

July 2007

# HIGHWAY AND TRANSIT INVESTMENTS

## Flexible Funding Supports State and Local Transportation Priorities and Multimodal Planning



Highlights of [GAO-07-772](#), a report to congressional committees

**Why GAO Did This Study**

The Intermodal Surface Transportation Efficiency Act of 1991 introduced two highway programs—the Surface Transportation Program (STP) and the Congestion Mitigation and Air Quality Program (CMAQ)—that may be used on both highway and transit projects and that are referred to as “flexible funding” for the purposes of this report. GAO was asked to examine (1) the degree to which STP and CMAQ funding has been used on transit and how this use varies across states and urbanized areas, and (2) how states and urbanized areas decide which projects to fund with STP and CMAQ funding and what the outcomes of these decisions have been.

To address these issues, GAO analyzed data on flexible funding used on transit projects from the Federal Transit Administration (FTA) and the Federal Highway Administration (FHWA) and spoke with officials in selected states and urbanized areas about their project-selection processes for flexible funding and the outcomes of these funding decisions. States and urbanized areas were selected based on their prior use of flexible funding.

GAO is not making recommendations in this report. The Department of Transportation generally agreed with the report’s findings and provided technical clarifications, which were incorporated in the report as appropriate.

[www.gao.gov/cgi-bin/getrpt?GAO-07-772](http://www.gao.gov/cgi-bin/getrpt?GAO-07-772).

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

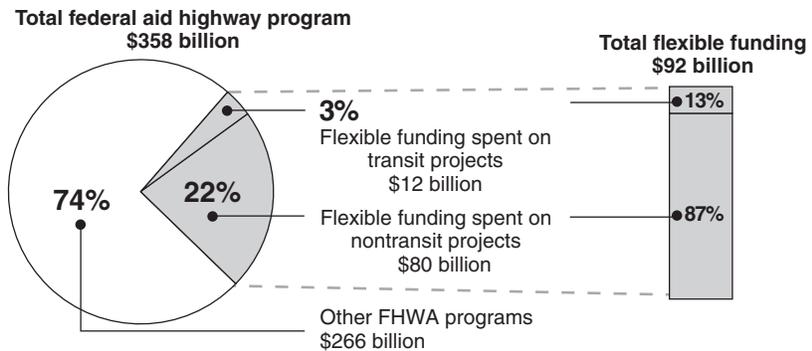
**HIGHWAY AND TRANSIT INVESTMENTS**

**Flexible Funding Supports State and Local Transportation Priorities and Multimodal Planning**

**What GAO Found**

Since the 1991 creation of the two flexible funding programs this report examines—STP and CMAQ—\$12 billion from these programs has been spent on transit projects, either directly through FHWA or through transfer to FTA. This spending on transit represents 13 percent of the apportionments for these programs since 1992 and 3 percent of the total federal-aid highway program. However, the amount of FTA funding used in some states has been augmented significantly by these funds; in four states, funds transferred from these programs to FTA made up 20 percent or more of total FTA expenditures. Nearly 80 percent of transferred funds have been used in urbanized areas with populations over one million, and the most common uses of these funds include purchases of transit vehicles such as buses and rail cars, and projects related to rail lines or bus lanes.

**Flexible Funding: Proportion of the Total Federal-Aid Highway Program and Percentages Spent on Transit and Nontransit Projects, Fiscal Years 1992-2006**



Source: GAO analysis of FTA and FHWA data.

The 9 states and 12 urbanized areas in our case study review had formal processes for selecting projects for flexible funding. Of these, 7 urbanized areas and 4 states selected projects for all or some of these funds through competitive processes in which projects for different transportation modes were evaluated and selected using established criteria and input from transportation stakeholders. States and urbanized areas that did not use competitions selected projects based on transportation priorities and plans. Regarding the outcomes of decisions on how to utilize flexible funding, state and local officials told us that the broad, multimodal eligibility of this funding program enhances their ability to fund their transportation priorities, particularly in light of the challenge of finding sufficient revenues to pay for transportation improvements.

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### Abbreviations

Caltrans	California Department of Transportation
CMAQ	Congestion Mitigation and Air Quality Program
DOT	Department of Transportation
FHWA	Federal Highway Administration
FMIS	Fiscal Management Information System
FTA	Federal Transit Administration
ISTEA	Intermodal Surface Transportation Efficiency Act of 1991
MPO	metropolitan planning organization
PSRC	Puget Sound Regional Council
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users
STIP	state transportation improvement program
STP	Surface Transportation Program
TEA-21	Transportation Equity Act for the Twenty-First Century
TEAM	Transportation Electronic Award Management system
TIP	transportation improvement program

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July 26, 2007

### Congressional Committees

Across the country, passenger and freight traffic continues to place growing demands on the nation's aging highway and transit infrastructure, heightening the need to maintain the existing system and find solutions to prevent increased congestion. At a time when revenues at all levels of government to address these conditions are constrained, it is critical that state and local governments make efficient use of available transportation dollars. We have previously reported that broader and, particularly, multimodal eligibility for federal funding can provide states and urbanized areas with the latitude to address their most pressing transportation needs. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA)<sup>1</sup> and subsequent reauthorization acts gave states and urbanized areas greater flexibility in selecting transportation projects to be funded with federal-aid highway formula funds, which are apportioned to the states annually on the basis of statutory formulas. The act also gave urbanized areas direct responsibility for selecting projects for certain funds. Several Federal Highway Administration (FHWA) programs introduced by ISTEA have transit eligibility, in particular, the Surface Transportation Program (STP) and the Congestion Mitigation and Air Quality (CMAQ) Program. These two programs are referred to here as "flexible funding" programs because of their eligibility for use on both highway and transit projects. When these FHWA funds are used for transit projects, states have the authority to request transfer of the funds from FHWA to the Federal Transit Administration (FTA), to be administered as FTA grants. This flexibility—including the transfer authority—also extends to certain FTA funds, which under certain circumstances may be transferred to FHWA for use on highway projects. Today, as federal funding is often tied to a single mode of transportation, these programs are distinctive in the flexibility they grant to states and urbanized areas in implementing a wide variety of transportation projects.

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<sup>1</sup>Pub. L. No. 102-240 (Dec. 18, 1991).

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The conference report accompanying the Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users (SAFETEA-LU)<sup>2</sup> required GAO to examine how states and urbanized areas have used the authority to transfer funds between FHWA and FTA. Although the transfer provisions apply both to highway funds transferred to FTA for use on transit projects and transit funds transferred to FHWA for use on highway projects, only a small amount of transit funds have been transferred for use on highway projects, according to data from FHWA.<sup>3</sup> Additionally, while a number of federal-aid highway programs other than STP and CMAQ may be used on transit projects<sup>4</sup>—either directly through FHWA or through transfer to FTA—the amount of funding from other programs that is spent on transit is small. Accordingly, we did not consider these programs in our analysis. To respond to our reporting requirement, we focused our study on STP and CMAQ funding used on transit projects and addressed the following questions:

- To what degree has STP and CMAQ funding been used on transit, and how does this use vary across states and urbanized areas?
- How have states and urbanized areas made decisions about what projects to fund with STP and CMAQ funding, and what have been the outcomes of these decisions?

In response to the conference report’s direction, this report also addresses the procedures used to transfer funding and budget authority from FHWA to FTA. This information is provided in appendix I.

To answer these questions, we analyzed data from FTA and FHWA databases on the use of STP and CMAQ funding, which, for the purposes of this report, we refer to as flexible funding. We focused particularly on

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<sup>2</sup>House Report 109-203, “Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users Report of the Committee of Conference on H.R. 3” (July 28, 2005).

<sup>3</sup>FHWA data show that since ISTEA was enacted, about \$55 million of FTA funding has been transferred to FHWA for use on highway projects.

<sup>4</sup>See, for example, 23 U.S.C. 103(b)(6), 23 U.S.C. 147, and 23 U.S.C. 204.

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the use of flexible funding transferred from FHWA to FTA.<sup>5</sup> We determined the data to be sufficiently reliable for the purposes of this report due to the presence of internal controls on the data systems, such as those to ensure accuracy of data and prevent data loss. We reviewed prior reports on state and local experiences using flexible funding and federal guidance and regulations related to state and metropolitan transportation planning and flexible funding. We also interviewed associations representing transportation stakeholders, including metropolitan planning organizations, transit providers, state transportation officials, transportation construction firms, and highway users. We selected 9 states and 12 urbanized areas within these states to be subjects of case studies; these areas were selected based on the extent to which they had previously used flexible funding on transit projects. We selected 5 states that had used significant amounts of flexible funding on transit projects in the past, and within these states we selected urbanized areas that accounted for a high proportion of the states' flexible funding used on transit. We selected 4 other states that previously used either little or no flexible funding on transit, and within these states—because no urbanized areas had used a significant amount of flexible funding on transit—we selected the largest urbanized areas. Because we used a judgmental sampling technique to select these states and urbanized areas, the results are not generalizable to all states and urbanized areas. As part of our case-study review, we interviewed federal, state, and metropolitan transportation officials and reviewed relevant documentation on state and metropolitan transportation planning processes, projects financed with flexible funding, and processes for selecting flexible-funded projects. We interviewed FHWA and FTA staff in Washington, D.C., and in regional and division field offices and reviewed guidance from these agencies on the procedures for transferring flexible funding. We performed our work from May 2006 through May 2007 in accordance with generally accepted government auditing standards.

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<sup>5</sup>Prior to enactment of the Transportation Equity Act for the Twenty-First Century (TEA-21), FHWA did not have the authority to transfer budget authority or funds for STP and CMAQ funds to FTA. When requested, FHWA allocated the funds to FTA for use on eligible transit projects, but the funds remained on FHWA's books. TEA-21 authorized the transfer of funds to FTA, and FHWA and FTA began using this authority in 2000. For the purposes of this report, we use the term "transfer" to refer to FHWA funds administered by FTA, both before and after FHWA had the authority to transfer budget authority and funding to FTA.

