



## Testimony

Before the Subcommittee on Transportation, Committee  
on Appropriations, House of Representatives

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# MASS TRANSIT

## Challenges in Evaluating, Overseeing, and Funding Major Transit Projects

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**G A O**

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the challenges the Federal Transit Administration (FTA) faces in evaluating and overseeing proposed mass transit construction projects. The 1998 Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) authorizes funds to construct these projects under FTA's New Starts program. Full funding grant agreements set the terms and conditions for federal participation in these projects. FTA's role is important: It evaluates and recommends proposed projects for funding, and it oversees the development and construction of those projects. FTA's performance affects the 6 million people who depend on transit every day and influences how well the federal government's transit investment—over \$100 billion since 1964—is spent.

My testimony today presents information based on a number of completed GAO reviews as well as ongoing work that is being conducted at the request of this Subcommittee and others on FTA's programs. Specifically, we will discuss (1) FTA's process for evaluating proposed transit projects, (2) FTA's oversight of transit projects under construction, and (3) the ever-increasing competition for federal transit construction dollars. In addition, we will provide information on the costs, schedules, and financing of six ongoing transit projects.

In summary, we found the following:

- FTA has responded to the direction in TEA-21 that it develop a systematic process for evaluating potential New Starts projects competing for federal funding. FTA's revised process uses a range of financial and project-related criteria and places proposed projects into three categories—highly recommended, recommended, or not recommended. FTA uses these ratings to propose funding for New Starts projects to the Congress. In making annual funding proposals, FTA gives first preference to projects with federal grant agreements; it gives next preference to projects that are rated highly

recommended or recommended and ready to complete a final design and a grant agreement within the next fiscal year. To prepare for the fiscal year 2001 budget process, FTA evaluated 48 projects, rated 32 as highly recommended or recommended, and proposed that 15 new projects receive funding through grant agreements.

- FTA has improved the quality of the federal grants oversight program since the early 1990s, when the program was placed on GAO's high-risk list because it was vulnerable to fraud, waste, abuse, and mismanagement. For example, FTA improved the guidance and training provided both to its staff and all grantees and developed standardized oversight procedures. Since we removed the program from our high-risk list in 1995, FTA has also established a process to target its limited oversight resources. In addition, our ongoing work shows that FTA is improving its oversight of grantees with large-dollar transit projects. Specifically, FTA recently began using financial management consultants to review each proposed large-dollar project's finance plan to determine if the grantee has the financial capacity to build and operate the project.
- More state and local transit agencies than ever are competing for New Starts funds. However, the 14 ongoing projects and the additional 15 projects proposed in the Department's 2001 budget would consume more than the total New Starts commitment authority provided by TEA-21. If all of these new grant agreements were executed as proposed, FTA would not be able to commit funds to any more New Starts projects during the last 2 years of TEA-21. Because many more projects are planning to compete for federal funds in the next several years, we recommend that FTA in the future prioritize the projects it rates as highly recommended or recommended and ready for New Starts funds.

- Last year, in work done for this Subcommittee, we reported on the costs, schedule, and financing of 14 ongoing projects with grant agreements. We have updated information on six projects: three with large cost increases above the original estimates in the grant agreements—BART in San Francisco; Tren Urbano in San Juan, Puerto Rico; and the South Boston Piers project—and three located in Salt Lake City, Los Angeles, and St. Louis. Appendixes II through VII provide detailed information on each project. Our ongoing reviews of the finance plans for two of these projects—BART and Tren Urbano—indicate that each project has secured adequate state and local funds to cover its cost growth. However, because of contractor problems, additional delays and related cost increases for Tren Urbano may still occur. We expect to soon receive the finance plan for the third project—South Boston—and will report to you on that project later this spring.

## **Background**

To meet the nation's transportation needs, many states and localities are planning or building large-dollar mass transit projects to replace aging infrastructure or build new capacity. These transit projects present major challenges to state and local transportation officials. First, they are very costly and require large commitments of public resources, which may take several years to obtain from federal, state, and local sources. Second, the projects can be technically challenging to construct and require their sponsors to resolve a wide range of social, environmental, land-use, and economic issues before and during construction. To keep the projects on schedule and within budget, federal, state, and local officials must carefully oversee their planning, development, and construction.

TEA-21 authorized a total of \$36 billion in “guaranteed” funding through 2003 for a variety of transit programs, including financial assistance to states and localities to develop, operate, and maintain transit systems. One of these programs, the

New Starts program, provides grants to local transit providers for constructing or extending certain types of mass transit systems. Other federal funds available through the Department of Transportation's highway and transit formula and federal loan programs can be used to develop, plan, and/or construct these projects.

