

November 2012

PUBLIC TRANSIT

Funding for New Starts and Small Starts Projects, October 2004 through June 2012



G A O

Accountability * Integrity * Reliability

Why GAO Did This Study

FTA, through the Capital Investment Grant program, which includes the New Starts and Small Starts programs, provides funds to transit project sponsors to build new or expanded fixed-guideway transit systems. Small Starts also includes projects known as Very Small Starts projects. These three categories—New, Small, and Very Small projects—vary by total project cost and amount of the Capital Investment Grant program contribution to the cost. For New Starts, total estimated project costs exceed \$250 million; for Small Starts, they are less than \$250 million, and for Very Small Starts they are less than \$50 million. For New Starts the federal contribution is at least \$75 million, for Small Starts it is less than \$75 million.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users directed GAO to annually review FTA's New Starts program. This report discusses the extent to which project sponsors use non-New Starts funding to help construct New Starts, Small Starts and Very Small Starts projects. GAO reviewed financial information for all of the 25 New Starts and 32 Small Starts and Very Small Starts projects FTA identified as receiving construction funding from October 1, 2004, through June 2012. GAO interviewed FTA officials regarding program data and officials from 8 project sponsors to get their views on funding sources. GAO also reviewed relevant federal laws and other documentation. DOT officials reviewed a draft of this report and provided technical comments, which GAO incorporated as appropriate.

View [GAO-13-40](#). For more information, contact David Wise (202) 512-2834 or wised@gao.gov.

PUBLIC TRANSIT

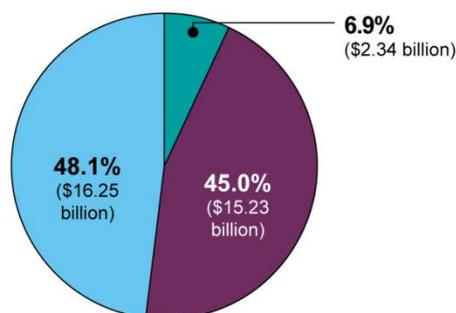
Funding for New Starts and Small Starts Projects, October 2004 through June 2012

What GAO Found

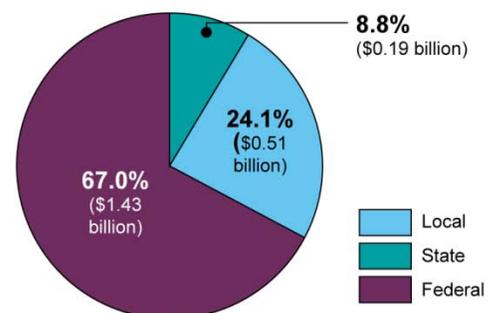
Local funding exceeded total federal funding contributions for the 25 New Starts projects, accounting for \$16.3 billion, or almost half, of \$33.8 billion of total project funding (see figure below) from October 2004 through June 2012. This outcome reflects the Federal Transit Administration's (FTA) policy to encourage project sponsors to seek less than 60 percent of the project's costs from New Start funds—less than the allowable 80-percent New Starts-share maximum. Local agencies used a wide variety of sources, but most commonly used sales taxes for their contributions to the projects; sales taxes were used for 13 of the 25 projects. Federal funds from all sources for New Starts projects totaled about \$15.2 billion. The New Starts program alone provided about \$14 billion, or 92 percent of the federal funds during this period. Federal-aid highway funding that was "flexed," or transferred, to transit was the second largest source of federal funds, providing about \$720 million. Finally, states provided about \$2.3 billion, or about 7 percent of total funding, to 13 of the 25 projects. States obtained most of this funding from bonds or other debt mechanisms.

Conversely, total federal funding was the largest source of funding for the 32 Small and Very Small Starts projects, constituting about \$1.4 billion, or two-thirds of \$2.1 billion in project funding (see figure below). Most federal funds, about \$1.1 billion of the \$1.4 billion, came from the Small Starts and Very Small Starts programs. Flexed federal highway funds again were the second largest federal funding source and provided about \$195 million. Local agencies provided about \$513 million or about 24 percent of total project funding. Local sales taxes, the primary source of local funding, were used on about half of the projects and provided 55 percent of local funding. States again provided the smallest share, about \$188 million or almost 9 percent of total funding, and 17 of the 32 projects received state funding. States obtained most of the funding from bonds and other forms of debt.

Federal, State, and Local Funding Shares of New Starts Projects, Fiscal Year 2005 through June 2012



Federal, State, and Local Funding for Small and Very Small Starts Projects, Fiscal Year 2005 through June 2012



Source: GAO analysis of FTA data.

Contents

Letter		1
	Background	3
	Local Funding Was the Largest Share of Total Funding for New Starts Projects and Comes from a Wide Variety of Sources	8
	Federal Funding Was the Largest Share of Total Funding for Small Starts and Very Small Starts Projects	14
	Agency Comments	19
<hr/>		
Appendix I:	GAO Contact and Staff Acknowledgments	22
<hr/>		
Table		
	Table 1: Select Categories of Transit Capital-Investment Grant Projects, by Total Cost and Federal Contribution	4
<hr/>		
Figures		
	Figure 1: Total Number of New Starts, Small Starts, and Very Small Starts Projects by Transit Mode, October 2004 through June 2012	7
	Figure 2: Federal, State, and Local Funding Shares of New Starts Projects, October 2004 through June 2012	9
	Figure 3: Sources of Federal Funding for New Starts Projects, October 2004 through June 2012	11
	Figure 4: Sources of State Funding for New Starts Projects, October 2004 through June 2012	13
	Figure 5: Sources of Local Funding for New Starts Projects, October 2004 through June 2012	14
	Figure 6: Federal, State, and Local Funding for Small and Very Small Start Projects, October 2004 through June 2012	15
	Figure 7: Sources of Federal Funds for Small Starts and Very Small Starts Projects, October 2004 through June 2012	16
	Figure 8: Sources of State Funds for Small Starts and Very Small Starts Projects, October 2004 through June 2012	17
	Figure 9: Sources of Local Funds for Small Starts and Very Small Starts Projects, October 2004, through June 2012	18

