Answers to Making Dollars and Sense of Transit Finance Questions

Updated July 13-14, 2017

Introduction

TTI's Transit Mobility Program (http://tti.tamu.edu/group/transit-mobility/) delivers the *Making Dollars and Sense of Transit Finance* training course. During the course, attendees have the opportunity post their questions in a "bus garage," for TTI to answer after the class. This document contains TTI's responses to attendees' bus garage questions as well as additional information that the TTI team believed would be beneficial to attendees.

Questions are not ordered in any particular way. The list of questions and their associated page numbers is available on the cover page of this document.

For any further questions about the contents of this document, readers are encouraged to contact the TTI researchers that taught the class and compiled this document:

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As always, this document is meant as a guide and does not replace or over-rule the guidance and regulations of PTN or FTA. As noted in several responses to questions, readers are encouraged to seek case-specific guidance from PTN or FTA representatives, as appropriate.

Question: Will the 5340 replace the census when 2 years have passed?

Response:

SAFETEA-LU established the Section 5340 Growing States and High-Density States Formula Program to apportion additional funds by formula to FTA Section 5307 and Section 5311 grant recipients. The program continued in MAP-21 and now the FAST Act.

Under the Section 5340 formula, funds are made available under the Growing States factors and under the High-Density States factors. The funds are apportioned as follows:

- **Growing States:** The Growing States funds are apportioned based on state population forecasts for 15 years beyond the most recent decennial census in 2010 (+ 15 years = 2025). Each state receives a share of Growing States funds based on the ratio of projected 2025 population to the nationwide projected 2025 population. Amounts apportioned for each state are then allocated to urbanized and rural areas based on the state's urban/rural population ratio.
- **High-Density States:** The High-Density States factors distribute funds to states with population densities equal to or greater than 370 people per square mile.

Texas is eligible for the Growing States apportionment. Texas is not eligible for High-Density States apportionment.

As required by statute, FTA apportions Section 5340 funds with the Section 5307 Urbanized Area and Section 5311 Non-urbanized Area Programs and not as a separate apportionment.

Section 5340 is authorized under FAST Act based on the 2010 decennial census. FAST Act authorization is for fiscal years 2016 through 2020. The next decennial census will be in 2020. The future of the Section 5340 program will be determined by the next federal authorization bill (and the next decennial census).

References:

- https://www.law.cornell.edu/uscode/text/49/5340
- https://www.transit.dot.gov/funding/procurement/third-party-procurement/urbanized-area-formula-grant-provisions-safetea-lu

Question: Can CDBG funds be used for capital or operating?

Response:

The Community Development Block Grant (CDBG) program is funded by the federal Department of Housing and Urban Development (HUD). CDBG funds have clear statutory authority to be used as the "non-federal" matching funds for FTA formula grants.

Of the approximate $4 billion in annual CDBG appropriations, more than $4 million a year is spent on directly operated transit services. Approximately $1.3 billion of CDBG dollars are spent each year on public and community facilities; many of these are transit facilities or transit-related joint development projects.

HUD allocates its CDBG funds on a formula basis directly to larger cities and the country's most-urban counties. For smaller cities and less-urban areas, CDBG allocations are made by formula to state agencies. Nearly all decision making on the use of CDBG funds is made by the local community development agencies that receive these funds from HUD.

Contact your local government agency for confirmation of the CDBG funds available for public transportation in your transit district service area, and if the funds are available for capital and/or operating projects.

Reference:

https://www.hudexchange.info/onecpd/assets/File/The-Community-Development-Block-Grant-FAQ.pdf

Question: Is it OK for a specialized transit system to use vehicles purchased under Section 5310 to perform Medicaid trips?

Response:

The answer to this question is best summarized by quoting directly from the Coordinating Council on Access and Mobility's Vehicle Sharing Final Policy Statement, issued October 1, 2006.

"The grantee or sub grantee shall also make equipment available for use on other projects or programs currently or previously supported by the Federal Government, providing that such use will not interfere with the work on the project or program for which it was originally acquired."

This policy guidance clarifies that federal cost principles enable grantees to share the use of vehicles if the cost of providing transportation to the community is also shared. This maximizes the use of all available transportation vehicles and facilitates access to community and medical services, employment and training opportunities, and other necessary services for persons with disabilities, persons with low income, children, and senior citizens. Such arrangements can enhance transportation services by increasing the pool of transportation resources, reducing the amount of time that vehicles are idle, and reducing or eliminating duplication of routes and services in the community.

Applicable Programs:

This policy guidance applies to the programs listed at the end of the Coordinating Council on Access and Mobility Vehicle Resource Sharing Final Policy Statement that can be found here: https://www.transit.dot.gov/node/131

For FTA, the policy guidance applies to grant programs that fund capital improvements, enhanced mobility for seniors and individuals with disabilities, formula funds for rural areas, and formula funds for urbanized areas.

Reference:

https://www.transit.dot.gov/node/131

Question: What planning expenses are eligible for reimbursement under the Section 5307 grant?

Response:

Section 5307 from FTA Circular 9030.1E
https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FINAL_FTA_circular9030.1E.pdf
The following excerpt is taken verbatim from page IV–1 in FTA Circular 9030.1E

PLANNING PROJECTS. Section 5307 funds are available for the planning, engineering, design, and evaluation of public transportation projects and for other technical transportation related studies. Eligible activities include, but are not limited to: studies relating to management, operations, capital requirements, and economic feasibility; work elements and related activities preliminary to and in preparation for constructing, acquiring, or improving the operation of facilities and equipment; plans and specifications; evaluation of previously funded projects; job access and reverse commute projects; and other similar or related activities before and in preparation for the construction, acquisition, or improved operation of public transportation systems, facilities, and equipment.

FTA encourages recipients to use Section 5307 funds for technical studies of special interest to the transit agency, such as maintenance plan development, operational service planning, transit asset management plans, public transportation safety plans, and management and operation planning studies. FTA also encourages recipients to use program funds to supplement regular formula planning funds when the planning resources authorized by 49 U.S.C. 5305(d) are insufficient to meet such needs. Similarly, where the federal government proposes a high-cost study, such as one for major capital investments, recipients may use Section 5307 funds to supplement available formula planning funds and Federal Highway Administration (FHWA) planning funds.

All planning projects carried out within the metropolitan transportation planning process that use FTA or FHWA funds must be included in the unified planning work program (UPWP), as approved by the MPO. The UPWP must include a list of the proposed planning projects, project scopes, and related costs.

For more information on planning activities, please refer to FTA Circular 8100.1, "Program Guidance for Metropolitan Planning and State Planning and Research Program Grants."
https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FTA_C_8100.1C_3.pdf

References:

- https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FINAL_FTA_circular9030.1E.pdf
- https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FTA_C_8100.1C_3.pdf

Question: What are some examples of concession activities?

