The Federal New Starts Program: What Do New Regulations Mean for Metropolitan Areas?

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Introduction

On January 9, 2013, the Federal Transit Administration (FTA) published a new final rule for evaluating the applications submitted by metropolitan areas seeking major capital grants under the New Starts program. This grant program has helped fund rail and bus rapid transit projects around the United States. The new guidelines have been hailed by some and criticized by others. However, they create an opportunity to revisit the program’s design and the evaluation process used by the FTA to award grants. This analysis also comes in light of a study of the New Starts program from 1998 through 2011 published last year.

The study found that of the two categories of criteria that the FTA used to make funding decisions, one clearly had more importance: the extent of local funding available for the project. This occurred despite the fact that the FTA officially gave equal consideration to both local financial commitments and project justification. Project justification is a complicated combination of expected project outcomes, ranging from long-term ridership and transit-oriented development to reductions in greenhouse gases.

The new rule and guidelines make minor changes in how local financial commitments will be evaluated, but they constitute major changes in how the FTA will assess project justification. The actual rule says that FTA will “average” the two categories, and until new rules are issued, the FTA plans to assign equal weight to the two categories. The new regulations permit or encourage applicants to claim a wider range of benefits as part of project justification while reducing the project costs against which benefits are evaluated. These changes are the source of great controversy. Some groups argue that they are long overdue because major transit projects have greater benefits than the FTA has recognized in the past, such as economic development and lowered environmental pollution. Other groups argue that that many of the claimed benefits are prime examples of the “optimism bias” to which the supporters of rail transit projects fall prey, overestimating the effect of transit improvements on ridership (Federal Transit Administration 2008) and attributing to them such benefits as decreased congestion and more concentrated and diverse land use patterns.

If the magnitude of local financial commitment continues to carry more weight in FTA’s awards (regardless of their official stance), what will this mean for the goals that the revised regulations seek? The first section below describes the FTA New Starts program in the past, some recent changes, and the controversy over those changes (and indeed the program itself). The next section briefly summarizes the key elements of the study of New Starts awards. The concluding section assays some possible outcomes of the new rule and guidelines in light of the research findings.

New Starts Program

The New Starts program is the current competitive federal grant program supporting rail and other fixed guideway systems (such as bus rapid transit and commuter rail). Congress has authorized billions for the program over the past several decades, and the most recent transportation bill (Moving Ahead for Progress is the 21st Century [MAP-21]) authorized $1.9 billion for fiscal year 2013 and another $1.9 billion for fiscal year 2014. The majority of funds for the New Starts program, like mass transit funds generally, come from the federal excise tax levied on fuel consumption by motorists.

Communities across the nation compete against one another for the limited New Starts funds. To be considered, applicants must complete a multistep application, achieving FTA authorization at each step to proceed to the next. The FTA evaluates each project in the pipeline, assigning an overall rating of low,
medium-low, medium, medium-high, or high. If applicants move successfully through all the steps in the process, the FTA will sign a full funding agreement with them. However, there are always more projects in the pipeline than can ever be funded by the FTA. Even funded applicants rarely receive the maximum possible federal share of capital costs (80%); the average successful recipient receives only 55% of total project costs.

The FTA says it equally considers two categories of factors in evaluating applicants: local financial commitment and project justification. The first set of criteria includes the share of funds that will not come from the New Starts program, the strength of the capital funding plan, and the strength of the transit agency’s operating funding. The second set of criteria, project justification, includes many factors and projected effects. Both the FTA and Congress have changed both the actual measures and the specific weights each measure is given in project evaluation, and additional rule changes are underway.

**Measuring Local Financial Commitment**

An applicant’s rating on financial commitment has historically constituted half of the overall FTA rating of the proposed project. Until the new rules, the financial commitment rating had three components: the non-New Starts share, the capital plan, and the availability of sufficient long-term operating funds.

The FTA now officially favors applications that request less than the maximum federal share (something it had informally advocated in the past). While allowing federal money to go further, the major rationale for this approach appears to be FTA’s concern that federal funds should support only those projects to which local (or state) officials are strongly committed, as demonstrated by the extent of their financial contribution to the project. The FTA also considers the applicant’s capital funding plan, including whether non-New Starts funds are actually committed and whether cost estimates are reasonable.