Abbreviations

BRT	bus rapid transit
CMAQ	Congestion Management and Air Quality Improvement Program
DOT	Department of Transportation
FTA	Federal Transit Administration
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act— A Legacy for Users
MAP-21	Moving Ahead for Progress in the 21st Century Act
STP	Surface Transportation Program
TIFIA	Transportation Infrastructure Finance and Innovation Act

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

November 14, 2012

Congressional Committees

The Federal Transit Administration (FTA), through its Capital Investment Grant program,¹ provided about \$15.1 billion to New Starts, Small Starts, and Very Small Starts projects over the past 8 fiscal years.² Transit systems, provide billions of passenger trips nationwide annually and help meet the increased demand for transit services. The Safe, Accountable, Flexible, Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU) created Small Starts for lower-cost New Starts projects. FTA created the Very Small Starts category for very low cost projects.

In addition to New Starts' funding, project sponsors use a variety of other federal, state, and local funding to construct these projects. Assembling these funding sources to pay for New Starts' projects is challenging. While the New Starts program allows FTA to pay as much as 80 percent of a project's net capital cost, the actual New Starts' share of funding for a project is typically much lower. FTA's policy is to encourage project sponsors to seek less than 60 percent of the project's capital cost from New Starts' funds. Additionally, while states may transfer or "flex" certain federal-aid highway program funds to use for transit projects, the source of these funds—the Highway Trust Fund—is on our high-risk list because revenues from motor fuel and other highway-use taxes to support the

¹Under the Safe, Accountable, Flexible, Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU) Pub. L. No. 109-59, 119 Stat. 1144, 1573-1589 (2005) the 49 U.S.C. 5309 Capital Investment Grant program comprised three FTA funding programs: Major Capital Investment (New Starts and Small Starts), Fixed Guideway Modernization, and Buses and Bus-Related Equipment and Facilities. Given that this report utilizes program data during the time period of October 1, 2004, through June 30, 2012, discussion of programs in this report primarily reflect statutory provisions in place during that time and do not focus on various amendments made subsequently in July 2012 by the Moving Ahead for Progress in the 21st Century Act (MAP-21) (Pub. L. No. 112-141, 126 Stat. 405 (2012)).

²SAFETEA-LU created Small Starts to streamline the project development process and evaluation and rating criteria that apply to larger-dollar New Starts projects. FTA created an even more streamlined evaluation process for Very Small Starts. See table 1 for more information.

Highway Trust Fund are eroding.³ Further, states and localities have faced reduced revenues, and there are many demands on the remaining revenues.

SAFETEA-LU required that we report annually on FTA's New Starts program.⁴ This report responds to this mandate and describes the extent to which New Starts' and Small Starts' project sponsors use sources of funds other than the Capital Investment Grant program, such as local funding, private funding, state funding, or other federal funding to construct New Starts and Small Starts projects.

To provide this information, we focused on New Starts, Small Starts, and Very Small Starts projects that FTA identified as receiving construction funding from the Capital Investment Grant program during the time period October 1, 2004 (fiscal year 2005), through June 30, 2012. We excluded "exempt" projects, which are not subject to FTA evaluation and rating requirements.⁵ We reviewed SAFETEA-LU; FTA guidance related to project funding for New Starts, Small Starts, Very Small Starts; and other relevant FTA and Department of Transportation (DOT) documents. To obtain information on project funding sources, we:

- Analyzed and summarized project data, including cost, mode of transit, and funding sources, from the *Annual Report on Funding Recommendations* for fiscal years 2005 through 2013, for all 25 New Starts and 32 Small Starts and Very Small Starts projects FTA identified. We considered Very Small Starts to be a subset of the

³Congress has transferred \$34 billion from general revenues to supplement Highway Trust Fund revenues from fiscal year 2008 to fiscal year 2010, and in 2012 appropriated an additional \$18.8 billion in general revenues for fiscal years 2013 and 2014 to replenish the trust fund balance. See GAO, *Highway Trust Fund: All States Received More Funding Than They Contributed in Highway Taxes From 2005 to 2009*, [GAO-11-918](#) (Washington, D.C.: Sept. 8, 2011).

⁴Pub. L. No. 109-59, 119 Stat. 1144, 1585 (2005). MAP-21, enacted into law in July 2012, changed this GAO annual reporting requirement to a biennial reporting requirement. Pub. L. No. 112-141, 126 Stat. 405 (2012).

⁵Exempt projects are projects in which the federal New Starts contribution is under \$25 million, regardless of total project cost. Pursuant to SAFETEA-LU, the exempt category is to expire upon the effective date of the FTA final regulation pertaining to an evaluation and rating process for Small Starts as SAFETEA-LU required. FTA issued a Notice of Proposed Rulemaking in January 2012 (77 Fed. Reg. 3848 (Jan. 25, 2012)); however, as of October 1, 2012, a final rule has not been published.

Small Starts program, and therefore combined the results of these two groups of projects. We obtained additional project-funding data from FTA to update project financial information and obtained additional information from project sponsors to clarify information when needed. We reviewed source documentation and interviewed agency officials to determine the reliability of the project data collected. We determined that the data were sufficiently reliable for the purposes of this report. We present the data and resulting findings as of June 30, 2012; however, transit project costs and financing may change over time.

- Selected eight transit sponsors to interview and obtain more detailed information about why they used the funding sources they used for their projects. We selected projects to obtain a mixture of projects along several criteria, including size of project, such as New Starts or Small Starts; transit mode, such as light rail or commuter rail; and geographic location.⁶ The information from these examples cannot be used to make inferences about the population because in a nonprobability sample some elements of the population have no chance of being selected.

