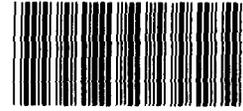


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Testimony



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MASS TRANSIT

**Historical Patterns and Future
Outlook**

Statement by
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Before the
Subcommittee on Investigations and Oversight
Committee on Public Works and Transportation
House of Representatives



Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to present our views on the Urban Mass Transportation Administration's (UMTA) 5-year, \$16.3 billion reauthorization proposal.¹ Our testimony today is based on our work at UMTA over the past several years, including our ongoing examination of UMTA's oversight of grantees, and will focus on those aspects of UMTA's proposal dealing with the sources and uses of funds, increased funding flexibility between mass transit and highways, and UMTA's oversight of grantees. In summary, our work shows that:

-- Over the last decade, federal transit funding declined by almost one-third, from \$4.6 billion in fiscal year 1981 to \$3.2 billion today. The reduction is even larger--more than 50 percent--when inflation is considered. In addition, various legislation imposed spending limits on transit's share of the Highway Trust Fund which, at the end of fiscal year 1991, is expected to have \$4.1 billion in uncommitted funds. UMTA proposes spending \$16.3 billion between fiscal years 1992 and 1996 and drawing down the uncommitted balance in the mass transit account to less

¹The Urban Mass Transportation Act of 1964, as amended, envisioned that improving transit services would not only help stem ridership declines but also help solve such urban problems as traffic congestion, air pollution, energy consumption, urban sprawl, and the unmet needs of those who cannot afford an automobile or are physically unable to drive one. Many of the anticipated benefits depended, in part, on attracting automobile users to mass transit.

than \$1 billion by 1996. However, UMTA's proposal represents only a 1-percent increase over the past 5 fiscal years and could represent a decrease in purchasing power, depending on the rate of inflation over the next 5 years.

-- UMTA's proposal would allow state and local governments flexibility in allocating federal funds between mass transit and highway projects. We support a multi-modal strategy to address transportation needs. However, the proposal's success depends on eliminating the biases that favor highways and integrating transit and highway planning and decision making at all levels of government. The proposal would also shift a larger share of the financial burden to grant recipients by reducing the federal share for mass transit capital projects from 80 to 60 percent. The concept of greater cost-sharing by states, localities, and grantees can promote leveraging of scarce federal funds, but caution should be exercised in making an immediate shift of financial responsibility to transit authorities who will have to absorb the increase while maintaining service levels.

-- UMTA does not effectively oversee grantees' management and use of federal funds, which places these funds at risk for waste and misuse. In a time of tight budget constraints, it is critical to ensure that grantees use and manage funds

properly. The Department of Transportation's (DOT) Office of Inspector General has questioned grantees' use of over \$250 million over the last 3 fiscal years. We found that UMTA generally did not require grantees to reimburse the misspent funds. We are not confident that UMTA's proposal to hire additional staff and assign oversight to contractors will correct UMTA's problems.

MASS TRANSIT ACCOUNT WOULD FUND
LIMITED SPENDING INCREASE

On February 13, 1991, the administration announced its Surface Transportation Assistance Act of 1991 proposal, a 5-year, \$105 billion package that would reauthorize mass transit programs at \$16 billion and highway and highway safety programs at \$89 billion. UMTA proposes funding all its programs from the Mass Transit Account (account) of the Highway Trust Fund, which is a significant departure from the current practice of using both general revenues and the account. Although UMTA's proposal represents a 1-percent increase over funding during the past 5 fiscal years, inflation over the next 5 years may actually result in a decrease in purchasing power.

Since 1964, UMTA has provided over \$62 billion to help build, rehabilitate, and operate the nation's mass transit systems. UMTA provides assistance to urban areas through grants to local entities--generally transit authorities--primarily through discretionary (section 3) and formula (section 9) grant programs.

UMTA also provides assistance to rural areas primarily through formula grants to states and supports research and planning under several smaller programs.