Response:

Concession activities reported by transit agencies are typically food service or convenience store items sold in a transit station or transit center. Concessions can include items sold on property maintained by the transit agency or on the vehicle itself. Concessions sold on vehicles are typically commuter rail or intercity rail. The revenues a transit agency receives from agreements with concessionaires or concessions sold by the agency itself should be reported within Auxiliary Transit Revenues.

The following definitions are taken directly from the *NTD Glossary* http://www.transit.dot.gov/ntd/national-transit-database-ntd-glossary

- Station Concessions: The revenue earned from granting operating rights to businesses (e.g., concessionaires, newsstands, candy counters) on property maintained by the transit agency.
- Vehicle Concessions: The revenue earned from granting rights to concessionaires (e.g., food and beverage service) on the transit agency's vehicles.

Some Texas transit districts receive revenue from concession activities. Below are three examples from *A Study of Sources Used For Local Revenue For Transit* http://ftp.dot.state.tx.us/pub/txdot-info/ptn/matching-funds-resource-guide.pdf

- McAllen – Receives income from concessions in the city's multimodal terminal from souvenir store and food service companies in the food court.
- El Paso (Sun Metro) – City council authorized concession leases at two of its transfer centers. The first lease began in February 2011 for $24K + utilities in the downtown transfer center, and the second began in December 2011 for $7200 + utilities in the Mission Valley transfer center.
- Laredo – Concession income from telecommunications companies, food sales and others. Combined lease/concessions revenue was ~$600K in 2012.

References:

- http://www.transit.dot.gov/ntd/national-transit-database-ntd-glossary
- http://ftp.dot.state.tx.us/pub/txdot-info/ptn/matching-funds-resource-guide.pdf

Question: If a transit agency pays for specific trips and the customer does not have to pay but leaves a donation, how should the donation be applied?

Response:

If the donation is paid while boarding the vehicle, it is considered a passenger fare and should be reported as fare revenues even though the transit agency does not have a required fare. If the donation is paid in any other situation it is considered a donation and reported as part of Non-Transit Related Revenue under Local Revenues.

Below are relevant definitions taken directly from the *NTD Glossary* http://www.transit.dot.gov/ntd/national-transit-database-ntd-glossary

- Fare Revenues: All income received directly from passengers, paid either in cash or through pre-paid tickets, passes, etc. It includes donations from those passengers who donate money on the vehicle. It includes the reduced fares paid by passengers in a user-side subsidy arrangement.
- Local Operating Funds: Financial assistance from local entities that support the operation of the transit system. They include, but are not limited to…. Donations – [revenues] from individuals or organizations to help cover the costs of providing transit service but which are not related to specific passengers or trips

In addition, the 2017 NTD Policy Manual states on how donations made on a vehicle should be treated. http://www.transit.dot.gov/sites/fta.dot.gov/files/docs/ntd/57981/2017-ntd-policy-manual_1.pdf

- Donations that are made on a revenue vehicle or at a farebox should be reported as fares. [from Financial Data Requirements, page 41]

References:

- http://www.transit.dot.gov/ntd/national-transit-database-ntd-glossary
- http://ftp.dot.state.tx.us/pub/txdot-info/ptn/matching-funds-resource-guide.pdf
- http://www.transit.dot.gov/sites/fta.dot.gov/files/docs/ntd/57981/2017-ntd-policy-manual_1.pdf

Question: How should a transit agency report received insurance payments for a totaled vehicle? In our case the local county is contributing money (over and above the amount received from insurance) to purchase a vehicle. Should this be shown/reported on the PTN-128 or is it just considered a wash?

Response:

The insurance payment received should be considered insurance proceeds that are accrued by the transit agency until they are applied towards expenses such as purchasing a replacement vehicle. When a vehicle is damaged, this sets up a liability to repair or replace the vehicle and implements a matching insurance claim. The insurance payment is received by the agency, then the funds are used to repair or replace the vehicle. The revenue from the insurance proceeds plus additional funds for deductible, match, etc. at the time ***Applied*** will balance the expense to repair or replace when ***Incurred***. If the vehicle was purchased with FTA funds, the insurance proceeds should offset the liability (to FTA) created when a vehicle is damaged. The FTA portion of insurance proceeds must either be returned to the FTA or applied to the replacement vehicle expenses to reduce the FTA cost.

For reporting to the state, revenues from insurance proceeds effectivity are not reported, as the agency should net out any insurance reimbursements to the FTA and local portions of the proceeds received. The insurance proceeds revenues reduce the liability to FTA funding and local revenue sources, but they do not increase the amount of revenue applied to expenses as determined by the cost of the capital asset purchase. Agencies should report the capital expense of the vehicle purchase within Capital Expenses and balance the expense with the applied revenues from FTA and local sources.

From FTA C 5010.1E:
http://www.transit.dot.gov/sites/fta.dot.gov/files/docs/Grant%20Management%20Requirements%20Circular_5010-1E.pdf

The following is taken directly from page IV-37 in FTA C 5010.1E. See also Application of Insurance Proceeds on pages IV-38 and IV-39.

- Insurance Proceeds. If the recipient receives insurance proceeds when federally assisted property has been lost or damaged by fire, casualty, or natural disaster, the recipient agrees to:
    - Apply those proceeds to the cost of replacing the federally assisted property that is damaged or destroyed or taken out of service; or
    - Return to FTA an amount equal to the remaining federal interest in the federally assisted property that is lost, damaged, or destroyed. The federal interest does not depend on the extent of insurance coverage or on the insurance adjustment received.

References:

- http://www.transit.dot.gov/sites/fta.dot.gov/files/docs/Grant%20Management%20Requirements%20Circular_5010-1E.pdf
- http://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FINAL_FTA_circular9030.1E.pdf
- http://www.gpo.gov/fdsys/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part230.pdf

Question: Is there a resource for operating costs allowed under mobility management as capital? How is mobility management treated in the chart of accounts?

Response:

There is currently not a clear cost function classification for mobility management activities under the USOA standards. PTN recommends that transit agencies report any expenses related to mobility management activities as Planning Expenses in PTN-128. Under the FAST Act, planning activities can include short-range planning and management activities. Mobility management is functionally operational service planning and would fit under Planning Expenses. This classification would also fit with the FTA reimbursement rates of 80 percent for Planning Expenses under the Section 5311 and Section 5307 grant programs, consistent with mobility management expenses being eligible for federal reimbursement at the capital rate.

From FTA C 9030.1E and FTA C 9070.1F:

https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FINAL_FTA_circular9030.1E.pdf

https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/C9070.1F.pdf

The following is taken verbatim from page IV-6 in FTA C 9030.1E (Section 5307). Similar language for the list of "Mobility management includes" appears on page III-5 in FTA C 9070.1F (Section 5310).

- Mobility management is intended to build coordination among public transportation providers and other transportation service providers carried out by a recipient or subrecipient through an agreement (see 49 U.S.C. 5302(K)(i)). Mobility management does not include the costs of operating public transportation services, fuel, driver salaries, and other nonadministrative operating expenses directly related to the operation of vehicles.

