which projects to recommend to Congress for funding.[13] 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.
- 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, which confirm that there are no cost, project scope, or local financial commitment issues remaining.

Recent Changes to the Evaluation and Rating Process Present Challenges and Raise Concerns

Of the 38 projects evaluated for the fiscal year 2005 cycle, 29 were rated and 9 were statutorily exempt from the rating process because they requested less than $25 million in New Starts funding. While the project ratings for the fiscal year 2005 cycle reflect a general improvement over the previous year, ratings are not as high as those achieved for the fiscal year 2003 cycle. FTA proposed 7 projects for funding for the fiscal year 2005 cycle, including 5 projects for FFGAs. The remaining 2 projects were

[12] Although the non-New Starts share accounts for only 20 percent of the summary financial rating, FTA’s preference policy supersedes the overall financial rating when the non-New Starts share is greater than 60 percent.

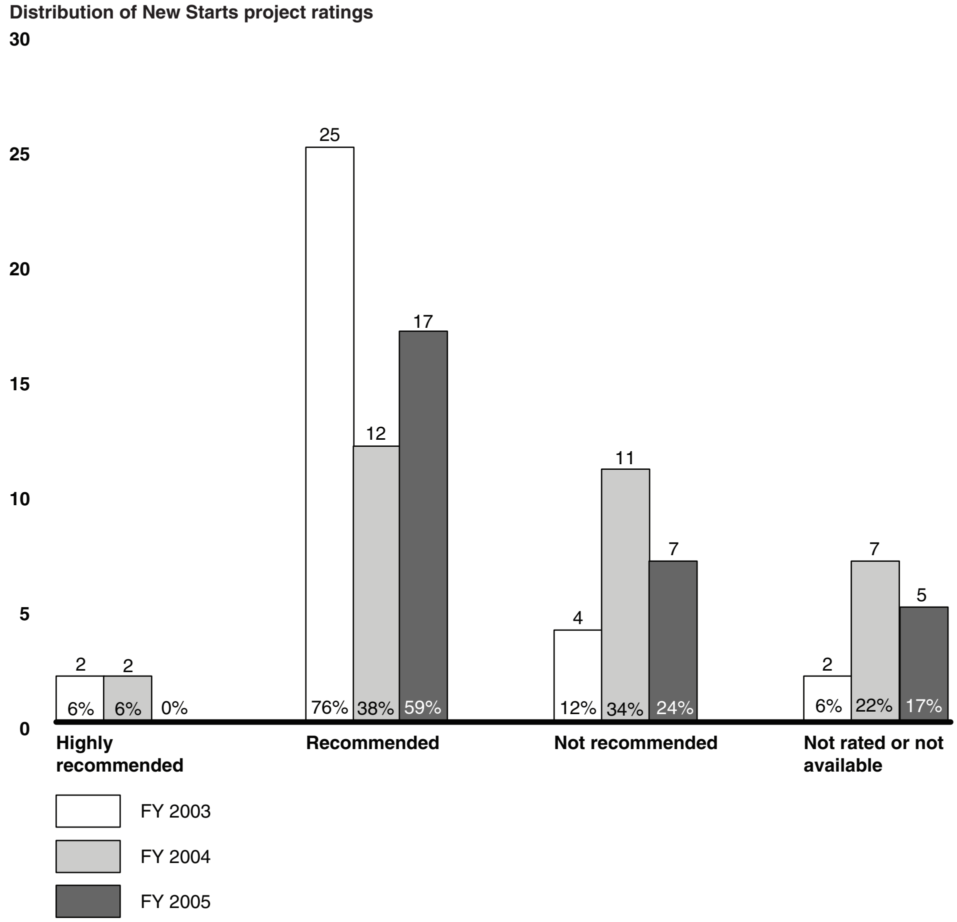
[13] FTA makes these funding recommendations in its annual New Starts report to Congress due in February.

considered to be “meritorious and worthy of funding” and FTA proposed a total of $50 million for these projects—substantially more than amounts proposed for similar projects in prior years. FTA did not, however, clearly explain to project sponsors how it decides which projects will be recommended for funding outside of FFGAs or what they must do to qualify for such a recommendation. FTA implemented two changes to its evaluation and ratings process for the fiscal year 2004 cycle: implementation of a new cost-effectiveness measure and adoption of the 60 percent federal New Starts share preference policy that contributed to lower ratings. Although many of those projects were able to overcome challenges with the new measure for the current cycle, ratings reflected that some projects were still unable to generate reliable local travel forecasts. Also, while the majority of the projects evaluated during the current cycle requested a federal New Starts share of less than 60 percent, some project sponsors raised concerns about FTA’s preference policy, including the challenges associated with securing the local funding share.

Project Ratings for the Current Cycle Reflect Improvement but Have Not Returned to Fiscal Year 2003 Levels

Project ratings are generally higher for the fiscal year 2005 cycle than for the fiscal year 2004 cycle but are still lower than ratings for fiscal year 2003. Of the 38 projects FTA evaluated for the fiscal year 2005 cycle, 29 were rated, and 9 were statutorily exempt from the ratings process because project sponsors requested less than $25 million in New Starts funding. Figure 3 shows that the percentage of projects that received ratings of “recommended” or “highly recommended” rose from 44 percent for the fiscal year 2004 cycle to 59 percent for the fiscal year 2005 cycle. FTA attributes the increase in “recommended” projects over last year’s total to improved submissions, notably improved financial plans, and a better understanding of and increased comfort with the estimation of project benefits among project sponsors. In addition, FTA rated 7 projects as “not recommended” and designated 5 projects as “not rated.” According to FTA, most of the projects that received a rating of “not recommended” submitted poor financial plans—that is, plans that FTA considered overly optimistic in their assumptions about costs and revenue growth, or demonstrated no commitment of funds. For the projects that received a rating of “not rated,” either FTA had significant concerns with the travel forecasts submitted by the project sponsor or the project sponsor did not provide all of the information necessary for a complete submission. (See app. II for a full listing of ratings for projects evaluated for the fiscal year 2005 cycle.)

Figure 3: The Number and Percentage of Projects Rated by Category, Fiscal Years 2003 to 2005



Source: GAO analysis of FTA data.