Over the past decade, however, federal transit funding declined. On an annual basis, federal funding declined about 30 percent--from \$4.6 billion in fiscal year 1981 to \$3.2 billion in fiscal year 1991. (See att. 1.) To maintain the same purchasing power today that was provided by the \$4.6 billion level in 1981, the present funding level would have to be about \$6.4 billion. Therefore, when measured in constant dollars, funding for transit assistance has declined by more than 50 percent.

Although appropriations from general revenues have been the predominant source of federal funds for transit projects, the percentage of funding from the mass transit account of the Highway Trust Fund has increased in recent years. (See att. 2.) Since 1983, when the Congress established the account, about 30 percent of UMTA's funds have come from the account and the remainder from general revenues. As of fiscal year 1991, receipts and interest in the account totaled \$14 billion. Of the \$14 billion, the Congress authorized UMTA to use \$10.4 billion but imposed a \$9.9 billion spending (obligation) limit. As a result, at the end of fiscal year 1991, the transit account will have \$4.1 billion in uncommitted funds. (See att. 3.)

Under the proposal, UMTA would fund all mass transit programs from the account, eliminating any use of general revenues. As of December 1990, the account is financed by 1.5 cents per gallon from motor fuel excise taxes. UMTA projects that the drawdown of the \$4.1 billion in uncommitted funds together with fuel tax receipts and interest would be sufficient to fund the \$16.3 billion proposed through fiscal year 1996. At that time, the account is expected to have \$900 million in uncommitted funds.

The American Public Transit Association estimates that \$6.5 billion in federal funds would be needed annually just to maintain the existing mass transit infrastructure. UMTA's proposed funding falls short of this projection. In addition, UMTA data show that the federal share to implement all new construction projects now under review would be over \$10 billion. Over the reauthorization period, about \$1.8 billion in federal funds would be available for new construction projects.

We should note that the administration's proposal increases funding for the highway program by over 25 percent compared with transit's 1-percent increase over the reauthorization period. We are not in a position to say what the appropriate increase in mass transit funding should be or what the allocation of fuel tax receipts should be between highways and mass transit. However, given the disparate increases, this issue should be reconciled in the context of the nation's surface transportation needs.

UMTA'S PROPOSAL HAS MERIT, BUT
QUESTIONS NEED TO BE RESOLVED

Conceptually, we find merit in UMTA's proposal for funding flexibility between transit and highways but believe that several obstacles could threaten the success of multi-modal funding. In addition, we believe that caution should be exercised before shifting greater cost-sharing responsibilities to transit authorities.

Obstacles Exist to Implementing
Multi-Modal Flexibility

We support a multi-modal strategy to address surface transportation infrastructure and congestion and believe that transportation should be viewed as a system whereby all modes seek to resolve these issues rather than only one mode.² However, we are concerned about the manner in which UMTA's proposal would be implemented, and we are concerned that it could have the unanticipated result of continuing the existing bias for highway construction over mass transit. Under the multi-modal proposal, mass transit capital projects would be eligible for certain highway funds as long as a dedicated source of funds (balanced local approach) exists, and highway projects would be eligible for mass transit capital funds.

²See Transition Series: Transportation Issues (GAO/OCG-89-25TR, Nov. 1988).

The states have had some flexibility since 1973, but the program's success was limited in part because mass transit had to compete with interstate highway needs. Now, UMTA and the Federal Highway Administration propose that funding flexibility would occur with the urban/rural highway program. Successful implementation of this funding approach will depend on the effective integration of transit and highway planning and decision making at the federal, state, and local levels. We are concerned about how the obstacles for effective integration will be removed.

First, one transit objective is to move people out of their cars, and one highway premise is to build roads that can accommodate more and more cars. UMTA envisions a cooperative, federal, state, and local planning effort between mass transit and highways, but the criteria used to assess transit and highway projects may make it difficult to choose between the two modes. DOT prepares separate budgets for transit and highways, and no strategic plan exists at the federal level to provide guidance to the states, localities, and grantees to implement multi-modal flexibility. Also, given that federal dollars have predominately funded highway construction, the inclination to continue past practices and look to highways in lieu of transit may persist without federal direction or incentives to optimize flexible funding.

