

## **APPENDIX D: FY 2006 NEW STARTS EVALUATION AND RATING PROCESS**

This document describes the basic methodology that the Federal Transit Administration (FTA) intends to use to evaluate, rate, and recommend funding for projects included in the *FY 2006 Annual Report on New Starts*. This methodology is similar to the process used in the evaluation of projects included in the *FY 2004* and *2005 Annual Report on New Starts*, and consistent with FTA's *Final Rule on Major Capital Investment Projects* issued on December 7, 2000.

Section I of this appendix provides an introduction to the legislative background of FTA's project evaluation and rating responsibilities; identifies each of the statutory criteria used by FTA in its evaluation process; and summarizes the overall project evaluation and rating process. Sections II and III describe the specific project justification and local financial commitment measures and ratings, respectively, including an explanation of the rating ranges and thresholds for each individual measure and how they are rolled up into aggregate criteria ratings. Section IV concludes this paper with a summary of what the overall project rating means.

This document is supplemented by two additional documents. *Guidelines and Standards for Assessing Transit-Supportive Land Use* and *Guidelines and Standards for Assessing Local Financial Commitment* provide additional detail on the process FTA uses to evaluate these two criteria. These materials will be posted on FTA's website at its site for *Major Investment Project Planning and Development* [http://www.fta.dot.gov/grant\\_programs/transportation\\_planning/9924\\_ENG\\_HTML.htm](http://www.fta.dot.gov/grant_programs/transportation_planning/9924_ENG_HTML.htm). in May 2004.

FTA reminds the audience of this paper that project evaluation is an on-going process. It is based on an analysis of the Section 5309 New Starts Criteria and documentation submitted to FTA by local agencies. As New Starts projects proceed through project development, the estimates of costs, benefits, and impacts are refined. The FTA ratings and recommendations will be updated at least annually to reflect new information, changing conditions, and refined financing plans.

### **I. LEGISLATIVE BACKGROUND**

On June 9, 1998, the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) was enacted. It requires the U.S. Department of Transportation to submit an annual report to Congress (*Annual Report on New Starts*) that includes a proposal on the allocation of amounts to be made available to finance grants and loans for capital projects for new fixed guideway systems and extensions to fixed guideway systems among applicants for those amounts. It also requires that the annual report include the Secretary's evaluations and ratings of the capital projects seeking grants or loans for new or extended fixed guideway systems.

TEA-21 also mandates that proposed New Starts projects must receive FTA approval to advance from alternatives analysis to preliminary engineering, and from preliminary

engineering to final design and construction. This approval will be based, in large part, on an evaluation of the proposed project's New Starts criteria.

FTA's evaluation includes a review of each project's New Starts criteria and the assignment of a rating to each criterion. Based on these criteria-specific ratings, candidate New Starts projects may be rated as "Highly Recommended" "Recommended" or "Not Recommended".

FTA's approach to developing project ratings for candidate New Starts projects is described in its *Final Rule on Major Capital Investment Projects*. The *Final Rule* confirms the criteria and establishes the measures and general process for evaluating New Starts projects, but does not provide the specific weights that FTA employs in its consideration of each measure. The weights to be used for the *FY 2006 Annual Report on New Starts* (and that were used in FTA's FY 2004 and 2005 evaluations) are described in Sections II and III of this paper.

The following subsections identify the specific New Starts project justification and local financial commitment criteria.

#### ***I.A Project Justification Criteria***

Section 5309(e)(1)(B) requires that projects proposed for New Starts funding be justified based on a comprehensive review of the following criteria:

- Mobility Improvements
- Environmental Benefits
- Operating Efficiencies
- Cost Effectiveness

Section 5309(e)(3)(C) requires FTA to further consider mass transit-supportive land use policies and future patterns; subsequently, FTA added the following criteria:

- Transit Supportive Existing Land Use and Future Patterns

Finally, FTA also considers "other factors," as required by Section 5309(e)(3)(H). Section III of this paper presents the measures FTA uses to represent each of these criteria, and how FTA evaluates them.

#### ***I.B Local Financial Commitment***

Section 5309(e)(1)(C) requires that proposed projects also be supported by an acceptable degree of local financial commitment, including evidence of stable and dependable financing sources to construct, maintain and operate the transit system. The measures for the evaluation of the local financial commitment to a proposed project are:

- The proposed share of total project costs from sources other than the Section 5309 New Starts program, including Federal formula and flexible funds, the local match required by Federal law and any additional capital funding ("overmatch");
- The strength of the proposed capital financing plan;