- Mobility management includes:

  (1) The promotion, enhancement, and facilitation of access to transportation services, including the integration and coordination of services for individuals with disabilities, older adults, and low-income individuals;

  (2) Support for short-term management activities to plan and implement coordinated services;

  (3) The support of state and local coordination policy bodies and councils;

  (4) The operation of transportation brokerages to coordinate providers, funding agencies, and customers;

  (5) The provision of coordination services, including employer-oriented transportation management organizations, transportation management associations, business improvement districts or other like organizations, and human service organizations' customer-oriented travel navigator systems and neighborhood travel coordination activities such as coordinating individualized travel training and trip planning activities for customers;

(6) The development and operation of one-stop transportation traveler call centers to coordinate transportation information on all travel modes and to manage eligibility requirements and arrangements for customers among supporting programs; and

(7) Operational planning for the acquisition of intelligent transportation technologies to help plan and operate coordinated systems inclusive of geographic information systems (GIS) mapping, global positioning system (GPS) technology, coordinated vehicle scheduling, dispatching and monitoring technologies, as well as technologies to track costs and billing in a coordinated system and single smart customer payment systems.

References:

- https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FINAL_FTA_circular9030.1E.pdf
- https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/C9070.1F.pdf

Question: How should revenues be treated when a person pays a portion of the trip cost (i.e., the amount of the fare) while the local government subsidizes remaining per-trip cost?

Response:

The fares paid by riders should be reported as fare revenues. The remaining portion of per-trip cost subsidized by the local government should be counted as local contribution revenues. Local contributions include any revenues from local governments and non-government local entities that go towards supporting transit service, not including any contracts for service of a specific route(s). The subsidized cost is not considered a contract for fares because the fare cost is already paid for by the customer, and the remaining per-trip operating cost is supported by the local entity.

The following definitions are taken directly from the *NTD Glossary*: http://www.transit.dot.gov/ntd/national-transit-database-ntd-glossary

- Fare Revenues: All income received directly from passengers, paid either in cash or through pre-paid tickets, passes, etc. It includes donations from those passengers who donate money on the vehicle. It includes the reduced fares paid by passengers in a user-side subsidy arrangement.
- Local Operating Funds: Financial assistance from local entities that support the operation of the transit system. They include, but are not limited to…. Donations – [revenues] from individuals or organizations to help cover the costs of providing transit service but which are not related to specific passengers or trips

References:

- http://www.transit.dot.gov/ntd/national-transit-database-ntd-glossary
- http://ftp.dot.state.tx.us/pub/txdot-info/ptn/matching-funds-resource-guide.pdf
- http://www.transit.dot.gov/sites/fta.dot.gov/files/docs/ntd/57981/2017-ntd-policy-manual_1.pdf

Question: What is the difference between a one-variable and two-variable cost allocation model?

Response:

A one-variable service cost allocation model may be appropriate when all services are the same travel mode and have similar operating characteristics (speed, trip length, etc.). An example of a one-variable model is using total vehicle miles to allocate costs between a route that runs more service miles and another route. One-variable models are not useful when different services have notably different vehicle speeds. A two-variable cost allocation model using revenue hours and revenue miles is a better way to figure out the variable costs of services. Cost allocation models with two variables are more accurate in capturing the different types of services within the same transit agency.

For example, Agency A operates demand-response service and park-and-ride commuter bus service and wants to determine the variable costs for the two travel modes (see Figure 1).

Monthly Data

Mode	Hours	Miles	Total Variable Operating Cost	Cost/ Hour
Commuter Bus	500	20,000		
Demand Response	2,000	30,000		
System Total	2,500	50,000	$175,000	$70.00

Cost Allocation based on One Variable: Miles

Mode	Operating Cost based on Miles	Cost/ Hour
Commuter Bus	$70,000	$140.00
Demand Response	$105,000	$52.50
System Total	**$175,000**	**$70.00**

Cost Allocation based on Two Variables: Miles and Hours

Mode	Hours Related Operating Cost	Miles Related Operating Cost	Total Variable Operating Cost	Cost/ Hour
Commuter Bus	$24,500	$21,000	$45,500	$91.00
Demand Response	$98,000	$31,500	$129,500	$64.75
System Total	**$122,500**	**$52,500**	**$175,000**	**$70.00**

Figure 1. Example Comparison of One-Variable and Two-Variable Cost Allocation Model.

One-Variable Model

Using a one-variable model of miles to allocate $150,000 in total variable costs, the travel modes would have total variable costs shown in Figure 1 in the section *Cost Allocation based on One Variable: Miles*.

Two-Variable Model

The agency discovers that the vehicle speeds for the two modes are drastically different from each other. Speed for the demand response service from the total hours and miles data averages to 15 miles per hour, while commuter bus speed averages 40 MPH. Next, the agency calculates how much of their total variable costs should be assigned to each travel mode, starting with miles and hours costs based on their chart of accounts.

The transit agency then apportions the total costs in each category to the travel modes based on the service totals of hours and miles. At this step the total variable cost for each travel mode is accurately captured.

Summary

Although a one-variable cost allocation model is simpler to execute, it may mis-allocate transit program expenses—particularly when different transit services have significantly different vehicle speeds. Therefore, a two-variable cost allocation model is considered a more accurate way to allocate costs.

Reference:
http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_144v2.pdf

Question: Does the Buy America program include manufacturers such as Kia or others who have manufacturing facilities in the U.S. with U.S. employees?

Response:

The Buy American program allows procurement of vehicles using FTA funds as long as two conditions are met: (1) final assembly of the vehicle has to occur in the U.S. and (2) the cost of U.S.-produced components and subcomponents (i.e., domestic content) of the vehicle is at least a certain percentage of the vehicle's total cost. These minimum percentages increase over time and are depicted in Table 1.

Table 1. Buy America Minimum Relative Cost of Domestic Content in Vehicles.

Federal Fiscal Year	Domestic Content Cost Percentage Requirement
FY2016—FY2017	60%
FY2018—FY2019	65%
FY2020 and onward	70%

Simply, the location of the manufacturer's headquarters does not matter; what matters is how much of the vehicle is produced in the U.S. and whether final assembly occurs in the U.S. As long as the domestic content cost percentage and assembly requirements are met, the vehicle may be eligible for purchase under the Buy America requirements.

Here's a simple example: you want to purchase five of the same vehicle at $100,000 each in FY2018. The vehicles will be manufactured in the U.S. The cost of the domestic content (components and subcomponents) in each vehicle would have to be at least $65,000 (or 65%).

Note that the firm bidding to supply a vehicle must certify that it is meeting the Buy America requirements, and there are required audits both before vehicle procurements and after vehicle delivery. There are additional special provisions for small purchases and for vehicles costing more than $300,000 each. These details are beyond the answer to your question, but for those interested, you can read more guidance on the FTA's Buy America Website and at the references below.

