



Metro

Los Angeles County
Metropolitan Transportation Authority

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Los Angeles, CA 90012-2952

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**EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
SEPTEMBER 17, 2009**

SUBJECT: FEDERAL LEGISLATION

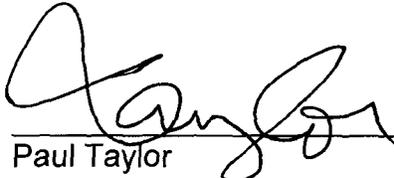
ACTION: ADOPT STAFF RECOMMENDATION

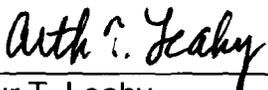
RECOMMENDATION

Adopt the following position:

H.R. 2746 (Carnahan) Transit Operating Assistance Grant Program – Would allow public transit agencies to use a portion of their federal transit funding for day-to-day operating expenses – **SUPPORT**

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BILL: H.R. 2746

AUTHOR: CONGRESSMAN RUSS CARNAHAN (D-MO)

SUBJECT: TRANSIT OPERATION ASSISTANCE GRANT PROGRAM

STATUS: PENDING IN THE HOUSE COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE, SUBCOMMITTEE ON HIGHWAYS AND TRANSIT

ACTION: SUPPORT

RECOMMENDATION

Staff recommends that the Board adopt a SUPPORT position on H.R. 2746 that would allow public transit agencies to use a portion of their federal transit funding for operating expenses

ISSUE

Generally, federal transportation program funds, apportioned by the U.S. Department of Transportation, may not be used to pay operating expenses in urbanized areas exceeding 200,000 in population. However, federal law does permit the application of funds from the Section 5307 Urbanized Area Formula Grants Program that is administered by the Federal Transit Administration (FTA) for preventative maintenance.

There has been growing support to expand federal funding eligibility to include operating assistance for all transit systems. Current law provides that federal assistance can be used only for capital expenditures, although a generous definition of "expanded maintenance functions" under FTA guidance does allow for reimbursement of activities that accounting principles designate as operating expenses. Nonetheless, with growing pressures on many state budgets, some transit systems have begun to advocate for a return to the much broader definition of operating assistance that was allowed up until the 1990s.

Despite support from some quarters of the transit industry, a number of larger systems (Chicago, New York) have expressed concerns about the impact such a move would have on overall funding for transit systems due to the impact that operating assistance would have on the outlay rate. "Outlay rate" is a measure of the lapsed time between the obligation of federal funds and the actual drawdown, or expenditure, of those funds by a grantee. Outlay rates were an important reason for the gradual withdrawal of federal operating assistance of transit systems.

On average, operating grants are spent more quickly than capital grants. Thus, the effect on the U.S. Treasury cannot be ignored, as it is an important consideration for policymakers. Those who have expressed concerns about a return to operating expense allowances fear that the federal budget policymakers will argue successfully for a reduction in capital dollars in the transit program – and the reduction will not be on a dollar-for-dollar basis. The ultimate fear is that two or three capital dollars will be sacrificed for every dollar consumed in operating assistance, a trend that most large operators do not feel would be good in the long run.

PROVISIONS

This legislation would permit the use of Section 5307 federal transportation formula funds for operating costs of equipment and facilities for use in public transportation. Specifically, in large urbanized areas, transportation agencies would be permitted to use not more than 30% of Section 5307 funds for operating costs of equipment and facilities for use in public transportation.

IMPACT ANALYSIS

Our agency has historically used over 90% of Section 5307 federal formula funds for preventative maintenance for our bus system. The FTA has designated preventative maintenance as an eligible expense for grant purposes with respect to Section 5307 funds. Preventive maintenance is an operating expenditure according to accounting principles. Given that we are already using an extremely high percentage of Section 5307 formula funding for preventative maintenance, this bill would not have a demonstrable effect in how we currently use federal funds to support our bus operating expenses. However, the legislation would provide us with flexibility for Section 5307 funds to be used for all operating expenses should the FTA, in the future, no longer deem preventative maintenance as an eligible expense for grant purposes.