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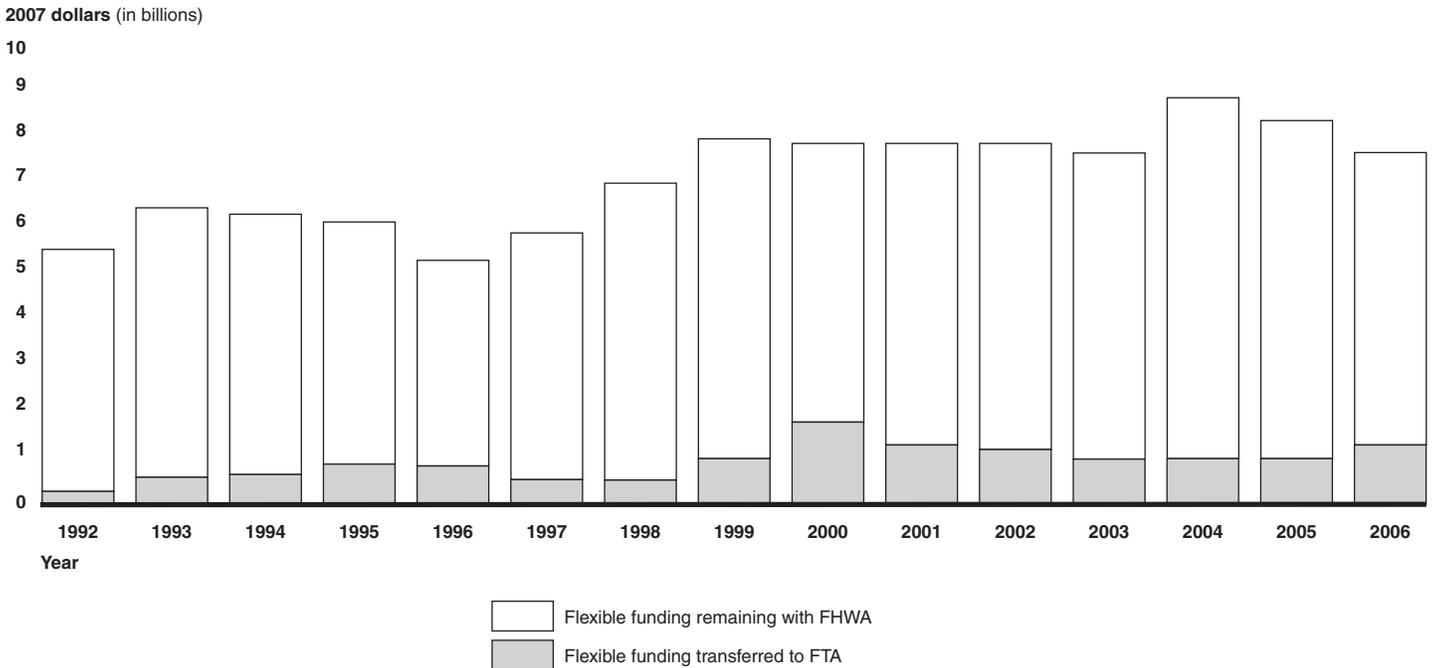
## Results in Brief

The amount of flexible funding used on transit projects accounts for a relatively small proportion of the overall federal-aid highway program, but some states and urbanized areas have used these funds to significantly augment the other federal funding they use for transit. Since the creation of the STP and CMAQ programs with the enactment of ISTEA in December 1991, \$12 billion of these funds have been spent on transit projects administered either by FTA or FHWA; this is about 13 percent of the apportioned flexible funding and about 3 percent of the total amount of federal-aid highway funds apportioned to states during this time period. Remaining flexible funding was spent on other eligible purposes, such as roadway improvements. Nearly all of the flexible funding used on transit projects was transferred from FHWA to FTA at the discretion of state officials. Figure 1 shows flexible funding apportionments from 1992 through 2006<sup>6</sup> and the amount of these funds transferred to FTA for transit projects. Individual states have varied in the extent to which they have transferred flexible funding to FTA for use on transit projects, with three states collectively accounting for more than half of the transferred funds and three states having transferred none. The states that transferred large amounts of their apportioned flexible funding were likely to contain large urban areas. The amount of flexible funding transferred to FTA for use on transit projects has been significant for several states, accounting for 20 percent or more of the overall FTA spending in four states. Nearly 80 percent of transferred funds have been used in urbanized areas with populations over 1 million, while the rest has been used in smaller urbanized or rural areas. FTA data show that more than half of all flexible funding transferred to FTA from 1992 through 2006 has been used to purchase vehicles—both rail cars and motor vehicles such as buses—or for projects related to rail lines or bus lanes. Other transit projects commonly funded include parking garages, passenger facilities such as bus stops and rail stations, and operating costs for new services.

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<sup>6</sup>Data from FTA and FHWA regarding amounts apportioned or spent for transit projects reflect fiscal year values throughout this report.

**Figure 1: Annual Flexible Funding Apportionments and Amounts Transferred to FTA for Use on Transit Projects, 1992-2006 (in inflation-adjusted dollars)**



Source: GAO analysis of FTA data.

The states and urbanized areas reviewed in our case studies used a formal process to select projects to receive flexible funding. Of the urbanized areas that have decision-making authority for flexible funding, 7 out of 10 used a competitive process for project selection that considers both highway and transit projects. Although competitions differed somewhat from place to place, we found that most included elements such as

- a call for projects during which project sponsors submit formal applications,
- a set of established criteria used to evaluate projects, and
- participation of transportation stakeholders—typically representing various transportation modes as well as jurisdictions—from throughout the region in evaluating and selecting projects.

Some of the urbanized areas that used competitions had also established project categories to allocate funds among different modes of transportation, such as roadway construction, bikeway and pedestrian

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facilities, or transit capital improvements. Some urbanized areas selected projects and programs based on local policy goals and priorities, including both those related to highways and to transit. Regarding state processes for selecting projects, four of the states included in our case-study review also used a competitive process for at least some of their flexible funding. Other states selected projects for these funds through the state's transportation planning process, which takes into consideration transportation priorities, conditions, and needs throughout the state. Flexible funding transferred to FTA has been used to meet a variety of needs. Some urbanized areas used the flexible funding that they transferred to FTA to provide new or expanded transit services, while others used it to perform rehabilitation and preventive maintenance on existing services. Regarding the impact of flexible funding on overall state and local transportation programs, almost all the officials we spoke with said that flexibility is beneficial, particularly because it enables multimodal planning and makes more funding available for transit. In terms of the effect that using flexible funding on transit has on highway investments, most state and local officials who commented on this said that the proportion of highway funding used on transit is too small to have an impact on their highway programs, and the larger problem is that of too little funding in general for transportation.

In addition to determining the extent to which states and urbanized areas have used flexible funding on transit and how transportation stakeholders have made decisions about the use of these funds, we also examined the procedures used to transfer flexible funding from FHWA to FTA. Funding transfers—which involve the movement between the two agencies of budget authority and the funds needed to reimburse grantees—occur at the request of state transportation departments and are carried out jointly by FTA and FHWA. The transfer procedures include checks to ensure that projects are eligible for funding and that the correct amounts of budget authority and funds are transferred. The U.S. Department of Transportation (DOT) recently implemented an accounting change whereby the funds necessary to reimburse grantees is transferred from the highway account to the mass transit account of the Highway Trust Fund as grantees incur costs, rather than all at once when the transfer is approved. According to DOT officials, this change is intended to slow the decline of the highway account's balance.

We provided a draft of this report to DOT for review and comment. DOT generally agreed with the report's findings and provided technical clarifications, which we incorporated in the report as appropriate. We also provided the state and local officials with whom we spoke an opportunity

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to review selected portions of the draft report. These officials provided technical clarifications, which we incorporated in the report as appropriate.

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## Background

State departments of transportation and local governments are responsible for building and improving highways and other road infrastructure in the United States. The federal-aid highway program, which is administered by FHWA, provides funding for this purpose from the highway account of the federal Highway Trust Fund. FHWA distributes highway funds to the states through annual apportionments established by statutory formulas and by allocation of discretionary grants; in 2006, about \$31 billion in federal-aid highway funding was available to states. Funds come through several different programs, each with specific uses and eligibility requirements, but states generally have broad discretion to choose the projects that will be funded with these moneys. After determining that projects meet federal requirements and that funds are available, FHWA enters into obligations for the projects selected by states.<sup>7</sup> After states make expenditures on the projects, they apply to FHWA for reimbursement of the federal share of eligible costs. States supplement federal funds for highway programs—and provide required matching funds—with nonfederal revenues such as taxes and user fees.

Constructing, maintaining, and operating public transportation systems are generally the responsibilities of local agencies, such as transit authorities or transit operators.<sup>8</sup> Federal funds for public transportation are generally administered by FTA and are funded through a combination of general fund revenues and the mass transit account of the Highway Trust Fund. Recipients such as transit operators and states<sup>9</sup> are apportioned annual formula program funds that may be used for capital expenses and, in the case of areas with populations under 200,000, for operating expenses. Transit operators and other recipients may also

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<sup>7</sup>An obligation is a commitment that creates a legal liability of the government for the payment of goods and services ordered or received. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it awards a grant.

<sup>8</sup>Public transportation is regular and continuing general or special transportation service provided to the public. It includes service by buses, subways, rail, trolleys and ferryboats. It also includes paratransit services for seniors and persons with disabilities as well as vanpool and taxi services operated under contract to a public transportation agency.

<sup>9</sup>States are recipients of FTA grants for areas under 200,000 in population.

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receive discretionary grants for capital expenditures such as vehicle purchases and system construction or expansion. In 2006, FTA provided about \$8 billion in funding to transit agencies and states through its formula and discretionary grant programs. Federal transit funds generally remain with FTA until the transit operator is ready to use them. Additional funding for transit comes from state or local taxes and operating revenue such as passenger fares and parking fees.

In the early 1990s, Congress decided that a flexible, intermodal approach to transportation programs was needed to address growing transportation needs in the face of budgetary constraints and the diversity of transportation priorities in different parts of the country. Enacted in December 1991, ISTEA sought to provide flexible, comprehensive solutions to transportation problems and focused more on intermodal approaches than previous acts had. Two of the programs created by this legislation were STP and CMAQ—also referred to here as flexible funding because they may be used on a range of projects including transit and highways. A portion of flexible funding is allocated to localities rather than states, allowing local authorities to select projects within their jurisdictions. The responsibility for project selection at this level usually falls to regional bodies such as metropolitan planning organizations (MPO), which are composed of representatives of local governments, transit operators, and other transportation stakeholders who collaborate on transportation planning. Federal law suballocates a portion of STP funds to urbanized areas 200,000 or greater in population; some states have chosen to further allocate flexible funding to these areas. Table 1 provides details on eligible uses for STP and CMAQ funds—which in 2006 constituted about one-quarter of the total federal-aid highway program—as well as guidelines on how these funds are apportioned.

**Table 1: Eligible Uses and Apportionment Guidelines for STP and CMAQ Funds**

Program (2006 funding levels)	Eligible uses	Apportionment guidelines
Surface Transportation Program (\$6 billion)	<ul style="list-style-type: none"> <li>• Construction, rehabilitation, and operational improvements for highways and bridges, including to accommodate other modes</li> <li>• Capital costs for transit projects, including vehicles and facilities</li> <li>• Highway and transit safety infrastructure improvements and programs</li> <li>• Rehabilitation and operation of historic transportation facilities</li> <li>• Pedestrian and bicycle facilities</li> <li>• Scenic or historic highway programs</li> <li>• Historic preservation and archeological research</li> <li>• Landscaping and other scenic beautification</li> </ul>	STP funds are apportioned to states based on a state’s number of lane miles and vehicle miles traveled on federal-aid highways, and other factors. More than half is distributed throughout the state based on population.
Congestion Mitigation and Air Quality (\$1.6 billion)	<ul style="list-style-type: none"> <li>• Pedestrian and bicycle facilities</li> <li>• Transit (new system/service expansion or operations)</li> <li>• Alternative fuel projects, including programs to convert fleets to run on alternative fuels</li> <li>• Travel demand management and public education and outreach activities</li> </ul>	CMAQ funds are apportioned to states based on the size of population residing within counties that do not meet, or have in the past not met, federal air quality standards. CMAQ funds must be used in these areas.

