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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

CIVIL DIVISION

B-169491

JUN 30 1971



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Dear Mr. Secretary:

The General Accounting Office has reviewed the policies, procedures, and practices of the Urban Mass Transportation Administration (UMTA) for determining the net project cost for capital grants authorized under section 3 of the Urban Mass Transportation Act of 1964, as amended (49 U.S.C. 1601). The purpose of the capital grant program is to assist State and local public bodies and agencies thereof in financing the acquisition, construction, reconstruction, and improvement of facilities and equipment used for providing mass-transportation service in urban areas.

Under the capital grant program, the amount of a grant is related directly to the net project cost. The maximum grant is two thirds of the net project cost, if the urban area has developed a program for a unified or officially coordinated urban transportation system as part of the comprehensive planned development of the area. If plans for the unified or coordinated transportation system have not been completed but are under active development, a community may qualify for a grant equal to one half of the net project cost; a grant for the balance of the full two thirds of the net project cost will be made if the community meets the full planning requirements within 3 years.

Section 4(a) of the act defines net project cost and provides, in part, that:

"The Secretary, on the basis of engineering studies, studies of economic feasibility, and data showing the nature and extent of expected utilization of the facilities and equipment, shall estimate what portion of the cost of a project to be assisted under section 3 cannot be reasonably financed from revenues-- which portion shall hereinafter be called 'net project cost.'"

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Improvements needed in determining  
net project cost

Our review of grants awarded under the capital grant program revealed that UMTA had not established policies, procedures, and guidelines for obtaining and evaluating engineering studies and economic feasibility studies for determining the availability of transit system revenues in arriving at the net project cost. The net project cost, as previously indicated, provides the basis for determining the amount of the Federal grant that can be authorized. We were advised by UMTA officials that the mass-transit industry generally was not financially able to finance the repayment cost of revenue bonds for capital acquisitions.

According to UMTA records, 155 capital grants totaling about \$735 million were awarded through December 31, 1970. Information contained in the grant applications showed that, as required by the act, the costs for 64 of the projects had been reduced as shown below:

	<u>Number of projects</u>	<u>Amount</u>
Gross project cost	155	\$1,149,292,537
Less reductions	64	<u>17,283,665</u>
Net project cost		<u>\$1,132,008,872</u>

The reductions consisted principally of proceeds from the sale of real estate or old assets, such as buses, machinery, or equipment. In one of the 64 projects, system revenue was deducted in determining the net project cost. In this case UMTA did not make a review and evaluation of engineering and economic studies to determine the availability of system revenues but accepted the data as shown in the application.

We selected grants awarded to the San Francisco Bay Area Rapid Transit District (BART) to determine whether UMTA adequately had considered the availability of system revenues prior to the award of the grants. We found that UMTA had awarded a grant of \$28 million and had approved an amendment to the grant, which would increase the amount to \$68 million, without adequately considering the availability of system revenues.

BART, created in 1957 by the California Legislature, is constructing a 75-mile, three-county-wide, rail, rapid-transit system. In 1962 voters of the member counties of BART authorized a bonded indebtedness, totaling \$792 million of general obligation bonds. Payments of both principal and interest on these bonds were to be provided from a levy of property taxes. The construction of the BART system, except for a transbay tube between San Francisco and Oakland, was to be financed from the proceeds of these bond issues. The transbay tube, estimated to cost about \$133 million in 1962, was to be financed from surplus automobile tolls from existing bay bridges. The purchase of rolling stock, estimated to cost about \$71 million in 1962, was to be financed from future revenues of the transit system. The total system cost, including construction and rolling stock, was estimated at that time to be \$996 million.

BART officials recognized that the \$792 million would be about \$150 million short of the amount needed to finance construction of the 75-mile system which excluded the transbay tube and the rolling stock. To meet this financing deficit, BART sought Federal assistance and, in 1966, obtained conditional assurance from the Secretary of the Department of Housing and Urban Development (HUD) that BART might expect Federal capital grant assistance of as much as \$80 million over the ensuing 5 years.

BART, in a preliminary application dated November 1, 1967, requested a grant of \$28 million to assist in financing 14 construction contracts totaling about \$72 million and covering specific segments of the construction work for the 75-mile BART system. (Responsibility for administering the capital grant program was transferred from HUD to UMTA in 1968 by Reorganization Plan No. 2 (33 F.R. 6965.)

On June 5, 1968, BART requested that its preliminary application for a grant be increased to include, in lieu of six of the construction contracts, the acquisition cost of about 140 rapid transit vehicles. The purchase of these 140 transit vehicles was included in a contract for the purchase of 250 transit vehicles awarded by BART on July 3, 1969, in the amount of \$66,708,000, which subsequently was increased to \$78 million. BART stated that, because of unresolved funding problems affecting the entire BART system, the sale of the revenue bonds to be repaid from system revenues could not be made until full financing of the BART system was ensured.

In its final application for the grant, dated November 14, 1968, BART stated that no part of the gross project costs would be financed from revenues of the transit system, because revenue service would not be started until after 1969 and because system revenues would be earmarked for cost of operation, acquisition of a portion of the total required rolling stock, and repayment to the State for certain capital costs.