Second, according to UMTA officials, a balanced local approach means that states will need a dedicated source of funds that can be used for both transit and highways. According to the American Association of State Highway and Transportation Officials' data, only a limited number of states have funds that can be used interchangeably for mass transit and highways. In addition, most of UMTA's assistance is provided directly to local transit authorities, while highway assistance is provided to the states. Two major challenges to a balanced local approach will be to set up dedicated funding sources where few exist today and establish incentives to encourage states and localities to consider transit as a viable alternative mode of transportation.

Third, federal funding for mass transit and highways will remain under separate agencies--UMTA and the Federal Highway Administration. At the state and local levels, transit funding will remain primarily with urban areas and highway funding with the states. The mass transit industry is concerned that states will place greater attention and emphasis on highways to the detriment of mass transit. Highways would be eligible for all mass transit funding except for new starts (about \$14 billion); mass transit would be eligible for all urban/rural highway program funds (about \$22 billion). To avoid modal bias with highways and meet the flexibility envisioned in the proposal, it will be extremely important to encourage states to address traffic congestion through transit alternatives.

However, UMTA's proposal has one aspect that could form the basis for funding flexibility. UMTA currently provides funds to states that administer the (1) formula grant program for areas with populations under 200,000, (2) rural program, and (3) elderly and handicapped program. Under the proposal, UMTA would award the states a pool of funds for the three programs, and the states would determine the allocation of funds among each program. UMTA's proposal could enhance the delivery of transit services and could provide a mechanism for ensuring flexible funding because states--rather than transit authorities--already administer these programs. In addition, the proposal would protect rural and small urban areas because if a state wants to shift any of these funds to highways, the state must certify that no unmet transit need exists in small urban areas. Moreover, the areas must concur with the state's certification.

Caution Needed Before Reducing
the Federal Contribution

UMTA proposes to change the maximum federal contribution from 80 to 60 percent for capital projects and from 75 to 50 percent for new construction projects. Depending on the type of transit program, grantees currently may contribute as little as 20 to 25 percent of eligible project costs. UMTA does not seem to view the proposal as a significant change because some grantees already overmatch--up to 40 percent--for new project starts.

Greater cost sharing by states, localities, and grantees can promote leveraging of scarce federal funds. This concept has merit because it could encourage transit authorities to build cost-beneficial projects, seek cost-effective alternatives, commit themselves to complete and operate projects, effectively maintain the existing infrastructure, and minimize waste and misuse of federal funds. In addition, UMTA's proposed 60-percent federal share would be consistent with highway's urban/rural program, where funding flexibility could occur but would be less than the minimum 75-percent federal share proposed for highways of national significance.

However, caution should be exercised in making an immediate and significant shift of financial responsibility to transit authorities, who will have to absorb the increase while maintaining service levels. Depending on the financial situation of individual transit authorities, it could be particularly burdensome if the authorities must look to transit users, including the elderly and handicapped, to make up the difference. In addition, the increase could be counterproductive to transit authorities' efforts to attract riders that rely heavily on automobiles.

UMTA'S OVERSIGHT DOES NOT
PREVENT GRANTEE ABUSES

In a time of tight budget constraints, it is critical to ensure that grantees use and manage funds properly. However, UMTA does not effectively oversee grantees' management and use of funds. UMTA relies on grantees to certify that they intend to comply with all applicable federal requirements and are able to do so; UMTA does not verify that grantees have the management systems to do so.

On the basis of our prior work (att. 4 discusses some of these reports) and that of DOT's Office of Inspector General (OIG), DOT identified UMTA's inadequate oversight of grantees as a material internal control weakness in its 1989 and 1990 reports to the President required by the Federal Managers' Financial Integrity Act of 1982, as amended. In addition, the Comptroller General has identified UMTA grants as an area vulnerable to fraud, waste, and mismanagement.

Our current work in four UMTA regions covering about 60 percent of the grants and analysis of OIG reports over the last 3 fiscal years identified over \$250 million in questionable grant expenditures that may have been available for other projects. We also found many instances in which inadequate grantee management systems contributed to the inappropriate use of federal funds. On paper, UMTA has a number of tools to oversee grantees' activities, including financial and progress reports, triennial reviews,

procurement reviews, annual audits, and contractor-provided oversight. We found that UMTA does not effectively use its tools to detect noncompliance and generally does not require grantees to take corrective actions or reimburse UMTA for misspent funds.