Source: GAO analysis of FHWA data.

When states or urbanized areas use flexible funding on transit projects, they may leave the funds in the state’s FHWA account, in which case the state receives reimbursement from FHWA as costs are incurred. Alternatively, the state—usually in conjunction with the MPO or the local agency implementing the project—may request that these funds be transferred to FTA to be administered through one of several eligible FTA programs. Once funds are transferred to FTA, a transit operator or other recipient becomes the grantee for these funds. FTA funds apportioned directly to transit operators or states may be used for operating costs in areas under 200,000 in population; however, FHWA funds transferred into FTA formula programs may not be used for operating costs, except for CMAQ funds used for new or expanded services.

Although state and local authorities have considerable discretion when choosing which transportation projects to fund with federal-aid program funds, federal laws and regulations require that projects proposed for

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highway and transit funding be based on comprehensive metropolitan and statewide transportation planning processes.<sup>10</sup> State, regional, and local government agencies and transit operators must operate within these requirements to receive federal funds. The various planning tasks that states and MPOs must carry out include the following:

- involving stakeholders such as elected officials, public transit operators, environmental and historic preservation agencies, freight shippers, and others in the planning and project-selection processes.
- identifying overall goals and objectives to support transportation investment choices that consider factors such as projected population growth and economic changes, current and future transportation needs, maintenance and operation of existing transportation facilities, and preservation of the human and natural environments.
- evaluating different transportation alternatives through the collection and analysis of data.
- documenting future transportation needs through long-range transportation plans and short-range programs. Short-range programs, known as transportation improvement programs (TIP), at the local level, and state transportation improvement programs (STIP) at the state level, must include the scope of projects, estimated costs, and the source of funding. In order to receive federal funding, projects must be included in a STIP that demonstrates sufficient funds are available to implement the program.
- ensuring that the process for transportation planning and decision-making reflects a variety of planning factors such as environmental compliance, safety, security, system management and operations, and land use, among others.

To help ensure that metropolitan transportation planning processes are being carried out in full compliance with federal laws and regulations, FHWA and FTA jointly review the planning process every 4 years in areas with populations of 200,000 or greater.

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<sup>10</sup>23 U.S.C. 134-135, 49 U.S.C. 5303-5304, 23 CFR Parts 450 and 500, and 49 CFR Part 613.

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## The Proportion of Flexible Funding Used on Transit Is Small Nationwide, but It Has Made a Sizable Impact on Transit Programs in Some States and Urbanized Areas

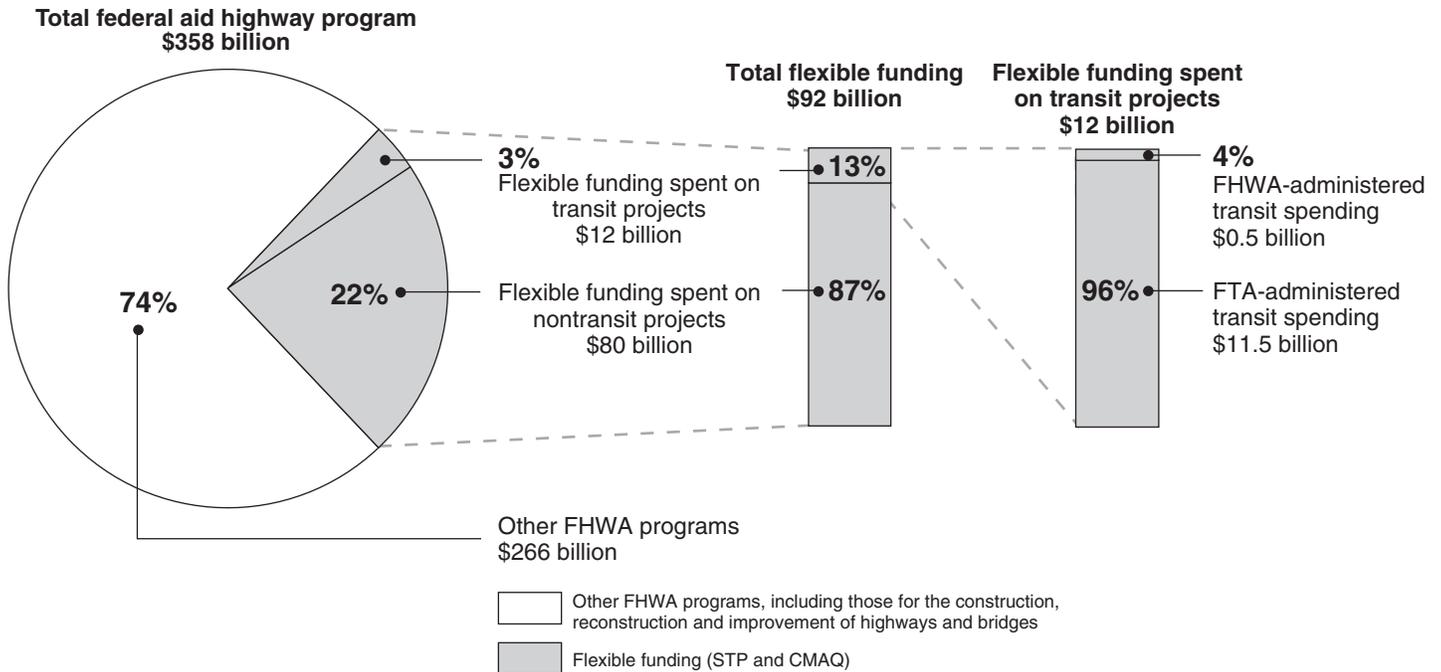
While states have varied in the extent to which they have used STP and CMAQ funds for transit, some states have augmented their transit budgets significantly or made major transit investments using flexible funding. As part of our review, we looked both at the overall impact on federal highway and transit spending nationwide and at the types of transit projects on which flexible funding is most commonly used.

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## The Proportion of Flexible Funding Used on Transit Projects Has Been Relatively Low

Overall, from the enactment of ISTEA in late 1991 through 2006, the relative amount of flexible funding used for transit projects, either directly through FHWA or through transfer to FTA, has been low, averaging less than 3 percent of the total federal-aid highway program and 13 percent of available flexible funding. From 1992 through 2006, a total of \$12 billion of flexible funding has been used for transit projects. The vast majority—more than 96 percent—of this funding was transferred from FHWA to FTA; the remaining amount was used for transit projects administered directly by FHWA. Flexible funding not used on transit was used on other eligible projects such as construction and operational improvement of roadways. Figure 2 shows the amount of flexible funding used on transit projects—including funds that were transferred to FTA and those that were administered directly by FHWA—in relation to the overall federal-aid highway program and to available flexible funding from 1992 to 2006.

**Figure 2: Flexible Funding: Proportion of the Overall Federal-Aid Highway Program, Percentages Spent on Transit and Nontransit Projects, and Percentages of Transit Projects Administered by FHWA and FTA, 1992-2006**



Source: GAO analysis of FTA and FHWA data.

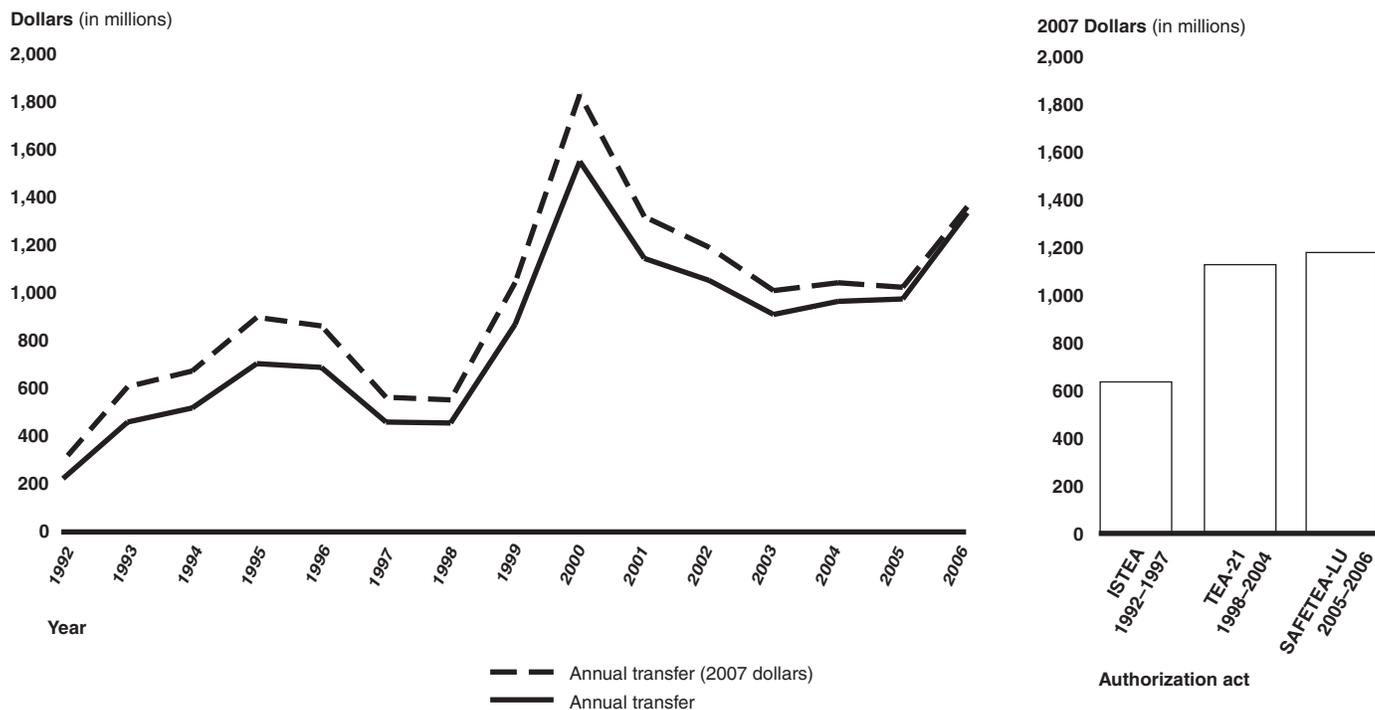
Note: Values were not adjusted for inflation and may not total to 100 percent due to rounding.

The amount of flexible funding transferred to FTA increased markedly with passage of the Transportation Equity Act for the Twenty-First Century (TEA-21)<sup>11</sup> in 1998, primarily because the act increased overall highway funding levels, according to DOT officials. The average annual amount of transferred funding increased from \$630 million under ISTEA to \$1.1 billion under TEA-21, when measured in inflation-adjusted 2007 dollars, and increased further to \$1.2 billion during the first two years of SAFETEA-LU. Likewise, the proportion of available flexible funding transferred to FTA increased from about 11 percent during ISTEA to 14 percent and 15 percent under TEA-21 and SAFETEA-LU, respectively. Figure 3 shows both the annual transfer amount in nominal actual dollars and inflation-adjusted 2007 dollars to allow for comparison across time.