References:

- Buy America Website (https://www.transit.dot.gov/buyamerica) and fact sheet (https://www.transit.dot.gov/funding/grants/buy-america-fact-sheet)
- Buy America Presentation by FTA: https://www.transit.dot.gov/regulations-and-guidance/buy-america/buy-america-presentation-transit-supply-chain-forum-0
- Small purchase waiver guidance: https://www.transit.dot.gov/regulations-and-guidance/buy-america/fta-guidance-letter-buy-america-small-purchase-waivers
- 49 USC 5323(j): https://www.gpo.gov/fdsys/pkg/USCODE-2015-title49/html/USCODE-2015-title49-subtitleIII-chap53-sec5323.htm
- 49 CFR 661: https://www.ecfr.gov/cgi-bin/text-idx?SID=08fa8422c393f37a838f60a86aaaae98&mc=true&node=pt49.7.661&rgn=div5#se49.7.661_111

Question: Are we allowed to, or even encouraged to, ask cities and counties for funding as STAR Transit spoke about in Wednesday's semi-annual meeting?

Response:

Yes, transit districts are allowed and encouraged to ask local governments and municipalities for funding support for transit services. Local government revenues are important sources for match for federal grants.

Question: (Regarding the graph showing a downward trend in transit ridership) Could the downward trend [in ridership] be due to lower oil prices in the last couple of years (i.e., more people using personal vehicles)? However, the more money spent on fuel raises the tax revenue, which allocates more funds to transit, correct?

Response:

Yes, it is likely that lower oil prices, and therefore lower gas prices, may account for some of the downward trend in transit ridership. As gas prices lower, people with the option of a personal vehicle may be less motivated to ride public transit, because driving may be cheap and more convenient.

However, your statement about how more money spent on fuel benefits transit by increasing the amount of money available for transit requires some clarifications. First, let's keep in mind that there are two different taxes on motor fuel (i.e., gas)—the federal gas tax and the state gas tax. In the state of Texas, gas tax revenue is required to be used only for public roadways[1] (Texas Constitution Article VIII, Section 7-a). So, increased fuel consumption does not increase the amount of state money available to Texas transit districts.

However, the federal gas tax does provide revenue for the Mass Transit Account of the Highway Trust Fund, which funds most FTA grant programs. So, increases in fuel consumption increase the amount of revenue available for FTA grant programs, subject to the authorizations under Chapter 53 of the U.S. Code and the approval of an annual appropriations bill.

We think it's important to point out that increases in the use of personal vehicles does not directly result in increased federal gas tax revenue, as increasingly fuel-efficient vehicles require less fuel to travel more miles.

Last, saying that "more money" spent on fuel results in increased gas tax revenue is somewhat imprecise. The federal and state gas tax are fixed values per gallon of gas—not percentages based on the sale price of fuel. Therefore, the amount of money spent on fuel does not really drive gas tax revenue (pardon the pun); the gallons of gas purchased drives how much revenue is generated by the gas tax.

[1] Three-fourths of gas tax revenue goes to public roadways; one-fourth goes to the Available School Fund.

Question: What is the process for getting approval to operate charter or school bus operations?

Response:

During class, we briefly touched on the issue of charter and school bus operations during our discussion of potential sources of local revenue. We reminded transit districts that, under most circumstances, charter and school bus operations are prohibited by FTA. However, we wanted to provide some more detail about the regulations themselves and the process for obtaining approval.

<u>School Bus Operations</u>

The regulations concerning FTA grant recipients and exclusive school bus operations are codified in 49 CFR 605. Simply put, FTA grant recipients cannot engage in exclusive school bus operations. These regulations are meant to avoid unfair competition between federally-funded transit agencies and private school bus operators. However, there are some exemptions to this rule, for instance, *tripper service* that meets the needs of school students and personnel is allowable. Tripper service is further defined by FTA in its final policy statement, issued in 2008. However, the rather nuanced definition of tripper service and a full discussion of FTA rulings on various complaints against FTA recipients allegedly engaging in school bus operations is beyond the scope of this discussion. Instead, we will focus on the process on getting FTA approval to operate school bus service that is what a reasonable person would interpret as exclusive school bus operations.

49 CFR 605.11 states that there are three situations in which FTA recipients may be exempt from the school bus prohibition (if the FTA administrator provides written approval):

- The recipient operates a school system in its urban area and also operates a separate and exclusive school bus program for that school system. (For example, a municipality operates the school and also runs a school bus system that is separate from its public transit operations.)
- The private school bus operations in the urban area are unable to provide adequate transportation, at a reasonable rate, and in conformance with applicable safety standards.
- The state, local public body, or agency was engaged in school bus operations in the 12-month period prior to 1973, for grants to related to the purchasing of buses, or the 12-month period prior to 1974, for any FTA grant for public transportation capital or operating expenses.

The most likely way a transit district could quality for an exemption would be under the 2nd exemption: if private operators are unable to provide safe, adequate transportation at a reasonable price. We should note that although this exemption uses the term "urban area," FTA has made several decisions against *rural* public transit agencies engaging in school bus operations—even transit agencies only providing demand-responsive services. (For an example, see the decision against Roscommon County Transit Authority, available at https://www.transit.dot.gov/foia/school-bus-decisions.)

However, recipients who want to engage in school bus operations under the exemption cannot do so without getting express written approval of the FTA Administrator through a process that is outlined in 49 CFR 605.16-19. We have summarized it here:

- Provide written notice to all private school bus operators in the area of the FTA grant that the agency intends to apply for an FTA grant and intends to provide school bus service. Include details of the proposed school bus operations.
- Publish a notice in a newspaper in general circulation that the agency intends to apply for an FTA grant and intends to provide school bus service. Include the details of the proposed school

bus operations. (See 49 CFR 605.16 for the requirements for the notice both to private operators and to the newspaper.)
- The written notice must also be available for public inspection at the transit agency's office.
- Accept comments from private school bus operators (and the general public) at a public hearing. Compile the comments and a transcript of the hearing.
- Provide the full details of the above steps, including the notice to private operators, the notice in the newspaper, the comments from private operators, and a transcript of the public hearing in the transit agency's FTA grant application.
- Wait to receive written approval from the FTA Administrator before engaging in school bus operations.

Also, the recipient can provide a certification that no private operators exist in its service area, if applicable, instead of notifying private operators; however, the recipient still has to issue the notice in the newspaper.

The Community Transportation Association also issued a useful article specifically addressing rural transit operators in response to FTA rulings against two transit agencies in rural areas in 2013 (see http://web1.ctaa.org/webmodules/webarticles/articlefiles/DigitalCT_Spring13_School.pdf).

Obtaining FTA approval to both receive FTA funds and operate school bus service is not a short process, but, it must be followed to avoid adverse FTA rulings if the service would reasonably be interpreted as exclusively for students.

Charter Service

The regulations governing FTA grant recipients and their operation of charter service are codified in 49 CFR 604. In general, recipients of FTA funds are prohibited from providing charter service in order to avoid unfair competition between federally-supported transit agencies and private transportation companies. Although a full discussion of the definition of charter is beyond the scope of this document, transit agencies are encouraged to read TxDOT's Charter Compliance Guide available at https://ftp.dot.state.tx.us/pub/txdot-info/ptn/charter_compliance.pdf for more details.