To obtain New Starts funds, a project must first progress through a local or regional review of alternatives, develop preliminary engineering plans, and meet FTA's approval for final design. FTA assesses the technical merits of a project proposal and its finance plan and recommends to the Congress that the project receive New Starts funding through a grant agreement. The agreement establishes the terms and conditions for federal participation, including the maximum amount of federal funds—no more than 80 percent of the estimated net cost of the project. While the grant agreement commits the federal government to providing the federal contributions to the project over a number of years, these contributions are subject to the annual appropriations process. State or local sources provide the remaining funding. The grantee is responsible for all costs exceeding the federal share, unless the agreement is amended.

### **FTA Has Implemented a Revised Evaluation Process to Rate and Propose Transit Projects for Federal Funding**

As we reported in April 1999,<sup>1</sup> FTA has revised and expanded its New Starts evaluation process in accordance with TEA-21 requirements. FTA's revised project evaluation process requires that proposed projects be rated on four project justification criteria identified by TEA-21—the extent of mobility improvements, operating efficiencies, environmental benefits, and cost effectiveness. Similarly, to evaluate a project's financial commitment, the project is rated on its capital and operating plans and the local share of project costs.

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<sup>1</sup> Mass Transit: FTA's Progress in Developing and Implementing a New Starts Evaluation Process (GAO/RCED-99-113, Apr. 26, 1999).

Once these individual ratings are completed, FTA combines the project justification and financial commitment summary ratings and assigns an overall rating of highly recommended, recommended, or not recommended. To determine which new projects it will propose for funding through a New Starts grant agreement, FTA only considers projects with a rating of highly recommended or recommended. It also considers a number of other “readiness” factors before proposing funding for a project. For example, FTA only proposes funding for projects that are expected to enter the final design phase and be ready for grant agreements within the next fiscal year.

In making its funding proposal each year, FTA gives first preference to projects with existing grant agreements. Following that, consideration is given to projects that are ready to begin final design and execute grant agreements. For example, to prepare for the fiscal year 2001 budget process, FTA evaluated 48 projects, rated 32 as highly recommended or recommended, and proposed executing grant agreements for the 15 projects it believes will be ready in fiscal year 2001. FTA officials told us that the number of highly recommended or recommended projects is expected to double in the next 2 years. FTA is required to notify the House and Senate Committees on Appropriations, as well as the authorizing committees, 60 days prior to executing a grant agreement.<sup>2</sup>

### **FTA’s Oversight of Transit Projects Has Improved**

FTA has improved the quality of the grants management oversight program since the early 1990s, when GAO designated it as high-risk because it was vulnerable to fraud, waste, abuse, and mismanagement. In 1995, after FTA had improved its oversight activities—by upgrading its guidance and training of staff and grantees, developing standardized oversight procedures, and employing contractor staff to strengthen its oversight of grantees—we removed the program from our high-risk

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<sup>2</sup> The conference report accompanying the fiscal year 2000 Department of Transportation Appropriations Act also directed FTA to notify the House and Senate Committees on Appropriations before approving scope changes in existing grant agreements.

list. In a 1998 report following up on FTA's grants oversight activities, we also reported that FTA had improved its process to target limited oversight resources, which provides a strong foundation for improved oversight.<sup>3</sup>

Furthermore, our ongoing work indicates that FTA is now conducting more specialized reviews of individual large-dollar projects by making better and more frequent use of consultants. For example, in order to anticipate problems before they occur, FTA is now using consultants to assess the financial capacity of transit operators before a project receives a grant. In the past, the stability and reliability of a grantee might not have been rigorously assessed until a major problem occurred. For example, in 1997, management and financial difficulties caused FTA to require the Los Angeles subway project to prepare a "recovery plan." A financial consultant's review of that plan found that revenues for the local transit operator would be much lower than expected. Subsequently, the transit operator had to suspend the construction of two planned extensions to the subway because it did not have sufficient funds. Since then, FTA's financial capacity oversight activities have evolved and are much more comprehensive and structured. FTA believes that its forward-looking assessments of a potential grantee's fiscal capability to fulfill its grant obligations will prevent the need for future recovery plans.

For projects that already have grant agreements, FTA focuses on the grantee's ability to finish the project on time and within the budget established by the grant agreement. For example, FTA recently performed financial capacity assessments on three ongoing projects that are experiencing cost increases—the South Boston Piers transitway; San Juan's Tren Urbano rapid rail line; and San Francisco's BART airport extension. Because these projects were already under construction, FTA's contractors evaluated the grantees' financial capacity to complete the projects according to the financial assumptions in the grant agreements. In all

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<sup>3</sup> Mass Transit: Grants Management Oversight Improving, but Better Follow-up Needed on Grantees' Noncompliance (GAO/RCED-98-89, Apr. 3, 1998).

cases, FTA's goal is to ensure that the Los Angeles situation is not repeated and that each project is financed prudently without jeopardizing existing service.