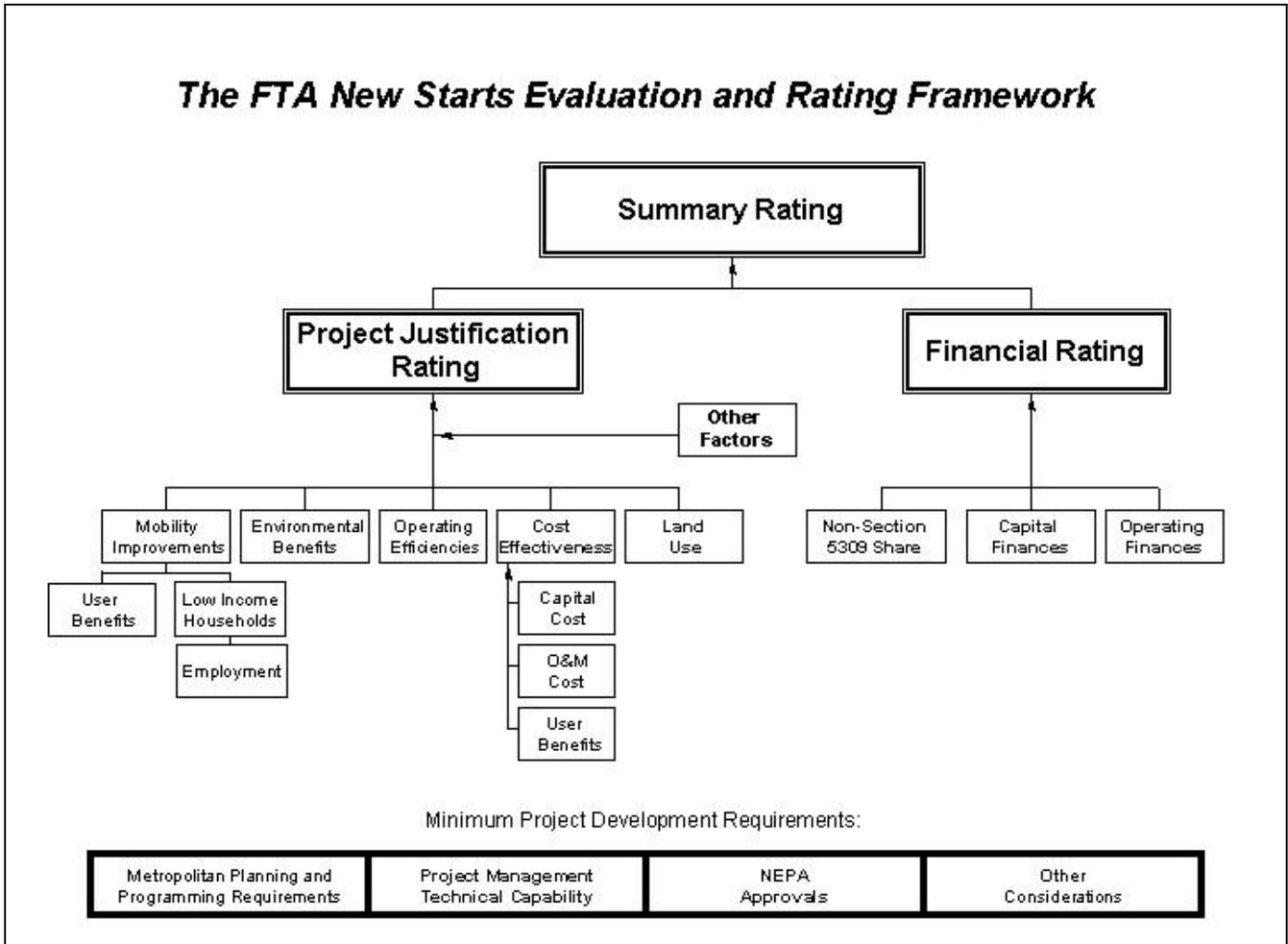
- The ability of the sponsoring agency to fund operation and maintenance of the entire system as planned once the guideway project is built.

Section IV describes how FTA uses these measures in its evaluation of candidate New Starts projects.

***I.C The Evaluation Process***

FTA evaluates proposed New Start projects against the full range of criteria for both project justification and local financial commitment, using a multiple measure method illustrated on the following flow chart. The specific project justification and finance measures included in Figure I-1 are described in Sections II and III of this paper, respectively.

**Figure I-1 New Starts Evaluation Process**



### ***I.D Project Recommendations***

Consistent with §5309(e)(6), an overall project rating of "Highly Recommended", "Recommended" or "Not Recommended" is assigned to each proposed project, based on the results of FTA's evaluation of each of the criteria for project justification and local financial commitment.

To assign overall project ratings ("Highly Recommended", "Recommended" or "Not Recommended") to each proposed New Starts project, FTA considers the individual ratings for each of the financial rating factors and project justification criteria (these individual ratings are discussed in the following sections). FTA combines this information into summary "finance" and "project justification" ratings for each project.

For both project justification and finance, summary ratings are assigned as one of the following: "high", "medium-high", "medium", "low-medium" or "low." These summary ratings are in turn used to determine overall project ratings according to the following decision rule:

- **Highly Recommended** Projects must be rated at least "medium high" for both finance and project justification;
- **Recommended** Projects must be rated at least "medium" for both finance and project justification;
- **Not Recommended** Projects not rated at least "medium" in both finance and justification will be rated as "not recommended"

### ***I.E Ratings: An On-going Process***

Again, it is important to emphasize that project evaluation is an on-going process. FTA evaluation and rating occurs annually in support of budget recommendations presented in the Annual Report on New Starts and when a project sponsor requests FTA approval to advanced their proposed New Start into preliminary engineering and final design. Consequently, as proposed New Starts projects proceed through the project development process, information concerning costs, benefits, and impacts is refined and the ratings updated to reflect new information.

## **II. PROJECT JUSTIFICATION RATING**

The following summarizes FTA's process for evaluating the project justification criteria of proposed New Starts projects.

### ***II.A Project Justification Rating***

FTA assigns a summary project justification rating of "high", "medium-high", "medium", "low-medium" or "low" to each project based on consideration of the ratings applied to the project justification criteria presented in Section I and each of the specific measures (and, for land use, categories) identified in Table II-1 on the following page:

**Table II-1 New Starts Project Justification Criteria and Supporting Measures and Categories**

Criterion	Measures/Categories
Cost Effectiveness	<ul style="list-style-type: none"> <li>• Incremental Cost per Hour of Transportation System User Benefit</li> </ul>
Transit Supportive Land Use and Future Patterns	<ul style="list-style-type: none"> <li>• Existing Land Use</li> <li>• Transit Supportive Plans and Policies</li> <li>• Performance and Impacts of Policies</li> </ul>
Mobility Improvements	<ul style="list-style-type: none"> <li>• Normalized Travel Time Savings (Transportation System User Benefit per Project Passenger Mile)</li> <li>• Low-Income Households Served</li> <li>• Employment Near Stations</li> </ul>
Operating Efficiencies	<ul style="list-style-type: none"> <li>• System Operating Cost per Passenger Mile</li> </ul>
Environmental Benefits	<ul style="list-style-type: none"> <li>• Change in Regional Pollutant Emissions</li> <li>• Change in Regional Energy Consumption</li> <li>• EPA Air Quality Designation</li> </ul>

For mobility improvements and transit supportive land use, projects are aligned for each measure and category in a continuum of values from low to high and broken into five groups, with each group assigned a numerative rating of 1 (“low”) to 5 (“high”). The thresholds that distinguish the five groups are not pure quintiles (that is, 20 percent each of the total number of projects being evaluated for the measure) but rather logical break points in the aligned data that separate one group from another. Where criteria are represented by more than one measure, ratings for each measure are rolled up and averaged into criterion-specific ratings, where the numerative rating is converted into a corresponding "high", "medium high", "medium", "low-medium" or "low" rating. The mobility improvements and land use rating process are described in greater detail in *Sections II.C* and *II.D* below)

For the cost effectiveness criterion, specific dollar thresholds are defined for "high", "medium high", "medium", "low-medium" and "low" ratings (these thresholds are presented in *Section II.B* below). Decision rules for the operating efficiencies and environmental benefits criteria are described in *Sections II.E* and *II.F*, respectively.

