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Resources, Community, and  
Economic Development Division

B-284933

March 31, 2000

The Honorable Richard C. Shelby  
Chairman

The Honorable Frank Lautenberg  
Ranking Minority Member  
Subcommittee on Transportation  
Committee on Appropriations  
United States Senate

The Honorable Frank R. Wolf  
Chairman

The Honorable Martin Sabo  
Ranking Minority Member  
Subcommittee on Transportation  
and Related Agencies  
Committee on Appropriations  
House of Representatives

Subject: Mass Transit: Review of the Bay Area Rapid Transit District's Airport Extension Finance Plan

The Federal Transit Administration's (FTA) New Starts program provides funds for transit systems and extensions to existing systems. Full funding grant agreements set the terms and conditions for federal participation in these projects. In June 1997, FTA committed \$750 million to the Bay Area Rapid Transit District (BART) to help build an 8.7-mile, 4-station extension to its existing system to provide service to the San Francisco International Airport. State and local agencies planned to contribute about \$417 million to the project, which was expected to cost a total of \$1.167 billion at the time of the grant agreement. Since then, the project has experienced significant cost growth—about 27 percent over the original estimate—and is now expected to cost \$1.483 billion. As of January 2000, the project was about 40 percent complete and was expected to open on July 1, 2002—9 months later than estimated in the grant agreement.

Concern over the project's cost growth led to a provision in the conference report accompanying the Department of Transportation and Related Agencies Appropriations Act for fiscal year 2000 making funds contingent on the completion of a finance plan setting forth what the full costs to complete the project will be and how BART expects to pay these costs, among other things. The report also directed GAO to conduct an independent analysis of the plan and report to the House and Senate Committees on Appropriations. Accordingly, this report provides information on (1) BART's proposed grant amendment and revised project

completion schedule and (2) the reasonableness of the assumptions contained in the finance plan. In summary, we found the following:

- BART has requested that FTA amend the grant agreement to reflect the project's increased costs and new funding arrangements, as contained in its finance plan. The amendment would also change the estimated opening date to July 1, 2002. Current construction is about 8 weeks behind the latest estimate, but BART's contractor has identified ways to speed up construction, and the contractor FTA hired to oversee the project believes that the July 2002 opening date is still feasible. Finally, the proposed amendment would change the project's scope by allowing BART to spend \$70 million on maintenance improvements rather than buy 28 new railcars at a cost of \$100 million, as anticipated in the original grant agreement.
- BART's finance plan contains reasonable cost and financing assumptions and demonstrates that it has the financial capacity to pay for the current \$1.483 billion estimated cost of the project. BART's new project cost estimate is the result of a comprehensive cost review and includes revised higher construction contract costs. BART has secured commitments from state and local sources to fund the entire \$316 million cost increase—no additional federal funds are needed. Furthermore, BART has obtained a \$300 million line of credit, secured by future federal funds, and an additional \$60 million loan from the Metropolitan Transportation Commission to help alleviate expected cash-flow problems. Finally, BART has proposed a capital reserve account backed by revenue from parking fees if it needs to pay costs above the current \$1.483 billion estimate. The contractor hired by FTA to oversee the project proposed that BART provide an additional \$27 million for contingencies.

### **BART's Proposed Grant Amendment Would Address Cost, Schedule, and Project Scope Changes**

The estimated cost of constructing the BART airport extension is now about \$1.483 billion—\$316 million (or 27 percent) above the \$1.167 billion estimated in the 1997 grant agreement. BART officials attribute almost half of this increase, or \$155 million, to higher-than-expected construction bids. Other reasons for the cost increase include higher-than-expected costs for the right of way, utility relocation, unanticipated mitigations, and third-party contracts for such things as engineering services and construction oversight. BART has proposed that FTA amend its grant agreement to recognize its revised cost estimate and new funding arrangements discussed below.

In addition, BART's proposed grant amendment calls for changing the extension's opening date to July 1, 2002. FTA's project management oversight contractor—the contractor hired by FTA to oversee the project—reviewed the critical path for the project and concluded that a July 2002 opening was feasible. However, in order to meet this date, BART must speed up the work currently under way on the line track and systems contract, which is about 8 weeks behind schedule. The project plan calls for completing an average of 50 feet per day on the line; according to BART officials, the contractor was initially completing 38 to 40 feet per day. BART officials said the contractor has identified several measures that should speed up the work on this contract, including added shifts and weekend work. In addition to the challenge of increasing the construction pace of the line, BART will need to maintain its schedule for

system testing once the line work is completed. FTA's consultant believes that the time BART allocated for systems testing prior to opening is adequate but leaves little leeway. If BART experiences problems integrating the project systems with its older systems, the potential exists for a later revenue operation date.

BART's proposed amendment would also address a proposed change in scope. Instead of purchasing 28 new railcars at a cost of \$100 million as planned in the agreement, BART would like to improve some of its maintenance yards and tracks at a cost of \$70 million, for a net savings of \$30 million. BART officials believe that the planned improvements at the Daly City, Concord, Richmond, and Hayward maintenance facilities will allow BART to decrease maintenance backlogs and increase the number of cars available at any given time, thus eliminating the need for the purchase of 28 new cars. While FTA must still approve the change of scope, its oversight contractor believes that the change is a cost-effective substitution.