FTA has also increased its use of project management oversight contractors to provide technical on-site monitoring of selected construction projects expected to cost over \$100 million. According to FTA, these contractors are hired to monitor a specific transit project on a continuing basis and to provide frequent information to FTA regional staff on the status of the project's cost, schedule, and performance. This effort is financed by setting aside 0.75 percent of the funds available each year under the New Starts program.

### **Many Transit Proposals Are Competing for Limited Federal Transit Dollars**

More state and local transit agencies than ever are competing for New Starts funds. However, the 14 ongoing projects and the additional 15 projects proposed in the Department's 2001 budget would consume more than the total New Starts commitment authority provided by TEA-21,<sup>4</sup> if all of these new grant agreements are executed as proposed. If this occurs, FTA would not be able to commit funds to any more projects during the last 2 years of TEA-21—through fiscal years 2002 and 2003—even though many additional projects may soon be eligible for funding.

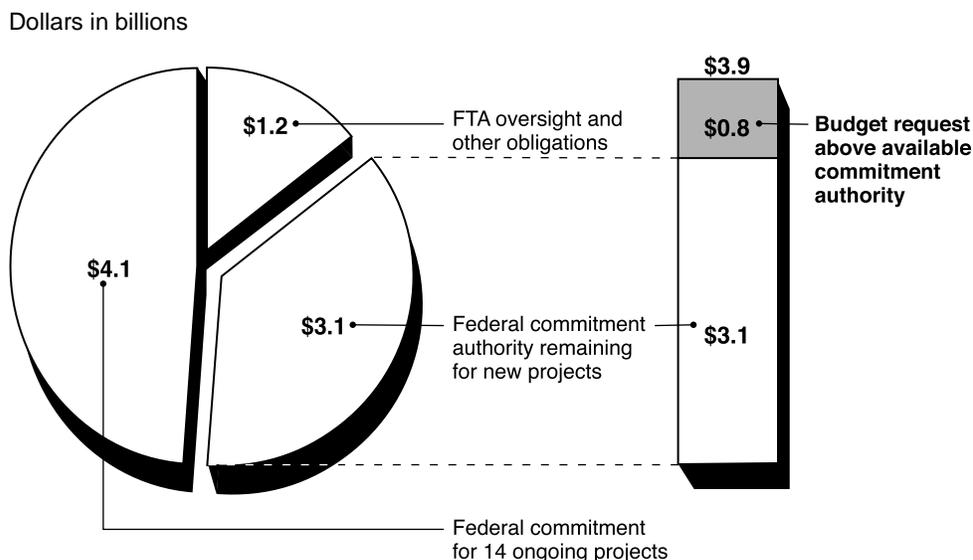
According to FTA, it has already committed \$4.1 billion of its total available authority of \$8.4 billion to the 14 ongoing projects. After accounting for other requirements (such as the cost of the project management oversight program), which are expected to total about \$1.2 billion through 2003, about \$3.1 billion

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<sup>4</sup> TEA-21 authorized \$6.0 billion in "guaranteed" funding for New Starts projects and allowed FTA to make contingent commitments beyond this amount subject to future authorizations and appropriations. This contingent commitment authority is designed to allow FTA to execute grant agreements that extend beyond the 6-year period. In implementing TEA-21, FTA determined that it could make contingent commitments of \$2.4 billion from enactment through the authorization period.

remains for future grant agreements. The Department's fiscal year 2001 budget proposes \$316 million for 15 additional projects. However, the \$316 million requested for these new projects for 2001 is only a down payment on what would be a total federal commitment of \$3.9 billion if no changes are made to current grant agreement proposals. This \$3.9 billion commitment is \$800 million more than FTA's remaining commitment authority of \$3.1 billion. Figure 1 shows FTA's limited commitment authority under TEA-21.

**Figure 1: TEA-21 Commitment Authority for New Starts Projects and the Department of Transportation's Fiscal Year 2001 New Starts Budget Request**



Source: GAO's analysis of FTA's data.

FTA officials told us that the agency decided to propose exhausting the remaining authority in its fiscal year 2001 budget proposal—rather than withholding some authority for new projects in the remaining years of TEA-21—because New Starts funds have traditionally been provided to all eligible projects on a first-come, first-served basis. Furthermore, according to these officials, executing grant agreements with the 15 new projects allows projects that are ready to move forward to begin construction.