The FTA reviews the financial health of the applicant to ensure that it has adequate funds to operate both the proposed capital investment and the total expanded system. Transit operators that cannot afford frequent service on the new infrastructure will not deliver on the promised benefits. Moreover, the FTA seeks to ensure that proposed services will not be funded with reductions in existing services elsewhere. Though reasonable, the use of this criterion could disadvantage financially strapped transit agencies, which are often in larger or older metropolitan areas. Most of the evaluation criteria the FTA uses could similarly have unintended consequences.

**Justifying Projects for Federal Investment**

Traditionally proposed New Starts projects have been justified and thus judged on several criteria: their cost-effectiveness (measured first by cost per new passenger and more recently by travel times savings), the existence of transit supportive land use policies (such as transit-oriented development or in-fill programs), the mobility impacts (as shown in average time savings for riders, the benefits received by low income households, and existing employment or jobs to be developed near planned stations), environmental impacts (whether projects were in nonattainment areas for environmental requirements), operating efficiency (projected changes in system costs per passenger mile after project implementation), and economic development effects (a factor added by Congress in the Intermodal Surface Transportation Efficiency Act). The latest federal legislation, MAP-21, replaced some weighting and criteria; for example, operating efficiency was replaced with congestion relief, which will be the subject of future rules.

This section only describes a few changes in the metrics the FTA uses to evaluate project justification because so many factors are undergoing change and new rules are expected about others.

Although Congress has specifically identified the evaluation factors, the FTA is given significant
discretion. The FTA has continually changed individual measures of benefits and their weights. For example, the Government Accountability Office (2005) reported 16 changes (7 which were part of formalized rulemaking) between FY 2001 and FY 2006 evaluation cycles. The FTA used its administrative discretion to give official weight only to cost-effectiveness and land use in calculating a project’s overall justification rating for several years beginning in the FY 2004 evaluation. During this period, the other factors could be considered (though unweighted) in the project justification score (US Government Accountability Office 2005). Before the 2013 final rule, the FTA (under the Obama administration) adjusted the project justification weights to once again include more factors.

Some analysts charge that the measures the FTA used, such as travel time savings or land use policies, fail to capture all the benefits of proposed projects (US Government Accountability Office 2008). But other critics assert that project evaluations represent unrealistic assessments of the benefits of such projects.

There have also been other sources of controversy in project evaluation. The original environmental measure was simply whether the project was in a “nonattainment” area; those that were in a nonattainment area gained the same higher rating. This was, in the words of Reconnecting America, “hardly a meaningful way of distinguishing among projects.” Though the older guidelines gave some attention to a proposed project’s role in connecting low-income people with jobs, it did not consider a crucial element: the role of affordable housing near planned transit projects or jobs.

Moreover, the formal FTA measures, besides being controversial in what they attempted to evaluate, were often complicated and difficult to understand. Therefore, applicants often spent considerable resources measuring and calculating such indices. For example, calculating transportation system user benefits in a way that met the FTA’s expectations was difficult and time consuming. The measure attempted to calculate total travel time savings (in hours per dollar) that travelers would experience if the project were constructed. But to do so, applicants had to rely on consultants using travel models so technical that few fully understood them. Furthermore, the model assumptions were rarely clear to most stakeholders; few understood that altering just one or two assumptions in the model could substantially change the computed cost-effectiveness of a proposed project.

The New Rule and Guidelines

In 2010, the FTA began formulating modified New Starts regulations and policy guidelines to meet varied concerns from applicants and policy analysts. The FTA issued draft regulations in 2012 and the final rule on January 9, 2013 (effective April 9, 2013). In January 2013, it also released a proposed policy guidance which it then finalized in August 2013. The FTA’s stated goals in revising the guidelines to applicants were to measure and consider a wider range of benefits from projects than in the past as well as to streamline the application process. Projects approved into the final design stage under the old rule and policy guidelines will continue under those guidelines. However, the rules were first developed before passage of the latest federal surface transportation funded legislation, MAP-21, which included several new categories of capital and pilot projects in the New Starts program. Therefore, these new kinds of projects are not covered by the new rule (though they may be in the future). Because of technical nuances and the scope of recent rules (as well as forthcoming rules already in development after passage of MAP-21) this section provides examples, rather than a comprehensive analysis, of the evaluation changes.

