

## Rating and Evaluating "New Starts"

"Transit use is important in a number of our nation's major urban centers. However, many cities have built or are building systems that are overpriced or underutilized..." So stated Chairman Ernest J. Istook in his opening statement at the April 28 hearing of the House Transportation Appropriations Subcommittee on "Rating and Evaluating New Fixed Guideway Systems." Rep. Istook went on to say, ""We need to better emphasize cost-effectiveness and congestion relief as measures of a candidate project's worthiness to receive federal funds. Currently FTA is tracking over 150 projects in planning studies and preliminary stages for new projects or system expansions. These projects could seek over \$60 billion in federal New Starts funding over the next several years...We all know that sixty billion dollars simply will not be available, so we had better get started in winnowing the field of candidates..." The chairman's opening statement summarized succinctly the challenge facing the Federal Transit Administration in the years ahead: How to become more adept at weeding out projects that do not relieve the most congestion, move the most people and are the most cost-effective.

U.S. DOT Inspector General Kenneth Meade stated concisely the dilemma facing the congressional appropriators:

"...there are 26 projects with existing full funding grant agreements and another 38 projects in preliminary engineering, final design or that have been proposed for funding, which collectively are seeking \$24.3 billion in federal funding. However, the funds available for New Starts projects over the next six years can support only a fraction of these projects. Specifically, the House transit reauthorization designated a total of \$9.5 billion for New Starts for Fiscal Years 2004 through 2009. Of the \$9.5 billion, the house bill provides \$3.1 billion for the 26 transit projects with existing full funding grant agreements. This leaves \$6.4 billion to fund other projects over the reauthorization period. Of this amount, \$4.0 billion is proposed for the six projects FTA recommended for multi-year grant agreements... If these six projects are approved, only \$2.4 billion would be left to fund the... 32 projects remaining in the pipeline."

What's to be done? While Committee members offered no explicit recommendations (they may do so later, in a Committee report), the tenor of their questioning left no doubt as to their thinking.

1. Assert more control over the alternatives analysis process. The alternatives analysis is the essential first step in a lengthy process that ultimately may lead to an award of a Full Funding Grant Agreement (FFGA) and construction of a rail system. The analysis evaluates corridor-level transportation options and results in the selection of a "locally preferred alternative." Local agencies have broad latitude in conducting this analysis and in selecting evaluation criteria.

FTA does not approve the selection of the locally preferred alternative. Nor does it evaluate whether alternatives other than rail (such as Bus Rapid Transit) might have been more cost-effective or generated greater benefits. In deciding whether to advance a locally selected alternative into preliminary engineering, the agency relies on information

developed by project applicant- information which, invariably, supports the local choice. As the U.S. DOT Inspector General testified, "once a project emerges as the locally preferred alternative, it is difficult to make material changes, such as selecting an entirely different mode, since expectations have been set, political support for the project has been established, and sometimes, even funding put in place."

In its reauthorization bill, the House authorized 143 new alternatives analysis studies. Based on past experience, a large number of these analyses will result in the selection of a light rail system as the preferred alternative. To reduce the number of rail projects entering the New Starts funding pipeline, FTA will need to exercise more oversight over the alternatives selection process. FTA took a step in this direction when it recently issued supplementary guidance specifying the basic information that local study sponsors should submit to FTA at the outset of their alternatives analysis study (Additional Guidance on Local Initiation of Alternatives Analysis Planning Studies, April 2004). But this may not be enough. Ultimately, as the Inspector General suggested, Congress may have to step in and give FTA explicit authority to approve selection of the locally preferred alternative. Without the authority to weed out marginal rail proposals at the very outset of the process, FTA will be faced with ever growing demands on the limited New Starts resources.

2. Give more weight to cost-effectiveness in the rating process. "In evaluating projects, the direct transportation benefits need to be the most significant measurements," Chairman Istook noted in his opening statement. "Each new start project should be required to show that its locally preferred alternative will attract and move more riders, at lower cost, than other alternatives." This has not always been the case in recent New Starts evaluations. Rep. Istook pointedly noted that six out of the seven candidate projects recommended for funding in FY 2005 were rated "Low-medium" for cost-effectiveness, yet they all received an overall Project Justification rating of "Medium" ("Low-medium" represents the next to the lowest rating on a five-point scale of "High," "Medium high," "Medium," "Low-medium," and "Low." Projects must receive at least a "Medium" rating to be recommended for construction funding). As the Inspector General explained, these projects received a passing grade despite ranking low in cost-effectiveness because FTA assigns equal weight to land use and cost-effectiveness criteria. Through the averaging of scores, a high land use rating can effectively override a low cost-effectiveness rating to produce an acceptable overall rating and hence a recommendation for funding.

3. Too much prominence is being given to the subjective criterion of land use. FTA has made land use a separate measure of evaluation to acknowledge the developmental influence of rail investment which, it believes, can be an important indicator of future economic benefits. All seven candidate projects recommended for funding received "Medium," "Medium-High" or "High" rating for land use, although evidence of land use impact of light rail transit remains highly debatable. Indeed, development around light rail stations has been insignificant in most New Starts cities. What is more, FTA awards high ratings for land use both if the station sites already are developed (and thus are likely to generate ridership on the new rail system) and if they are surrounded by vacant land (and thus offer a potential for future development). Land use effects, several committee members suggested, receive too much

emphasis. The Inspector General concurred: "If the goal is to give greater emphasis to the direct transportation benefits...then the balance between these benefits and land use may need to be reconsidered."

4. Pay more attention to congestion relief in estimating transportation user benefits and develop more accurate methods of estimating highway travel time savings as a proxy for congestion relief . Testimony by Administrator Dorn and Inspector General Kenneth Mead indicated that FTA has not been able to reliably estimate congestion reduction benefits of rail projects from the data provided by local sponsors. Its evaluation captures only time-savings realized by existing and new transit riders, but not travel time savings experienced by motorists. Are there any such savings? Many analysts believe that light rail investment has little or no effect on traffic congestion. According to Texas Transportation Institute data, none of the urban areas that have built light rail systems in recent years have been able to demonstrate reduced traffic intensity.

5. Develop better methods of estimating potential ridership on rail systems. All parties at the hearing agreed that ridership is the single most critical element supporting project justification and is at the basis of determining all project-related benefits. In the words of the Inspector General, "Reliable ridership estimates are paramount to achieving the intended improvements - namely the identification of projects with the greatest tangible benefits." Unfortunately, current ridership forecasting techniques leave much to be desired. An FTA study of transit systems coming into service between 1990 and 2000 compared actual ridership with ridership forecasts in five light rail systems that have been in revenue service for at least four years. "We found that these projects fell materially short of delivering promised ridership," testified the Inspector General. The ridership levels actually achieved ranged from 33 percent (Houston SW Transitway) to 89 percent (Portland Westside LRT) of the predicted values.

In the last issue of Innovation Briefs we suggested that the proposed congressional reauthorization, with 38 authorized projects in the funding pipeline and 143 authorized alternatives analysis studies has placed congressional appropriators in an untenable position, since only a small fraction of the authorized projects can be expected to receive funding. We expressed the hope that Chairman Istook's transportation appropriations subcommittee might take a careful look at the New Starts program and instruct the Federal Transit Administration to take a more disciplined approach to managing the limited New Starts dollars. We hope that the Committee's report will spell out in explicit terms the reforms it expects the agency to make in its rating and evaluation process, and recommend appropriate congressional action to give FTA the necessary authority to prevent marginally effective rail proposals from entering the New Starts pipeline.

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