FTA proposed 7 projects for funding for the fiscal year 2005 cycle. FTA proposed 5 of the 7 projects for FFGAs, including Cleveland, Euclid Corridor Transportation Project; Las Vegas, Resort Corridor Fixed Guideway; New York, Long Island Rail Road East Side Access; Phoenix, Central Phoenix/East Valley Light Rail Transit (LRT) Corridor; and Pittsburgh, North Shore LRT Connector. These projects are expected to be ready for FFGAs by the end of fiscal year 2005. The total costs of these 5 projects are estimated to be $7.6 billion. The total federal New Starts share is expected to be $3.7 billion.

In addition, FTA considered 2 other projects in final design to be meritorious and recommended a total of $50 million for these projects in fiscal year 2005. FTA proposed $30 million for the Charlotte South Corridor LRT Project and $20 million for the Raleigh Regional Rail Project—substantially more than amounts proposed for similar projects in prior years. According to the fiscal year 2005 New Starts report, these meritorious projects are "located in areas that are highly congested or rapidly growing, and that have demonstrated a high level of local financial commitment and strong support from local citizens, businesses, and elected officials."[14] However, the report does not clearly explain to project sponsors how FTA decides which projects will be recommended for funding outside of FFGAs or what they must do to qualify for such a recommendation. FTA officials explained that the 2 projects considered to be meritorious this cycle are closer to being ready for an FFGA than the other projects evaluated; however, FTA did not believe the 2 projects would be ready for an FFGA in fiscal year 2005. FTA officials also told us that decisions to recommend funding for projects outside of FFGAs are made on an annual basis and are dependent on the readiness of the projects and the availability of funds after funding for existing or new FFGAs is allocated. This explanation, however, is not included in its New Starts report or other published guidance.

FTA has funded similar projects in the past. For example, for the fiscal year 2003 cycle, FTA considered 5 projects in preliminary engineering to be meritorious.[15] At that time, FTA had proposed $4 million for 4 of the 5 projects and $15 million for the remaining project. FTA reported in its annual New Starts report that the 5 projects "may be ready to progress through final design and construction by the end of fiscal year 2003."[16] However, by the fiscal year 2005 cycle, only 1 of the projects had an FFGA. The remaining 4 projects were either being proposed for an FFGA for the fiscal year 2005 cycle (3) or still in preliminary engineering (1). Therefore, in the past, FTA's recommendation for funding for projects considered to be

[14]U.S. Department of Transportation, Federal Transit Administration, *Annual Report on New Starts: Proposed Allocations of Funds for Fiscal Year 2005* (Washington, D.C.: 2004).

[15]The 5 meritorious projects for the fiscal year 2003 cycle were Chicago Ravenswood Line Expansion, Cleveland/Euclid Corridor Transportation Project, Las Vegas/Resort Corridor, Minneapolis/Northstar Corridor Commuter Rail, and New York/East Side Access.

[16]U.S. Department of Transportation, Federal Transit Administration, *Annual Report on New Starts: Proposed Allocations of Funds for Fiscal Year 2003* (Washington, D.C.: 2002).

meritorious does not guarantee that a project will advance to final design and construction as quickly as anticipated.

Cost-effectiveness Ratings Indicate Continued Problems with the Implementation of the TSUB Measure

Project sponsors continue to experience challenges calculating cost-effectiveness. Last year, we reported that many project sponsors experienced difficulties that prevented them from producing accurate local travel forecasts to calculate the TSUB measure, resulting in 11 projects designated as “not rated” for cost-effectiveness. Since that time, the sponsors for 8 of those 11 projects were able to submit sufficient information to receive a rating for cost-effectiveness, suggesting that they were able to overcome the travel forecasting problem that they had experienced during the first year of the measure’s implementation. However, 6 additional project sponsors were unable to generate reliable local travel forecasts and thus could not calculate a valid TSUB value for the fiscal year 2005 cycle, resulting in a total of 9 of the 29 projects designated as “not rated” for cost-effectiveness.[17] According to FTA, the major problem in implementing the measure this cycle stemmed from problems with the underlying local travel forecasting models, not FTA’s software or the TSUB measure. For example, FTA noted that 22 of the 29 projects rated this year required some involvement by FTA to improve the accuracy of their travel forecasts. Last year, we recommended that FTA issue additional guidance describing its expectations regarding the local travel forecasting models and the specific types of data FTA requires to calculate the measure. FTA concurred with this recommendation and provided additional guidance in its updated reporting instructions, issued in June 2003, and has continued to provide technical assistance to project sponsors.[18]

Despite the difficulties encountered in implementing TSUB, FTA and most of the project sponsors we interviewed believe that this new measure is an improvement over the “cost per new rider” measure because it takes into account a broader set of benefits to transit riders. These benefits include reductions in walk times, wait times, ride times, and numbers of transfers, all of which produce perceived savings in travel time or “travel time

[17]Projects receiving a “not rated” in cost-effectiveness for the fiscal year 2005 cycle either received an overall rating of “not rated” or “not recommended.”

[18]U.S. Department of Transportation, Federal Transit Adminstration, Office of Planning, *Reporting Instructions for the Section 5309 New Starts Criteria* (Washington, D.C.: June 2003).

benefits" for new riders as well as existing transit riders. By contrast, the "cost per new rider" measure recognized benefits only for new transit riders and did not measure benefits to existing transit riders.

Although the majority of project sponsors we interviewed believe the new measure is an improvement over the old one, many raised concerns about the implementation of TSUB, including the approach for calculating TSUB and the weight FTA applies to the cost-effectiveness criterion. For example, they were concerned that the measure did not capture all benefits that accrue to the transportation corridor, notably for highway users; the amount of time provided to incorporate changes to their local travel forecasting software was insufficient; and the weight FTA applies to the cost-effectiveness criterion is disproportional to other criteria. Specifically, many project sponsors were unclear about the basis for a 45-minute cap on travel time savings included in the calculation of TSUB.[19] According to an FTA official, this cap allows FTA to limit travel time savings to less than 45 minutes, which they feel is appropriate, when examining the benefits of each project. FTA's experience has been that time savings in excess of 45 minutes is usually due to problems with the local travel forecasting model. However, FTA has allowed for exceptions to the cap in the past if well justified by local project sponsors.

FTA assigns a significant weight to the cost-effectiveness criterion in comparison with other criteria used to calculate the project justification rating. According to the New Starts report, cost-effectiveness accounts for 50 percent of the project justification rating. Land use accounts for the other 50 percent. Thus, although cost-effectiveness accounts for 50 percent of the project justification rating, a "low" cost-effectiveness rating can be offset by a "high" land use rating.[20] This appears to be the case for the majority of projects proposed for funding for the fiscal year 2005 cycle. As table 2 shows, five of the seven projects proposed for funding received a "low-medium" cost-effectiveness rating. However, the projects' land use ratings raised their summary project justification ratings to "medium," which allowed them to receive an overall "recommended" rating.