Criterion-specific ratings are subsequently combined to form the summary "high", "medium high", "medium", "low-medium" or "low" justification ratings for each project presented in *Section I.E.*

FTA assigns a weight of 50 percent each to the cost effectiveness and land use criteria in order to establish a summary project justification rating. When the average of the cost effectiveness and land use rating falls equally between two ratings (say, between a "medium" and a "medium-high" rating), the mobility improvements rating is introduced as a "tiebreaker." Specifically, when mobility improvements are rated "low," the summary rating will "round down" to the lower of the two ratings; for all other mobility improvement ratings, the rating is "rounded-up" to establish the summary project justification rating. For example, a project with a cost effectiveness rating of "low" and a land use rating of "medium-high" - along with a mobility improvements rating of "medium" - would receive a summary project justification rating of "medium."

Based upon its prior experience in evaluating New Starts projects, FTA has determined that locally-generated and reported information in support of the operating efficiencies and environmental benefits criteria does not distinguish in any meaningful way any differences between competing major transit capital investments. Consequently, while ratings for these criteria are assigned by FTA and reported in (among other places) the *Annual Report on New Starts*, they are not considered in the determination of an overall project justification rating. If well documented and considered by FTA to be an unusually significant benefit to a proposed project that is not otherwise captured in the other New Starts criteria, "other factors" may increase a summary project justification rating by up to one step (for example, from "medium-high" to "high"). The evaluation and rating of individual project justification criteria is discussed below.

***II.B Cost Effectiveness***

In its evaluation of the cost effectiveness of a proposed project, FTA considers the incremental cost per hour of transportation system user benefits in the forecast year. This measure, expressed in constant base-year dollars, is based on the annualized total capital and annual operating costs divided by the forecast change in annual user benefits, comparing the proposed project to the New Starts baseline alternative. Table II-2 below presents the thresholds FTA uses for assigning a "high," "medium high," "medium," "low-medium," or "low" cost effectiveness rating for each project:

**Table II-2 Cost Effectiveness Thresholds**

High	\$9.99 and under
Medium-High	\$10.00- \$12.99
Medium	\$13.00-\$19.99
Low-Medium	\$20.00-\$24.99
Low	\$25.00 and over

***II.C Transit-Supportive Existing Land Use and Future Patterns***

In its evaluation of the land use affecting New Starts projects, FTA explicitly considers the following transit supportive land use categories and factors:

1. **Existing Land Use**
2. **Transit Supportive Plans and Policies**, including the following factors:
  - Growth management;
  - Transit supportive corridor policies;
  - Supportive zoning regulations near transit stations; and
  - Tools to implement land use policies.
3. **Performance and Impacts of Policies**, including the following factors:
  - Performance of land use policies; and
  - Potential impact of transit project on regional land use.

FTA also permits New Starts project sponsors to submit information in support of an optional “other land use considerations” category.

Based on information submitted to FTA by local agencies, FTA gauges each category by the factors identified above. FTA assigns one of five numerative ratings (“1” to “5”) to each project for each of these factors. Each factor is weighted equally within its category, averaged, and combined into category-specific ratings. These category ratings are then combined equally (that is, each land use category rating contributes one-third of the value) and converted to a descriptive rating of "high", "medium high", "medium", "low-medium," or "low" to determine the overall land use rating. In rare cases, when based on unusually compelling “other” land use considerations, FTA may increase the land use rating by one step.

Additional detail on FTA’s land use rating process is contained in *Guidelines and Standards for Assessing Transit-Supportive Land Use*, available in May 2004. Table II-3 on the following pages summarize the ratings applied by FTA in the assessment of each land use category and supporting factor at each stage of project development.

**Table II-3 Ratings Applied in Assessment of Land Use Criterion**

<b>I. EXISTING LAND USE</b>		
<i>Existing Land Use</i>		
Phase of Project Development	Land Use Assessment Ratings	
Preliminary Engineering and Final Design	HIGH (5)	Current levels of population, employment, and other trip generators in station areas are sufficient to support a major transit investment. Most station areas are pedestrian-friendly and fully accessible.
	MEDIUM (3)	Current levels of population, employment, and other trip generators in station areas marginally support a major transit investment. Some station areas are pedestrian-friendly and accessible. Significant growth must be realized.
	LOW (1)	Current levels of population, employment, and other trip generators in station areas are inadequate to support a major transit investment. Station areas are not pedestrian-friendly.
Ratings based on assessment of the following: <ul style="list-style-type: none"> <li>• Existing corridor and station area development;</li> <li>• Existing corridor and station area development character;</li> <li>• Existing station area pedestrian facilities, including access for persons with disabilities; and</li> <li>• Existing corridor and station area parking supply.</li> </ul>		
<b>II. TRANSIT-SUPPORTIVE PLANS AND POLICIES</b>		
<i>Growth Management</i>		
Phase of Project Development	Land Use Assessment Ratings	
Preliminary Engineering and Final Design	HIGH (5)	Adopted and enforceable growth management and land conservation policies are in place throughout the region. Existing and planned densities and market trends in the region and corridor are strongly compatible with transit.
	MEDIUM (3)	Significant progress has been made toward implementing growth management and land conservation policies. Strong policies may be adopted in some jurisdictions but not others, or only moderately enforceable policies (e.g., incentive-based) may be adopted regionwide. Existing and/or planned densities and market trends are moderately compatible with transit.
	LOW (1)	Limited consideration has been given to implementing growth management and land conservation policies; adopted policies may be weak and apply to only a limited area. Existing and/or planned densities and market trends are minimally or not supportive of transit.
Ratings based on assessment of the following: <ul style="list-style-type: none"> <li>• Concentration of development around established activity centers and regional transit; and</li> <li>• Land conservation and management.</li> </ul>		