We conducted this performance audit from February 2012 through November 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Background

Under SAFETEA-LU, FTA's primary funding for new or extensions to existing *fixed-guideway* transit systems⁷ was the Major Capital Investment component of the Capital Investment Grant program, which was a discretionary program funded from annual appropriations rather

⁶We selected the following projects: Central Corridor Light Rail Transit, Minneapolis-St. Paul MN; Central Florida Commuter Rail, Orlando, FL; RapidRide F Line, King County WA; Mid-Jordan LRT, Salt Lake City, UT; Dyer Corridor BRT, El Paso, TX; Perris Valley CR Line, Riverside County, CA; Dulles Metrorail HR, Northern VA; East Bay BRT, Oakland, CA.

⁷A *fixed guideway* is a separate right-of-way for the exclusive use of public transportation services, such as a fixed rail line or exclusive lanes for buses and other high-occupancy vehicles.

than the Highway Trust Fund. The Major Capital Investment Grant program includes New Starts, Small Starts, and a subcategory of Small Starts known as Very Small Starts. These categories have different funding requirements. (See table 1.)

Table 1: Select Categories of Transit Capital-Investment Grant Projects, by Total Cost and Federal Contribution

New Starts	Total estimated project cost is \$250 million or more or federal contribution is \$75 million or more
Small Starts	Total estimated project cost is under \$250 million and federal contribution is under \$75 million
Very Small Starts	Total estimated project cost is under \$50 million

Source: GAO analysis of FTA documents.

Notes: Federal contribution here refers to 49 U.S.C. § 5309 Major Capital Investment funds only. Projects may have other sources of federal funds, such as the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 123 Stat. 115 (2009)), Federal Highway Administration Congestion Mitigation and Air Quality Improvement, or other FTA program funds.

Table excludes “exempt,” Fixed Guideway Modernization, and Buses and Bus-Related Equipment and Facilities projects.

New Starts project sponsors also have drawn on other sources of federal funding—transportation formula grants, Fixed Guideway Modernization grants, Buses and Bus-Related Equipment and Facilities grants, and flexible funding from the federal highway program. The Urbanized Area Formula Grant program made federal resources available to urbanized areas for transit capital assistance, as well as for operating assistance in smaller urbanized areas, and for transportation related planning.⁸ Fixed Guideway Modernization grants⁹ were also distributed by formula and helped ensure the proper renovation of the nation’s older rail transit

⁸Amendments by MAP-21 maintain the basic structure and criteria of the Urbanized Area Formula grants but, among other things, broadened eligibility to include job access and reverse commute projects.

⁹Under MAP-21 amendments, the Fixed Guideway Modernization program was repealed. MAP-21 establishes a new grant program to maintain public transportation systems in a state of good repair, as well as projects to replace and rehabilitate transit. State-of-good-repair funding is limited to fixed-guideway systems including rail, bus rapid transit, and passenger ferries. State of Good Repair projects are to be funded under one of two formulas—either a high-intensity fixed-guideway formula or a high-intensity motorbus formula (high-intensity motorbus refers to buses operating in high-occupancy vehicle (HOV) lanes).

systems. The Buses and Bus Related Equipment and Facilities¹⁰ program provided capital assistance for new and replacement buses, related equipment, and facilities. Flexible highway funds are formula funds from the Highway Trust Fund that may be transferred to FTA and used for transit projects. Such funds include Surface Transportation Program (STP) and the Congestion Mitigation and Air Quality Improvement Program (CMAQ) funds.¹¹ Recovery Act funds have also been used for New Starts Projects.

To receive FTA New Starts funding, project sponsors go through a number of project development phases in accordance with federal requirements. Then FTA may recommend a New Starts project for funding. If Congress appropriates funds for a project, FTA provides funds to construct New Starts projects through multiyear Full Funding Grant Agreements. FTA provides funds to Small and Very Small Starts projects through multiyear Project Construction Grant Agreements or 1-year Capital Grants.¹²

Any transit project that fits the broader definition of a new fixed-guideway capital project or extension project is eligible to compete for funding under either the New or Small Starts programs.¹³ These include:

¹⁰MAP-21 repealed this discretionary grant program and replaced it with a formula-based grant program.

¹¹The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) (Pub.L.No. 102-240, 105 Stat. 1914) and subsequent reauthorization acts gave states and urbanized areas greater flexibility in selecting transportation projects to be funded with federal-aid highway formula funds. The Surface Transportation Program (STP) and the Congestion Mitigation and Air Quality Improvement (CMAQ) Program are referred to as “flexible funding” programs because they may be used on a range of projects, including transit and highways, and funds made available for transit may be transferred to and administered by FTA.

¹²FTA may use a 1-year grant for projects whose total funding request is less than \$25 million and whose request can be met with a single year or existing appropriations.

¹³The term “new fixed-guideway capital project” means a minimum operable segment of a capital project for a new fixed-guideway system or extension to an existing fixed-guideway system. Under MAP-21, “new fixed guideway capital project” means (1) a new fixed-guideway project that is a minimum operable segment or extension to an existing fixed-guideway system; or (2) a fixed-guideway bus rapid transit project that is a minimum operable segment or an extension to an existing bus rapid transit system. 49 U.S.C. § 5309(a)(5).