[19]In August 2003, FTA found that this cap was being applied inconsistently in the software, requiring project sponsors to recalculate TSUB measures. FTA officials extended submission deadlines for an additional 2 weeks, but project sponsors we interviewed indicated that more time was needed.

[20]According to FTA officials, FTA does not advance projects to the next stage of development or funding unless they have at least a "low-medium" cost-effectiveness rating.

Table 2: Cost-Effectiveness and Land Use Ratings for Projects Proposed for Funding

Project	Cost-effectiveness rating	Land use rating	Project justification rating
Charlotte, South Corridor LRT	Low-medium	Medium-high	Medium
Cleveland, Euclid Corridor Transportation Project	Low-medium	Medium-high	Medium
New York, Long Island Rail Road East Side Access	Medium	High	Medium-high
Phoenix, Central Phoenix/East Valley LRT Corridor	Low-medium	Medium	Medium
Pittsburgh, North Shore LRT Connector	Low-medium	Medium-high	Medium
Raleigh, Regional Rail Project	Low-medium	Medium	Medium
Las Vegas, Resort Corridor Fixed Guideway	Medium-high	Medium	Medium-high

Source: FTA.

Most Project Sponsors Proposed a Federal New Starts Share of Less Than 60 Percent, but Some Raised Concerns about FTA's Push for Lower Federal New Starts Share

FTA instituted a policy favoring projects that seek a federal New Starts share of no more than 60 percent of the total project cost in fiscal year 2004. According to FTA, this preference policy responded to language contained in a conference report, prepared in November 2001, by the House Appropriations Committee. The report states "the conferees direct FTA not to sign any new FFGAs after September 30, 2002, that have a maximum federal share of higher than 60 percent."[21] Similar language has been included in all subsequent appropriations committee reports. Further, FTA officials told us that this policy would allow more projects to receive funding by spreading limited resources among them and ensure that local governments whose regions stand to receive substantial benefits for the project play a major role in funding such projects. However, when FTA implemented the 60 percent policy, it did not amend its regulations to

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

support the change in policy or its current procedures. As a result, we noted last year that FTA did not provide an opportunity for public comment on the impact of the preference policy. We further advised that explicitly stating criteria and procedures in regulations would ensure that project sponsors were fully aware of the preference policy. Accordingly, last year we recommended that FTA amend its regulations governing the New Starts share for projects to reflect its current policy. FTA disagreed with our recommendation, noting it was not required to issue regulations because the policy was not legally binding. Moreover, according to FTA officials, the preference policy is explained in both the fiscal year 2004 and 2005 New Starts reports and in its June 2003 reporting instructions.

Although FTA's preference policy, as expressed in the recent New Starts report, favors projects that request a federal New Starts share of no more than 60 percent, FTA is encouraging project sponsors to request an even lower federal New Starts share. Specifically, some project sponsors have stated that FTA encourages project sponsors to propose a federal New Starts share of no more than 50 percent—which is consistent with the administration's reauthorization proposal. This push for a lower New Starts share is reflected in FTA's rating process. As table 3 indicates, the lower the amount of New Starts funding requested, the higher the New Starts share rating. According to the New Starts report, the non-New Starts share rating accounts for 20 percent of a project's financial rating.[22]

[22]The strength and reliability of the project's capital and operating plans account for 30 and 50 percent, respectively, of the project's financial rating.

Table 3: Criteria for New Starts Share Rating

New Starts share	New Starts share rating	Overall project rating
Less than 35 percent	High	Dependent on the ratings for the other financial criteria and the project justification rating.
Between 35 and 49 percent	Medium-high	Dependent on the ratings for the other financial criteria and the project justification rating.
Between 50 and 59 percent	Medium	Dependent on the ratings for the other financial criteria and the project justification rating.
60 percent or greater	Low	Not recommended

Source: GAO analysis of FTA data.

The project sponsors we contacted expressed concerns about the preference policy.[23] Although the majority of the projects evaluated during the current cycle requested a federal New Starts share of less than 60 percent, many of the project sponsors we interviewed indicated that they had proposed a share that was in line with FTA's policy in order to remain competitive. More than half of those interviewed told us they faced difficulties in advancing New Starts projects under such a policy. For example, some project sponsors told us that transit projects have a difficult time competing with highway projects in the local planning process because highway projects typically require a 20 percent local match, whereas New Starts projects require a match of at least 40 percent. Other project sponsors described the limited resources available at the local level to advance New Starts projects. A number of project sponsors also expressed concerns about FTA's efforts to lower the federal New Starts share to 50 percent. For example, one project sponsor indicated that their

[23]In addition to concerns about the percentage of New Starts funding, project sponsors from two projects expressed concerns about FTA's practice of limiting the overall dollar amount for individual projects. According to these project sponsors, FTA limits the total amount of New Starts funding for an individual project to $500 million. These project sponsors noted that for larger projects, a cap on the overall dollar amount is of more concern than the percentage of the New Starts share. An FTA official told us that they do not have a formal policy to limit the overall dollar amount for individual projects. Rather, FTA advises project sponsors that, historically, it has not recommended more than $500 million in total, or $100 million per year, for individual projects.

project would have to drop out of the process, others indicated that the projects would have to be redesigned, and one project sponsor indicated that requesting a lower federal New Starts share would weaken the project's financial plan.

According to the fiscal year 2005 New Starts report, projects that request more than a 60 percent federal New Starts share are not recommended to Congress for FFGAs. Specifically, the fiscal year 2005 New Starts report states that "projects seeking a federal New Starts share over 60 percent of total costs are given a 'low' rating for local financial commitment, regardless of the ratings received for the capital plan and operating plan. This 'low' rating further results in a 'not recommended' overall project rating." Projects receiving an overall "not recommended" rating are not proposed for an FFGA. An FTA official told us that for the fiscal year 2005 cycle, no project received an overall "not recommended" rating solely due to this policy preference.