<sup>11</sup>Pub. L. No. 105-178 (June 9, 1998).

The figure also shows the average transfer amount for each transportation authorization act in inflation-adjusted dollars.

**Figure 3: Annual Flexible Funding Transfers and Average Annual Transfers by Act, 1992-2006 (in 2007 dollars)**



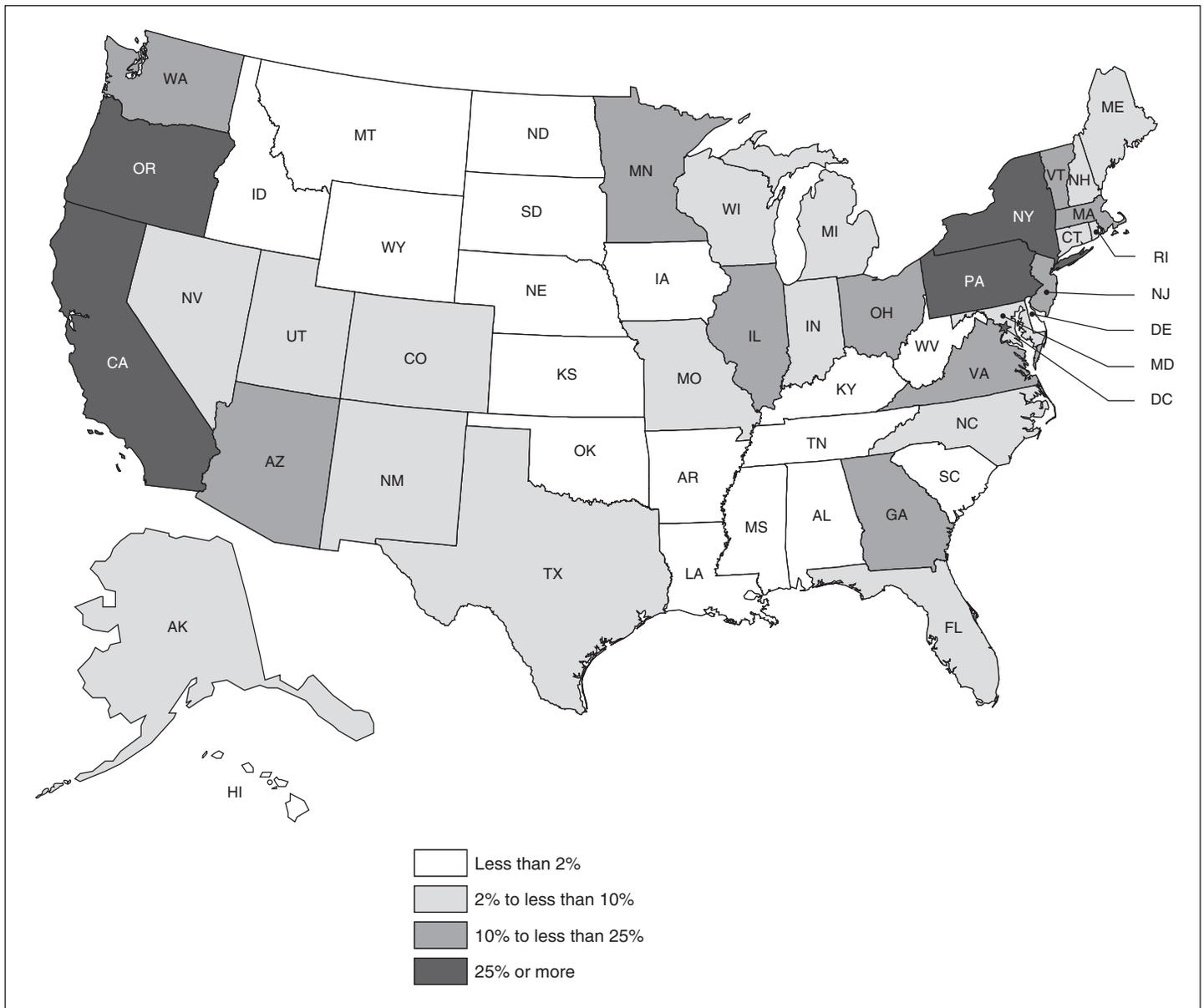
Source: GAO analysis of FTA data.

Note: Data include flexible funding transfers by states and the District of Columbia.

### The Proportion and Amounts of Flexible Funding Transferred for Use on Transit Vary by State

Individual states have transferred flexible funding to FTA for transit projects at varying rates. For example, while California transferred nearly 40 percent of its apportioned flexible funding for transit projects administered by FTA between 1992 and 2006, and 3 other states and the District of Columbia transferred at least 25 percent, 19 states transferred less than 2 percent of this flexible funding during the same period. Figure 4 illustrates the state-by-state proportion of flexible funding transferred to FTA for transit projects.

**Figure 4: Proportion of Apportioned Flexible Funding Transferred to FTA for Transit Projects, by State, 1992-2006**



Sources: GAO analysis of FTA and FHWA data; Map Resources (map).

Among the nine states included in our case-study review, we found that factors such as demographics, infrastructure, geography, and the availability of other funding sources had an effect on how much flexible funding the states used on transit. In states such as Wyoming and parts of

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Iowa and Kentucky, for example, population is dispersed over a wide area, and services such as shopping and health care facilities are often far from one another and from residential areas. Officials in these states said that such conditions do not lend themselves to efficient use of transit. Thus, Iowa state transportation officials noted, the population in Iowa is largely reliant on the automobile for transportation, and counties, which have discretion about how to use certain state transportation funds, lean heavily toward building roads. Another reason for states using a small proportion of flexible funding on transit can be that the state uses other revenues to support transit. For example, state transportation officials in Delaware, which has not transferred flexible funding for use on transit, told us that they believe state revenue sources—including the state’s gasoline tax—are sufficient to meet the needs of the state’s transit operators. Conversely, states that use a higher proportion of their flexible funding on transit tend to have large, congested urban areas that are served extensively by transit. Of the 8 urbanized areas included in our case-study review that are in states that use relatively more flexible funding on transit, 5 of them have transit operators that are among the largest 25 in the nation.<sup>12</sup> One notable exception to this trend is the largely rural state of Vermont, which, because of the state’s commitment to providing bus services in communities throughout the state, spends a high proportion of its flexible funding on transit.

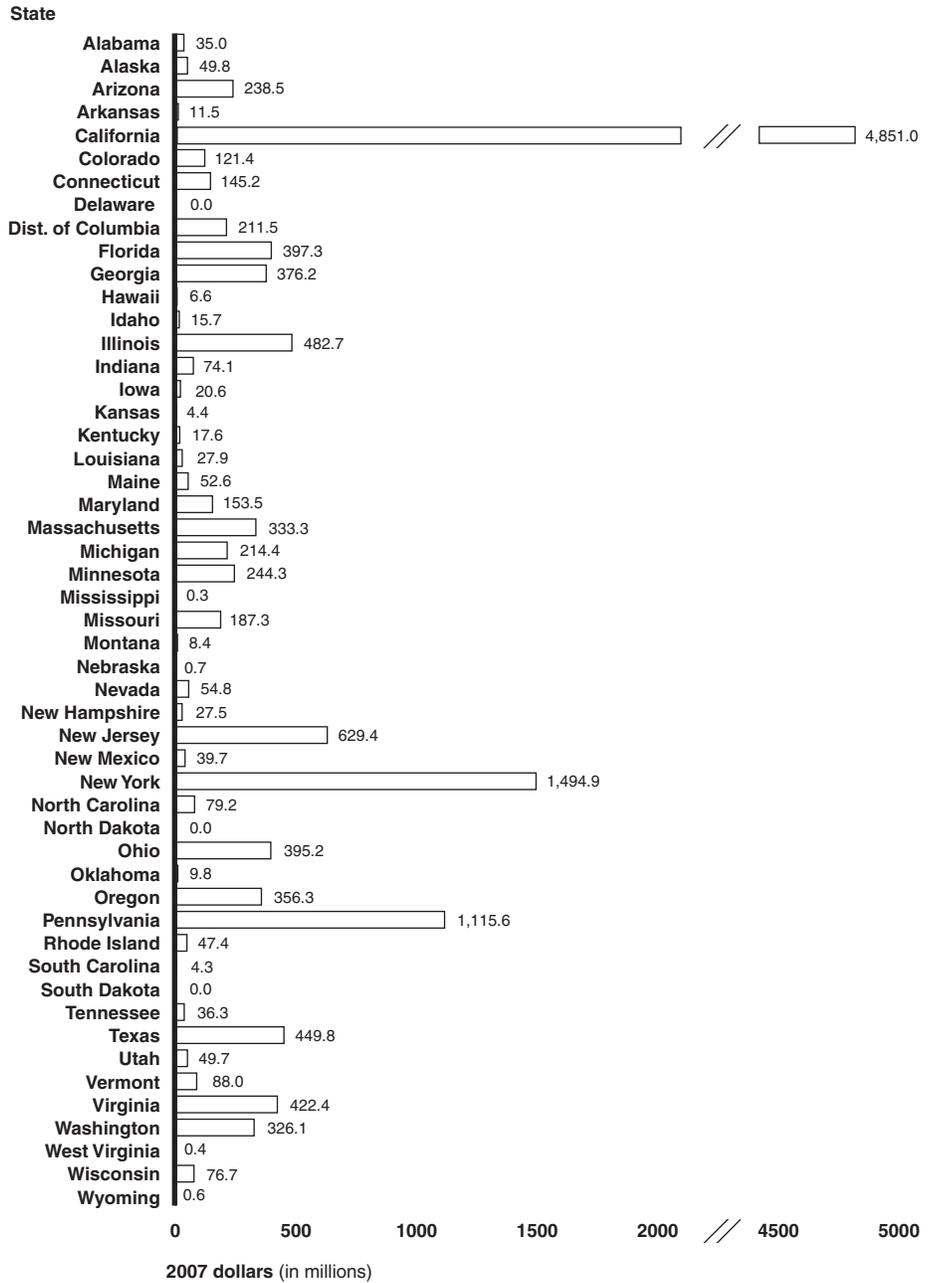
The dollar amount of flexible funding transferred by states for use on FTA-administered transit projects varied, with 3 states—California, New York, and Pennsylvania—collectively accounting for more than half of the amount transferred from 1992 through 2006.<sup>13</sup> In contrast, 3 states—Delaware, North Dakota, and South Dakota—had never transferred flexible funding for use on transit projects, and 10 other states transferred less than \$1 million per year, on average. Figure 5 provides information on the amounts of flexible funding states have transferred from FHWA to FTA for use on transit projects since the enactment of ISTEA.