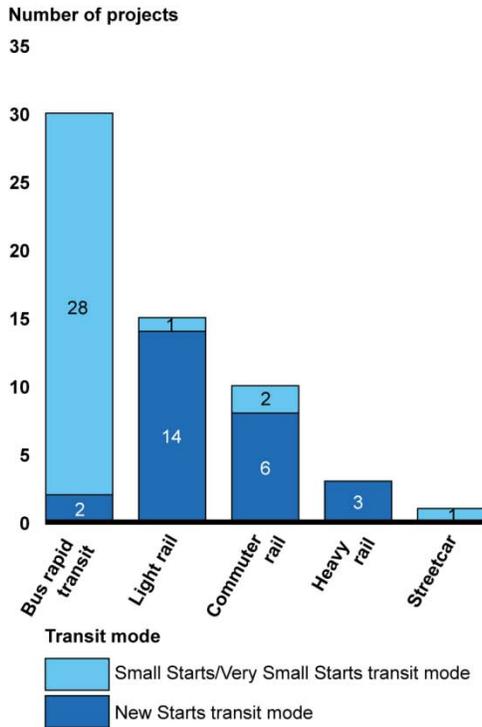
-
- *Commuter rail*—systems that operate along electric or diesel-propelled railways and provide train service for local, short distance trips between a central city and adjacent suburbs.
 - *Heavy rail*—systems that operate on electric railways with high-volume traffic capacity and are characterized by separated rights-of-way, sophisticated signaling, high platform loading, and high-speed, rapid-acceleration rail cars operating singly or in multi-car trains on fixed rails.
 - *Light rail*—systems that operate on electric railways with light-volume traffic capacity and are characterized by shared or exclusive rights-of-way, or low or high platform loading, single or double car trains, and overhead electric lines that power rail vehicles.
 - *Streetcars*—systems that are similar to light rail, but distinguishable because they are usually smaller and designed for shorter routes, more frequent stops, and lower travel speeds.
 - *Bus rapid transit (BRT)*—bus systems that vary in design, but generally including service enhancements to attract riders and provide similar transit-related benefits as rail transit, characterized by improvements such as dedicated running ways, improved stations, improved vehicles, intelligent transportation systems to speed service and provide information, off-vehicle fare collection, special branding of the service, and frequent service.¹⁴

See figure 1 for the modes of the 57 transit projects FTA identified as approved transit projects under the Capital Investment Grant program from October 2004 through June 2012. Of these, 23 of 25 New Starts projects were for rail projects of various types, while 28 of 32 Small Starts and Very Small Starts projects were BRT projects.¹⁵

¹⁴Under MAP-21, the New Starts Program may fund fixed-guideway bus rapid transit projects defined in part as a bus capital project in which a majority of the project operates on a separated right-of-way dedicated for public transportation during peak periods, represents a substantial investment in a single route in a corridor, and includes features that emulate the services provided by rail fixed guideway systems. In addition, the Small Starts Program may fund corridor-based bus rapid transit projects defined, in part, as bus projects that represent a substantial investment in a defined corridor, as demonstrated by features that emulate the services provided by rail fixed-guideway systems, but the majority of which does not operate in a separated right-of-way dedicated for public transportation during peak hours.

¹⁵For more information on BRT project sizes and costs see GAO, *Bus Rapid Transit: Projects Improve Transit Service and Can Contribute to Economic Development*, [GAO-12-811](#) (Washington, D.C.: July 25, 2012).

Figure 1: Total Number of New Starts, Small Starts, and Very Small Starts Projects by Transit Mode, October 2004 through June 2012



Source: GAO analysis of FTA data.

Project sponsors use revenues, such as the federal grants discussed above, sales taxes, fees, concessions, etc., to pay the project's costs.¹⁶ In some cases, such revenues are not available when the project costs need to be paid. Thus, financing mechanisms entail borrowing money, either through bonds, loans, or other mechanisms, to pay these projects costs as they come due. These financing mechanisms require a

¹⁶Note that fare-box revenues are not included in this list. Fare-box operating revenues generally do not recover the operating costs of transit systems. On average, from 2004 through 2008, transit systems recovered about 34.6 percent of their operating costs through fares. Fare-box recovery as a percentage of total transit system operating costs also varies by transit mode. The most recent available national data shows that from 2004 through 2008, heavy rail systems recovered 59.4 percent, commuter rail systems recovered 48.7 percent, light rail systems recovered 27.0 percent, and bus systems recovered 27.0 percent.

repayment source. In many instances, using project financing requires developing and imposing new revenue streams to repay loans or bonds issued to support the investment. Tax exempt bonds, which government entities can use to finance capital projects, reduce federal tax revenue; however, they provide a less expensive source of financing to project sponsors.¹⁷

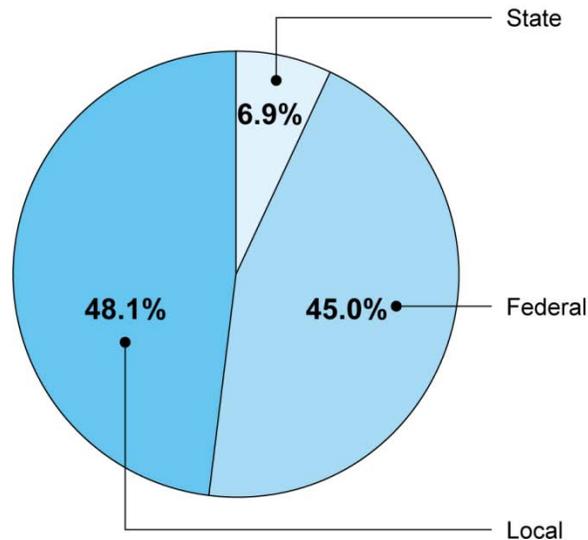
Local Funding Was the Largest Share of Total Funding for New Starts Projects and Comes from a Wide Variety of Sources

From October 1, 2004, to June 30, 2012, local funding exceeded total federal funding¹⁸ for the larger New Starts transit projects and accounted for about half of all project funds. Of the total \$33.82 billion in funds for New Starts projects from all sources, local agencies contributed about \$16.25 billion, states contributed about \$2.34 billion, and the federal government from all sources contributed about \$15.23 billion (see fig. 2). This outcome reflects the emphasis FTA has placed on local agencies providing a larger matching share of projects' costs than the allowable minimum-matching amount of 20 percent.

¹⁷Interest earned on most bonds issued by state and local governments is tax-exempt. This means that the interest paid to bondholders is generally not included in their gross income for federal income tax purposes, and the federal government forgoes tax revenue on tax-exempt bonds—we projected foregone federal tax revenues of about \$37 billion in 2007. The federal tax exemption lowers the bond issuer's borrowing costs and may provide equivalent or higher after-tax yields to investors than alternative investments that are not tax-exempt. See GAO, *Tax Policy: Tax-Exempt Status of Certain Bonds Merits Reconsideration, and Apparent Noncompliance with Issuance Cost Limitations Should Be Addressed*, [GAO-08-364](#) (Washington, D.C.: February 15, 2008) for further information on the impact of tax-exempt bonds.