The enabling legislation for this program states that federal grants are to be for 80 percent of the net project cost, unless the grant recipient requests a lower grant percentage.[24] TEA-21 required FTA to consider the strength of the local financial commitment, including the extent to which the project will have a federal New Starts share of less than 80 percent. In our view, FTA's policy to favor projects with a lower federal share is permissible as long as projects are not required to request less than an 80 percent federal New Starts share in order to be considered for recommendation for an FFGA. FTA's description of the preference policy in its fiscal year 2005 New Starts report suggests that this policy is absolute in that projects proposing more than a 60 percent federal New Starts share will not be recommended for an FFGA. However, FTA has assured us that this is a general preference and it may make exceptions to this policy.[25] FTA has agreed to clarify in its upcoming reporting instructions that this is a general preference policy, thus allowing for the possibility of exceptions.

[24] 49 U.S.C. § 5309(h).

[25] FTA officials stated that it makes exceptions to the preference policy and demonstrated its willingness to do so by recommending a project for an FFGA at an 80 percent federal New Starts share in fiscal year 2003.

FTA Continues to Develop Guidance for Two New Requirements That It Instituted for the Fiscal Year 2005 Cycle

FTA instituted two new requirements for New Starts projects for the fiscal year 2005 cycle that were independent of the rating process. First, FTA required project sponsors to submit a supplemental document—a "make the case" document—that articulates the benefits of the proposed New Starts project. Project sponsors are expected to "make the case" by describing why the project is needed and why it is the best alternative available to meet these needs. According to an FTA official, the "make the case" document is intended to help FTA interpret the data produced by the local travel forecasting models. For example, the supplemental document could be used to explain unusual results produced by the local travel forecasts. In addition, an FTA official stated that the document would aid FTA in preparing the profile summaries of projects for the annual New Starts reports. FTA officials note, however, that many of the "make the case" submissions for the current cycle did not meet their expectations. For example, some of the submissions provided only a justification of the need for a corridor improvement; others consisted solely of a summary of financial and political commitment. An FTA official acknowledged that FTA could have done a better job in defining the purpose of the document and stated that FTA plans to provide more guidance in the near future.

The second new requirement instituted for the fiscal year 2005 cycle is a risk assessment. The risk assessments are intended to identify the issues that could affect schedule or cost, as well as the probability that they will do so. It is also used as a project management tool by the project sponsor and an FTA oversight tool. FTA's project management oversight contractors have been conducting the assessments, focusing on the projects that are closest to receiving an FFGA. As of May 2004, FTA has completed risk assessments for four projects.[26] Eventually, FTA intends to conduct risk assessments on projects in earlier phases of development. FTA officials plan to issue more guidance on this new requirement. In addition, FTA continues to share and exchange information with project sponsors through FTA-sponsored roundtables and New Starts workshops.[27]

[26]FTA is currently conducting risk assessments for five additional projects.

[27]The roundtable is a forum for sharing information among FTA staff and project sponsors considering New Starts projects.

Administration's Proposal Requests Increased New Starts Funds and Legislative Reauthorization Proposals Would Expand and Streamline the Program

The administration's fiscal year 2005 budget proposal requests $1.5 billion for the New Starts program, a $225 million increase over the amount appropriated for fiscal year 2004. Proposed legislation to reauthorize federal surface transportation programs in the House and Senate would expand the New Starts program to include a wider variety of transit projects as well as streamline the New Starts evaluation process for projects requesting less than $75 million in New Starts funding, among other things. Project sponsors had mixed reactions to these proposals and called for clear definitions.

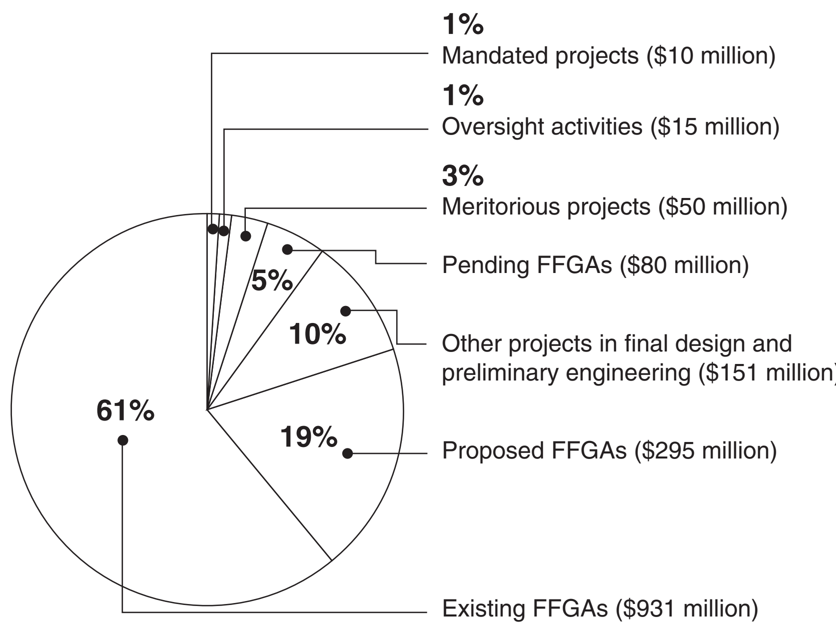
Administration's Proposed Fiscal Year 2005 Budget Requests a 15 Percent Increase in New Starts Funding

In its budget proposal for fiscal year 2005, the administration requests $1.5 billion for the construction of new transit systems and the expansion of existing systems through the New Starts program—an increase of $225 million, or 15 percent, over the amount appropriated for fiscal year 2004. Figure 4 illustrates the specific allocations FTA has proposed for fiscal year 2005, including the following:

- $931 million (61 percent) would be allocated among 26 projects under construction with existing FFGAs,
- $295 million (19 percent) would be allocated among the 5 projects proposed for new FFGAs,
- $151 million (10 percent) would be allocated among other projects in final design and preliminary engineering that do not have existing FFGAs,[28] and
- $50 million (3 percent) would be allocated for 2 projects considered to be meritorious by FTA.

[28]TEA-21 limits the amount of New Starts funding that can be used for purposes other than final design and construction to not more than 8 percent of funds appropriated. FTA expects that no more than 8 percent of the $151 million will be allocated for purposes other than final design and construction. However, FTA officials noted this decision ultimately rests with Congress.

Figure 4: Total New Starts Funding Proposed for Fiscal Year 2005 Equals $1.5 Billion



Source: GAO analysis of FTA data.