**Table II-3 Ratings Applied in Assessment of Land Use Criterion (cont.)**

<b>II. TRANSIT-SUPPORTIVE PLANS AND POLICIES</b>		
<i>Transit-Supportive Corridor Policies</i>		
Final Design	HIGH (5)	Conceptual plans for the corridor and station areas have been developed. Local jurisdictions have adopted or drafted revisions to comprehensive and/or small area plans in most or all station areas. Land use patterns proposed in conceptual plans and local and institutional plan revisions are strongly supportive of a major transit investment.
	MEDIUM (3)	Conceptual plans for the corridor and station areas have been developed. Local jurisdictions have initiated the process of revising comprehensive and/or small area plans. Land use patterns proposed in conceptual plans and local and institutional plan revisions are at least moderately supportive of a major transit investment.
	LOW (1)	Limited progress, to date, has been made toward developing station area conceptual plans or revising local comprehensive or small area plans. Existing station area land uses identified in local comprehensive plans are marginally or not transit-supportive.
Preliminary Engineering	HIGH (5)	Conceptual plans for the corridor and station areas have been developed. Discussions have been undertaken with local jurisdictions about revising comprehensive plans. Land use patterns proposed in conceptual plans for station areas (or in existing comprehensive plans and institutional master plans throughout the corridor) are strongly supportive of a major transit investment.
	MEDIUM (3)	Conceptual plans for the corridor and station areas are being developed. Discussions have been undertaken with local jurisdictions about revising comprehensive plans. Land use patterns proposed in conceptual plans for station areas (or existing in local comprehensive plans and institutional master plans) are at least moderately supportive of a major transit investment.
	LOW (1)	Limited progress, to date, has been made toward developing station area conceptual plans or working with local jurisdictions to revise comprehensive plans. Existing station area land uses identified in local comprehensive plans are marginally or not transit-supportive.
<p>Ratings based on assessment of the following:</p> <ul style="list-style-type: none"> <li>• Plans and policies to increase corridor and station area development;</li> <li>• Plans and policies to enhance transit-friendly character of corridor and station area development;</li> <li>• Plans to improve pedestrian facilities, including facilities for persons with disabilities; and</li> <li>• Parking policies.</li> </ul>		

**Table II-3 Ratings Applied in Assessment of Land Use Criterion (cont.)**

<b>II. TRANSIT-SUPPORTIVE PLANS AND POLICIES</b>		
<b><i>Supportive Zoning Regulations Near Transit Stations</i></b>		
Final Design	HIGH (5)	Local jurisdictions have adopted zoning changes that strongly support a major transit investment in most or all transit station areas.
	MEDIUM (3)	Local jurisdictions are in the process of adopting zoning changes that moderately or strongly support a major transit investment in most or all transit station areas. Alternatively: strongly transit-supportive zoning has been adopted in some station areas but not in others.
	LOW (1)	No more than initial efforts have begun to prepare station area plans and related zoning. Existing station area zoning is marginally or not transit-supportive.
Preliminary Engineering	HIGH (5)	A conceptual planning process is underway to recommend zoning changes for station areas. Conceptual plans and policies for station areas are recommending transit-supportive densities and design characteristics. Local jurisdictions have committed to examining and changing zoning regulations where necessary. Alternatively, a “high” rating can be assigned if existing zoning in most or all transit station areas is already strongly transit-supportive.
	MEDIUM (3)	A conceptual planning process is underway to recommend zoning changes for station areas. Local jurisdictions are in the process of committing to examining and changing zoning regulations where necessary. Alternatively, a “medium” rating can be assigned if existing zoning in most or all transit station areas is already moderately transit-supportive.
	LOW (1)	Limited consideration has been given to preparing station area plans and related zoning. Existing station area zoning is marginally or not transit-supportive.
Ratings based on assessment of the following: <ul style="list-style-type: none"> <li>• Zoning ordinances that support increased development density in transit station areas;</li> <li>• Zoning ordinances that enhance transit-oriented character of station area development and pedestrian access; and</li> <li>• Zoning allowances for reduced parking and traffic mitigation.</li> </ul>		

**Table II-3 Ratings Applied in Assessment of Land Use Criterion (cont.)**

<b>II. TRANSIT-SUPPORTIVE PLANS AND POLICIES</b>		
<i>Tools to Implement Land Use Policies</i>		
Final Design	HIGH (5)	Transit agencies and/or regional agencies are working proactively with local jurisdictions, developers, and the public to promote transit-supportive land use planning and station area development. The transit agency has established a joint development program and identified development opportunities. Agencies have adopted effective regulatory and financial incentives to promote transit-oriented development. Public and private capital improvements are being programmed in the corridor and station areas which implement the local land use policies and which leverage the Federal investment in the proposed corridor.
	MEDIUM (3)	Transit agencies and/or regional agencies have conducted some outreach to promote transit-supportive land use planning and station area development. Regulatory and financial incentives to promote transit-oriented development are being developed, or have been adopted but are only moderately effective. Capital improvements are being identified that support station area land use plans and leverage the Federal investment in the proposed major transit corridor.
	LOW (1)	Limited effort has been made to reach out to jurisdictions, developers, or the public to promote transit-supportive land use planning; to identify regulatory and financial incentives to promote development; or to identify capital improvements.
Preliminary Engineering	HIGH (5)	Transit agencies and/or regional agencies are working proactively with local jurisdictions, developers, and the public to promote transit-supportive land use planning and station area development. Local agencies are making recommendations for effective regulatory and financial incentives to promote transit-oriented development. Capital improvement programs are being developed that support station area land use plans and leverage the Federal investment in the proposed major transit corridor.
	MEDIUM (3)	Transit agencies and/or regional agencies have conducted some outreach to promote transit-supportive land use planning and station area development. Agencies are investigating regulatory and financial incentives to promote transit-oriented development. Capital improvements are being identified that support station area land use plans and leverage the Federal investment in the proposed major transit corridor.
	LOW (1)	Limited effort has been made to reach out to jurisdictions, developers, or the public to promote transit-supportive land use planning; to identify regulatory and financial incentives to promote development; or to identify capital improvements.