Under its proposal, UMTA would obtain 31 additional staff and increase its use of contractors to oversee grantees. Even with these additional resources, safeguarding federal funds will depend on a number of factors: grantees' having effective management systems, UMTA's taking a proactive oversight approach rather than relying on grantees' assurances, and UMTA's using its enforcement authorities, such as withholding funds. Without such actions, the significant federal investment in mass transit will remain at risk.

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In conclusion, we support the concept of defining mass transit objectives in the context of a nationwide surface transportation system. We see merit with some aspects of UMTA's proposal to restructure its source of funds and provide funding flexibility between transit and highways. Nevertheless, we are concerned that unless certain steps are taken the proposed flexibility could result in a bias for highways to the detriment of mass transit.

In addition, since federal transit funds could decrease in real dollars under UMTA's proposal and large demands exist for

urban and rural transit systems, it is particularly important that UMTA ensures the judicious, prudent, and effective use of scarce resources and that grant recipients manage federal funds in the most efficient and economical manner possible. Also, UMTA needs to give particular attention to program planning and oversight to avoid the deficiencies of the present system and to ensure the best use of limited federal transportation dollars in the future.

We hope our views are useful to you. We would be pleased to answer any question that you or the Subcommittee may have.

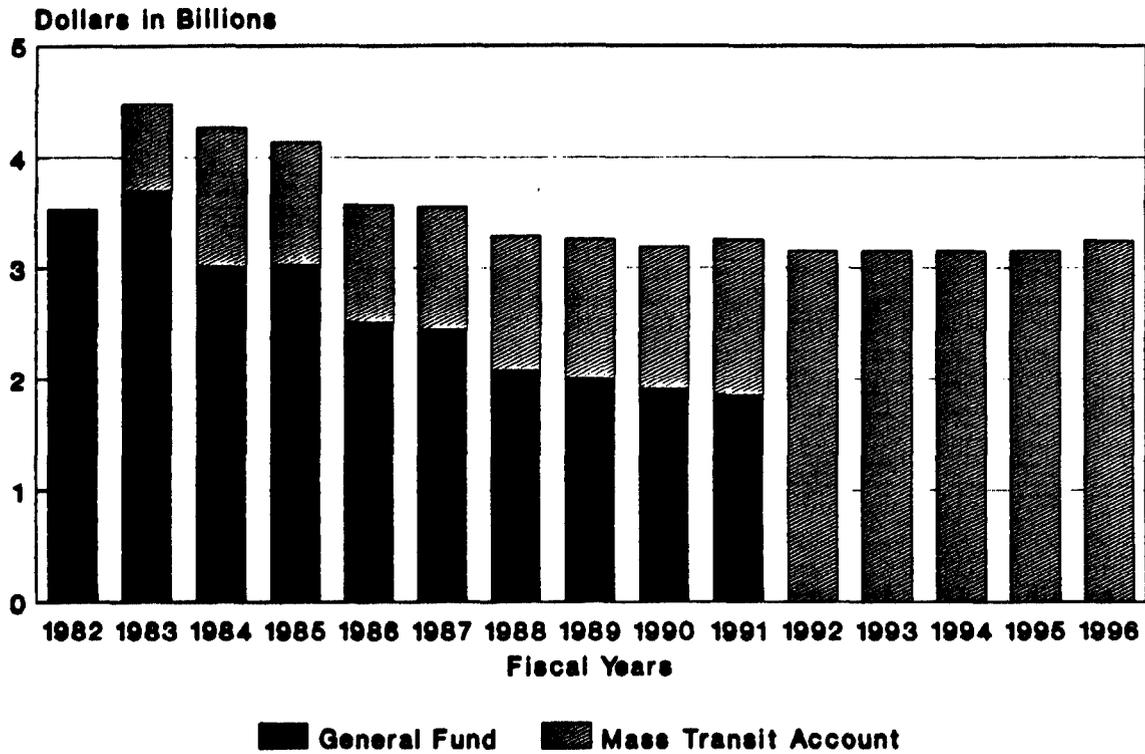
UMTA BUDGET AUTHORITY BY PROGRAM
FISCAL YEARS 1980 TO 1991