FTA has limited commitment authority remaining—about $200 million—through June 2004. According to FTA officials, the commitment authority for fiscal year 2005 and beyond will be addressed in the next surface transportation authorization legislation. FTA officials told us that neither the amount of commitment authority remaining nor the delay in reauthorizing TEA-21 affected the number of projects proposed for an FFGA for the fiscal year 2005 cycle. However, FTA officials noted that FTA will not be able to execute all 5 proposed FFGAs until additional commitment authority is provided through congressional authorization.

Sponsors Have Mixed Reactions to Legislative Reauthorization Proposals and Call for Clear Definitions

Congress is currently considering legislation that would reauthorize all surface transportation programs, including the New Starts program.[29] Both the Senate and House bills contain a number of provisions and initiatives for the New Starts program.[30] Some of the key provisions of these bills would (1) streamline the evaluation process for projects under $75 million, (2) expand the definition of eligible projects, (3) change the ratings categories, and (4) maintain the maximum federal New Starts share at 80 percent.[31] The project sponsors we interviewed had mixed reactions to these provisions. In addition, most of the sponsors called for clear definitions to any changes to the New Starts process.

- *Streamline the New Starts evaluation process for projects under $75 million.* The Senate proposal would allow the Secretary of Transportation discretion to develop a streamlined evaluation process for projects requesting less than $75 million in New Starts funds. This provision would eliminate the "exempt" classification for projects requesting less than $25 million in New Starts funding and would allow FTA to analyze and rate all projects through a streamlined process. The House proposal would establish a "Small Starts" program for projects requesting between $25 million and $75 million in New Starts funding, and these projects would be evaluated through a streamlined ratings process. In addition, the House proposal would maintain the exempt classification allowing projects requesting less than $25 million in New Starts funding to be exempt from the evaluation and ratings process. Most project sponsors we interviewed were supportive of implementing a streamlined evaluation process for less expensive projects. Some stated that a less robust evaluation process for less expensive projects makes sense, and others said it would allow cities to consider a range of potential projects without having to develop an expensive project.

[29]Both the Senate and House bills have been passed by their respective chamber and are currently awaiting conference.

[30]H.R. 3550, 108th Cong. (2004), and S. 1072, 108th Cong. (2004).

[31]Both the Senate and House proposals contain additional provisions that would affect the New Starts program. For example, the Senate proposal includes the creation of a new pilot program to demonstrate the advantages of public/private partnerships for New Starts projects and a provision to review the impact of allowing transit contractors to receive performance incentive awards if projects are completed below their original estimated cost. The House proposal would require FTA to provide notice and an opportunity for public comment before issuing any nonregulatory substantive policy statements.

However, some said that clear definitions and criteria would be necessary in implementing the streamlined evaluation process.

- *Expand the definition of eligible projects*. Currently, TEA-21 limits New Starts funding to fixed-guideway projects.[32] Both the House and Senate reauthorization proposals would allow certain nonfixed-guideway transit projects (e.g., bus rapid transit operating in nonexclusive lanes) to be eligible for New Starts funding, opening the program up to projects that currently are ineligible. Specifically, the Senate proposal would allow nonfixed-guideway projects requesting less than $75 million to be eligible for New Starts funding. The House proposal would expand New Starts funding eligibility to include nonfixed-guideway projects with a majority of fixed-guideway components seeking between $25 million and $75 million, as part of its "Small Starts" initiative. The majority of project sponsors we interviewed supported this initiative, some noting that broadening the program to include nonfixed-guideway projects would open more transit possibilities for localities. However, some project sponsors did express concerns about the already high demand on New Starts funding and noted that nonfixed-guideway projects could receive funds through other federal programs or capital funds. As a result, a number of project sponsors that support expanding the program said increased and/or separate funding and a clear definition of eligible projects are needed. Others were reluctant to support the expansion of New Starts to include nonfixed-guideways projects, citing a lack of funds and the importance of maintaining the fixed-guideway focus of New Starts.

- *Change the rating categories*. Under TEA-21, FTA assigns summary ratings of "highly recommended," "recommended," and "not recommended" to projects requesting New Starts funding. The Senate reauthorization proposal would revise the current rating system and implement five levels of ratings: "high," "medium-high," "medium," "medium-low," and "low." The House proposal would maintain the current ratings system. Project sponsors were unsure of the impact of the proposed changes, and a few requested clearly defined criteria for each new rating category. Some sponsors told us they were not concerned with the ratings scale as long as it was clearly defined. Other

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

project sponsors said they did not care what the new rating categories were called—they just want to know what rating is needed to secure an FFGA. In addition, two sponsors said the new system could be more easily conveyed to local officials.

- *Maintain a maximum New Starts share at 80 percent.* Currently, TEA-21 allows a maximum New Starts share of 80 percent for individual projects. Both the House and the Senate versions of the TEA-21 reauthorization proposals would maintain the maximum New Starts share at 80 percent, in contrast to the administration's reauthorization proposal, which would lower the maximum New Starts share to 50 percent. Furthermore, the House bill specifically prohibits FTA from requiring a nonfederal share that is more than 20 percent of the project's cost. Currently, FTA is encouraging project sponsors to request no more than 50 percent in New Starts funding for their projects. As noted earlier, some project sponsors we interviewed were concerned about the potential impact of reducing the New Starts share to 50 percent, including the effect of this change on the balance between highway and transit project funding.

Project Sponsors Have Taken Steps to Address Variances in Funding

All 26 projects with existing FFGAs have not received funds as scheduled—that is, the amount of funding appropriated was less than the amount scheduled in the FFGA. FFGAs are multiyear contractual agreements between FTA and project sponsors for a specified amount of funding, which are subject to the annual appropriations process. The full amount of funding is committed to the projects over a set period, and the FFGA contains a schedule of annual federal payments to fulfill FTA's commitment. According to FTA, all completed New Starts projects received the total FFGA amount but not necessarily according to the original FFGA schedule. FTA will continue to request funds to be appropriated to meet the amounts authorized in existing FFGAs. As of March 2004, the 26 projects have received a total of $294 million, or 5 percent, less than the amount authorized by the projects' FFGAs.

The amount and timing of the differences in funding varied for each project, but all 26 projects with FFGAs received less than the scheduled amount at some point. As of March 2004, 7 had received over 10 percent less than the scheduled amount, 2 had received between 5 and 10 percent less than scheduled, and 17 projects had received up to 5 percent less than scheduled. The timing of the differences in funding also varied. Some projects experienced substantial differences between appropriated and scheduled amounts at the beginning or near the end of their FFGA, but it was more common for projects to experience funding differences throughout. (See app. III for the total amount of differences for each project with an existing FFGA.)