¹⁸For the purposes of this report, total federal funding includes federal funding from the Capital Investment Grant program as well as any other sources of federal funding.

Figure 2: Federal, State, and Local Funding Shares of New Starts Projects, October 2004 through June 2012



Source: GAO analysis of FTA data.

This distribution mirrors the most recent U.S. Department of Transportation's *Conditions and Performance* report findings, which shows that in 2008, federal funding from all sources for all transit capital expenditures was about \$6.4 billion, while local capital funding was about \$7.7 billion.¹⁹ From 2005 to 2008, local funding for all transit capital expenditures, not just New Starts projects, exceeded total federal funding for 3 of the 4 years.

Individual New Starts projects varied in complexity of funding arrangements as indicated, in part, by the number of different federal, state, local government, and private-funding sources that were used for each project. New Starts projects had from 2 to 11 funding sources. For

¹⁹Capital expenditures in the *Conditions and Performance* report include both the design and construction of new transit system and extensions of existing transit systems (New Starts) and the modernization and replacement of existing assets. Therefore, capital spending other than New Starts is included in the analysis. U.S. Department of Transportation, *2010 Status of the Nation's Highways, Bridges and Transit: Conditions and Performance* (Washington, D.C.: March, 2012).

the 25 projects, 6 had 2 or 3 sources, 11 had 4 to 6 sources, and 8 had 7 sources or more. The median number of funding sources was five.

Federal Funding Sources for New Starts Projects

Total federal funding applied to New Starts projects came overwhelmingly from the New Starts program itself. Of about \$15.23 billion in total federal funding for New Starts projects, about \$13.98 billion came from the New Starts program and about \$1.25 billion from other federal programs. (See fig. 3 below.) New Starts funding made up the largest part of total federal funding for all New Starts projects and covered about 39 percent of total estimated project costs across all 25 projects. At the individual project level, while New Starts funding made up the 80-percent-allowable share of total estimated project costs in one case, the total project cost funded by New Starts ranged from 25 percent to 63 percent for the other 24 projects.

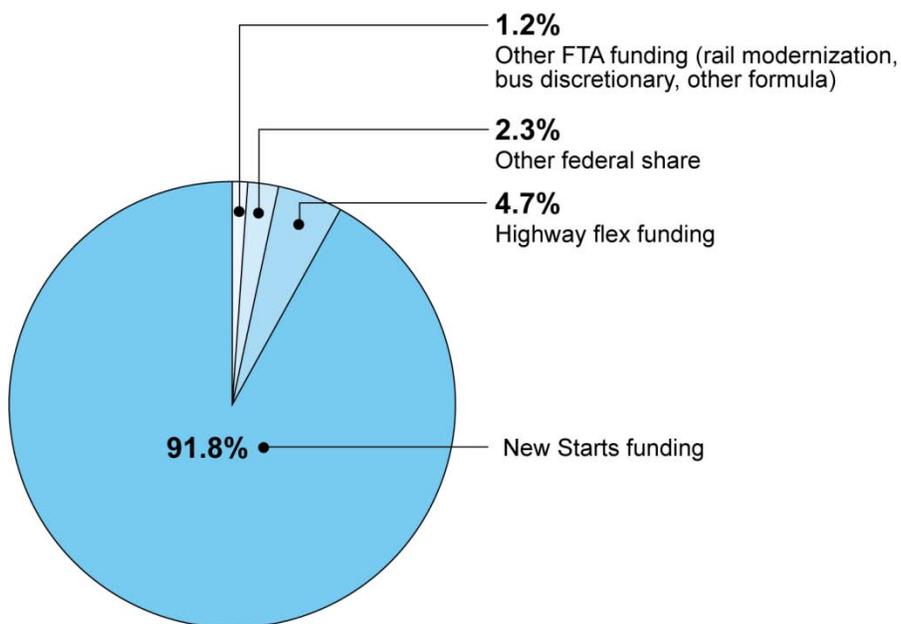
Flexible federal-aid highway funds were the second largest category of total federal funding, providing \$720 million in funds, or almost 5 percent of the federal total across all projects.²⁰ In all, 15 New Starts projects used flexible highway funds for New Starts transit projects. However, these highway funds tended to be relatively small proportions of the total project cost. CMAQ funds provided most of the flexible highway program funds, and were used on 10 projects. A project sponsor we interviewed indicated that CMAQ funding was the most flexible of the highway-funding options because it could be used for many different construction purposes. One project sponsor we spoke with explained that the state highway funds the project had for its BRT project could be used only on state roads. However, the project sponsor was able to use federal flexible funds on other non-state roadway alignments.

Funds from other FTA programs provided about \$185 million, or about 1 percent of total federal funding. A total of 9 of the 25 New Starts projects used non-New Starts FTA funding, either from the Urbanized Area Formula program, the Fixed Guideway Modernization formula program, or Buses and Bus Related Equipment and Facilities discretionary program. In addition, one project used a \$280 million Transportation Infrastructure

²⁰Ongoing work shows that more than half of all flexible funding transferred to FTA from 2007 through 2011 was used to purchase vehicles—both rail cars and buses—or for transit infrastructure construction.

Finance and Innovation Act (TIFIA) loan to help finance the project.²¹ One project sponsor with whom we spoke indicated that at the time, the TIFIA program provided a less-expensive way to finance the project. Another project sponsor that specifically considered, but did not use TIFIA, indicated that when putting the funding together for the project, TIFIA was not cost-effective for the sponsor, and the sponsor believed the loan process would have taken longer than it wanted.

Figure 3: Sources of Federal Funding for New Starts Projects, October 2004 through June 2012



Source: GAO analysis of FTA data.