<u>Fiscal year</u>	<u>Section 3 discretionary grants</u>	<u>Sections 5 and 9 formula grants^a</u>	<u>Section 18 rural grants</u>	<u>Section 8 planning grants</u>	<u>Other grants^b</u>	<u>Total</u>
(dollars in millions)						
1980	\$1,625	\$1,405	\$ 85	\$ 55	\$ 808	\$ 3,978
1981	2,095	1,455	73	45	994	4,662
1982	1,378	1,365	69	55	665	3,532
1983	1,607	1,956	91	50	774	4,478
1984	1,139	2,319	70	50	665	4,243
1985	1,019	2,378	72	50	613	4,132
1986	971	1,997	60	48	488	3,564
1987	915	1,925	59	45	492	3,436
1988	980	1,732	69	45	389	3,215
1989	985	1,604	71	45	450	3,155
1990	982	1,624	71	44	326	3,047
1991	<u>1,115</u>	<u>1,735</u>	<u>70</u>	<u>45</u>	<u>294</u>	<u>3,259</u>
Total, FY						
1980-91	<u>\$14,811</u>	<u>\$21,495</u>	<u>\$ 860</u>	<u>\$ 577</u>	<u>\$6,958</u>	<u>\$44,701</u>
Cumulative, FY 1964-						
91	\$25,101	\$25,249	\$ 936	\$ 939	\$10,551	\$62,776

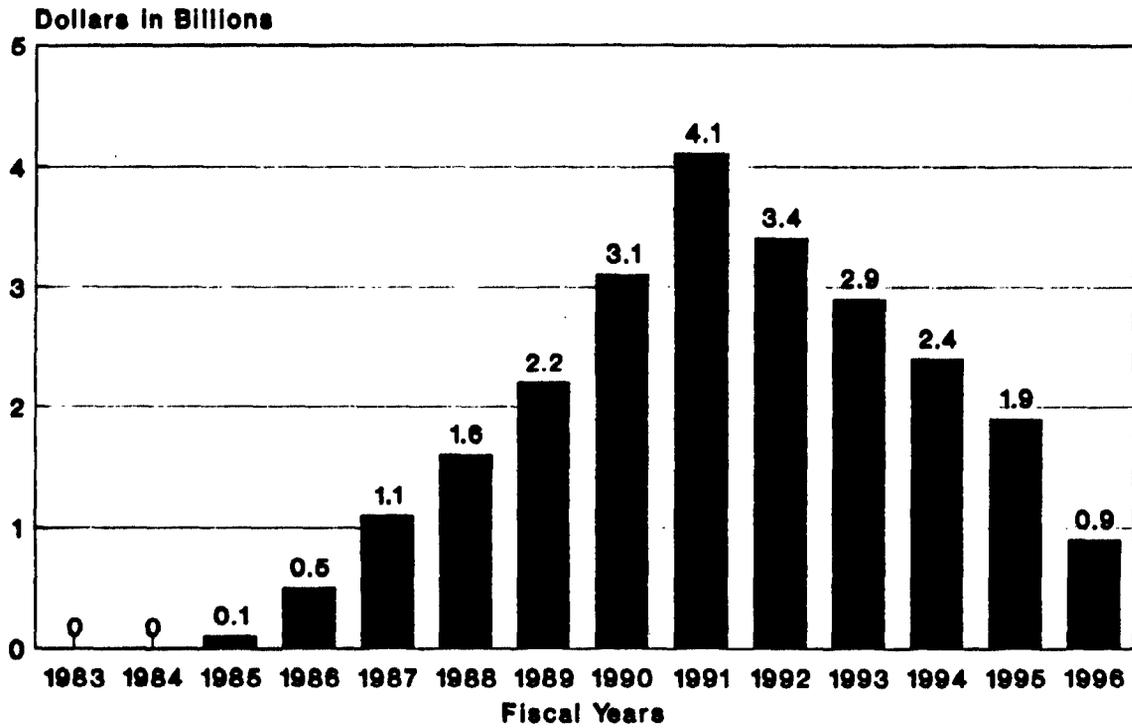
^aSection 9 formula grants program replaced the section 5 formula grants program in FY 1983. The FY 1983 figure includes \$1.2 billion in section 5 grants and \$756 million in section 9 grants.