**Table II-3 Ratings Applied in Assessment of Land Use Criterion (cont.)**

<b>II. TRANSIT-SUPPORTIVE PLANS AND POLICIES</b>		
<i>Tools to Implement Land Use Policies (Continued)</i>		
Ratings based on assessment of the following: <ul style="list-style-type: none"> <li>• Outreach to government agencies and the community in support of land use planning;</li> <li>• Regulatory and financial incentives to promote transit-supportive development; and</li> <li>• Efforts to engage the development community in station area planning and transit-supportive development.</li> </ul>		
<b>III. PERFORMANCE AND IMPACTS OF LAND USE POLICIES</b>		
<i>Performance of Land Use Policies</i>		
Final Design	HIGH (5)	A significant number of development proposals are being received for transit-supportive housing and employment in station areas. Significant amounts of transit-supportive development have occurred in other, existing transit corridors and station areas in the region.
	MEDIUM (3)	Some development proposals are being received for transit-supportive housing and employment in station areas. Moderate amounts of transit-supportive development have occurred in other existing transit corridors and station areas in the region.
	LOW (1)	A limited number of proposals for transit-supportive housing and employment development in the corridor are being received. Other existing transit corridors and station areas in the region lack significant examples of transit-supportive housing and employment development.
Preliminary Engineering	HIGH (5)	Transit-supportive housing and employment development is occurring in the corridor. Significant amounts of transit-supportive development have occurred in other, existing transit corridors and station areas in the region.
	MEDIUM (3)	Station locations have not been established with finality, and therefore, development would not be expected. Moderate amounts of transit-supportive housing and employment development have occurred in other, existing transit corridors and station areas in the region.
	LOW (1)	Other existing transit corridors and station areas in the region lack significant examples of transit-supportive housing and employment development.
Ratings based on assessment of the following: <ul style="list-style-type: none"> <li>• Demonstrated cases of development affected by transit-oriented policies; and</li> <li>• Station area development proposals and status.</li> </ul>		

**Table II-3 Ratings Applied in Assessment of Land Use Criterion (cont.)**

<b>III. PERFORMANCE AND IMPACTS OF LAND USE POLICIES</b>		
<b><i>Potential Impact of Transit Project on Regional Land Use</i></b>		
Preliminary Engineering and Final Design	HIGH (5)	A significant amount of land in station areas is available for new development or redevelopment at transit-supportive densities. Local plans, policies, and development programs, as well as real estate market conditions, strongly support such development.
	MEDIUM (3)	A moderate amount of land in station areas is available for new development or redevelopment at transit-supportive densities. Local plans, policies, and development programs, as well as real estate market conditions, moderately support such development.
	LOW (1)	Only a modest amount of land in station areas is available for new development or redevelopment. Local plans, policies, and development programs, as well as real estate market conditions, provide marginal support for new development in station areas.
Ratings based on assessment of the following: <ul style="list-style-type: none"> <li>• Adaptability of station area land for development; and</li> <li>• Corridor economic environment.</li> </ul>		

As Table II-3 indicates, FTA takes into consideration the stage of development of a proposed project in its evaluation of land use information. For example, the planning and policy oriented factors (existing land use, containment of sprawl, and corridor policies) are relevant in evaluating projects in all stages of project development, but particularly useful for projects early in project development. On the other hand, the implementation-oriented factors (supportive zoning regulations, implementation tools, and performance of land use policies) are more applicable in evaluating projects more advanced in preliminary engineering or final design.

***II.D Mobility Improvements***

In its evaluation of the mobility improvements that would be realized by implementation of a proposed project, FTA reviews three measures:

1. **Normalized Travel Time Savings**, as measured by transportation system user benefits per project passenger mile;
2. Number of current **Low Income Households** which would be served by the proposed New Starts investment; and
3. Number of current **Jobs** served by the proposed New Starts project.

The normalized travel time savings of New Starts projects is weighted 50 percent in the development of the mobility improvements rating; the low-income households and employment measures *combined* account for the other 50 percent of the rating. The process FTA uses to establish measure-specific ratings and the overall mobility improvements rating is described below:

**Transportation System User Benefits per Passenger Mile** This measure reflects the travel time savings, as measured by minutes of transportation system user benefits in the forecast year anticipated from the proposed project compared to its baseline alternative. In order to rate projects in comparison to other

proposed New Starts, this measure is normalized by the annual passenger miles traveled on the New Starts project in the forecast year.

As noted previously, projects are aligned in ascending order of user benefits per passenger mile and categorized into five groups, separated by the logical breakpoints indicated by the submitted data for the measure. Projects in the highest grouping (that is with the most user benefits per passenger mile) receive a “5,” while projects in the lowest grouping receive a “1.”

**Number of Low Income Households and Jobs Served** These two measures reflect the absolute number of low income households (defined as below the poverty level) and jobs located within ½ mile of the "boarding points", or stations, associated with the proposed project. The total number of low income households and jobs located within these ½ mile zones is then divided by the total number of stations to determine both the average number of low-income households and average number of jobs per station. Projects are aligned in ascending order of both low-income households per station and jobs per station, categorized into five groups, and assigned a rating from “1” to “5.”

The numerative ratings assigned for both low income households and jobs are compared for each project. FTA then considers the potential for connections of these two markets in assigning a single rating for both measures. In the case of projects which are new guideway systems in their regions, the lower of the low income households or jobs rating is assigned as the combined rating for the two measures. For extensions to existing guideways, the higher of the low income households and employment rating is utilized, unless the employment rating is higher and there are few low income households living along the guideway. In this latter case, the low income rating would be assigned as the combined rating of the two measures.