First, it is important to note that certain types of charter service are explicitly allowed by FTA, including (under certain limitations):
- Transporting government officials for government purposes.
- Responding to emergencies that last fewer than 45 days.
- Providing charter service to a qualified human service organization for the purpose of serving persons with mobility challenges or low income. (The organization must either receive federal funds listed in Appendix A of 49 CFR 604 or be registered on FTA's Charter Registration Website.)
- Leasing FTA-funded equipment and drivers to registered private charter operators.
- Providing charter service that is consistent with an agreement the transit agency has with all registered charter providers in the transit agency's geographic area.

- Providing charter service approved by the FTA Administrator (the transit agency has to file a petition to the FTA).
- Providing charter service when no registered charter provider indicates an interest in providing service for a specific charter request. (There are specific notification requirements, discussed below.)

There a specific reporting requirements under the charter regulations with which transit agencies must comply (full details are provided in the Charter Compliance Guide and in 49 CFR 604).

If a transit agency wishes to provide charter service that is not automatically exempt for the charter prohibition (e.g., providing charter service in the event of an emergency), there are specific steps that must be followed:

- The transit agency must provide notification via email to the registered charter providers in the transit agency's geographic area. A list of registered charter providers can be found at FTA's Charter Registration Website (https://ftawebprod.fta.dot.gov/CharterRegistration/Default.aspx). The notification must be sent by close of business on the day it was received (or on the next business day if the request was received after 2:00 pm). The email must contain details about the service requested and the entity requesting the service (full requirements are available in the Charter Compliance Guide and in 49 CFR 604.14).
- If any emails "bounce back" (i.e., are undeliverable), the transit agency must send the notice by fax to the companies whose emails bounced back.
- If no registered charter provider responds to the notice within the time limits listed below, the transit agency may provide the charter service.
    - For service requested to be provided in less than 30 days, charter providers have 72 hours to express interest.
    - For service requested to be provided in 30 days or more, charter providers have 14 calendar days to express interest.

References:

- FTA Decisions on School Bus Complaints: https://www.transit.dot.gov/foia/school-bus-decisions
- FTA Final Policy Statement on School Bus Operations Regulations: https://www.transit.dot.gov/regulations-guidance/rulemaking/E8-21601
- CTAA Article on FTA School Bus Rulings: http://web1.ctaa.org/webmodules/webarticles/articlefiles/DigitalCT_Spring13_School.pdf
- FTA's Charter Bus Service Regulations website: https://www.transit.dot.gov/regulations-and-guidance/access/charter-bus-service/charter-bus-service-regulations
- TxDOT Charter Compliance Guide: https://ftp.dot.state.tx.us/pub/txdot-info/ptn/charter_compliance.pdf

Question: Cost Allocation Excel Workbook

In class and the coursebook, TTI discussed an in-depth example of cost allocation (see Module 6) with several images in the course book of tables containing cost allocation data (e.g., see Table 6-1, 6-2, and 6-3). TTI has provided the Excel workbook used to generate the coursebook tables to help further demonstrate the detailed steps in a cost allocation analysis, available for download at http://tti.tamu.edu/group/transit-mobility/files/2017/09/Example-Cost-Allocation-Full.xlsx.

Please note that, the example in Tables 6-1 through 6-3 of the coursebook (and in the file provided) allocate demand responsive costs according to vehicle hours and miles, which may work in some cases. However, for a more robust analysis of the costs attributable to different programs or trips under different sponsors when those trips are shared on the same vehicles, a transit agency must use passenger miles and hours to allocate demand-responsive costs (see the next question).

Question: Demand-Responsive Cost Allocation

Response:

(The coursebook, pages 6-20 through 6-23 contains an example of shared-ride demand-responsive cost allocation; however, to improve understanding, TTI has provided a more concrete example of the steps involved, below.)

In demand-responsive services, passengers from different programs (i.e., whose trips are sponsored by different grants or service contracts) often share the same vehicle. So, vehicle miles and hours (the variables used in fixed-route cost allocation) are not the best representation of the costs associated with any single program, because vehicle hours and miles are shared. In demand-responsive cost allocation, costs are allocated based on *passenger hours* and *passenger miles* accumulated under each type of demand-responsive service instead of vehicle hours and vehicle miles.

As an example, let's imagine a transit agency that operates demand-responsive service in both urbanized and rural areas as well as services that are sponsored by two human services agencies: a veterans' transportation program and an adult day care center. To allocate demand-responsive service costs to each of these four programs, the transit agency must have the total number of passenger miles and hours associated with each program. Figure 2 provides an example of what these data may look like.

	Operational Data			
Service	Passenger Hours	% Passenger Hours	Passenger Miles	% Passenger Miles
DEMAND RESPONSE TOTAL	**8,500**		**141,000**	
General Public				
Urban	1,000	11.8%	10,000	7.1%
Rural	4,000	47.1%	80,000	56.7%
Sponsored Services				
Veterans	500	5.9%	9,000	6.4%
Adult Day Care	3,000	35.3%	42,000	29.8%

Figure 2. Example Operational Data Needed for Demand-Responsive Services Cost Allocation.

However, transit agencies may not readily have data on the number of passenger miles and hours associated with different programs. It may be difficult for transit agencies to calculate passenger miles and hours per program, depending on how demand-responsive trips are recorded (e.g., on paper, in a proprietary database, or in an Excel spreadsheet). There are several possible ways that transit agencies can calculate or estimate the number of passenger miles and hours for each program. Two common methods are: (1) estimating passenger miles and hours based on a sampling of trips and (2) calculating passenger miles and hours using a complete set of records for all demand-responsive trips.

<u>Method 1: Estimating Passenger Miles and Hours from Sampled Trips</u>
Method 1 is most typically used when a transit agency does not have an electronic database of all demand-responsive trips or relies on paper records. It is usually recommended to gather a full month of trip records for a "typical" month of the year. At a minimum, the record for each trip must provide the origin of the trip, the destination of the trip, the pick-up time, the drop-off time, and the program. From these data, it is possible to calculate the trip duration and trip length (i.e., distance) for each trip. The trip durations and lengths from the sample of trips is then averaged for each program to calculate the average passenger trip duration and average passenger trip length (see Table 6-5 in the coursebook). The averages can then be multiplied by the total number of passenger trips in each program to estimate the passenger hours and passenger miles for each program (see table 6-6 in the coursebook).

<u>Method 2: Calculating Passenger Miles and Hours Using a Complete Set of Records</u>
Method 2 is typically used when a transit agency has access to an electronic database of demand-responsive trips and has the analytical capabilities to extract, clean, and analyze trip data from the electronic database. We have provided two examples of what the raw data from a demand-responsive trip database might look like in two different Excel files: Example 1 (http://tti.tamu.edu/group/transit-mobility/files/2017/09/DR-example-1-raw-data.xlsx) and Example 2 (http://tti.tamu.edu/group/transit-mobility/files/2017/09/DR-example-2-raw-data.xlsx). Both of these files are actual exports from demand-responsive trip databases, with customer names removed.