Several factors contributed to projects receiving less New Starts funding than scheduled. The amount of funding authorized by an FFGA is subject to the annual appropriations process and, therefore, differences may arise because of congressional decision making. In addition, projects receive less than the amounts authorized by the FFGAs because FTA retains 1 percent of the funding provided each year to cover the cost of its project management oversight.[33] According to FTA officials, each year FTA requests funding to cover the project management oversight costs, but these funds are typically not appropriated. FTA may also request that less New Starts funding be appropriated to a project than scheduled by the FFGA if it is concerned about a specific project's progress; however, FTA officials said they rarely recommend less funding than is scheduled.

Faced with these variances in funding, project officials we interviewed have developed methods to mitigate the impact of receiving less than the scheduled annual amount for their project. Some project officials entered into partnerships with the state and/or local government. For example, one transit agency arranged for the state to contribute more funds early on in the project and, as a result, the funding schedule did not adversely affect the project. Other projects implemented interim funding mechanisms to cover any FFGA variances, including issuing bonds or loans to generate necessary funds. None of the 5 project officials we contacted had to change the scope or schedule of their project solely due to funding variances. However, officials from these projects said that interim financing ultimately increased the cost of the project. For example, the Portland Interstate MAX project incurred approximately $3 million in borrowing costs, which equaled 4 percent of the total local commitment to the project.

[33]The project management oversight program is designed primarily to help ensure that grantees constructing major capital projects, such as New Starts projects, have the qualified staff and procedures to successfully build the projects according to accepted engineering principles. To implement this program, FTA enters into contracts with competitively selected engineering firms, which serve as an extension of its limited technical staff. The project management oversight activities are supported by a statutorily limited set-aside of the funds made available annually for certain transit programs.

Conclusions

To receive an FFGA, projects must go through a lengthy evaluation process by FTA—from planning to preliminary engineering to final design. The steps for advancing through the evaluation process and securing an FFGA are well documented in FTA's New Starts reports and other published guidance. Documentation of these steps is important to ensure a common understanding among projects sponsors and to increase the transparency of the process. Like other programs, the transparency of the New Starts process is critical in ensuring that project sponsors view the process as fair and objective. Although the process for securing an FFGA is well-defined, FTA's identification of meritorious projects—and the subsequent proposed funding of these projects—is not. While FTA officials were able to provide us additional insight regarding funding recommendations for these projects, FTA's New Starts reports and other published guidance are not clear in its meaning. In particular, the rationale for the funding recommendation for these two projects in FTA's New Starts Report for Fiscal Year 2005 is very broad and lacks necessary detail. FTA does not explain how it decides which projects will be recommended for funding outside of FFGAs and what project sponsors must do to qualify for such a recommendation. In addition, FTA did not justify the level of funding proposed for these projects for fiscal year 2005—which is a substantial increase compared to amounts proposed for similar projects in the past. Consequently, it is difficult to understand why these two meritorious projects are more worthy of funding than other projects in the pipeline.

The implementation of FTA's policy favoring projects requesting a federal New Starts share of less than 60 percent also continues to create challenges for some project sponsors and raises concerns. According to FTA, its policy is in response to language contained in appropriations committee reports and will result in more projects receiving funding by spreading limited resources among them and ensuring that local governments whose regions would benefit from the project play a major role in funding such projects. However, many of the project sponsors we interviewed experienced challenges in trying to secure a larger local match to comply with FTA's preference policy. Several project sponsors also stated that FTA's push for a lower federal New Starts share would likely affect their decision to advance future transit projects. Therefore, it is important for FTA to understand how this policy affects local decision making with regard to proposing and funding New Starts projects, as well as whether the policy is maximizing New Starts funds and local participation.

Recommendations for Executive Action

To ensure that FTA's New Starts evaluation process and policies are objective, transparent, and comply with federal statute, we recommend that the Secretary of Transportation direct the Administrator, FTA, to take the following two actions:

- Clearly explain the basis on which it decides which projects will be recommended for funding outside of FFGAs, such as projects considered to be meritorious, and what projects must do to qualify for such a recommendation. These explanations should be included in FTA's annual New Starts report and other published New Starts guidance.
- FTA should also examine the impact of its preference policy on projects currently in the evaluation process, as well as projects in the early planning stages, and examine whether its policy results in maximizing New Starts funds and local participation.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Transportation for review and comment. Officials from the Department and FTA, including the Associate Administrator for Planning and the Environment, indicated that they generally agreed with the report and its recommendations. According to FTA officials, the FTA New Starts program has been recognized as well-managed, with consistent, proven results and accomplishments. They recognized, however, the need to further improve program guidance and operation. Specifically, FTA agreed to more clearly explain, in its guidance to project sponsors, the basis on which it decides which projects will be recommended for funding outside of FFGAs. In addition, in the draft of this report, we recommended that FTA revise its guidance to clarify that exceptions to the preference policy are permissible. In discussions with FTA officials about the draft of this report, FTA agreed to clarify the preference policy by clearly stating it is a general, rather than an absolute, preference in its upcoming reporting instructions and other appropriate sources, making a recommendation to take such action unnecessary. Therefore, we eliminated our recommendation on this matter in our final report. Finally, FTA officials also provided technical clarifications, which we incorporated as appropriate.

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 also will make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

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

Katherine A. Siggerud
Director, Physical Infrastructure

Scope and Methodology

To address our objectives, we reviewed the administration's fiscal year 2005 budget request and legislative reauthorization proposals, the Federal Transit Administration's (FTA) annual New Starts reports, records on funding authorized and appropriated to projects with existing full funding grant agreements (FFGAs), and federal statutes pertaining to the New Starts program. In addition, we interviewed FTA officials and representatives from the American Public Transportation Association and attended FTA's New Starts roundtable with project sponsors in April 2004.