On November 21, 1968, UMTA awarded a grant of \$28 million to BART to assist in the construction of certain segments of the basic 75-mile system and for the purchase of about 140 rapid-transit vehicles.

Apparently UMTA accepted, without question, BART's representation that no portion of project costs could be financed from system revenues. We found no evidence that UMTA had made an evaluation of BART's estimates of operating revenues and expenses to determine whether there would be sufficient revenue to finance the purchase of all, or a part of, the total required rolling stock.

We believe that, had UMTA made an evaluation of the availability of system revenues prior to the award of the grant, it would have found that system revenues could have been used to finance a bond issue for the purchase of part of the required rolling stock. This was indicated by BART's original financing plan, formulated in May 1962, which provided that the purchase of rolling stock be financed from future revenues of the transit system. Also a consulting engineering firm's October 1967 report on a study of the coordinated transit system for the San Francisco Bay area showed that the BART system would be able to provide sufficient net revenues to finance the purchase of rolling stock.

Moreover, an analysis made by BART in December 1969 to test its ability to sell revenue bonds of \$45 million to finance the cost of transit vehicles considered several fare plans that would provide annual operating revenues ranging from \$25.6 million to \$33.8 million. Based on a fare plan that would produce operating revenues of \$33.3 million, the annual net revenues would be about \$200,000 less than the amount needed to finance a revenue bond issue of \$45 million. Although the net revenues would be insufficient to finance a \$45 million bond issue, they could support an issue of a lesser amount.

We believe that, had UMTA, in November 1968, obtained and evaluated the studies required by the act, the net project cost would have been reduced and would have eliminated the need for a grant or resulted in a

much smaller capital grant. We met with the Administrator, UMTA, on July 15, 1970, to advise him of our findings and to apprise him of the need for UMTA to require that the studies provided for in the act be obtained and evaluated prior to awarding capital grants.

On March 26, 1971, however, UMTA approved an amendment to the grant increasing the amount from \$28 million to \$68 million. The \$40 million additional was to help finance certain additional construction costs and the remaining transit vehicles included in BART's contract for 250 rapid-transit vehicles.

The need for considering BART's revenues as a possible reduction of gross project cost in connection with the request for the \$40 million additional was discussed with UMTA officials subsequent to our meeting with the Administrator. Notwithstanding assurance from these officials that BART's revenue situation would be appropriately evaluated, however, we found no evidence that UMTA, prior to approving the amendment to the grant, had made an evaluation of BART's representations that no part of the additional project cost could be reasonably financed from system revenues.

In view of BART's December 1969 analysis which indicated the availability of system revenues for financing, to a significant degree, the purchase of rolling stock, UMTA should have obtained and evaluated the required engineering and economic studies before approving an increase of \$40 million in the amount of the grant.

On April 7, 1971, UMTA officials advised us that BART was reanalyzing its ability to sell revenue bonds and that the results should be available to UMTA shortly. We were assured that, even though the grant had been awarded, the amendment increasing the amount by \$40 million would not be executed until UMTA had an opportunity to review the data developed during BART's reanalysis.

### Conclusions

We believe that UMTA should not have awarded the grant of \$28 million nor have approved the amendment increasing the amount by \$40 million without obtaining and evaluating studies or analyses of projected operating revenues and expenses of the BART system. We believe also that UMTA should not execute the amendment until it has evaluated BART's reanalysis of its ability to sell revenue bonds.

The award of the grant and the approval of the amendment without reasonable assurance that system revenues would not be available to finance the purchase of rolling stock (1) were not in consonance with the intent of the act and (2) reduced the amount of grant funds available to other communities, which might place them at a disadvantage in their efforts to seek Federal assistance in relieving their transportation financial problems.

Recommendations

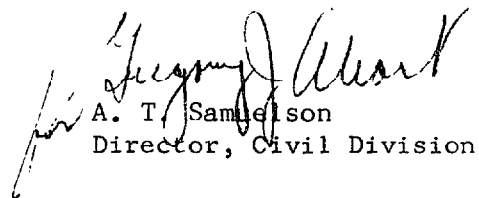
We recommend that the Administrator, UMTA, be required to establish policies, procedures, and guidelines for ensuring that applications for capital grants are supported by engineering studies, studies of economic feasibility, and data showing the nature and extent of expected utilization of the facilities and equipment and that these studies and data are evaluated in determining the availability of system revenues and the net project cost to be financed, in part, with Federal grant funds. We recommend also that the Administrator, UMTA, be required to adequately document the evaluations and conclusions on the basis of such studies.

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We appreciate the cooperation and courtesy extended to us by UMTA personnel during our review. Your attention is invited to section 236 of the Legislative Reorganization Act of 1970 which requires that you submit written statements of the action taken with respect to the above recommendations. The statements are to be sent to the House and Senate Committees on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations in connection with the first request for appropriations submitted by your agency more than 60 days after the date of this report. We would appreciate being furnished with copies of your statements to the Committees.

A copy of this report is being sent to the UMTA Administrator.

Sincerely yours,

  
A. T. Samuelson  
Director, Civil Division

The Honorable  
The Secretary of Transportation