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<sup>12</sup>San Francisco’s Bay Area Rapid Transit and Municipal Railway, Los Angeles’s Metropolitan Transportation Authority, Seattle’s King County Metro and Sound Transit, Philadelphia’s Southeastern Pennsylvania Transportation Authority, and Pittsburgh’s Port Authority all rank among the largest 25 transit agencies in the nation. Rankings are based on agencies’ 2003 capital and operating budgets.

<sup>13</sup>Values are in inflation-adjusted 2007 dollars to allow for comparison across time.

**Figure 5: Flexible Funding Transferred to FTA for Transit Projects, by State, 1992-2006 (in 2007 dollars)**

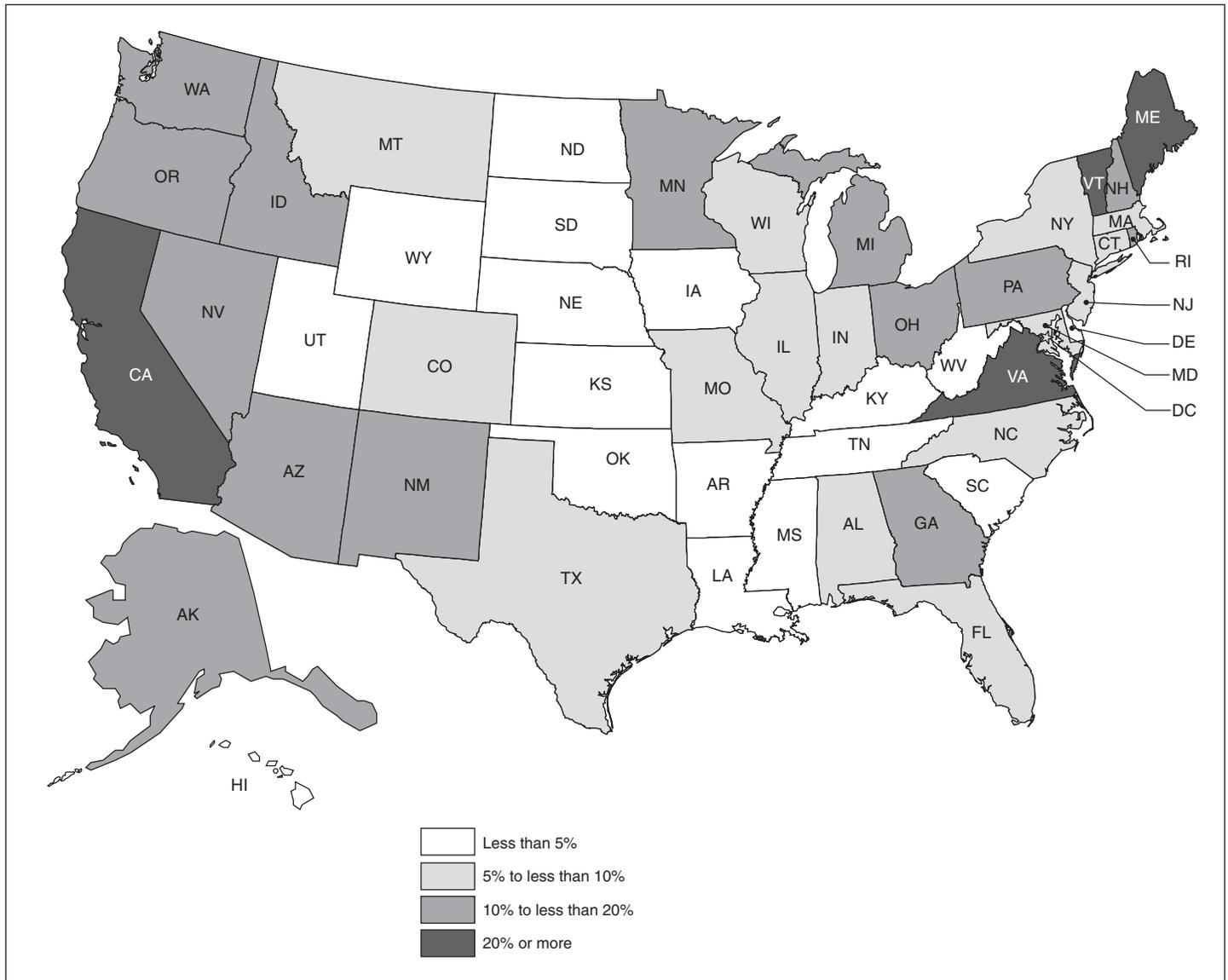


Source: GAO analysis of FTA data.

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Just as the amount of flexible funding transferred for transit projects varied by state, the effect those funds had on the amount of federal funding used on transit varied as well. For example, from 1992 to 2006, Vermont transferred a relatively small amount of flexible funding to FTA for use on transit projects, but those funds accounted for over 40 percent of the FTA funding used in Vermont. Similarly, in 3 other states, transferred flexible funding made up at least 20 percent of the total FTA funds used in each state, while, in contrast, this figure was less than 5 percent in 17 states. These latter states tended to have fewer large urban areas and lower population densities. Figure 6 shows the proportion of FTA funding in each state that came from transferred STP and CMAQ funds.

**Figure 6: Proportion of Total FTA Funding from Flexible Funding, 1992-2006**

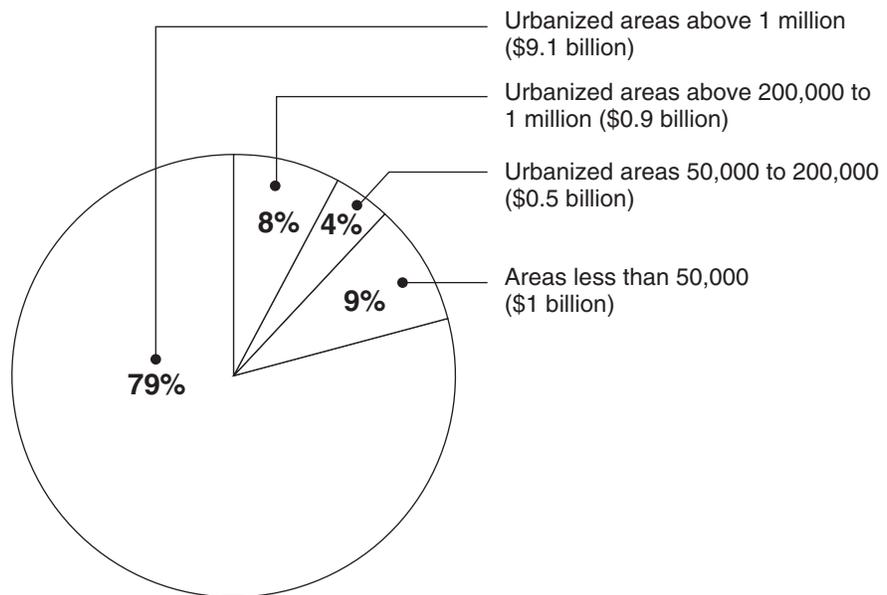


Sources: GAO analysis of FTA data; Map Resources (map).

## The Use of Transferred Flexible Funding on Transit Is Concentrated in Large Urbanized Areas

From 1992 through 2006, nearly 80 percent—or \$9.1 billion—of the flexible funding transferred to FTA was used by urbanized areas with populations of over 1 million (see fig. 7). For the flexible funding that remained with FHWA for use on transit projects, 45 percent was used in urbanized areas with a population of over 1 million, with the remaining portion used in smaller areas or on state-administered projects.

**Figure 7: Flexible Funding Transferred to FTA, by Population of Area in Which Funding Was Used, 1992-2006**

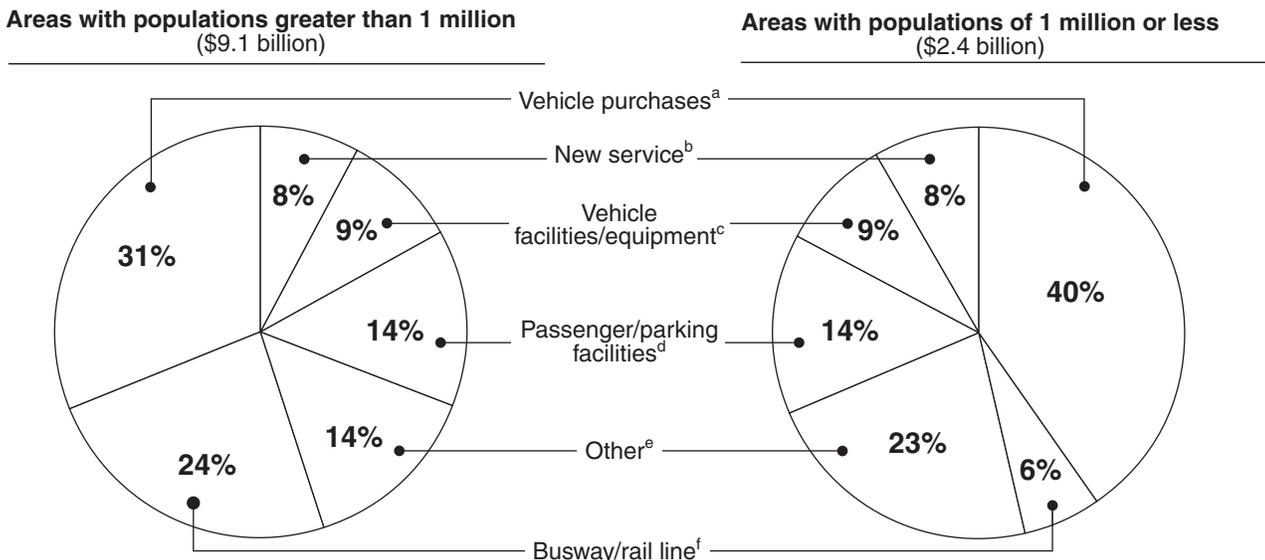


Source: GAO analysis of FTA data.

Of the flexible funding transferred to FTA from 1992 through 2006, more than half was used on purchases of vehicles—both rail cars and motor vehicles such as buses—and on projects related to rail lines or bus lanes. The heaviest users of transferred flexible funding on transit—urbanized areas with populations of over 1 million—spent 55 percent on these types of projects. For example, in the Seattle area, flexible funding was used to purchase diesel-electric hybrid buses and for the development of the Sound Transit light rail line. Similarly, in the Northern Virginia region of the Washington, D.C., area, a regional transit operator used flexible funding for annual purchases of new buses to expand its fleet. Nationally, urbanized areas over 1 million in population used 14 percent of transferred flexible funding on passenger facilities such as pedestrian walkways, bus stops, and rail stations. Smaller urbanized and rural areas also used a

significant amount—about 40 percent—of their transferred flexible funding on motor vehicle purchases and an additional 6 percent on bus and rail lines. For example, the transit agency in Des Moines, Iowa, has relied on flexible funding to pay for bus replacements, transferring approximately \$2.5 million of its STP funds to FTA for this purpose over the last 10 years. Figure 8 provides detailed information about how large urbanized areas and smaller urbanized or rural areas used the flexible funding that they transferred to FTA. Regarding the “other” category, shown in figure 8, a substantial portion of this category is preventive maintenance and contracted services (i.e., transportation service provided to a public transit agency by a public or private transportation provider under contract).