We also conducted semistructured interviews with project sponsors from 15 projects in preliminary engineering or final design to gain their perspectives on recent and proposed changes to the New Starts program and 5 projects with FFGAs to discuss their experiences in dealing with shortfalls in federal funding for their New Starts projects. (See table 4 for a listing of all projects contacted.) The results of these interviews are not generalizable to all project sponsors, however we used multiple criteria in selecting the projects to ensure we evaluated a diverse group of projects. Specifically, to select the 15 projects in preliminary engineering or final design, we considered projects' overall ratings for the fiscal year 2005 cycle, mobility and cost-effectiveness ratings for fiscal years 2003 to 2005, percentage of New Starts funding requested for fiscal years 2003 through 2005, total cost, and location. We obtained this information from FTA's annual New Starts reports for fiscal years 2003 through 2005. In selecting the 5 projects with FFGAs, we considered the size and timing of any differences between the amount of funding authorized in projects' FFGAs and the amount of funding appropriated to the projects for fiscal years 1998 through 2004. We obtained information on the amount of funding authorized and appropriated to projects with existing FFGAs from FTA.

Table 4: Projects Contacted for Our Review

City, state	Project
Projects in preliminary engineering or final design	
Boston, MA	Silver Line Phase III
Charlotte, NC	South Corridor Light Rail Transit (LRT)
Columbus, OH	North Corridor LRT
Denver, CO	West Corridor LRT
Fort Collins, CO	Mason Transportation Corridor
Los Angeles, CA	Mid-City Exposition LRT
Louisville, KY	Transportation Tomorrow South Central Corridor LRT

(Continued From Previous Page)

City, state	Project
Miami, FL	North Corridor Metrorail Extension
Minneapolis-Rice, MN	Northstar Corridor Rail Project
New Orleans, LA	Desire Streetcar Line
New York, NY	Long Island Railroad East Side Access
Norfolk, VA	Norfolk LRT project
Philadelphia, PA	Schuylkill Valley MetroRail
Phoenix, AZ	Central Phoenix/East Valley LRT Corridor
Pittsburgh, PA	North Shore LRT Connector
Projects with existing FFGAs	
Chicago, IL	Ravenswood Line Extension
Denver, CO	Southeast Corridor LRT
Fort Lauderdale, FL	South Florida Commuter Rail Upgrades
Portland, OR	Interstate MAX LRT Extension
Washington, D.C. metropolitan area	Largo Metrorail Extension

Sources: GAO and FTA.

To ensure the reliability of information presented in this report, we interviewed FTA officials about FTA's policies and procedures for compiling the annual New Starts reports, including FTA's data collection and verification practices for New Starts information. We also reviewed documentation for the database FTA uses to compile, analyze, and store data for New Starts projects. In addition, during our semistructured interviews with project sponsors, we asked about the accuracy of the information about their projects presented in the annual New Starts reports. Finally, we tested the reliability of FTA's records of the amount of funding authorized and appropriated to projects with existing FFGAs by comparing a nonprobability sample of the records with FFGAs. We concluded that the FTA information presented is sufficiently reliable for the purposes of this report.

Projects Evaluated for the Fiscal Year 2005 Cycle

Dollars in millions

Phase of project	Overall project rating/status	Total New Starts funding scheduled by FFGA or requested by project sponsors
Projects with existing full funding grant agreements (FFGAs)		
Atlanta–North Springs Extension	FFGA	$370
Baltimore–Central Light Rail Transit (LRT) Double Tracking	FFGA	120
Chicago–Douglas Branch Reconstruction	FFGA	320
Chicago–North Central Corridor Commuter Rail	FFGA	135
Chicago–Southwest Corridor Commuter Rail	FFGA	103
Chicago–Union Pacific West Line Extension	FFGA	81
Chicago–Ravenswood Line Extension	FFGA	246
Denver–Southeast Corridor LRT	FFGA	525
Fort Lauderdale–South Florida Commuter Rail Upgrades	FFGA	111
Los Angeles–North Hollywood	FFGA	681
Minneapolis–Hiawatha Corridor LRT	FFGA	334
New Orleans–Canal Street Light Rail Line	FFGA	129
Northern New Jersey–Hudson Bergen Minimal Operating Segment (MOS1)	FFGA	604
Northern New Jersey–Hudson Bergen (MOS2)	FFGA	500
Northern New Jersey–Newark Rail Link	FFGA	142
Pittsburgh–Stage II LRT Reconstruction	FFGA	100
Portland–Interstate MAX LRT Extension	FFGA	239
Salt Lake City–CBD to University LRT	FFGA	85
Salt Lake City–Medical Center Extension	FFGA	54
San Diego–Mission Valley East LRT Extension	FFGA	330
San Diego–Oceanside Escondido Rail Corridor	FFGA	152
San Francisco–Bay Area Rapid Transit Extension to Airport	FFGA	750
San Juan–Tren Urbano	FFGA	302
Seattle–Central Link Initial Segment	FFGA	500
St. Louis–Metrolink St. Clair Extension	FFGA	244
Washington, D.C./MD Largo Metrorail Extension	FFGA	260
Subtotal		**$7,417**

(Continued From Previous Page)

Dollars in millions

Phase of project	Overall project rating/status	Total New Starts funding scheduled by FFGA or requested by project sponsors
Projects with pending federal funding commitments		
Los Angeles–Metro Gold Line East Side Extension	Recommended	491
Subtotal		**$491**
Projects in final design		
Charlotte–South Corridor LRT[a]	Recommended	193
Cleveland–Euclid Corridor[b]	Recommended	82
Galveston–Rail Trolley Extension	Exempt	8
Kansas City–Southtown BRT	Exempt	12
Nashville–East Corridor Commuter Rail	Exempt	23
New York–Long Island Rail Road East Side Access[b]	Recommended	2,633
Phoenix–Central Phoenix/East Valley LRT Corridor[b]	Recommended	587
Pittsburgh–North Shore LRT Connector[b]	Recommended	218
Raleigh–Regional Rail Project[a]	Recommended	414
Subtotal		**$4,170**
Projects in preliminary engineering		
Boston–Silver Line Phase III	Not recommended	378
Bridgeport, CT–Intermodal Transportation Center	Exempt	25
Columbus, OH–North Corridor LRT	Recommended	264
Dallas–Northwest/Southeast LRT	Recommended	700
Denver–West Corridor LRT	Not rated	412
El Paso–Sun Metro Area Rapid Transit Starter Line	Exempt	8
Fort Collins, CO–Mason Transportation Center	Not recommended	33
Harrisburg, PA–CORRIDORone Rail	Exempt	25
Hartford, CT–New Britain/Hartford Busway	Recommended	88
Johnson County, KS–Kansas City, MO–I-35 Commuter Rail	Exempt	25
Las Vegas–Resort Corridor Fixed Guideway[b]	Recommended	160
Los Angeles–Mid-City Exposition LRT	Not recommended	253
Louisville–Transportation Tomorrow South Central Corridor	Not rated	373
Lowell, MA/Nashua, NH–Commuter Rail Extension	Exempt	18
Miami–North Corridor Metrorail Extension	Not rated	435
Minneapolis–Northstar Corridor Rail Project	Not rated	155
New Orleans–Desire Streetcar Line	Not recommended	69
New York–Second Avenue Subway	Recommended	8,404