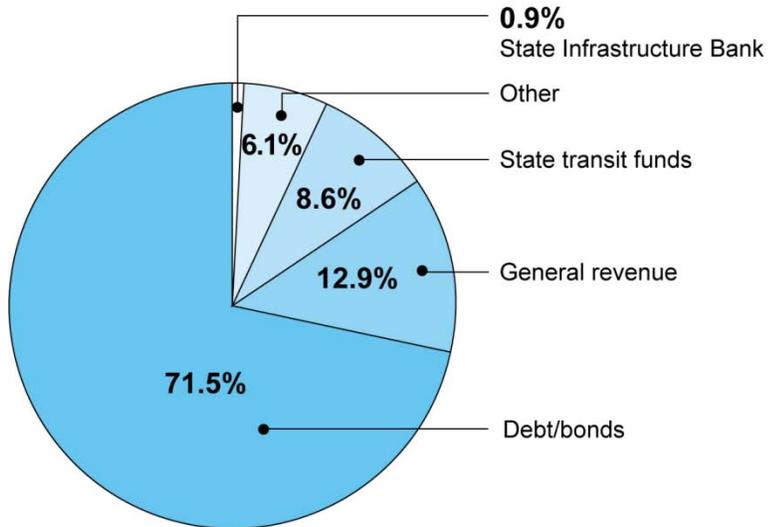
²¹The Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) program (23 U.S.C. §§ 601-610) provides credit assistance for qualified projects of regional and national significance through loans, loan guarantees and standby lines of credit. Certain large-scale surface transportation projects, including transit projects, are eligible for assistance. See GAO, *Surface Transportation: Financing Program Could Benefit from Increased Performance Focus and Better Communication*, [GAO-12-641](#) (Washington, D.C.: June 21, 2012) for more information on TIFIA.

State Funding Sources for New Starts Projects

State funds were used on 13 of 25 New Starts Projects, and as noted above, state contributions to New Starts Projects have been much less than either federal or local funding. Lesser state involvement is not surprising, as historically the federal government has partnered with local agencies to construct transit capital projects. When state funding was applied to projects, it was most frequently through bonding, which was used in 8 of 25 projects.²² Generally, financing through mechanisms such as bonds was the source of about \$1.68 billion or about 72 percent of the all-state contributions (see fig. 4). For two New Starts projects, states provided a total of about \$303 million, about 13 percent of state contributions to the projects, from their general revenues. Two of the New Starts projects benefited from a total of about \$202 million in funding from dedicated state mass-transit funds. Officials from one of these two projects pointed out the considerable advantage of having a state fund specifically dedicated to supporting New Starts projects in simplifying the task of assembling project funding.

²²*Bonding* is a form of borrowing in which a borrower issues bonds which are purchased by investors. The bond issuance provides cash immediately in the form of bond proceeds. Over time, the borrower makes interest and principle payments to investors to retire the debt obligation.

Figure 4: Sources of State Funding for New Starts Projects, October 2004 through June 2012

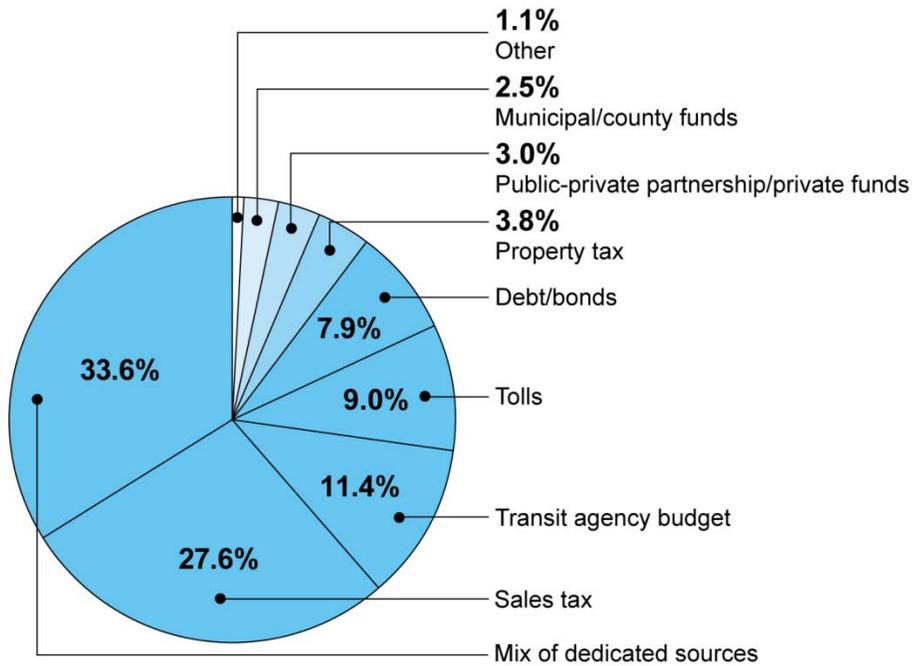


Source: GAO analysis of FTA data.

Local Funding Sources for New Starts Projects

Local support for New Starts projects is characterized by a diversity of funding sources, with sales taxes and municipal-county funds being the most frequently used. Local sales taxes were used for 13 of 25 New Starts projects and county or municipal funds were used for 9 of these projects. The dollar distribution of local funds is somewhat complicated by two projects in New York City, which comingle the sources of local funds. These projects account for about one-third of the total \$16.25 billion in local funding provided to the 25 projects (see fig. 5). For local funding sources that we can directly trace, local sales taxes of about \$4.5 billion were the largest single source, constituting about 28 percent of all local funds. While highway tolls and transit agency funds each constituted about one-tenth of local funding, only the Dulles rail extension is using highway tolls to help pay for the transit project.

Figure 5: Sources of Local Funding for New Starts Projects, October 2004 through June 2012

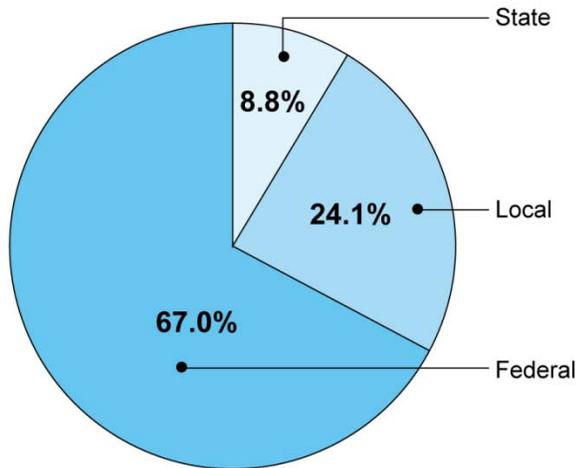


Source: GAO analysis of FTA data.