Although there are many steps involved, the basic process is:

- Calculate the passenger trip duration and passenger trip length for each passenger trip (ensure each trip is associated with the appropriate program).
- Sum the trip durations for each program to obtain the passenger hours per program.
- Sum the trip lengths for each program to obtain the passenger miles per program.

<u>Operating Costs</u>

A transit agency must also have its total operating costs for its demand-responsive program, with line item expenses assigned to functions (or cost categories), as discussed in the coursebook on pages 6-15 and 6-16:

- Variable costs.
    - Vehicle operations (costs associated with hours of service).
    - Fuel.
    - Vehicle maintenance.
- Administrative costs.
    - Facility maintenance.
    - Administration.
- Planning costs (associated with each program, as appropriate).

An example of this operating cost data is also portrayed in Figure 3.

	Cost Data								
Service	Vehicle Operations (Hour-Based)	Fuel	Maintenance	Sub-Total Operations & Maint.	% Variable Cost	Facility Maintenance	Admin.	Planning	Total Cost
DEMAND RESPONSE TOTAL	**$100,000.00**	**$21,000.00**	**$26,000.00**	**$147,000.00**		**$1,200.00**	**$60,000.00**	**$0.00**	**$208,200.00**

Figure 3. Example of Operating Cost Data Needed for Demand-Responsive Cost Allocation.

The operating costs are then allocated to each demand-responsive program based on what proportion of demand-responsive service (passenger hours and miles) are attributable to each program. For example, if the rural program generates 47.1% of the passenger hours and 56.7% of the passenger miles, the rural program will be allocated 47.1% of the hourly-driven costs (i.e., vehicle operations) and 56.7% of the mileage-driving costs (i.e., fuel and maintenance). Then, the fixed costs (facility maintenance and administration) are allocated to each program based on the percentage of the variable costs for each program. Planning costs are added last, and should be associated with the individual programs directly benefiting from the planning activities. Figure 4 provides an example of what a complete cost allocation might look like (the example is also in the Excel workbook available for download at the link below).

Demand-Responsive Cost Allocation Template

TTI has provided an Excel file (http://tti.tamu.edu/group/transit-mobility/files/2017/09/DR-cost-allocation-template.xlsx) that allows transit agencies to allocate demand-responsive costs to programs by only providing the operating cost data by function and passenger hours and miles per program. The Excel file has two sheets: *Cost Allocation Template*, which is blank, and *EXAMPLE*, which has pseudo data entered into the template to help demonstrate how the template works. The template does not calculate the number of passenger miles or hours per program and does not assign line item costs to functions—transit agencies must perform those steps themselves. Figure 4 displays what the final results of demand-responsive cost allocation might look like.

	Operational Data				Cost Data								
Service	Passenger Hours	% Passenger Hours	Passenger Miles	% Passenger Miles	Vehicle Operations (Hour-Based)	Fuel	Maintenance	Sub-Total Operations & Maint.	% Variable Cost	Facility Maintenance	Admin.	Planning	Total Cost
DEMAND RESPONSE TOTAL	**8,500**		**141,000**		**$100,000.00**	**$21,000.00**	**$26,000.00**	**$147,000.00**		**$1,200.00**	**$60,000.00**	**$0.00**	**$208,200.00**
General Public													
Urban	1,000	11.8%	10,000	7.1%	$11,765	$1,489	$1,844	$15,098	10.3%	$123	$6,162		**$21,384**
Rural	4,000	47.1%	80,000	56.7%	$47,059	$11,915	$14,752	$73,725	50.2%	$602	$30,092		**$104,419**
Sponsored Services													
Veterans	500	5.9%	9,000	6.4%	$5,882	$1,340	$1,660	$8,882	6.0%	$73	$3,625		**$12,580**
Adult Day Care	3,000	35.3%	42,000	29.8%	$35,294	$6,255	$7,745	$49,294	33.5%	$402	$20,120		**$69,817**

Figure 4. Full Example of Demand-Responsive Cost Allocation Results.

Question: Program Income

Response:

During class, several attendees had additional questions about program income. This briefing is intended to shed some light on FTA's guidance and requirements for program income. However, due to there being no single source of guidance on the issue of program income and the sometimes seemingly conflicting guidance provided in different documents, readers are encouraged to engage TxDOT PTN and/or their FTA regional representatives for additional information and clarification.

History of Program Income: The *Federal Financial Report* (FFR) was adopted in 2010 as the official form for FTA grant recipients to use for required quarterly and other milestone reporting for FTA grants. The FFR requires recipients to report the amount of program income earned and used. This new reporting requirement and the questions related to accounting and compliance was the catalyst for research to be conducted in 2012: *Best Accounting Practices in Sub-Recipient Recording and Reporting of Program Income* (NCHRP Project 20-65, Task 37, available at http://apps.trb.org/cmsfeed/TRBNetProjectDisplay.asp?ProjectID=3100. Unfortunately, this research basically found that there were no established best practices, and FTA grant recipients need more guidance. To date, some additional guidance has been provided in updated FTA circulars, the TrAMS user guide, and FTA's Master Agreement.

Definition of Program Income: The Federal DOT-specific definition of program income is provided in 2 CFR 1201.80 and is reiterated in FTA's Awards Management Circular:

> FTA recognizes program income to be gross income (minus the cost of generating program income) earned by the recipient, or subrecipient, that is directly generated by a supported activity, or earned only as a result of the federal Award during the period of performance…. (FTA C 5010.1E VI.7.a)

Some examples, include:

- Fees for services performed.
- Use of rental or real property acquired under the award.
- Sale of commodities or items fabricated under the award.
- License fees and royalties.
- Advertising / concessions specifically required by the federal Award.

FTA Grantees are encouraged to earn income to defray program costs (FTA C 5010.1E VI.7).

Key Elements to Understanding Program Income

Program income is really a special type of local revenue that meets the following criteria:

1. Revenue has to be directly generated by (or only earned as a result of) the FTA grant.
2. Revenue has to be earned during the period of performance of the specific FTA grant.

For example, a transit agency received an FTA grant to build a passenger facility, and this facility includes space leased by concessionaires, generating revenue for the transit agency. However, the concessionaires do not begin leasing space until after the FTA grant is closed out (see Example 1 in

Figure 5). Although the revenue from the leases would be directly generated by the FTA grant, the grant's period of performance is over, and the revenue would not be considered program income – it would merely be local revenue for the transit agency.

On the other hand, if the transit agency leased space prior to the close-out of the grant, the revenue from the leases would be program income (see Example 2 in Figure 5).