**Figure 8: Flexible Funding Administered by FTA, by Project Type and Population of Area in Which Funding Was Used, 1992-2006**



Source: GAO analysis of FTA data.

Notes: Population category is based on the categorization of the urbanized area at the time of obligation.

<sup>a</sup>Vehicle purchases: Includes purchases of buses, vans, ferry boats, and rail cars.

<sup>b</sup>New service: Includes projects that pay for operating costs of new transit services, such as new bus routes or expanded service on existing routes.

<sup>c</sup>Vehicle facilities/equipment: Includes projects related to vehicle or transit office facilities, such as maintenance and storage facilities, bus garages, and service centers. Also includes the acquisition and rehabilitation of equipment for fare collection, communication, security, and signalization.

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<sup>d</sup>Passenger/parking facilities: Includes transit projects to acquire, design, lease, construct, and rehabilitate parking facilities, such as park and rides, and passenger facilities, such as bus stops and shelters.

<sup>e</sup>Other: Includes acquiring real property, passenger amenities, marketing, leasing vehicles (including rail), rehabilitating vehicles (including rail), bikeways, bicycle storage facility, contracted service, vehicle overhaul, signalization priority projects, installing bicycle racks and other bicycle equipment, environmental assessments, preliminary engineering, major investment studies, administration, preventive maintenance, and other projects.

<sup>f</sup>Busway/rail line: Includes projects to build bus lanes or roadways designed for exclusive bus use. Also includes projects to design, construct and rehabilitate rail lines and rail yards, and the purchase of rail line right-of-way, among other things.

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## States and Urbanized Areas Used a Formal Process to Select Projects Suited to Their Priorities and Needs, Resulting in Diverse Uses of Flexible Funding

A competitive process was often used to select projects, particularly at the local level, and projects not selected this way were chosen based on state or local transportation plans and priorities. An advantage of flexible funding cited by officials in our case-study review was that because of its broad eligibility, it enables multimodal transportation planning and thereby allows states and localities to select projects best suited to their diverse needs.

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### Projects for Flexible Funding Are Often Selected through a Competitive Process, Particularly at the Local Level

Of the 10 urbanized areas included in our case-study review that have decision-making authority for flexible funding, 7 selected projects for at least some of these funds using competitive processes<sup>14</sup> in which all eligible project types were considered, including highway, transit, bikeway and pedestrian, and others. While the competitions varied somewhat from place to place, we found that common elements of most of these competitions included the following:

- a call for projects, during which potential project sponsors—such as transit operators, city or county governments, or nonprofit groups—submit formal project applications to the competition coordinator, typically the region’s MPO.

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<sup>14</sup>One of these 10 urbanized areas, Philadelphia, periodically sets aside CMAQ funds for a competitive selection process. The most recent competition was completed in 2003. The two other urbanized areas included in our case-study review—Burlington, Vermont, and Wilmington, Delaware—do not have decision-making authority for flexible funds.

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**Case Study Example: Puget Sound Regional Council's (PSRC) Project Selection Process**

The PSRC coordinates a regional competition to identify projects to receive STP and CMAQ funds. Counties submit project applications to PSRC in one of three categories: designated urban centers, designated manufacturing and industrial centers, and the corridors that connect these centers. PSRC staff evaluate the projects on their technical merits, score them using evaluation criteria established by PSRC, and rank them according to these scores. All projects are evaluated on the availability and source of local funding and the project's potential to reduce emissions. Projects are also evaluated on a number of category-specific criteria.

After the projects have been evaluated and scored, the PSRC's Regional Project Evaluation Committee discusses and prioritizes the projects. The committee—made up of city and county public works directors and state and local transportation and environmental stakeholders—recommends a project funding plan to the PSRC's Transportation Policy Board (whose members are elected officials) for review and approval to be included in the region's TIP.

In the 2006 regional competition, 34 projects were submitted, including 11 transit projects. Sixteen projects were selected to receive a total of \$52 million in CMAQ and STP funding, including 5 transit projects awarded \$19.6 million.

- project applications that consist of basic information on the project, including title, sponsor, summary description, location or service area, cost, and funding sources.
- an initial screening of project applications in which basic eligibility determinations are made, such as eligibility to receive federal funds, project readiness, availability of local matching funds, and compatibility with or inclusion in the region's long-range transportation plans.
- a technical evaluation of the projects found to be basically eligible, typically carried out by a technical committee of the MPO using criteria established by the MPO. Some of the most common criteria are
  - air quality impact, measured by the estimated emissions reductions of the project;<sup>15</sup>
  - traffic flow improvement or congestion reduction;
  - cost effectiveness; and
  - potential to enhance continuity of the transportation system or regional connectivity.
- a recommendation of projects based on the technical committee's evaluation submitted to the MPO's board of directors.

In addition, according to federal requirements, all projects included in a region's TIP, regardless of how they are selected, are subject to a public notification and comment period.<sup>16</sup>

Some of the urbanized areas included in our case study review also established project categories based on the needs and priorities of the region to allocate funds among certain uses such as road maintenance or capacity enhancement, bikeway and pedestrian facilities, or transit capital

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<sup>15</sup>According to federal CMAQ guidance, projects in air quality nonattainment and maintenance areas that receive CMAQ funding must reduce emissions of at least one of several air quality pollutants, such as particulate matter or carbon monoxide. Project proposals should include quantitative estimates of the emissions impact for all the pollutants for which the area is in nonattainment or maintenance status. See *Publication of Interim Guidance on the Congestion Mitigation and Air Quality Improvement (CMAQ) Program*, 71 Fed. Reg. 76038 (Dec. 19, 2006).

<sup>16</sup>See 23 CFR 450.316.

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improvements. These categories tended to have specific eligibility and application requirements and evaluation criteria, as can be seen in the following examples:

- In the Virginia Beach, Virginia, area, six categories were used in the MPO's competition for STP funds.<sup>17</sup> The projects competing in the intermodal transportation category were evaluated on whether the project would establish opportunities for linkages between transportation modes and improve rail or vehicular access to freight facilities, among other criteria. In contrast, projects competing in the highway capacity category were evaluated on criteria such as potential impact on congestion levels, system continuity, and safety improvements.
- In Des Moines, Iowa, STP projects were awarded in four categories.<sup>18</sup> Projects competing in the major construction category were evaluated based on their potential to increase future traffic volumes and their functional classification (e.g., principal arterial roads ranked higher than small, feeder roads), among other things. Projects competing in the alternative transportation category were evaluated based on congestion reduction, air quality benefit, and the fuel efficiency of the mode of transportation.

On the state level, of the nine states included in our case-study review, four—Iowa, Kentucky, Vermont, and Virginia—awarded a portion of their flexible funding through a competitive process.<sup>19</sup> Statewide competitions—typically sponsored by state departments of transportation—were similar to local competitions, although some of them required projects to be vetted at the local level before being submitted to the statewide competition.

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<sup>17</sup>The six categories are highway capacity, accessibility and operational improvements; intermodal transportation projects; transit projects; planning studies; transportation demand management projects; and intelligent transportation systems.

<sup>18</sup>The four categories are major construction projects, minor construction projects, preservation projects, and alternative transportation projects.

<sup>19</sup>Until recently, Washington also used a competitive process for a portion of its flexible funds.

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## Flexible Funding Projects Sometimes Selected Based on Policy Goals, Priorities, or Long-Range Plans

Although most of the urbanized areas included in our case-study review that have decision-making authority for flexible funding used competitions for at least some of these funds, they also selected some projects and programs based on local policy goals and priorities. Some examples of locally established priorities that we found in the urbanized areas included in our case-study review include the following:

- In the San Francisco area, transportation stakeholders projected a significant shortfall for transit capital expenditures over a 25-year period. The region's MPO board of directors decided to make this a priority use for STP funds, allocating the funds to each transit operator based on its portion of the projected shortfall.
- In Pittsburgh, due to the age of the region's roadways and transit systems, there was a heavy emphasis on the preventive maintenance of this infrastructure, with about 80 percent of all available funding—including flexible funding—being used for this purpose. Specific projects were selected based on continuous analysis of transportation infrastructure needs, the region's long-range plan, and input from the public and the state's transportation department.

For most of the states in our case-study review, flexible funding that was neither suballocated to urbanized areas nor awarded competitively was, along with most other federal and state funding sources, used on projects identified through state transportation planning processes; these processes typically considered transportation priorities, conditions, and needs throughout the state. Because state departments of transportation are primarily responsible for building and maintaining roads, project selection at the state level tends to focus on roads, including construction of roadways and related projects to manage road usage such as intelligent transportation systems. For example, Kentucky's transportation department uses STP funds and other available funding sources for priority road projects that the state identifies based on a number of factors, such as transportation problems across the state, need (based on a statewide needs analysis), and project eligibility. Looking at these considerations, the transportation department develops a list of projects and evaluates them alongside available funding sources, including both FHWA and state sources, to determine which projects will be funded with which sources. Similarly, Caltrans, the California state transportation department, applies statewide STP funding, along with other federal and state funding sources, to projects in its State Highway Operation and Protection Program, which is developed to address state priorities such as traffic safety and highway and bridge preservation.

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In contrast, some states in our case-study review set aside a portion of their flexible funding to be used for specific projects or programs. Following are three examples:

- Wyoming and Virginia both use statewide STP funds on specific categories of roads. Wyoming allocates these funds among county roads, roads in the state's urban areas, and industrial and commercial roads such as those leading to mines. Virginia divides statewide STP funds among primary, urban, and secondary roads.<sup>20</sup> The decisions about which projects to fund for these categories of roads are made by Virginia's Commonwealth Transportation Board, the city or town, and the county board of supervisors, respectively.
- Pennsylvania's transportation financial guidance designates \$25 million of the state's flexible funding to be set aside each year for use by the state's transit agencies. (In 2006, the state's total flexible funding apportionment was about \$290 million.) The majority of the \$25 million goes to the state's two largest transit operators, Philadelphia's Southeast Pennsylvania Transportation Authority and Pittsburgh's Port Authority of Allegheny County.
- Virginia state law mandates that a percentage of its flexible funding—amounting to about \$22 million each year, according to state officials—be used for public transportation. (In 2006, Virginia's total flexible funding apportionment was about \$196 million.) A portion of the \$22 million must be used for track lease payments for a Northern Virginia commuter rail system; the remaining funds are spent on transit projects selected by the state, usually in rural and small urban areas.

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### Flexibility Enables State and Local Officials to Fund Their Highest Priorities, Which Is Advantageous Due to Demand for Transportation Funding

As a result of the broad eligibility of STP and CMAQ funds, states and urbanized areas can use a multimodal approach to transportation planning, selecting projects that they believe best address their transportation priorities—whether a road project, a transit project, or projects such as intelligent transportation systems or traffic demand management strategies. Accordingly, the transportation priorities that states and urbanized areas choose to address vary based on their differing needs and circumstances. Among the urbanized areas and states included in our case-study review that use a high proportion of flexible funding on

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<sup>20</sup>Primary roads are those that connect cities and towns with each other and with interstates. Secondary roads serve inter-regional and localized traffic.