The Obama administration and other proponents of new regulations argue that they reflect an effort to require more straightforward evaluation measures that reduce the complexity of the application process, develop more meaningful measures of environmental effects, and integrate affordable housing measures and concerns into the project (and therefore the evaluation process). Under the new guidelines, applicants may use a national model to calculate potential ridership (as opposed to developing local
models based on local conditions), and may use warrants or prequalified levels based on corridor or project characteristics. The new rule returns to an older focus of cost effectiveness, trips taken on the project, which is both easier to measure than the transportation system user benefit and does not inherently favor projects with longer routes. To encourage transit-supportive elements (such as pedestrian and cycling improvements or projects developed through partnerships between transit agencies and private-sector developers), applicants can exclude the funds requested for these enhancements in the cost-effectiveness calculations.

Environmental effect will now be measured against four elements of a project: air quality, greenhouse gas emissions, energy savings, and safety. Under the new rule, the FTA will consider the area’s affordable housing plan and policies; in fact, affordable housing concerns are explicitly incorporated into the evaluation of other measures. For example, economic development benefits will be assessed by how well they incorporate affordability concerns, while land use evaluations will evaluate the extent of current affordable housing opportunities. In short, more attention to affordable housing will raise applicant scores. While the standard models that the FTA will develop will not include some hotly debated second-order benefits (such as increased transit use that might evolve if land use densifies near light rail stations), localities may use an alternative approach in doing economic projections and consider possible second- and third-order benefits.

The new rule has also made changes to how the FTA evaluates local financial commitment. In general, these changes make it easier for applicants to get a better rating and more project financing. The metrics focus on the current capital and operating condition of the applicant more than its long-term operating budget. The evaluation still favors projects with substantial local match but no longer assigns a weight to local share in calculating the local financial commitment rating.

Whether intentional or not, the new rule and supporting guidelines advantage some applicants and disadvantage others. Moving from evaluating travel time savings to evaluating the number of trips taken will allow shorter segments and light rail projects to do better in the evaluation process. It will no longer matter how long the average rider travels (in distance); any new rider, whether traveling a mile or 30 miles, is equivalent in cost-effectiveness calculations.

Changing how environmental effect is assessed is also likely to advantage applicants in lower-density or suburban locations because all calculations of environmental benefit ultimately depend on changes in vehicle miles traveled. Reductions in vehicle miles traveled are likely to be far lower in older, denser, more transit-dependent communities even if they experience a larger increase in transit ridership from the projects for which they seek funds.

**Critics and Supporters of the New Rules**

The New Starts program itself, and the changes in regulations, have been hailed by many organizations that support transit-oriented development, encourage the use of alternatives to the private car to protect the environment and reduce dependence on foreign oil, or advocate for higher density mixed use communities. These groups generally support the new rule and policies because they explicitly recognize that major transit investments have several benefits and allow the federal government to fund projects that provide savings and economic effects extending beyond the transportation realm. And they do so even if the anticipated transportation benefits (e.g., time saved or congestion decreased) are lower than required under previous grant standards.

However, the New Starts program (and particularly the new guidelines) has equally been assailed by groups ranging from environmental organizations that support different transportation alternatives to the Reason Foundation, a Libertarian organization. Many critics argue that by ignoring travel time savings, using only annual costs per trip, and simplifying the cost-effectiveness requirements, the FTA elevates
proposals with limited transportation benefits over those with more clear-cut transportation outcomes.

The Reason Foundation, for example, argues that the new rules will arbitrarily fund transit options that fail meaningful transportation efficiency and performance standards. Reason is also opposed to using federal gas tax revenues to support nontransportation objectives, such as affordable housing. The Institute for Transportation and Development Policy, an international organization that advocates for both environmental protection and transportation equity, argues that the new rules weaken the requirement that applicants prove that there are no better or more cost-effective transportation improvements that would provide the same benefits—particularly bus rapid transit, an option that the Institute supports worldwide. Both organizations seek to return the New Starts grant awards to what they consider a more performance-based assessment.


We now turn to the recent study that focused on exactly how the FTA chose among competing projects and distributed limited resources among the “winning” applicants (FY 1998–2011). This may provide insight on the question of whether and how the changes created by the new rule will affect the patterns of FTA decisionmaking. Moreover, as the findings below show, metrics of project benefits could play a smaller role than local financial capacity in the future, as it has in the past.

The recently published New Starts study (Lowe 2013) reviewed 60 transit projects that the FTA evaluated for New Starts grants from 1998 to 2011. The primary goal was to assess how the FTA actually made grant awards compared with their stated decisionmaking criteria. The research also informs discussions on how local dynamics affect federal grant-making.