In addition to the 29 ongoing and proposed projects in the 2001 budget, TEA-21 identified more than 160 other projects as eligible for New Starts funds. According to FTA, as many as 40 of these projects could be ready to receive a grant agreement and begin construction in the next several years. Because of this impending transit “budget crunch,” we recommend that in the future, FTA prioritize the projects it rates as highly recommended or recommended and ready to receive New Starts funds. FTA officials, including FTA’s Director, Office of Policy Development, agree with our recommendation and told us that they would consider various ways to prioritize eligible projects.

### **Several Major Ongoing Transit Projects Continue to Experience Cost and Schedule Problems**

The oversight improvements FTA has developed in recent years are designed to help control the costs of new projects. However, some ongoing projects continue to experience cost and schedule problems. Our August 1999 report on the 14 ongoing projects identified a number of instances in which projects had exceeded their initial cost estimates or had delayed their target opening dates.<sup>5</sup> Of the 14 projects, 6 had exceeded the initial cost estimates, and 3 of these, located in San Francisco, San Juan, and Boston, had experienced significant cost increases over the original estimate—ranging from 27 to 34 percent. The other three projects had experienced cost increases of less than 10 percent. Five of the six projects with cost increases also had delayed their projected opening dates, as had one project that was within budget. We have updated our information on six projects: the three with large cost increases—San Francisco, San Juan, and South Boston—and three located in Salt Lake City, Los Angeles, and St. Louis. A summary of the cost and financing plans for each of these six projects appears in appendix I. Appendixes II through VII provide detailed information on each project.

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<sup>5</sup> Mass Transit: Status of New Starts Transit Projects With Full Funding Grant Agreements (GAO/RCED-99-240, Aug. 19, 1999).

While the San Francisco, San Juan, and Boston projects have experienced large cost increases, FTA has no plans to provide additional New Starts funds to help complete them. Instead, the transit operators have developed plans to generate these funds from other federal, state, and local resources. The additional state and local funds required for these projects will likely delay other needed transportation improvements. For example, since our initial review of BART, state and local agencies have had to provide an additional \$316 million to complete the project. These funds could have been used to pay for other transportation projects.

Clearly, vigorous FTA oversight of these large-dollar transit projects is needed to safeguard the federal investment. Your Subcommittee called for more oversight and as a result, FTA, GAO, and the Department of Transportation's Inspector General are assessing the finance plans of the San Francisco, San Juan, and Boston projects. Federal funds provided for these projects for fiscal year 2000 are being held in abeyance until this oversight is completed. Our ongoing work on the San Francisco and San Juan projects indicates that each project has secured adequate state and local funds to cover the cost increases. However, additional delays and related cost increases for San Juan may still occur. We just received the finance plan for the South Boston Piers project and will report to you the results of our review of that plan later this spring.

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Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions that you or Members of the Subcommittee may have.

## **Contact and Acknowledgement**

For information regarding this testimony, please contact Phyllis F. Scheinberg at (202) 512-3650. Individuals making key contributions to this testimony include Jack Bagnulo, Bob Ciszewski, Cathy Colwell, Helen Desaulniers, Susan Fleming, Libby Halperin, Kirk Kiester, Dave Lehrer, Carol Ruchala, and Ron Stouffer.

**Summary of the Financing Plans for Six  
Transit Projects, as of February 2000**

Dollars in millions

<b>Funding source</b>	<b>South Boston Piers Transitway</b>	<b>San Francisco/BART Airport Extension</b>	<b>San Juan/Tren Urbano Rapid Rail Line</b>	<b>Salt Lake City/University Line</b>	<b>Los Angeles/North Hollywood Extension</b>	<b>St. Louis/ Light Rail Extension —Area College to Air Force Base</b>
<b>Federal</b>						
New Starts	\$331.0	\$750.0	\$307.4	\$84.6	\$681.0	\$60.0
Highway funds			259.9		254.9	
Formula funds	150.0		141.0			
<b>Nonfederal match</b>						
State	120.0	152.0			225.7	
Local		581.2	662.4	21.1	173.2	17.0 <sup>b</sup>
Other			300.0 <sup>a</sup>			
<b>Total</b>	<b>\$601.0</b>	<b>\$1,483.2</b>	<b>\$1,670.7</b>	<b>\$105.7</b>	<b>\$1,334.8</b>	<b>\$77.0</b>

<sup>a</sup> Tren Urbano managers expect to be awarded a \$300 million low-cost federal loan that will be repaid with local funding sources

<sup>b</sup> Project managers expect the \$17 million to be funded through a combination of state and local funding sources, yet to be determined.

### **South Boston Piers Transitway**

The Massachusetts Bay Transportation Authority (MBTA) is building an underground transitway connecting its existing transit system with the South Boston Piers area, which is undergoing significant economic development. The first phase of the South Boston Piers transitway project is a 1-mile, three-station bus tunnel between South Station and Boston's World Trade Center.<sup>6</sup> The project is expected to cost \$601 million—a 46-percent increase (or \$188 million) over the \$413 million projected in the full funding grant agreement that was approved in November 1994. The grant agreement committed about \$331 million in New Starts funds to the project.