### **Finance Plan Identifies New State and Local Funding Sources**

The finance plan BART submitted to FTA on November 30, 1999, demonstrates that it has the financial capacity to pay for the current \$1.483 billion estimated cost to complete the project. Under the proposed finance plan the federal contribution will remain the same—\$750 million (or 51 percent of the total cost). The remaining \$733 million will be financed by a combination of state and local funding sources. The state of California will provide \$152 million. Local funding sources will provide the remaining \$581 million—BART (\$181.7 million), San Francisco International Airport (\$200 million), San Mateo County Transit District (\$171 million), the Metropolitan Transportation Commission (\$26.5 million), and the San Mateo County Flood Control District (\$2 million). BART has agreements in place securing all of these funds. Furthermore, the state, the Metropolitan Transportation Commission, and both of the San Mateo County agencies have already provided funds to BART. The airport will reimburse BART for systems work at the airport once that work is completed. The financial management consultant FTA hired to review the plan has determined that BART has sufficient funds to pay its contribution and operate the line.

We reviewed the assumptions in the finance plan and found the project cost estimates reasonable. The new cost estimates resulted from BART's 1998 comprehensive cost review of the project. BART initiated the review after it was apparent the existing cost estimate was too low. BART officials told us that they are confident that the project can be completed at or below its new cost estimate because (1) all the line and station construction contracts have been awarded, (2) change orders on these contracts have been minimal, and (3) the design-build contracts transfer much of the liability for added costs to the contractors. In addition, they noted that only a few minor right-of-way parcels need to be acquired.

FTA's project management oversight contractor reviewed the project cost estimates and proposed an additional \$27 million for contingencies, bringing the potential cost of completion to \$1.51 billion. BART officials continue to believe that the project can be completed at the current cost estimate but told us that they would establish an additional capital reserve account, secured by parking revenues at the new stations, should costs grow beyond the proposed budget. FTA's oversight contractor has concurred with this approach. The potential use of revenues from parking fees would have to be approved by both the BART and San Mateo County Transit District boards. BART and San Mateo County Transit

officials believe that their boards should take this action only if costs actually rise and such an agreement is necessary. BART officials noted that BART allows free parking at many stations, and the issue of parking fees has systemwide ramifications that need to be considered by its board.

BART's finance plan also addresses the cost of meeting expected cash-flow shortfalls. Under the funding schedule contained in the grant agreement, BART will not receive all of its New Starts funding until several years after the project has been completed. As a result, cash-flow shortfalls will occur during the construction of the project. For instance, the finance plan anticipates a maximum cash deficit of about \$265 million occurring in fiscal year 2002. In order to cover this shortfall, BART has obtained a \$300 million letter of credit secured by the remaining federal funds to be provided under the grant agreement. BART has also secured a \$60 million loan from the Metropolitan Transportation Commission—the San Francisco Bay area transportation planning commission—also secured by future federal appropriations. Two terms of this loan are noteworthy: (1) The Commission will pay the projected financing costs of the loan so BART's project costs do not increase, and (2) BART will not have to repay the loan until it receives the final \$60 million in New Starts funds, thus mitigating the risk of slower-than-projected federal appropriations.

Finally, to account for these shortfalls in its plan and new cost estimate, BART revised the project's total financing costs to \$42.6 million, an increase of \$18.6 million over the original amount. BART has also allocated an additional \$17.9 million in its proposed plan as a contingency for higher-than-anticipated financing costs. FTA's financial management oversight contractor has determined that the budgeted amount plus the contingency funds BART allocated should be sufficient to cover the financing of cash-flow shortfalls, given present cost estimates. We agree with this assessment.

### **Agency Comments**

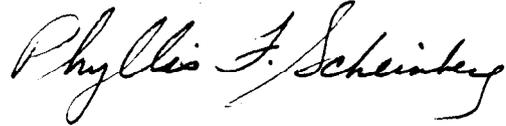
We provided BART with a draft of this report for review and comment. BART agreed with the report's contents and provided us with technical clarifications that we have incorporated where appropriate.

### **Scope and Methodology**

We conducted our review from December 1999 through March 2000 in accordance with generally accepted government auditing standards. To obtain information on the project's cost, financing assumptions, and schedule, we interviewed BART, San Mateo County Transit District, Metropolitan Transportation Commission, San Francisco International Airport, and FTA Region IX officials and FTA's project oversight consultants. In addition, we reviewed FTA's project oversight reports and BART's project documents and inspected construction. We also met with FTA headquarters officials to coordinate our work on this and other project finance plans.

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We are sending copies of this report to the Honorable Rodney E. Slater, Secretary of Transportation; the Honorable Nuria I. Fernandez, Acting Administrator, Federal Transit Administration; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request. Key contributors to this report were Robert Ciszewski and Ron Stouffer. Please call me at (202) 512-3650 if you or your staff have any questions about this report.



Phyllis F. Scheinberg  
Associate Director,  
Transportation Issues

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