^bIncludes section 4(i) Innovative Techniques and Methods Program; section 6 Research, Development, and Demonstration Project; section 10 Training; section 11 Research and University Transportation Centers; section 16(b)(2) Elderly and Handicapped Program; section 17 Emergency Operating Assistance; section 20 Human Resources Program; Interstate Transfer Program; UMTA administrative costs; and Stark-Harris assistance to the Washington Metrorail System.

SOURCES OF UMTA FUNDS FY 1982-1991 AND PROPOSED FY 1992-1996



UNCOMMITTED MASS TRANSIT ACCOUNT FUNDS FOR FY 1983 TO FY 1991 AND PROJECTED FOR FY 1992 TO 1996



OTHER GAO REPORTS ON UMTAUMTA Needs Better Assurance That Grantees Comply With Selected Federal Requirements (GAO/RCED-85-26, Feb. 19, 1985)

We reported that UMTA needed better assurances that grantees comply with federal requirements. We also supported UMTA's use of triennial reviews mandated by the Surface Transportation Assistance Act of 1982. At the time of our work, UMTA could not provide us with information on the focus of the reviews or how they would be conducted. Nevertheless, we believed that triennial reviews would afford UMTA an opportunity to supplement their existing mechanisms for ensuring grantees' compliance with federal requirements. We recommended that UMTA (1) require triennial reviews to emphasize compliance with regulations not routinely covered by OIG and independent audits, (2) disseminate legal rulings on UMTA's regulations to increase grantees' understanding of and compliance with the requirements, and (3) establish guidelines for appropriate enforcement action when noncompliance is identified.

20 Years of Federal Mass Transit Assistance: How Has Mass Transit Changed? (GAO/RCED-85-61, Sept. 18, 1985)

We examined transit's role in helping to mitigate various social, economic, and environmental problems confronting urban areas. We found that (1) federal funds have helped reverse the service and ridership declines, (2) ridership gains nationwide had not increased transit's share of the commuting market, and (3) service costs had grown rapidly. We concluded that mass transit helped address a number of urban problems of congressional concern, such as traffic congestion; air pollution; energy consumption; and transportation for low-income, elderly, and handicapped persons.

Mass Transit Grants: UMTA Needs to Improve Procurement Monitoring at Local Transit Authority (GAO/RCED-89-94, Mar. 31, 1989)

We reported that the Southeastern Pennsylvania Transportation Authority (SEPTA) had major procurement system problems and UMTA had not detected these problems. Our report disclosed that UMTA's triennial review of SEPTA did not include a detailed procurement assessment, yet the review indicated that SEPTA had complied with procurement requirements. Further, single annual audits performed by public accounting firms did not include an evaluation of SEPTA's compliance with federal procurement requirements. We concluded that UMTA's monitoring procedures were inadequate to detect the weaknesses at SEPTA and made several recommendations to better focus UMTA's monitoring to detect procurement deficiencies.

Mass Transit Grants: UMTA Needs to Increase Safety Focus at Local Transit Authority (GAO/RCED-90-41, Dec. 1, 1989)

We reported that SEPTA had experienced an increase in motor bus, trolley bus, and streetcar accidents and injuries. We also found that UMTA had not adequately assessed SEPTA's safety conditions and did not consider safety in approving federal funds for SEPTA projects. We also reported that we were unable to determine the specific factors that UMTA's Administrator considered in awarding discretionary grants to SEPTA because the bases for the decisions were not documented. We recommended that UMTA, among other things, obtain more complete and accurate information on SEPTA accidents and injuries to use in evaluating SEPTA's safety conditions during triennial reviews and in selecting projects for funding. In addition, we recommended that UMTA document its discretionary funding decisions.