The project management oversight contractor, the Federal Transit Administration (FTA), and the grantee attribute the project's cost increase primarily to schedule delays and the fact that the original cost estimate was based on the project's early design, which has since been modified. The construction delays are due, in part, to coordination problems on the joint construction contracts with the Central Artery/Tunnel project—one of the most expensive and complex highway projects ever undertaken—and complications with relocating utilities and differing site conditions. Currently, most major contracts have been awarded, construction is underway, and the transitway is expected to open for service in December 2003, 3 years later than originally projected.

To address cost increases and schedule delays MBTA submitted a "recovery plan" to FTA in January 1999. The plan concluded that MBTA would pay for the changes that had occurred since the grant agreement was signed. In October 1999, MBTA submitted a capital plan to FTA that outlined how it would pay for the project's increased cost. Under this plan, the amount of New Starts funds remains the same—\$331 million. In addition, MBTA plans to use \$150 million in federal transit formula funds and \$120 million in state bond funds to finance the remaining costs to the project. The project's current budget includes \$40 million for project and construction contingencies for future

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<sup>6</sup> The South Boston Piers Transitway project is a 1.5-mile tunnel that will be constructed in two phases and will extend from the existing Boylston Station to the World Trade Center. The full funding grant agreement is for phase I.

change orders. Also, at FTA's request, MBTA has established a \$50 million capital reserve bond fund to cover any additional cost increases that may occur beyond the current \$601 million estimate. FTA requested the reserve to address the risks associated with the remaining construction.

A September 1999 report by FTA's financial management oversight consultant concluded that MBTA has the financial capacity to complete the project and maintain its existing transit system. However, the consultant determined that MBTA did not have an official, comprehensive finance plan for the transitway project. In January 2000, FTA requested MBTA to incorporate project financial information into a plan that delineates both the full costs of completing and operating the project and the manner in which the grantee expects to pay these costs. FTA also requested that the plan address the effect of recent state legislation that changed the manner in which MBTA generates funding for its capital program—specifically, bonds issued by MBTA will not be guaranteed by the state after July 1, 2000. A statewide sales tax will be dedicated to MBTA for its operations.

Once FTA approves the finance plan, it will amend the current grant agreement in order to reflect the project's cost increases, use of federal formula funds, and current schedule. In addition, FTA does not anticipate that the recent large increase in the estimated cost of the Central Artery project will have an impact on the South Boston Piers project because all of the major joint contracts with the Central Artery project have been awarded and sufficient funding has been secured. We just received the Boston finance plan and will report to the Congress the results of our review later this spring.

### **San Francisco/BART Airport Extension**

The Bay Area Rapid Transit District (BART) is building an 8.7-mile, four-station extension to its existing rail system to provide service to the San Francisco International Airport. According to BART officials, the project is about 40-percent complete and is expected to open on July 1, 2002—9 months later than estimated when the grant agreement was awarded in June 1997. As of January 2000, the project was expected to cost \$1.483 billion—\$316.2 million (or 27 percent) above the \$1.167 billion estimated in the grant agreement. Of this amount, BART officials attribute almost half, or \$155 million, to higher-than-expected construction bids. Other reasons for the cost increase include higher-than-expected costs for right-of-way, utility relocation, unanticipated mitigations, and third-party contracts for such things as engineering services and construction oversight.

In order to reflect the project's cost increases and new financial arrangements, BART submitted a new finance plan to FTA in November 1999 and applied for a grant agreement amendment on January 21, 2000. The proposed finance plan identifies sufficient funds to pay the current \$1.483 billion estimated cost to complete the airport extension. Under the proposed plan, the federal contribution would remain the same—\$750 million (or 51 percent of the total cost). The remaining \$733 million will be financed by a combination of state and local funding sources. The state of California will provide \$152 million. Local funding sources will provide the remaining \$581 million—BART (\$181.7 million), San Francisco International Airport (\$200 million), San Mateo County Transit District (\$171 million), the Metropolitan Transportation Commission (\$26.5 million), and San Mateo County Flood Control District (\$2 million). BART has agreements in place securing all of these funds.

According to the funding schedule in the current grant agreement, BART will not receive all of the federal funds committed to the project until several years after the project is completed. As a result, cash-flow shortfalls will occur during the course of the project. For instance, the finance plan anticipates a maximum cash deficit of about \$265 million occurring in fiscal year 2002. In order to cover this shortfall, BART has obtained a \$300

million letter of credit secured by future federal appropriations. Furthermore, to account for these shortfalls in its plan, BART revised the total project's financing costs to \$42.6 million, an increase of \$18.6 million over the original amount. BART has also allocated an additional \$17.9 million in its proposed plan as a contingency for higher-than-anticipated financing costs. FTA's financial management oversight consultant has determined that the budgeted amount plus the contingency should be sufficient to cover financing of cash flow shortfalls, given present cost estimates.