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transit, we found the following distinctive uses of these funds, illustrating how outcomes vary with state and local priorities:

- *Constructing the Sound Transit System in Seattle.* Sound Transit, established in 1995 to build a mass transit system serving the three counties in the Seattle region, is still in a capital-intensive phase, as it continues to complete the infrastructure for the fixed-route portion of the system, including construction of a light-rail line connecting Seattle with the Seattle-Tacoma airport and extending its commuter-rail service south of Tacoma. It has used more than \$112 million in flexible funding for rail car purchases and rail line construction, among other things. In 2007, it was awarded \$9 million in flexible funding to purchase the right-of-way for two light-rail stations.
- *Providing new services in Virginia Beach.* The Virginia Beach area, an urbanized area of about 1.3 million people in southeastern Virginia, has significant traffic congestion due to the northern and southern halves of the area being divided by the confluence of the Elizabeth and James Rivers, which is crossed by seven bridges and tunnels. The regional transit operator, Hampton Roads Transit, uses flexible funding to provide new services to help relieve traffic congestion. According to Hampton Roads Transit officials, obtaining local funding for regional projects can be difficult because cities within in the region are sometimes reluctant to pay for services in another city. In this way, officials said, flexible funding can better benefit the community by making new services possible.
- *Rehabilitating Pennsylvania's rail systems.* At the end of 2004, transit systems in Pennsylvania were facing operating budget shortfalls because transit growth had outstripped the existing revenue sources. The state's legislature adjourned before taking action to provide either long- or short-term transit funding. In light of this, a number of transit agencies began considering measures to reduce their costs by decreasing service and laying off staff and to increase income by raising fares. In an effort to avoid service cuts and fare increases, Pennsylvania's governor proposed transferring more than \$400 million of federal highway funds to FTA to be used on transit. For the transit agencies in Philadelphia, Pittsburgh, and other parts of the state to receive the funding, the MPOs in these areas had to vote to allocate the funds to transit. In Philadelphia and Pittsburgh, these additional funds were used on eligible capital expenses such as preventative maintenance, allowing other state funds to be used to cover operating deficits.
- *Subsidizing rural transit services in Vermont.* Vermont is a largely rural state with a small population, and, according to the transit officials we

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spoke with, has a small tax base on which to draw for funding services such as transit. The state, however, is committed to preserving its current quality of life—which includes low levels of pollution and congestion—and allowing its elderly population to “age in place,” meaning that senior citizens can remain in their homes and still have access to transportation for medical appointments, shopping, and other necessities. To further these goals, the state’s transportation department uses a significant amount of flexible funding on eligible capital expenses such as preventive maintenance to help support bus services in communities throughout the state.

In the course of our case-study review, we asked state and local officials their views on the outcomes of flexible funding. Officials with the MPOs and state transportation departments we met with said that due to its broad, multimodal eligibility, flexible funding considerably benefits their ability to plan and fund their transportation programs, particularly because of the challenge of finding sufficient revenues to pay for transportation improvements. One specific advantage cited by a number of these officials was that flexible funding can serve as an additional funding source for transit. State officials in Vermont and Virginia noted that flexible funding makes it possible to provide bus service in small towns and rural areas through the funding of expenses such as bus purchases, bus facilities construction, and preventive maintenance. State and local officials in several states also pointed out that flexible funding is particularly beneficial for regional projects. For example, in Seattle, flexible funding is especially well-suited to meeting the region’s goal of connecting transportation hubs. Although there was wide agreement among these state and local officials that flexible funding is beneficial, officials from two states—California and Pennsylvania—also said that in the context of pressing needs on both the highway and transit sides, using flexible funding on transit may impact highway programs. In the words of one MPO official in Pennsylvania, using flexible funding on transit is “a zero-sum equation,” because, even though it provides much-needed resources for transit projects, it means that resources for the highway program are reduced an equal amount. Similarly, an official with the MPO in the Los Angeles area noted that many area freeways are in poor condition—a function of inadequate funding for transportation in general, and, to a small degree, the use of flexible funding on transit. Other state and local officials, however, said they did not believe using this funding for transit had negatively impacted roads, and that the larger problem is insufficient revenues for both highways and transit. Officials with Vermont’s state transportation department, for example, said that although there are insufficient funds for road maintenance in the state, they

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attributed this condition to a lack of state funding rather than the use of flexible funding on transit.

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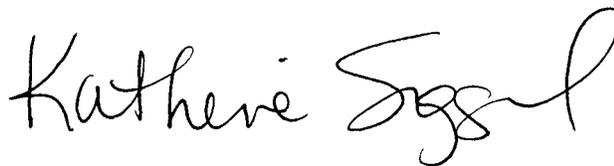
## Agency Comments

We provided a draft of this report to DOT for review. DOT generally agreed with the report's findings. We received comments and technical clarifications from FTA's Office of Budget and Policy, Office of Program Management, and Office and Planning and Environment, and from FHWA's Office of Planning, Environment, and Realty, which we incorporated in the report as appropriate. We also provided officials from the states and localities included in our case studies with an opportunity to review segments of the report pertaining to their jurisdictions. These officials provided technical clarifications, which we incorporated in the report as appropriate.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Transportation, and the state and local officials with whom we spoke. We will also make copies available to others on request. In addition, the 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 about this report, please contact me at (202) 512-2843 or [siggerudk@gao.gov](mailto:siggerudk@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Katherine A. Siggerud  
Director, Physical Infrastructure Issues

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*List of Committees*

The Honorable Christopher J. Dodd  
Chairman

The Honorable Richard C. Shelby  
Ranking Member  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Barbara Boxer  
Chairman

The Honorable James M. Inhofe  
Ranking Member  
Committee on Environment and Public Works  
United States Senate

The Honorable Charles Schumer  
Chairman

The Honorable Mike Crapo  
Ranking Member  
Subcommittee on Housing, Transportation, and Community Development  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Max Baucus  
Chairman

The Honorable Johnny Isakson  
Ranking Member  
Subcommittee on Transportation and Infrastructure  
Committee on Environment and Public Works  
United States Senate

The Honorable James L. Oberstar  
Chairman

The Honorable John L. Mica  
Ranking Republican Member  
Committee on Transportation and Infrastructure  
House of Representatives

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The Honorable Peter DeFazio  
Chairman  
The Honorable John J. Duncan Jr.  
Ranking Republican Member  
Subcommittee on Highways and Transit  
Committee on Transportation and Infrastructure  
House of Representatives

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# Appendix I: Funding Transfers Involve Multiple Stakeholders and Checks to Ensure Accuracy

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To examine the procedures used to transfer flexible funding from the Federal Highway Administration (FHWA) to the Federal Transit Administration (FTA) we spoke with officials from FHWA and FTA, both in their Washington, D.C., headquarters and in field offices. We also reviewed guidance on the transfer process issued jointly by FHWA and FTA and examples of documentation used to process requests for transfers.

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## Federal, State, and Local Governments Involved in Transfer Process

When states or local planning bodies fund transit projects with funds from the Surface Transportation Program (STP) or the Congestion Mitigation and Air Quality Program (CMAQ), they have the option to transfer these funds to FTA for project administration or leave them with FHWA. The transit agency officials we spoke with said that when they are awarded STP or CMAQ funds for a project they are implementing, they generally prefer to transfer these funds to FTA for administration because of their familiarity with FTA's personnel, grantmaking procedures, and requirements and because of FTA's expertise in administering transit projects. Requests to transfer FHWA funding to FTA are submitted by state departments of transportation because the funding comes from state federal-aid highway apportionments. In deciding whether to approve transfer requests, FHWA checks to see if projects are eligible for flexible funding, if states have funding available for the transfer, and if the projects for which funding is being requested are included in the statewide transportation improvement program (a requirement for all projects receiving federal-aid highway or transit funds).

When the transfer is carried out, budget authority—which permits an agency to incur financial obligations such as the awarding of grants—is transferred from FHWA to FTA, and the funds necessary to reimburse grantees for costs incurred is transferred from the highway account to the mass transit account of the Highway Trust Fund. DOT recently implemented an accounting change whereby the funds necessary to reimburse grantees are transferred to the mass transit account as grantees incur costs, rather than all at once when the transfer is approved. According to DOT officials, this change is intended to slow the decline of the highway account's balance. After the budget authority has been transferred to FTA, FTA makes an apportionment in the grantee's account using the grants management system. To obtain the transferred funds,

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**Appendix I: Funding Transfers Involve  
Multiple Stakeholders and Checks to Ensure  
Accuracy**

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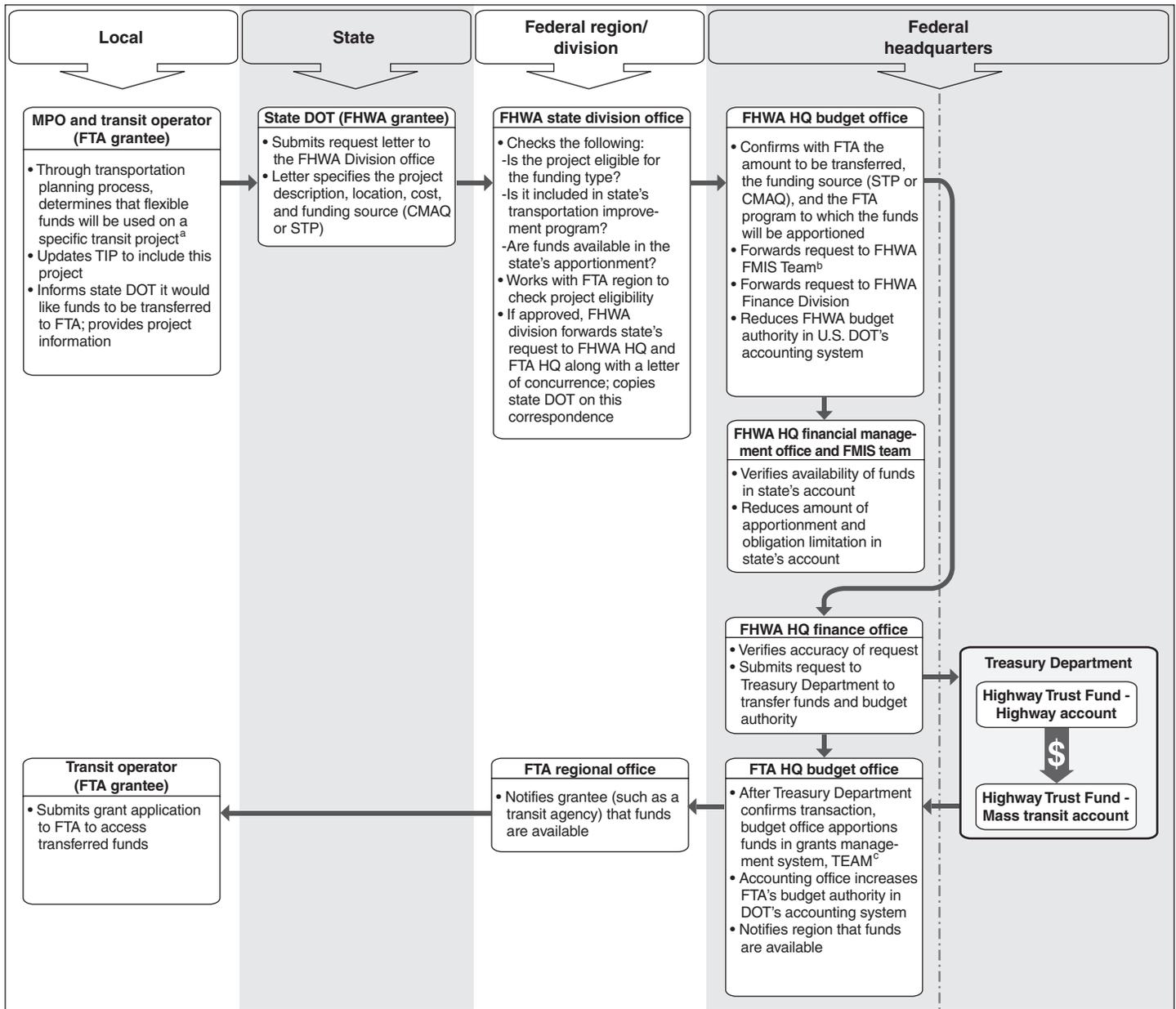
grantees must have a grant application approved by FTA.<sup>1</sup> The procedures for transferring funds were detailed in joint guidance issued by FHWA and FTA in 1999; the agencies are in the process of preparing updated joint guidance. Figure 1 provides more detail on the steps in the transfer process.