Example 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year…
Grant Period of Performance								
Income from Lease of Facility						Not program income		

Example 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year…
Grant Period of Performance								
Income from Lease of Facility				Program income		Not program income		

Figure 5. Examples of Whether Income from Leases of an FTA-Supported Facility is Considered Program Income.

Admittedly, examples involving facilities appear easier to interpret. Situations involving the FTA support for the purchase of rolling stock or assistance for operating expenses are not as clear.

<u>Guiding Principles about Program Income</u>

Although only indirectly stated by FTA, we find that the purpose of program income reporting and accounting requirements is best understood in the context of two overarching principles:

1. Program income should always be used for public transportation and no other expenses.
2. Program income should never replace any portion of local share of the project that is generating the income (with certain exceptions explicit under Section 5311 and Section 5310 grants).

These guiding principles make sense. Program income is only earned because the FTA provided funds in the first place. Therefore, FTA wants to make sure that the income is used for public transportation and not some other expense. This increases and reach of federal public transportation dollars. Lastly, the federal government always requires that local governments have "skin in the game" when receiving federal dollars by requiring local match. The FTA does not want to subsidize grant recipients' local match by allowing recipients to use program income for local match.

<u>How Program Income Can Be Used</u>

There are two main uses of program income for non-research/workforce development grants:

1. Retain program income for other capital or operating public transportation expenses.
2. Use the program income for local match for a *future* public transportation project supported by FTA assistance (if allowed under the specific grant). (FTA C 5010.1E VI.7.f)

In some cases, program income *may be used* as local match during the supporting grant's period of performance (e.g., Section 5311 and 5310, more details are provided below).

Specific Grant Program Requirements or Provisions for Program Income

This section will describe the specific provisions about program income in FTA's current circulars for Section 5307, 5311, 5310, and 5339 grant programs.

Section 5307 (FTA C 9030.1E)

Program income is only allowed to be used as local share if it was generated by an earlier grant (III.8.c). The circular also gives examples of program income, including income:

- "From fees for services performed,
- From the use or rental of real or personal property acquired with grant funds,
- From the sale of advertising and concessions,
- From social service contract revenue, and
- From the sale of commodities or items fabricated under a grant agreement."

So, although the sources of income listed above are also generally acceptable sources of local match (as per III.7), the income can only be used as match if the income was generated by an earlier grant.

The circular also discusses requirements for tracking and reporting program income. Specifically,

> The recipient's accounting system must be capable of identifying program income and the purpose for which the recipient used it. The recipient must account for program income in its accounting system, which FTA subjects to audit. The Federal Financial Report requires the reporting of program income. (III.8.c).

Section 5311 (FTA C 9040.1G)

Income from contracts with "human service agencies" and "university fees passed on to the transit provider" are considered "program income" (III.3.c) and may be used either:

- To reduce the net operating cost of the service or
- As local match on the existing grant.

The circular again reiterates the fact that "program income" from contracts for providing human service transportation may be used either to reduce the project cost or as local match, later in Chapter III.4.c. This section of the circular also reinforces the idea that, normally, program income is not allowed to be used as local match for the grant by which the income was generated: "Unlike other forms of program income, income from contracts to provide human service transportation may be used as the local match in which the income is generated."

The language in the Section 5311 circular explicitly states that revenue from contracts for service is program income, and this income can be used as local match for the current grant.

The Section 5311 circular also lists other potential sources of local match, one of which is included in the general definition of program income: revenue generate from advertising and concessions (III.4.h). Although not explicitly stated, it appears that the use of advertising and concession revenue as local match within the same grant that generated the revenue is prohibited under the principles of program income.

Section 5310 (FTA C 9070.1G)

The Section 5310 circular does not use the term program income at all and also does not use any language discussing how some types of revenue can only be used as local match in figure FTA grants. However, similar to the Section 5311 circular, income from contracts to provide human service transportation may be used either to reduce the project cost or to provide local match for operating assistance (III.16.a). The Section 5310 circular specifically discusses how, to use income from contracts for service as local match, the cost for providing the contracted service must be included in the grant's total project cost—suggesting that income from contracts for providing human service transportation is authorized as local match for the *current* grant.

The circular does list income generated from advertising and concessions (a type of program income) as a potential source of local match; however, the circular provides no guidance about whether the income had to be generated from an earlier grant or can be used as local match for the current grant.

Section 5339 (FTA C 5100)

The Section 5339 circular explicitly equates revenue from social service transportation contracts, fees from the use or rental of property, and the sale of advertising and concessions as program income and states that this income cannot be used as local match for the current grant (III.10.c).

Recipients may retain program income "so long as they use it for public transportation purposes" (III.10.c), and program income can be used as local match in a future FTA grant.

The circular also discusses requirements for tracking and reporting program income. Specifically,

> The recipient's accounting system must be capable of identifying program income and the purpose for which the recipient used it. The recipient must account for program income in its accounting system, which FTA subjects to audit. The Federal Financial Report requires the reporting of program income. (III.10.c).

<u>Summary</u>

The topic of program income under FTA grants is neither simple nor straightforward. In certain specific cases and situations (e.g., a single project/asset supported by a single grant), program income rules seem clear:

- Revenue generated while the grant supporting the project is active is considered program income.
- Program income must be reported in the FFR.
- Program income cannot be applied as local match on the current grant.

However, in a multi-grant, multi-project, multi-asset environment (like most transit agencies and states), whether certain revenues are considered program income and how those revenues can be used becomes difficult to discern. A few, specific rules emerge from reading FTA's circulars for Sections 5307, 5311, 5310, and 5339 grants:

- Program income should be tracked and reported—from the point of earning to the point of use.
- Revenue from contracts to provide transportation for human service (or social service) agencies and organizations *can be used as local match for the grant generating the income* for Section 5311 and 5310 recipients—even though it is considered program income.
- Otherwise, program income cannot be used as local match for the grant supporting the income generation (i.e., program income cannot be used as local match for the current grant).
- Most forms of program income from *prior* grants may be used as local match in a current or future grants.

We recommend that transit agencies ask their TxDOT and/or FTA representatives when specific questions regarding program income generation, use, and reporting arise.

References:

- FTA Master Agreement, Section 6.d (https://www.transit.dot.gov/funding/grantee-resources/sample-fta-agreements/fta-master-agreement-fiscal-year-2017)
- FTA Circulars: https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars

Question: Confirm/clarify – ADA paratransit expenses are eligible for FTA reimbursement at the capital project rate up to 10% of the Section 5307 or 5311 apportionment. FAST Act increased to 20%; however, FTA Circulars have not been revised.

Response:

We presented your question to FTA, Region VI and received the following response.

> FTA definitely expects that clarification will be included in updates to the programs' Circulars that are currently in development. [FTA has] already worked with a handful of grantees who've certified to meeting the requirements needed for the higher percentage eligible [20%] at 80/20.
>
> If grantees have any questions they should reach out to their FTA Regional office contacts.