Federal Funding Was the Largest Share of Total Funding for Small Starts and Very Small Starts Projects

Small Starts and Very Small Starts projects were more dependent on total federal funding than New Starts projects. For the 32 Small and Very Small Starts projects FTA identified as receiving construction funds from the Capital Investment Grant program from October 2004 through June 2012, about \$1.43 billion of about \$2.13 billion in total project funding came from the federal government—about two-thirds of the total estimated projects costs (see fig. 6). States provided about \$188 million, while local agencies provided about \$513 million. While local agencies provided about half the funding for New Starts projects, they provided about one-fourth the funding for Small and Very Small Starts projects.

Figure 6: Federal, State, and Local Funding for Small and Very Small Start Projects, October 2004 through June 2012



Source: GAO analysis of FTA data.

The number of separate funding sources for Small and Very Small Starts projects varied from 2 to 10 sources. For 13 projects there were two funding sources—the federal Small Starts or Very Small Starts funding and one other state or local source. Of these 13 projects, 5 used state funds and 8 used local funds as the second source. However, even with the lower costs of these projects compared to New Starts, 5 projects still had relatively complex funding arrangements, using 6 to 10 funding sources.

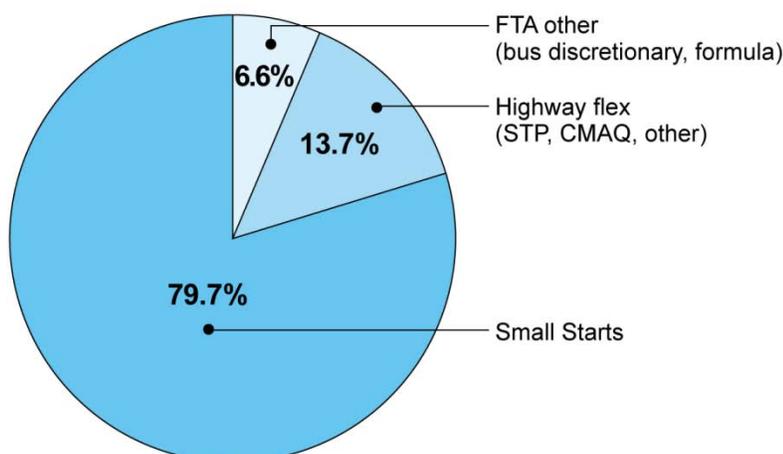
Federal Funding Sources for Small Starts and Very Small Starts Projects

Similar to New Starts projects, FTA's Small and Very Small Starts funds provide most of the federal funds for these Small and Very Small Starts projects. Of the roughly \$1.43 billion in total federal funds, about \$1.14 billion came directly through the Small and Very Small Starts program (see fig. 7). Officials from two of the eight project sponsors we interviewed cited the recent economic downturn and local funding uncertainty as reasons to pursue federal Small Starts funding. One of the sponsors also considered the level of competition from large cities for Small Starts funding to be lower—the level of competition was a factor in the decision to apply.

Also similar to New Starts, flexed federal-aid highway funds totaling about \$195 million were the second largest source of federal funds for Small

and Very Small Starts projects, and exceeded the approximately \$95 million from other FTA programs applied to Small Starts and Very Small Starts projects. Flexed federal-aid highway funds came primarily from CMAQ and STP funds. One of the sponsors we spoke with said the main advantage with using CMAQ funds was that they can be used for intelligent-transportation system features such as bus cameras, smart card readers, and real time arrival signs as well as other passenger amenities.

Figure 7: Sources of Federal Funds for Small Starts and Very Small Starts Projects, October 2004 through June 2012

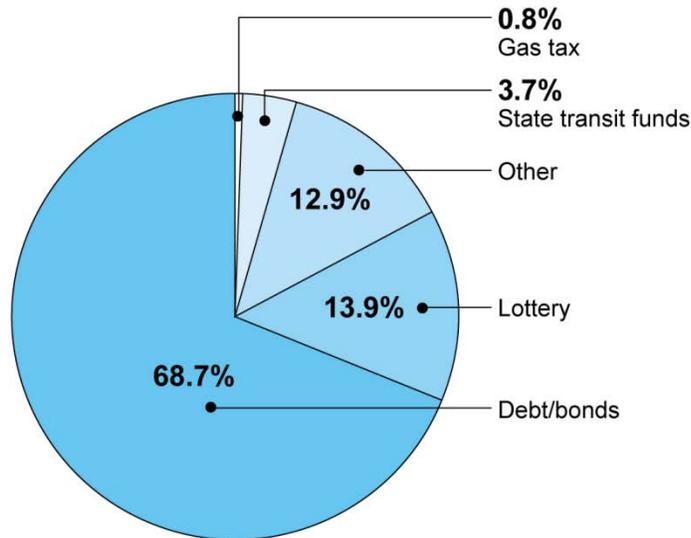


Source: GAO analysis of FTA data.

State Funding Sources for Small and Very Small Starts Projects

States contributed a total of about \$188.4 million to 17 of 32 Small Starts and Very Small Starts projects from October 2004 through June 2012. (See fig. 8.) The other (15 of 32) Small and Very Small Starts projects received no state funding. As was the case with New Starts, a large majority of state contributions, about \$129.5 million of the \$188.4 million, came from bonds or other forms of debt. State funds from lottery proceeds were used for 3 projects and provided about \$26.1 million, or about 14 percent of all state funds.