### ***II.E Operating Efficiencies***

FTA measures this criterion by evaluating the change in systemwide operating costs per passenger mile in the forecast year, comparing the Section 5309 New Start investment to the baseline alternative. FTA assigns a rating of “medium” to all projects that have information submitted for this measure. As noted previously, FTA has found that information submitted in support of the operating efficiencies criterion does not distinguish with any meaning the merits of competing New Starts projects. While FTA reports the information submitted by project sponsors on operating efficiencies to Congress in the *Annual Report on New Starts*, it does not formally incorporate this measure into its evaluation.

### ***II.F Environmental Benefits***

In its evaluation of environmental benefits that would be realized through the implementation of a proposed project, FTA considers the current air quality designation by EPA. This measure is defined for each of the transportation-related pollutants (ozone, CO, and PM-10) as the current air quality designation by EPA for the metropolitan region in which the proposed project is located, indicating the severity of the metropolitan area's noncompliance with the health-based EPA standard (NAAQS) for the pollutant, or its compliance with that standard. New Starts project sponsors submit information to FTA on the forecast reductions in emissions resulting from the New Starts project for each transportation-related pollutant.

Specifically, FTA follows the following decision rule when assigning ratings for environmental benefits:

- Projects in non-attainment areas for any transportation-related pollutants that demonstrate a reduction in that pollutant receive a “high” rating.
- Projects that are in attainment areas that demonstrate reductions in any transportation-related pollutant receive a “medium” rating.
- All other projects are rated “low.”

As noted previously, FTA has found that information submitted in support of the environmental benefits criterion does not distinguish with any meaning the merits of competing New Starts projects. While FTA reports the information submitted by project sponsors on environmental benefits to Congress in the *Annual Report on New Starts*, it does not formally incorporate this measure in its evaluation of New Starts projects.

### ***II.G Other Factors***

Consistent with §5309(e)(3)(H), FTA also includes a variety of other factors when evaluating project justification, including:

- Environmental justice considerations and equity issues;
- Opportunities for increased access to employment for low income persons, and welfare to work initiatives;
- Livable communities initiatives and local economic development initiatives;
- Consideration of innovative financing, procurement, and construction techniques, including design-build turnkey applications;
- The cost effectiveness of the New Starts project based on alternative land use forecasts which consider the economic development impacts (benefits) of the proposed transit capital investment; and
- Any other factor which the New Starts project sponsor believes articulates the benefits of the proposed major transit capital investment but which is not captured within the other project justification criteria.

Only in the most compelling of cases are other factors formally assigned a rating. When they are rated, FTA considers other factors in the evaluation of candidate New Starts projects in two ways. For evaluations in support of budget recommendations contained in the *Annual Report on New Starts*, the other factors rating is introduced *after* the assignment of an initial summary project justification rating. If the other factors rating is higher than the summary project justification rating, FTA may increase this initial summary justification rating by as much as one step.

For preliminary engineering and final design approvals, other factors are considered in the same way. In addition, the technical capability of the project sponsor to implement and operate the project is implicitly considered within the other factors criteria. This inclusion ensures that project management issues are adequately addressed in FTA's decision to permit advancement into the next stage of the project development process.

### **III. FINANCIAL RATING**

The following provides a summary of FTA's process for evaluating the local financial commitment of proposed New Starts projects.

#### ***III.A Financial Rating***

FTA assigns a summary financial rating of "high", "medium high", "medium", "low-medium" or "low" to each project following consideration of individual ratings applied to the following measures for local financial commitment:

1. **Share of non-New Starts funding;**
2. Stability and reliability of the proposed project's **capital funding plan**, including the following factors:
  - Current capital condition;
  - Completeness of plan;
  - Commitment of capital funds;
  - Capital funding capacity; and
  - Reasonable capital planning assumptions and cost estimates.
3. Stability and reliability of the proposed project's **operating funding plan**, including the following factors:
  - Current operating financial condition;
  - Completeness of operating plan;
  - Commitment of operations and maintenance (O&M) funds;
  - O&M funding capacity; and
  - Operations planning assumptions and cost estimates.

These ratings are based on an analysis of the Section 5309 New Starts Criteria and documentation submitted to FTA by local agencies. FTA's evaluation takes into account the stage of project development, particularly when considering the stability and reliability of the capital and operating finance plans. Expectations for firm commitments of non-Federal funding sources become increasingly higher as projects progress further

through development (preliminary engineering, followed by final design), and are rated accordingly.

FTA rates the capital and operating plan for each factor according to the standards defined in Tables III-1 and III-2 on the following pages.

In addition, the summary financial rating considers the non-Section 5309 New Starts share of project capital costs and the historic support of new start projects by the applicant.

Additional detail on FTA's process for rating local financial commitment is contained in its *Guidelines and Standards for Assessing Local Financial Commitment*, available in May 2004.

Numerative ratings from 1 to 5 are assigned to each of the factors reflecting each measure; these factors are weighted equally within each measure, then averaged and combined into ratings for each measure. Once measure-specific ratings have been determined, FTA weighs the proposed non-New Starts share as 20 percent of the summary financial rating; the strength and reliability of the capital plan counts as 50 percent of the rating; and the strength and reliability of the operating plan accounts for 30 percent of the rating. These ratings are combined and converted by FTA into a summary financial rating of "high," "medium high," "medium," "low-medium," or "low."

