

Capital Funding And Relationships With The MPO

The funding of MTA capital projects has a fairly simple structure. All capital projects are 100% grant funded. Capital project costs are paid first by the MTA. Then, the MTA's grantors reimburse the MTA. The Federal government, acting through the Federal Transit Administration (FTA), funds 80% of capital project cost. Currently, and in the recent past, one Federal transit grant program — section 5307 urbanized-area formula grants — has been the predominant source of capital funds used by the MTA. The State of Tennessee, acting through the Tennessee Department of Transportation, funds 10% of capital project costs. The Metro government funds the remaining 10%.

Grant expenditures for FY2000, and their allocation to the FTA, the State, and Metro, are presented in Table 6-1. Also noted in the table is the balance remaining on each grant at the close of FY2000.

Table 6-1
MTA Performance Audit
MTA Capital Project Funding, FY2000

Grant	GRANT EXPENDITURES FOR FY2000				Avail. For use bal. @ 6/30/00
	Federal	State	Metro	total	
TN-03-0049	307,499	38,437	38,437	384,373	3,841
TN-90-X112	8,523	-	-	8,523	45,688
TN-90-X117	-	-	-	-	-
TN-90-X126	36,047	4,506	4,506	45,059	3,445
TN-90-X135	-	-	-	-	-
TN-90-X145	-	-	-	-	789
TN-90-X155	448,356	56,043	56,043	560,442	1,161,199
TN-90-X163	1,771,903	221,487	221,487	2,214,877	5,918,310
TN-90-X173	3,568,256	446,034	446,031	4,460,321	1,637,048
Total	6,140,584	766,507	766,504	7,673,595	8,770,320
% of Total	80.0%	10.0%	10.0%	100.0%	

sources:

MTA Accounting Dept., Grant Expenditure Detail for FY2000 (worksheet dated 11/16/00)

Memo, Shelly MacDonald (MTA) to Kraft CPAs, Unexpended Grant Monies @6/30/00 (10/2/00)

The capital funding process is closely associated with the metropolitan transportation planning process, conducted under the auspices of the Nashville Area Metropolitan Planning Organization (MPO). The MPO is a policy board comprising Davidson, Rutherford, Sumner, Williamson, and Wilson counties. The MPO is staffed by the Metro Planning Commission personnel.

The MPO reviews and adopts a 20-year metropolitan transportation plan and regional transportation improvement program (TIP). The TIP, adopted triennially, lists individual projects to receive Federal transportation funds. The projects listed in the TIP must be consistent with the twenty-year metropolitan transportation plan. Both the twenty-year plan and the TIP must be financially constrained — that is, the funding for the projects must have been committed or be reasonably obtainable. This is a condition of Federal law and must be met for the region to receive Federal transportation funds.

The MTA's capital projects are included in the TIP, which satisfies the basic requirement for Federal funding. The TIP is also the basis for authorizing the State share of capital projects, and serves as the basis for the capital improvement plan (CIP) funding request to Metro by the MTA. The MTA projects currently included in the TIP are listed in Exhibit 6-1.

The process for acquiring the Federal funds is governed by the individual grant programs. The Federal Section 5307 transit grant funds are allocated to the MTA by formula. The FTA informs transit systems annually of the funding likely to be available, and then updates this amount when Congressional appropriations are made. MTA enters into a grant agreement for these funds, which remains in effect until the funds are depleted.

MTA submits payment requests directly to the FTA through an on-line system. The MTA will also be using Congestion Management & Air Quality (CMAQ) program funds for one of its capital projects. These are technically Federal Aid Highway funds, but once approved locally (by the MPO) for use in a transit program, the funds are managed by the FTA in the same manner as for the Section 5307 urbanized area formula grant funds.

One prominent Federal transit program that MTA has used inconsistently due to issues related to local match funding, is the Section 5309 Bus program. This is a discretionary grant program used for bus system capital acquisition and replacement projects. MTA is part of a statewide 5309 funding request that is being led by the State DOT. The 5309 Bus program funds are appropriated by Congressional earmark. Thus, support from the State's Congressional delegation is an important element in acquiring the funds. This program could provide significant funding for MTA bus replacement and facility rehabilitation, and should be energetically pursued by the MTA. We noted that the Metro Planning Organization (MPO) and the MTA Executive Director are well aware of this funding program.

MTA separately requests approval from Metro for funding a 10% share of the MTA capital projects. The submission to Metro does not present a capital plan in a comprehensive, easily understood format. This budget request should clearly summarize capital requirements in the context of the triennial TIP plus any other interim requests, as well as a comprehensive fleet replacement plan presentation. It should also include estimated funding requirement dates.

According to the MTA Executive Director, there is no agreed-upon process for obtaining funds from Metro once the CIP is approved. When MTA projects are to be funded from a bond issue for a group of Metro projects, funds may not be transferred to the MTA for some time after MTA incurs the capital expenditure.

At the time the fieldwork for this management audit was conducted, Metro owed MTA approximately \$2.3 million, dating back to project expenditures in FY1998. According to a worksheet provided by the MTA Director of Accounting, the receivables were as follows:

➤ 1999 Capital projects	\$495,470
➤ 1999 Capital projects	1,179,601
➤ 2000 Capital Projects	567,300
➤ 1999 Electric Trolley Demonstration	37,219

Conclusions

- A regional process exists for considering MTA grant-funded projects in the context of other transportation projects.
- Federal funds appropriated for MTA grants are part of a larger appropriation, from which MTA receives its share via formula.
- Although capital projects are 100% grant funded, capital project funding is still a cash flow concern for the MTA since it must first fund the capital projects, then seek reimbursement.
- Delay in providing the local match for Federal grant funds exacerbates the MTA's liquidity problems. See section on *Cash Management*
- There is apparently no agreed-upon procedure for MTA to obtain cash from Metro for its share of capital project costs in a timely fashion.
- The process regarding the capital budget request to Metro for the local match needs improvement.
- Capital and Operating subsidies are discussed in detail in the section *Fares and other Revenues* subheading Other Revenues. See also Exhibit 7-2 which accompanies this discussion.

Recommendations

- MTA should work with Metro to develop a mutually agreeable procedure for payment of the local share of MTA capital projects, with the objective that the local share is paid within an identified timeframe. This procedure should include a means to resolve problems if MTA project expenditures deviate from the amounts agreed to when the Metro CIP is approved by the Council. As part of this enhanced procedure MTA needs to improve the capital budget presentation to Metro. It should clearly summarize capital requirements in the context of the triennial TIP and any subsequent amendments. This submission should also include a

comprehensive fleet replacement plan presentation. Metro policy makers and administrators should be able to clearly understand the capital budgeting methodology. It is crucial that the annual presentation of capital requirements be understood in terms of the multi-year planning impact.

- MTA should work actively with Metro to ensure that available Section 5309 federal Bus funds are used to the greatest degree possible. These funds should not be forfeited due to issues related to local matching funds unless unavoidable. To be successful, this effort will require MTA to clearly describe its capital needs (see comment above).

Cost Estimate

None.