(Continued From Previous Page)

Dollars in millions

Phase of project	Overall project rating/status	Total New Starts funding scheduled by FFGA or requested by project sponsors
Projects in preliminary engineering		
Norfolk, VA–Norfolk LRT	Not rated	95
Orange County, CA–CenterLine LRT	Recommended	483
Philadelphia–Schuykill Valley MetroRail	Not recommended	2,071
Salt Lake City–Weber County to Salt Lake Commuter Rail	Recommended	204
San Diego–Mid-Coast Extension	Recommended	66
San Francisco–New Central Subway	Recommended	532
Santa Clara County, CA–Silicon Valley Rapid Transit Corridor	Not recommended	973
Tampa–Tampa Bay Regional Rail	Not recommended	728
Washington County, OR–Wilsonville to Beaverton Commuter Rail	Recommended	62
Wasilia, AK–Alaska Railroad- South Wasilia Track Realignment	Exempt	23
Subtotal		**$17,062**[c]
Total		**$29,140**

Sources: GAO and FTA.

[a]Projects considered to be meritorious.

[b]Projects proposed for federal funding commitments.

[c]This amount reflects the total New Starts funding requested by project sponsors for projects in preliminary engineering.

Cumulative Shortfalls by Project with Full Funding Grant Agreements

Project	Full funding grant agreement amount	Total appropriations fiscal year 2004 and prior	Total authorized and scheduled in full funding grant agreement	Cumulative shortfall	Percentage of shortfall
Atlanta–North Springs Extension	$370,543,200	$370,182,415	$370,543,200	($360,785)	0.10%
Baltimore–Central Light Rail Transit (LRT) Double Tracking	$120,000,000	$78,566,416	$90,984,609	($12,418,193)	10.35%
Chicago–Douglas Branch Reconstruction	$320,100,000	$189,954,810	$194,779,647	($4,824,837)	1.51%
Chicago–North Central Corridor Commuter Rail	$135,319,330	$94,705,878	$96,843,093	($2,137,215)	1.58%
Chicago–Southwest Corridor Commuter Rail	$103,018,670	$75,737,275	$76,974,890	($1,237,615)	1.20%
Chicago–Union Pacific West Line Extension	$80,762,000	$54,476,251	$60,445,851	($5,969,600)	7.39%
Chicago–Ravenswood Line Extension	$245,520,000	$20,687,385	$55,845,596	($35,158,211)	14.32%
Denver–Southeast Corridor LRT	$525,000,000	$208,447,242	$233,439,516	($24,992,274)	4.76%
Fort Lauderdale–South Florida Commuter Rail Upgrades	$110,500,000	$102,259,515	$110,500,000	($11,210,695)	10.15%
Los Angeles–North Hollywood	$681,037,000	$680,373,661	$681,037,000	($663,339)	0.10%
Minneapolis–Hiawatha Corridor LRT	$334,300,000	$301,166,243	$303,836,915	($2,670,672)	0.80%
New Orleans–Canal Street Light Rail Line	$129,047,010	$112,591,804	$129,047,010	($16,455,206)	12.75%
Northern New Jersey–Hudson Bergen (MOS1)	$500,000,000	$147,597,005	$150,000,000	($2,402,995)	0.48%
Northern New Jersey–Hudson Bergen (MOS2)	$604,088,750	$603,774,854	$604,088,750	($313,896)	0.05%

(Continued From Previous Page)

Project	Full funding grant agreement amount	Total appropriations fiscal year 2004 and prior	Total authorized and scheduled in full funding grant agreement	Cumulative shortfall	Percentage of shortfall
Northern New Jersey–Newark Rail Link	$141,950,000	$140,607,998	$141,950,074	($1,342,076)	0.95%
Pittsburgh–Stage II LRT Reconstruction	$100,200,000	$99,079,146	$100,200,000	($1,120,854)	1.12%
Portland–Interstate MAX LRT Extension	$257,500,000	$215,915,290	$257,500,000	($41,584,710)	16.15%
Salt Lake City–CBD to University LRT	$84,600,000	$83,472,595	$84,600,000	($1,127,405)	1.33%
Salt Lake City–Medical Center Extension	$53,633,400	$49,914,024	$53,633,400	($3,719,376)	6.93%
San Diego–Mission Valley East LRT Extension	$329,958,000	$240,617,696	$282,107,170	($41,489,474)	12.57%
San Diego–Oceanside Escondido Rail Corridor	$152,100,000	$84,888,939	$92,271,633	($7,382,694)	4.85%
San Francisco–BART Extension to Airport	$750,000,000	$568,144,320	$577,804,031	($9,659,711)	1.29%
San Juan–Tren Urbano	$307,409,854	$252,590,914	$307,409,854	($54,818,940)	17.83%
Seattle–Central Link Initial Segment	$500,000,000	$164,785,265	$165,971,851	($1,186,586)	0.24%
St. Louis–Metrolink St. Clair Extension	$243,930,961	$243,877,578	$243,930,961	($53,383)	0.02%
Washington, D.C./MD Largo Metrorail Extension	$260,300,000	$184,867,113	$195,000,000	($10,132,887)	3.89%

Sources: GAO and FTA.

GAO Contact and Staff Acknowledgments

GAO Contacts

Katherine Siggerud, (202) 512-2834, siggerudk@gao.gov
Nikki Clowers, (202) 512-4010 or clowersa@gao.gov

Staff Acknowledgments

In addition to the individuals named above, other key contributors to this report were Chris Bonham, Jay Cherlow, Elizabeth Eisenstadt, Rita Grieco, Kara Finnegan Irving, Elizabeth McNally, Sara Ann Moessbauer, and Stacey Thompson.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

United States
General Accounting Office
Washington, D.C. 20548-0001

Official Business
Penalty for Private Use $300

Address Service Requested

Presorted Standard
Postage & Fees Paid
GAO
Permit No. GI00

[redacted]