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<sup>1</sup>To help ensure that FHWA funds transferred to FTA can be clearly identified, FTA no longer allows grantees to add transferred funds into existing grants with FTA formula funds, as was the practice in some states. FTA grantees are now required to submit a new grant application specifically for funds that have been transferred to FTA. FTA officials said this change will allow better tracking of flexible funding used on transit. This change is reflected in updated FTA guidance on grant applications.

**Appendix I: Funding Transfers Involve Multiple Stakeholders and Checks to Ensure Accuracy**

**Figure 9: Steps Required to Transfer Funds from State's FHWA Account to Transit Agency's FTA Account**



Source: GAO analysis of information provided by FTA and FHWA.

<sup>a</sup>Other stakeholders, including the state department of transportation, the FTA Region, and the FHWA Division take part in the transportation planning process.

<sup>b</sup>The Fiscal Management Information System (FMIS) is FHWA's major financial information system for tracking federal-aid highway projects on a project-by-project basis.

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<sup>c</sup>The Transportation Electronic Award Management system (TEAM) is FTA's grants management system.

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## **FHWA and FTA Check Project Eligibility and Have Processes in Place to Help Ensure Accurate Transfers**

Eligibility checks of projects receiving flexible funding occur before, during, and after the transfer process. Prior to states' submitting transfer requests, FTA and FHWA participate in the statewide and metropolitan transportation planning processes and provide technical assistance on issues such as funding eligibility. After states submit requests to transfer funds, checks on project eligibility occur at FHWA division offices when state transfer requests are received, and at the FHWA Financial Management Office to ensure funds are available and requests meet transferability requirements. FTA's subsequent review of grant applications includes checking project eligibility in greater detail.

According to FHWA and FTA officials, the following checks occur to help ensure that the correct amount of funding and budget authority is transferred from FHWA to FTA:

- *Recording of steps in the transfer process.* FHWA records information on the amount of funds being requested, the type of funds (such as CMAQ or STP) and the state requesting the transfer, as well as dates of key steps in the transfer process. FTA also tracks key information on transfer requests, including the date of the letter requesting the transfer, the grantee receiving the funds, the description and FTA project number of the transit project receiving funds, the type of FHWA funding to be transferred, and the amount to be transferred.
- *Reconciliation process.* Before transfers are finalized, FHWA and FTA follow procedures to ensure the correct amounts are transferred. The FHWA Office of Budget reconciles transfer requests with a report generated by FMIS that documents the amounts and the program codes to be transferred, then provides this and other supporting information to the FTA Office of Budget. The FTA Office of Budget also reconciles transfer requests with information generated by FMIS. Before the FHWA Office of Budget requests that the FHWA Office of Finance move the funding through the Department of the Treasury, the amount to be transferred is agreed upon by FHWA and FTA.
- *Records retention.* Hard copy files for each transfer request received are maintained by FTA for 5 years and then archived; files are maintained by FHWA for 20 years.

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# Appendix II: Objectives, Scope, and Methodology

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To determine the degree to which flexible funding has been used on transit and how this use varies across states and urbanized areas, we analyzed data from FTA and FHWA. We assessed the reliability of the data and found it was sufficiently reliable for the purposes of this report. These data included information about the funds transferred to FTA for project administration, funds remaining at FHWA for use on transit projects, the overall federal-aid highway program apportionments, and apportionments for the CMAQ and STP programs. We obtained information from FTA's grants management system, called the Transportation Electronic Award Management (TEAM) system, regarding the amount of STP and CMAQ funds transferred to FTA for project administration. These data were provided on an annual basis, from fiscal years 1992 through 2006,<sup>1</sup> allowing us to calculate the amounts transferred by year and the annual averages for each transportation authorization bill. Additional information was provided about the population of jurisdictions using these funds; the purpose for which funds were spent, such as vehicle purchases, busways, rail lines, or new service; and the proportion of FTA funding in each state that came from flexed funds. To identify transit spending remaining under FHWA administration, we requested that FHWA provide data from the Fiscal Management Information System (FMIS)—its project-tracking information system—for projects that state officials had coded as being transit related. We used additional documentation provided by FHWA officials to determine the source of federal funding (i.e., the appropriation bill) and information about spending by individual urbanized areas for the FHWA-administered transit projects. Using these data, we calculated the total amount of flexible funding spent on transit-related projects administered by FHWA during ISTEA, TEA-21, and SAFETEA-LU. We did not independently verify that all projects that states coded as having a transit component in FMIS in fact had a transit component. We also analyzed FHWA's spending for transit projects by the population of the area implementing the project. In order to determine the total amount of flexible funding used on transit projects since 1992, we analyzed funding for transit projects administered by FHWA and funding transferred to FTA for project administration. We also compared the unadjusted total amounts with the overall federal-aid highway apportionments for fiscal years 1992 through 2006 to calculate the proportion of highway funding spent for transit projects during this period. To calculate the proportion of flexible funding spent on transit projects under FTA administration, we

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<sup>1</sup>ISTEA was enacted in December 1991. As a result, our analysis began with fiscal year 1992.

compared annual apportionment amounts for the programs to the amount transferred. Comparisons were done both on the national level and by state. We also used information from our case-study interviews (see below) to provide context for differences in the use of flexible funding among states and to identify examples of types of projects commonly using these funds.

To determine how states and urbanized areas have made decisions about what projects to fund with flexible funding and what the outcomes of these decisions have been, we selected 9 states and 12 urbanized areas for case-study reviews. To select states, we used three measures to determine how states' prior use of flexible funding on transit compared: (1) the absolute dollar amount of flexible funding transferred from FHWA to FTA for transit projects, (2) the proportion of available flexible funding transferred, and (3) the proportion of FTA funding in the state that came from transferred funds.<sup>2</sup> We selected five states that ranked in the top 10 for at least two of these measures for site visits—California, Pennsylvania, Vermont, Virginia, and Washington. We also selected two states—Iowa and Kentucky—that were ranked among the lowest on these measures among states that had transferred funds at least five times since the enactment of TEA-21, and two other states—Delaware and Wyoming—that had either never transferred funds or done so fewer than five times in the same period. For these states, we conducted telephone interviews. In each of these states, we chose at least one urbanized area to include in the case study. In the states that used a relatively high amount of transferred flexible funding on transit, we selected urbanized areas that had used the largest proportion of the state's flexible funding on transit; in states that transferred relatively little or no flexible funding for use on transit projects—because there were no urbanized areas that had used a significant amount of transferred flexible funding on transit—we selected the largest urbanized area in the state. In the cases of California, Pennsylvania, and Virginia, we included two urbanized areas in each state because each of these areas had used significant amounts of flexible funding for transit. These cases were selected using a nonprobability sample, and, consequently, the results cannot be used to make inferences about the entire population. Table 1 shows the states and urbanized areas included in our review.

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<sup>2</sup>We used data from fiscal years 1998 through 2005 to rank states by the absolute amount of flexible funding transferred and by the proportion of available funds—STP and CMAQ—transferred. Data from fiscal years 1992 through 2005 were used to determine the proportion of FTA transit funding that came from transferred flexible funds.

**Table 2: States and Urbanized Areas Selected for Case Studies**

	State	Urbanized area
States using relatively more flexible funding on transit	California	Los Angeles
		San Francisco
	Pennsylvania	Philadelphia
		Pittsburgh
	Vermont	Burlington
	Virginia	Virginia Beach
		Northern Virginia
States using relatively less flexible funding on transit	Washington	Seattle
	Delaware	Wilmington
	Iowa	Des Moines
	Wyoming	Cheyenne
	Kentucky	Louisville

Source: GAO.

In each state included in our case-study review, we spoke with officials at the FHWA division in the state and at the FTA regional office with jurisdiction over the state, and with relevant officials in the state department of transportation. In the urbanized areas included in our case-study review, we spoke with officials from metropolitan planning organizations and transit agencies. We asked these officials about the state’s or locality’s decision-making process in developing transportation plans and programs and in choosing projects to receive flexible funding, the mechanics of transferring funds, specific projects funded using these funds, and the impact of flexible funding on transportation as a whole (both transit and nontransit). We collected and reviewed: (1) documentation from the case-study states and urbanized areas, including information on state and metropolitan planning processes, the criteria and procedures used in project selection competitions, and projects funded using flexible funding; (2) federal regulations and guidance related to transportation planning and the CMAQ and STP programs; and (3) prior reports on the use of flexible funding by states and urbanized areas. We also interviewed representatives of the following associations to obtain their views on flexible funding: the American Association of State Highway and Transportation Officials, the American Highway Users Alliance, the American Public Transportation Association, the American Road and Transportation Builders Association, the Association of Metropolitan Planning Organizations, and the Surface Transportation Policy Partnership.

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To obtain information on the procedures used to transfer budget authority and funds from FHWA to FTA, we interviewed officials involved in overseeing or carrying out the steps in the transfer process, including those with FTA's Office of Budget, Office of Program Management, and Office of Planning and Environment; FHWA's Office of Budget and Office of Financial Management; the Office of the Secretary of Transportation's Office of Budget; the FTA regions with jurisdiction over the states included in our case-study review; and the FHWA divisions in these states. We also reviewed joint FTA-FHWA guidance on the procedures used to transfer funds.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

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## Staff Acknowledgments

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