**Table III-1 Capital Plan Rating Standards**

	High (5)	Medium-High (4)	Medium (3)	Low-Medium (2)	Low (1)
<b>Current capital condition</b>	- Average bus fleet age under 6 years. - Bond ratings less than 2 years old (if any) of AAA (Fitch/S&P) or Aaa (Moody's) or better	- Average bus fleet age under 6 years. - Bond ratings less than 2 years old (if any) of A (Fitch/S&P) or A2 (Moody's) or better	- Average bus fleet age under 8 years. - Bond ratings less than 2 years old (if any) of A - (Fitch/S&P) or A3 (Moody's) or better	- Average bus fleet age under 12. - Bond ratings less than 2 years old (if any) of BBB+ (Fitch/S&P) or Baa (Moody's) or better	- Average bus fleet age 12 years or more. - Bond ratings less than 2 years old (if any) of BBB (Fitch/S&P) or Baa3 (Moody's) or below
<b>Completeness</b>	Capital plan includes: - 20-year cash flow - All assumptions are clearly explained - High level of detail - Fleet Management Plan - Extensive Sensitivity analysis - More than 5 years of historical data	Capital plan is complete, i.e. it includes: - 20-year cash flow - Key assumptions - Moderate level of detail - Fleet Management Plan - Sensitivity Analysis - More than 5 years of historical data	Capital plan is complete, i.e. it includes: - 20-year cash flow - Key assumptions - Missing some explanatory details - Fleet Management Plan - 5 years historical data	Capital plan is partially complete, i.e. it includes: - 20-year cash flow - Missing other items of supporting documentation (i.e. fleet management plan, key assumptions, historical data)	Capital plan is incomplete. Missing some key components, including the 20-year cash flow.
<b>Commitment of capital funds</b>	For final design - 100% of Non-Section 5309 New Starts Funds are committed.  For PE – Over 50% of Non-Section 5309 New Starts Funds are committed or budgeted. The remaining funds are planned.	For final design - Over 75% of Non-Section 5309 New Starts Funds are committed. The remaining funds are budgeted.  For PE – Over 25% of Non-Section 5309 New Starts Funds are committed or budgeted. The remaining funds are planned.	For final design - Over 50% of Non-Section 5309 New Starts Funds are committed. The remaining funds are budgeted.  For PE - No Non-Section 5309 New Starts Funds are committed or budgeted, but the sponsor has a reasonable plan to secure all needed funding.	For final design – Between 25% and 50% of Non-Section 5309 New Starts Funds are committed. The remaining funds are budgeted.  For PE - No Non-Section 5309 New Starts funds are committed. The sponsor has no reasonable plan to secure the necessary funding.	For final design - Under 25% of Non-Section 5309 New Starts Funds are committed. Not all remaining funds are budgeted.  For PE - The sponsor has not identified any reasonable funding sources for the Non-Section 5309 New Starts funding share.
<b>Capital funding capacity</b>	The applicant has access to funds via additional debt capacity, cash reserves, or other committed funds to cover cost increases or funding shortfalls equal to at least 50% of estimated project costs.	The applicant has available cash reserves, debt capacity, or additional funding commitments to cover cost increases or funding shortfalls equal to at least 25% of estimated project costs.	For final design - The applicant has available cash reserves, debt capacity, or additional committed funds to cover cost increases or funding shortfalls equal to at least 10% of estimated project costs.  For PE - The applicant has a reasonable plan to cover cost increases or funding shortfalls equal to at least 25% of project costs.	The applicant has a reasonable plan to cover only minor (under 10%) cost increases or funding shortfalls.  For PE –The applicant has a reasonable plan to cover cost increases or funding shortfalls equal to at least 10% of estimated project costs.	The applicant has no reasonable plan to cover cost increases or funding shortfalls.
<b>Reasonable capital planning assumptions</b>	Financial plan contains very conservative capital planning assumptions and cost estimates when compared with recent historical experience.	Financial plan contains conservative capital planning assumptions and cost estimates when compared with recent historical experience.	Financial plan contains capital planning assumptions and cost estimates that are in line with historical experience.	Financial plan contains optimistic capital planning assumptions and cost estimates.	Financial plan contains capital planning assumptions and cost estimates that are far more optimistic than recent history suggests.