Some theories assume that local or constituent characteristics affect federal funding patterns. For example, research shows that grant recipients with more formal cooperative agreements with other governmental entities and those with more institutional capacity are more likely to be successful at getting federal grants. Other theories hold that federal grants are used by local politicians to bring any kind of funds to their district in ways that attract voters. An important element of the second set of theories is a focus on how successful individual Congressional leaders are in getting federal funds to their district (for example, by serving on influential Congressional committees).

This analysis viewed local financial commitments to projects as a constituency-related factor; that is, the hypothesis was that local funding, rather than politician influence (reflected in congressional seniority or committee assignments), determines federal transit awards. Regression models used two proxies for success: actual funding outcome (whether the FTA awarded a grant) and time in the pipeline. As the proxy for local financial commitment, the model used the FTA’s financial ratings for each project which in turn is based on the magnitude of the local share, the evaluation of the funding plan, and the long-term fiscal capacity of the recipient.

The models also tested for alternative explanations of FTA funding decisions, using the FTA’s own justification ratings as a proxy for overall project benefits, and the leadership role of members of congress as a proxy for theories about pork barrel factors.

The statistical tests provided evidence of the main hypothesis: that local financial capacity determines which projects receive federal funds. Project justification did not show a significant relationship to funding outcomes but models did show that project justification increased the speed of the process.

Program design was not meaningless of course; it is linked to local financial commitments because
federal funds are limited, and even the most highly rated projects will require substantial local commitments. Therefore, projects are always designed locally with fiscal imperatives in mind. High project justification scores, representing high project benefits, were related to only one measure of success (and weakly). Also, it was clear that program benefits were necessary to meet the threshold for further consideration, regardless of local commitments. However, once past the minimum cutoff, the project justification scores did not significantly influence FTA decisionmaking.

Overall, it appears that local characteristics, particularly local financial commitment, better explained the New Starts funding decisions between 1999 and 2011 than did Congressional influence or project justification. It is clear that local financial commitment has a far greater role in FTA decisionmaking—or at least funding outcomes—than the agency announces or maintains. The only other variable with any predictive power was transit modal split in a project’s metropolitan area; the higher the transit share of local commute travel was, the greater was the likelihood of receiving a grant.

Implications for Future FTA Funding Decisions

FTA funding decisions are complicated and political and it may be hard to isolate the effect of the new rule and guidelines on FTA decisionmaking for some time (in part because projects already well into the pipeline will be judged against the old criteria). However, based on Lowe’s published analyses, many outcomes are possible:

● No change at all (Scenario I)

Because it does not appear that project justification matters as much local financial commitment, a change in the former may not lead to any changes in the federal decision process. The FTA may continue to give priority to projects with substantial local financial commitments regardless of how expansive the project justification criteria have become.

● No change at all (Scenario II)

If all applicants can predict more benefits based on the new guidelines, then those projects with more direct transportation benefits will still garner higher ratings. Even if the new guidelines make it easier for projects with fewer direct transportation benefits to move further along (as some critics assert), they will still have to compete against better projects that have also added those nontransportation benefits. In other words, if all applicants claim similar nontransportation benefits, then perhaps those projects that have more direct transportation benefits will still be more competitive.

● Applicants with more institutional capacity will be more successful.

Applicants with greater institutional capacity for preparing grants may be able to take better advantage of the possibilities offered by the more lenient or expansive project justification criteria. Institutional capacity may continue to be critical.

Or the opposite:

● Applicants with fewer institutional advantages will become more successful.

Applicants may now use national models and published guides for many of the required detailed analyses (rather than running elaborate models and conducting detailed local studies). Therefore,
it is possible that smaller metropolitan areas or those with less planning capacity (which were previously unable to compete successfully or at all) will be able to prepare winning grants. However, at the same time, transit agencies with limited financial capacity will continue to be rated poorly.

- **Emphasis on secondary benefits will lead to greater local financial commitments for some projects, leading to greater success in the FTA process.**

The greater local emphasis on nontransportation benefits may attract new stakeholders and thus create more local funding opportunities. For example, if a project focuses on economic development benefits, the local business community may become more supportive; if the project focuses on increasing affordable housing opportunities, a number of neighborhood organizations and community organizations may become project supporters. This effect, if it occurs, may happen across the nation or only in communities with certain characteristics. It may be that only those areas with high institutional capacity will be able to create and take advantage of such shifts in local priorities.

The recently released New Starts rule and guidelines may make it easier for more applicants to apply for funds. But they don’t necessarily level the playing field. More advantaged applicants may retain their advantage because they can generate greater local funding opportunities. Only time will tell.

**Notes**


**References**