The document in the link below shows FTA's review of Chapter 53 of title 49, United States Code, as amended by Fixing America's Surface Transportation (FAST) Act, and related MAP-21 provisions.

https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/chapter53redlineFAST.pdf

Excerpt from FAST Act with new language in *italics*:

> (3) Capital project.—The term "capital project" means a project for—…
>
> (I) the provision of nonfixed route paratransit transportation services in accordance with section 223 of the Americans with Disabilities Act of 1990 (42 U.S.C. 12143), but only for grant recipients that are in compliance with applicable requirements of that Act, including both fixed route and demand responsive service, and only for amounts
>
> > (i) not to exceed 10 percent of such recipient's annual formula apportionment under sections 5307 and 5311; *or*
> >
> > *(ii) not to exceed 20 percent of such recipient's annual formula apportionment under sections 5307 and 5311, if, consistent with guidance issued by the Secretary, the recipient demonstrates that the recipient meets at least 2 of the following requirements:*
> >
> > *(I) Provides an active fixed route travel training program that is available for riders with disabilities.*
> >
> > *(II) Provides that all fixed route and paratransit operators participate in a passenger safety, disability awareness, and sensitivity training class on at least a biennial basis.*
> >
> > (III) *Has memoranda of understanding in place with employers and the American Job Center to increase access to employment opportunities for people with disabilities.*

Question: Y'all mentioned that admin expenses could be reimbursed by 5307 as operating at 50/50. However, our FTA representative said admin expenses are non-reimbursable under the Section 5307 grant

Response:

We presented your question to FTA, Region VI. Here is the response we received:

> We are puzzled by the comment that a FTA representative would have said that administrative expenses aren't reimbursable under Operating Assistance. As long as the administrative expenses are related to the provision of public transportation, they would be eligible for reimbursement under Operating Assistance (at 50/50 federal/local match) [for eligible recipients in Small urbanized areas (UZAs) or recipients in Large UZAs that are eligible for operating expenses under the Special Rule].
>
> I'm not sure if this was the confusion in this case, but we often come across questions about which administrative expenses are eligible as Planning activities at a 80/20 federal/local ratio. For administrative expenses to be eligible as Planning activities, they must be administrative expenses directly related to an eligible planning activity like short- or long-range transportation studies, participation in the metropolitan or statewide planning process, etc.
>
> If there are any questions about this topic, we encourage grantees to reach out to their FTA Regional grant manager.

Section 5307 from FTA Circular 9030.1E
https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FINAL_FTA_circular9030.1E.pdf

PLANNING PROJECTS. *See the following verbatim from FTA C 9030.1E, page IV–1*
Section 5307 funds are available for the planning, engineering, design, and evaluation of public transportation projects and for other technical transportation related studies. Eligible activities include, but are not limited to: studies relating to management, operations, capital requirements, and economic feasibility; work elements and related activities preliminary to and in preparation for constructing, acquiring, or improving the operation of facilities and equipment; plans and specifications; evaluation of previously funded projects; job access and reverse commute projects; and other similar or related activities before and in preparation for the construction, acquisition, or improved operation of public transportation systems, facilities, and equipment.

FTA encourages recipients to use Section 5307 funds for technical studies of special interest to the transit agency, such as maintenance plan development, operational service planning, transit asset management plans, public transportation safety plans, and management and operation planning studies. FTA also encourages recipients to use program funds to supplement regular formula planning funds when the planning resources authorized by 49 U.S.C. 5305(d) are insufficient to meet such needs. Similarly, where the federal government proposes a high-cost study, such as one for major capital investments, recipients may use Section 5307 funds to supplement available formula planning funds and Federal Highway Administration (FHWA) planning funds.

All planning projects carried out within the metropolitan transportation planning process that use FTA or FHWA funds must be included in the unified planning work program (UPWP), as approved by the MPO.

OPERATING EXPENSES *See the following are selections from FTA C 9030.1E, page IV–14 through IV-18. The selections may not be verbatim. Please refer to the referenced pages in the circular.*

FTA provides funding to eligible recipients for costs incurred in the operation of public transportation service. In general, operating expenses are those costs necessary to operate, maintain, and manage a public transportation system. Operating expenses are eligible for two categories of recipients

- Recipients in Small UZAs.
- Recipients in Large UZAs that are eligible for operating expenses under the Special Rule for public transportation operators that operate 100 or fewer buses.

Expenses Eligible for Operating Assistance. The following are representative of operating expenses eligible for FTA operating assistance:

- Fuel, wages, and other expenses incurred in the operation of public transportation services to or within the UZA;
- Pension benefits and contributions to a pension plan, only if actually paid and only up to a maximum of the current year accrual;
- Self-insurance costs are limited to the extent of actual contribution to a reserve for an approved self-insurance program;
- Purchase of service contracts for public transportation services (except that certain portions of a service contract may be treated as a capital expense under the Capital Cost of Contracting);
- Interest and other financial costs associated with borrowing to provide working capital for the payment of current operating expenses. The recipient must properly document the loan agreement and open it to audit;
- Operating expenses associated with special public transportation services for people with disabilities (some of these costs may be supported with capital funds);
- Amortization of leasehold improvements may be eligible; recipients should discuss this with the FTA regional office;
- For private operators, a reasonable return on investment (profit) is an eligible expense;
- Eligible public transportation security operating assistance projects (for UZAs with a population of 200,000 or less); and
- Indirect costs provided that there is an approved cost allocation plan before incurring costs.

Expenses NOT Eligible for Operating Assistance. In practice, when recipients apply for FTA Urbanized Area Formula Program funding, eligible operating expenses are derived as the remainder when various categories of ineligible expenses are subtracted from total operating expenses. Ineligible expenses are expenses during the project-specified time period for activities not related to the provision of public transportation or within the recipient's UZA.

Recipients may NOT include ineligible expenses in the computation of net project cost. Such activities in UZAs might include, but are not limited to, the following:

- Charter bus operations;
- Sightseeing services;
- Freight haulage;
- School bus operations (i.e., operations for the exclusive transportation of school students);

- Intercity transportation other than commuter service;
- Public transportation services wholly outside of the UZA;
- Expenses for contingencies including contributions to a capital reserve account or fund;
- Capitalized costs or expenses recognized as part of and reimbursable under another FTA project;
- Expenses incurred by a designated recipient, or other agency in its capacity as an intermediary for providing Urbanized Area Formula Program funds between FTA and the public transportation operating entity;
- Indirect public transportation-related functions or activities of state, regional, or local entities performed as a normal or direct aspect of general public administration;
- For private operators of public transportation, provision for federal, state, or local income taxes;
- Depreciation;
- Interest expense on long-term borrowing and debt retirement;
- Lobbying expenses;
- Revenue items that directly offset public transportation expenses (referred to as contra-items), such as the following:
    - Interest income earned on working capital;
    - Proceeds from the sale of equipment in excess of the depreciated value (private operators only);
    - Cash discounts and refunds that directly offset accrued expenses;
    - Insurance claims and reimbursements that directly offset accrued liabilities; and
    - State fuel tax rebates to public operators.