Although our work to date indicates that BART has secured sufficient funding to meet expected costs, two financing issues remain. First, the proposed amendment to the grant agreement calls for a change in project scope to help meet the \$1.483 billion cost. Instead of purchasing 28 new railcars at a cost of \$100 million as planned, BART would like to achieve a net savings of \$30 million by improving certain maintenance facilities and tracks that it estimates would cost \$70 million. The improvements at the maintenance facilities would allow BART to decrease maintenance backlogs and increase the number of cars available for service across the entire system, thereby providing the equipment needed for the airport extension.

Second, FTA's project management oversight consultant has identified the potential for an additional \$27 million in cost growth. BART strongly maintains that the project can be completed at or below the revised cost estimate and believes that adding the \$27 million to the baseline project financing is unnecessary. However, to address the potential cost growth issue, BART has proposed a second capital reserve account, secured by revenues from parking at the BART airport extension's stations. The use of potential parking fees, however, would have to be approved by both the boards for BART and the San Mateo County Transit District. BART and San Mateo County Transit District officials told us that this action should take place only if costs actually rise.

FTA's project management consultant has reviewed the project and concluded that a July 2002 opening is possible. However, the consultant cautioned that in order to meet this date, BART's contractor must expedite the work on the line track and systems contract, which is currently proceeding more slowly than planned and is 8 weeks behind

schedule. The contractor also stated that if BART experiences problems integrating the new extension project system with the existing BART system, the potential exists for a later opening date. BART officials told us that the contractor has identified several measures that should expedite the work on this contract. We expect to communicate the results of our review of BART's finance plan to the Congress later this month.

### **San Juan/Tren Urbano Rapid Rail Line**

The Puerto Rico Highway and Transportation Authority (the Authority) is constructing a 10.7-mile, 16-station rapid rail line to serve existing and projected development in the San Juan metropolitan area. The line is expected to carry 113,300 riders a day in 2010. This project is one of FTA's "turnkey" demonstration projects, which incorporate contracts to design, build, operate, and maintain the system. The project is about 59 percent complete and is expected to open on May 31, 2002—10 months later than estimated when the grant agreement was signed in 1996. During 1996 and 1997, seven design-build contracts were awarded for different segments of the project. One of the contractors—known as the systems contractor—is also responsible for installing all systemwide components and for operating and maintaining the project for an initial period of 5 years, which could be extended for an additional 5 years at the Authority's option.

The grant agreement committed about \$307 million in New Starts funds for the project, which was projected to cost \$1.25 billion. As of January 2000, the project was expected to cost about \$1.7 billion—\$426 million (or 34 percent) higher than the original estimate. This cost growth is primarily due to scope changes. Approximately 2 years elapsed between the preparation of the original estimate used in the grant agreement and the award of all the design-build contracts. During this period, the Authority changed and refined the project's design by adding two stations and 10 rail cars and made numerous alignment changes and station enhancements. The contract awards were \$172 million higher than the original estimate. Since the contract awards, an additional \$158 million has been approved for enhancements and scope changes for such things as systems work for the added stations, an enhanced fare collection system, and additional construction management services. Moreover, costs have increased by \$52 million (4 percent of the original estimate) to cover change orders or unforeseen work not related to scope changes. Approximately \$44 million for contingencies remains in the budget to cover future claims or additional changes.

In order to reflect the project's scope changes, cost increases, and current schedule, the Authority prepared a revised finance plan, and on July 19, 1999, FTA amended the grant

agreement. Under the revised agreement, the amount of New Starts funds remained the same—\$307 million (or 18 percent of the cost). The amendment accounted for the project's scope changes, cost increases, and planned use of FTA transit formula (\$141 million) and federal highway (\$260 million) funds for the project. It also extended the opening date to May 31, 2002.

Under the project's revised finance plan, \$962 million in local funding will go to the project, including \$300 million to repay a federal loan over 35 years.<sup>7</sup> (As of Mar. 1, 2000, the loan had not been completed.) Local funding sources include the proceeds of gasoline taxes, diesel oil taxes, motor vehicle license fees, highway tolls, investment earnings on bond proceeds, and petroleum taxes that have been committed to the Authority by the Commonwealth of Puerto Rico. FTA's financial management oversight consultant reviewed the Authority's finance plan and reported in November 1999 that the grantee had the financial capacity to complete the project without adversely affecting its existing transit system (with or without the federal loan).