Figure 8: Sources of State Funds for Small Starts and Very Small Starts Projects, October 2004 through June 2012

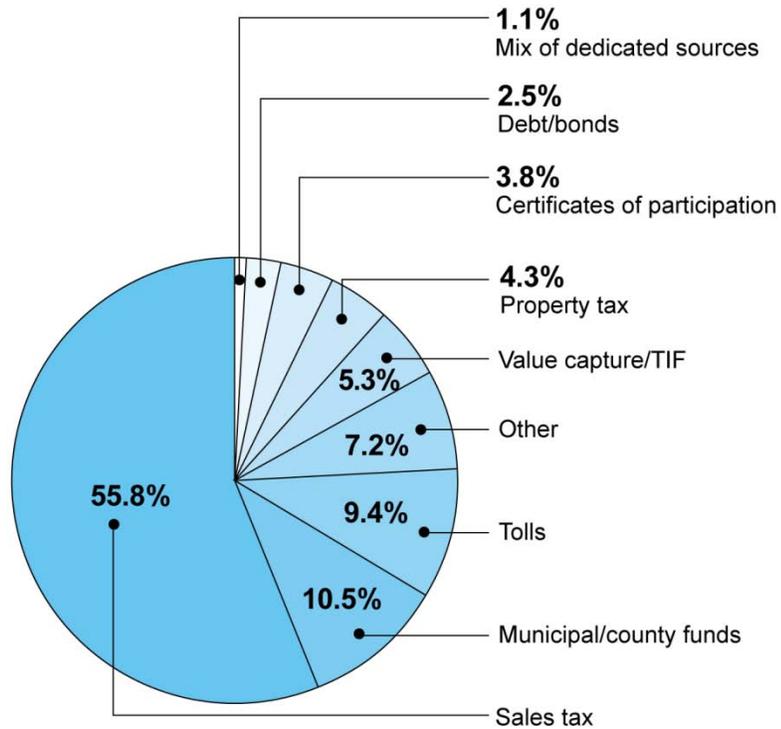


Source: GAO analysis of FTA data.

Local Funding for Small and Very Small Starts Projects

Many sources of local funds were used by project sponsors for Small and Very Small Starts projects, and local agencies contributed about \$513.3 million in all (see fig. 9). Local agencies relied heavily on traditional funding sources. For example, sales taxes were used by about half, 15 of 32 projects, and provided most of the local funds, \$286.7 million of the \$513.3 million. Municipal and county funds were used on 8 projects, and provided the second highest total, \$54.0 million, just over one-tenth of all local funds. Bridge tolls provided \$48.4 million, all for one project, just under one-tenth of all local funds. The fact that Small and Very Small Start projects cost less did not always result in simpler funding streams with fewer funding sources. Ten of the 32 projects used 5 or more different funding sources, and one project had 10 funding sources.

Figure 9: Sources of Local Funds for Small Starts and Very Small Starts Projects, October 2004, through June 2012



Source: GAO analysis of FTA data.

At a time when local funding has become crucial for building New Starts and Small Starts projects, many local governments are facing financial pressure from the lingering effects of the financial crisis and economic downturn. Unless sales tax rates are raised, the reduced economic activity of the recession necessarily reduces the growth and possibly amount of sales tax receipts, which provided most of the local funding for the Small and Very Small Starts projects we studied. Under these circumstances local governments may have difficulty providing the level of funding they have in the past, and may need to look for more innovative ways to fund projects. For example, one program sponsor we spoke to explained that one of the funding sources came through a collaborative of private philanthropic foundations. The collaborative's goal in this case is to help strengthen the regional economy and improve the quality of life in neighborhoods near the light rail line. Newer, more

innovative ways to finance transit projects, such as *tax increment financing* districts,²³ *impact fees*,²⁴ and private capital, were used on four of the Small Starts and Very Small Starts projects, and provided less than one-tenth of the local funding. This could be a result of the specific time frame we examined and the long lead time required to get a large capital construction project to the construction phase.

Agency Comments

We provided a draft of this report to the Secretary of Transportation for review and comment. DOT officials provided us with clarifying and technical comments, which we incorporated throughout the report as appropriate

We are sending copies of this report to the Secretary of Transportation, the Administrator of the Federal Transit Administration, and appropriate congressional committees. This report is also available at no charge on the GAO Web site at <http://www.gao.gov>.

²³*Tax increment financing* is a public financing technique used by local entities to encourage economic development, among other things. Typically, a public-sector agency issues a special bond to finance infrastructure, e.g., public transit, necessary to support new development and then uses the incremental increase in property value within a formally designated district to repay the bonds. GAO, *Public Transportation: Federal Role in Value Capture Strategies for Transit is Limited, but Additional Guidance Could Help Clarify Policies*, [GAO-10-781](#) (Washington, D.C.: July 29, 2012).

²⁴*Impact fees* are generally defined as a charge or assessment imposed by a municipality or a county on a new development in order to generate revenue for funding or recouping the costs of capital improvements or facility expansions necessitated by and attributed to new development.

If you have any questions about this report, please contact me at (202) 512-2834 or wised@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are listed in appendix I.

A handwritten signature in black ink that reads "David J. Wise". The signature is written in a cursive style with a large, prominent "D" and "W".

David J. Wise
Director, Physical Infrastructure Issues

List of Committees

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

The Honorable John L. Mica
Chairman
The Honorable Nick J. Rahall, II
Ranking Member
Committee on Transportation and Infrastructure
House of Representatives

The Honorable Patty Murray
Chairman
The Honorable Susan Collins
Ranking Member
Subcommittee on Transportation, Housing and Urban Development,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Tom Latham
Chairman
The Honorable John W. Olver
Ranking Member
Subcommittee on Transportation, Housing and Urban Development,
and Related Agencies
Committee on Appropriations
House of Representatives

Appendix I: GAO Contact and Staff Acknowledgments

GAO Contact

David J. Wise, (202) 512-2834 or wised@gao.gov

Staff Acknowledgments

In addition to the contact named above, Catherine Colwell (Assistant Director), Robert Ciszewski, Geoffrey Hamilton, Alexander Lawrence, Amanda Miller, Joshua Ormond and Marilyn Sergent, made key contributions to this report.

GAO's Mission

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

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#). Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#). Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