Our work to date indicates that the Authority has sufficient funding to meet the expected costs of the project. The finance plan describes the grantee's financial obligations and its plans for meeting these obligations. The Authority receives substantial annual funding from its dedicated local funding sources. From 1993 through 1997, the average revenue from these sources were about \$270 million a year. In 1998, the Commonwealth of Puerto Rico committed an additional \$120 million to its annual base from petroleum tax revenues. In the current fiscal year, the dedicated revenues are estimated to be \$469 million.

While the project appears to have its financing in order, a number of contractor issues could affect the project's schedule and cost. For example, some of the contractors have had problems meeting agreed-upon construction milestones because of the lack of

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<sup>7</sup> The Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) authorizes DOT to provide loans to eligible projects, which must be repaid in whole or part from dedicated revenue sources, such as tolls or passenger fares.

skilled labor and other reasons. At the request of FTA, project officials are developing an Integrated Project Master Schedule that would integrate the individual segment contract schedules. The Authority is taking additional steps to mitigate these contractor problems, such as renegotiating the lead contract responsibility for three of the seven segments. However, continued contractor delays could result in additional cost increases and delay the project's opening date, especially if they affect the ability of the systems contractor to perform its work on schedule. We expect to communicate the results of our review of the finance plan to the Congress by the end of this month.

### **Salt Lake City/University Rail Line**

The Utah Transit Authority (UTA) began planning its light rail system in 1990. UTA's first line, the 15-mile, 16-station North/South Line, runs at street level through Salt Lake Valley and into the southern suburbs. The completed cost of the line, which opened in December 1999, was approximately \$20 million under the original \$312.5 million estimated in the 1995 grant agreement. UTA is seeking an amendment to this agreement to authorize the acquisition of 10 additional light rail vehicles for arrival in time for the Salt Lake City Winter Olympics in 2002. Currently, UTA and FTA are considering several possible amendment structures, some of which would authorize the use of surplus federal funds from the North-South grant agreement. UTA officials told us recently that they are in the final stages of completing an amendment. According to UTA officials, if an amendment is approved prior to April 15, 2000, the vehicles can be obtained prior to the Winter Olympics.

UTA is also proposing to construct a new 2.5-mile light rail line extending from downtown Salt Lake City to the University of Utah—at a cost of \$105.7 million, including a New Starts commitment of about \$84.6 million (80 percent). The University Line would intersect the North-South line and is the first segment in a planned East-West line that would eventually extend from the University of Utah to the Salt Lake International Airport. UTA originally sought to build the University Line under an amendment to the existing North/South grant agreement. FTA officials told us however, that they have evaluated it as a separate project and have included it as one of the 15 new projects proposed for grant agreements in 2001.

According to UTA officials, UTA can complete construction of the University Line before the Winter Olympics if a grant agreement is executed prior to April 1, 2000. FTA officials stated that executing the grant agreement by this date is not likely; however, the agency is considering allowing UTA to begin construction using local funds without jeopardizing its ability to obtain a grant agreement at a later date. UTA is now negotiating with design-build contractors to obtain final price and schedule estimates. UTA officials told us that if the project could not be completed by February 2002, they would suspend

construction in October 2001 to avoid disrupting the Winter Olympics and would resume construction in April 2002, after the games were finished.

### **Los Angeles/North Hollywood Extension**

Because of severe financial difficulties, in January 1998, the Los Angeles County Metropolitan Transportation Authority was forced to suspend the construction of two remaining Red Line subway extensions—Eastside and Midcity—for which FTA had committed a total of about \$735 million through grant agreements; \$647 million of this total is still available. Currently, MTA is committed to finishing the Red Line's North Hollywood extension (6.3 miles), which is about 86 percent complete, and expects to open the extension in June 2000—6 months earlier than projected in the grant agreement. The project is estimated to cost \$1.33 billion,<sup>8</sup> about 2 percent (\$24 million) above the \$1.31 estimated in the grant agreement.

A 1996 consent decree resulting from litigation over MTA's bus program required MTA to shift its funding priority from completing the Eastside and Midcity extensions to improving its bus service. MTA estimates that full compliance with the requirements of the bus consent decree will cost \$468 million through 2004. However, because of recent consent decree rulings, MTA may need to further accelerate its bus purchases, improve bus service and reduce overcrowding on its buses. For example, according to MTA, a September 1999 order in federal district court required MTA to add 88 buses to service by January 2000 and to purchase an additional 297 buses to further modernize MTA's bus fleet. In response to MTA's appeal, the Ninth Circuit Court of Appeals granted MTA a "stay," meaning no action is necessary pending the outcome of the appeal. MTA estimates that implementing the September 1999 order would cost an additional \$212 million.<sup>9</sup> In addition, the "Special Master"<sup>10</sup> believes more steps are needed to reduce the number of persons having to stand on a bus and to implement a 5-year bus service

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<sup>8</sup> The \$24 million over the original estimate in the grant agreement will be covered by the project's contingency budget.

<sup>9</sup> The 88 additional buses in service would cost \$97 million in operating expenses. The 297 buses would cost \$115 million in capital costs.

<sup>10</sup> The "Special Master" is the official designated to resolve disputes between MTA and the Bus Riders Union.

improvement plan. To accomplish these goals, the Special Master estimates that MTA's total cost could be closer to \$1 billion.

Future consent decree rulings may impede MTA's ability to maintain the current level of bus and rail service at existing fares and to continue addressing its operating shortfalls. While having made significant progress, MTA is still faced with an operating shortfall of \$197 million to \$297 million through 2004. The shortfall could increase further if MTA is required to implement the September court order and provide additional bus service beyond that specified in the current 5-year service implementation plan. Despite this, MTA believes that it must address other transportation needs and continue planning for the future. In this regard, in February 2000, MTA presented its board of directors with the results of studies that looked at various options for providing transit service to the Eastside, Mid-City and San Fernando Valley Corridors. These options include bus service, light rail, a combination of bus service and light rail, and subway. Depending on which project is selected for each corridor, costs will vary. For instance, capital costs for the proposed Eastside project range from \$394 million to \$1.18 billion, and annual operating costs range from \$24 million to \$38 million. MTA plans to narrow the options, conduct required state and federal environmental studies through October 2000, and possibly begin construction on one of the corridors in 2004.

MTA would like to amend the existing grant agreements to reflect the change in scope and financing for the two corridors and use the \$647 million in remaining New Starts funds that was authorized for the Eastside and Mid-City subway extensions. At this time, FTA is not sure if an amended or new grant agreement will be executed for the Eastside and Mid-City corridor projects. In either case, FTA will evaluate and rate the projects and conduct a financial capacity review. FTA also cautioned that the funds considered committed to MTA may eventually be made available to a project that has met FTA's New Starts criteria and is closer to final design and construction.

### **St. Louis/St. Clair Light Rail Extension**

The Bi-State Development Agency (Bi-State) is developing a 26-mile extension of the Metrolink light rail line from downtown East St. Louis, Illinois, to the Mid-America Airport in St. Clair County, Illinois. Due to federal funding constraints, Bi-State decided to build the extension in two phases for an estimated cost of \$461 million. The full funding grant agreement for the first phase, signed on October 17, 1996, covers a 17.4-mile interim segment from the current Metrolink terminal in downtown East St. Louis to Belleville Area College. This phase is estimated to cost \$339.2 million, of which the federal share is \$244 million (or 72 percent). The project is on schedule and expected to meet the opening date of September 2001 projected in the grant agreement. Bi-State officials believe that service could start as early as May 2001.

The second phase is about 9 miles long and would extend the system to the Mid-America Airport. In August 1999, Bi-State requested that FTA amend the grant agreement to include the second phase, estimated to cost \$120.8 million, with a federal share of \$60 million, or about 50 percent. In October 1999, Bi-State requested FTA to further amend the grant agreement to limit federal involvement in the second phase to Scott Air Force Base. The 3.5-mile Scott Air Force Base segment of the project would cost \$77 million. However, Bi-State requested the same federal contribution—\$60 million—which would be about a 78 percent share. The remaining 5.4-mile segment to Mid-America Airport would be constructed with state and local funds.

The grant agreement for the second phase has not yet been signed. The Department of Transportation Inspector General's December 1999 report on the project raised a number of issues, including low ridership projections, and recommended that FTA evaluate the second phase project using the New Starts rating process. FTA conducted such an analysis in December 1999 and rated the project as "recommended"—even though three of the five project justification criteria were rated low-medium or low. Of the 15 projects proposed for grant

agreements in the Department's fiscal year 2001 budget, only two had a low rating for any of the five project justification criteria.

In January 2000 FTA briefed the House and Senate authorizing committees and the House Committee on Appropriations on the project and proposed amendment to the existing grant agreement. On January 31, 2000, the Chairman of the Subcommittee on Transportation, House Committee on Appropriations, sent a letter to FTA indicating his concerns about the second phase of the extension and directed the agency not to execute the amendment to the grant agreement at this time. Subsequently, FTA received similar letters from the Chairmen of the Senate Committee on Banking, Housing, and Urban Affairs and Subcommittee on Transportation, Senate Committee on Appropriations. According to an FTA official, federal involvement in the second phase of the project is on hold at this time until FTA determines an appropriate course of action.

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