**Table III-2 Operating Plan Rating Standards**

	High (5)	Medium-High (4)	Medium (3)	Low-Medium (2)	Low (1)
<b>Current Operating Financial Condition</b>	<ul style="list-style-type: none"> <li>- Historical and actual positive cash flow. No cash flow shortfalls.</li> <li>- Current operating ratio exceeding 2.0</li> <li>- No service cutbacks in recent years.</li> </ul>	<ul style="list-style-type: none"> <li>- Historical and actual balanced budgets. Any annual cash flow shortfalls paid from cash reserves or other committed sources.</li> <li>- Current operating ratio is at least 1.5</li> <li>- No service cutbacks in recent years.</li> </ul>	<ul style="list-style-type: none"> <li>- Historical and actual balanced budgets. Any annual cash flow shortfalls paid from cash reserves or annual appropriations.</li> <li>- Current operating ratio is at least 1.2</li> <li>- No service cutbacks or only minor service cutbacks in recent years</li> </ul>	<ul style="list-style-type: none"> <li>- Historical and actual cash flow show several years of revenue shortfalls. Any annual cash flow shortfalls paid from short term borrowing.</li> <li>- Current operating ratio is at least 1.0</li> <li>- Major Service cutbacks in recent years</li> </ul>	<ul style="list-style-type: none"> <li>- Historical and actual cash flow show several years of revenue shortfalls, or historical information not provided.</li> <li>- Current operating ratio is less than 1.0</li> <li>- Major Service cutbacks in recent years</li> </ul>
<b>Completeness</b>	<ul style="list-style-type: none"> <li>Operating plan includes:                             <ul style="list-style-type: none"> <li>- More than 5 years of historical data</li> <li>- 20-year cash flow</li> <li>- Key assumptions identified</li> <li>- Extensive level of detail</li> <li>- Extensive Sensitivity Analysis</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Operating plan is complete, including:                             <ul style="list-style-type: none"> <li>- More than 5 years of historical data</li> <li>- 20-year cash flow</li> <li>- Key assumptions identified</li> <li>- Moderate level of detail</li> <li>-Sensitivity Analysis</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Operating plan is complete, including:                             <ul style="list-style-type: none"> <li>- 20-year cash flow</li> <li>- 5 years of historical data</li> <li>- Key assumptions identified</li> <li>- Missing some explanatory detail</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Operating plan is missing no key components, i.e.:                             <ul style="list-style-type: none"> <li>- 3 years or less of historical data</li> <li>- 20-year cash flow</li> <li>- Missing key assumptions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Operating plan is missing some key components, i.e.:                             <ul style="list-style-type: none"> <li>- No cash flow</li> <li>- No historical data</li> </ul> </li> </ul>
<b>Commitment of O&amp;M Funds</b>	<ul style="list-style-type: none"> <li>For final design - 100% of the funds needed to operate and maintain the proposed transit project are committed.</li> <li>For PE – Over 75% of the funds needed to operate and maintain the proposed transit system are committed or budgeted. The remaining funds are planned.</li> </ul>	<ul style="list-style-type: none"> <li>For final design - Over 75% of the funds needed to operate and maintain the proposed transit project are committed. The remaining funds are budgeted.</li> <li>For PE - Over 50% of the funds needed to operate and maintain the proposed transit system are committed or budgeted. The remaining funds are planned.</li> </ul>	<ul style="list-style-type: none"> <li>For final design – Over 50% of the funds needed to operate and maintain the proposed transit system are committed. The remaining funds are budgeted.</li> <li>For PE – While no additional O&amp;M funding has been committed, a reasonable plan to secure funding commitments has been presented.</li> </ul>	<ul style="list-style-type: none"> <li>For final design - Sponsor has identified reasonable potential funding sources, but has received less than 50% commitments to fund transit operations and maintenance.</li> <li>For PE - Sponsor does not have a reasonable plan to secure O&amp;M funding. No unspecified sources.</li> </ul>	<ul style="list-style-type: none"> <li>For final design - Sponsor has not yet received any funding commitments to fund transit operations and maintenance and has not identified any reasonable plan for securing funding commitments.</li> <li>For PE - Sponsor has not identified any reasonable funding sources for the operation and maintenance of the proposed project.</li> </ul>
<b>O&amp;M Funding Capacity</b>	<ul style="list-style-type: none"> <li>- Projected cash balances, reserve accounts or access to line of credit exceeding 50 percent (6 months) of annual operating expenses.</li> </ul>	<ul style="list-style-type: none"> <li>- Projected cash balances, reserve accounts or access to line of credit exceeding 25 percent (3 months) of annual operating expenses.</li> </ul>	<ul style="list-style-type: none"> <li>- Projected cash balances, reserve accounts or access to line of credit exceeding 12 percent (1.5 months) of annual operating expenses.</li> </ul>	<ul style="list-style-type: none"> <li>- Projected cash balances, reserve accounts or access to line of credit are less than 8 percent (1 month) of annual operating expenses.</li> </ul>	<ul style="list-style-type: none"> <li>- Projected cash balances are insufficient to maintain balanced budgets.</li> </ul>
<b>Operating Planning Assumptions</b>	<ul style="list-style-type: none"> <li>The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are very conservative relative to historical experience.</li> </ul>	<ul style="list-style-type: none"> <li>The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are conservative relative to historical experience.</li> </ul>	<ul style="list-style-type: none"> <li>The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are consistent with historical experience.</li> </ul>	<ul style="list-style-type: none"> <li>The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are optimistic relative to historical experience.</li> </ul>	<ul style="list-style-type: none"> <li>The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are far more optimistic than historical experience suggests is reasonable.</li> </ul>

#### ***IV.B Financial Rating Decision Rule***

In addition to the financial rating considerations and weights described above, FTA uses the following decision rules to ensure that all “Recommended” New Starts projects possess adequate non-New Starts funding commitments and the overall financial capacity to comply with Congressional and Administration policies regarding the ability to leverage non-New Starts resources to implement major transit capital investment projects:

- If the New Starts share is greater than 60 percent, the rating for the non-New Starts share measure is “low.” Moreover, the summary financial rating is “low” regardless of the capital and operating plan ratings.
- If the New Starts share is 60 percent or less, the following ratings apply to the non-New Starts share funding measure:
  - 50-60 percent = “3” rating
  - 35-49 percent = “4” rating
  - > 35 percent = “5” rating
- If the New Starts share is greater than 50 but less than 60 percent, the summary financial rating cannot be higher than “medium.”
- If either of a proposed project’s capital or operating finance plan receives a "low-medium" or "low" rating, the summary financial rating for the project cannot be higher than a "low-medium."
- To receive a summary financial rating of “medium-high,” both the capital and operating funding plan must be rated at least “medium-high” (and must have a New Starts share of less than or equal to 50 percent of total project costs).

#### **IV. RATINGS AND FUNDING RECOMMENDATIONS**

As this document describes, TEA-21 requires that FTA evaluate each candidate New Starts project, and to assign overall project ratings of "Highly Recommended", “Recommended” or "Not Recommended." FTA undertakes this evaluation and rating for all projects in preliminary engineering and final design included in the annual New Starts report to Congress. FTA also evaluates and rates projects at the point that their sponsors request FTA entry into preliminary engineering and final design.

To assign overall project ratings to each proposed New Starts project, FTA considers the individual ratings for each of the project justification and local financial factors, measures, and criteria. FTA combines these ratings into overall summary finance and project justification ratings for each project. These summary ratings are in turn used to determine *overall* project ratings according to the following decision rule:

- **Highly Recommended** - For a proposed project to be "Highly Recommended", it must be rated at least "medium high" for both finance and project justification;
- **Recommended** - For a proposed project to be rated as “Recommended”, it must be rated at least "medium" in terms of both finance and project justification;

- **Not Recommended** - Proposed projects not rated at least "medium" in both finance and justification will be rated as "Not Recommended".

These project ratings are intended to reflect the worthiness of each project. A rating of "Recommended" does not translate directly into a funding recommendation in any given fiscal year. Rather, project ratings are intended to reflect overall project merit. Proposed projects that are rated "Recommended" or "Highly Recommended," will be eligible for multi-year funding recommendations (embodied in a full funding grant agreement, or FFGA) in the Administration's proposed budget if other requirements have been met (completion of the Federal environmental review process, demonstrated technical capability to construct and operate the project) and if funding is available.

When determining annual funding allocations among proposed New Starts, the following general principles are applied:

- Any project recommended for new funding commitments should meet the project justification, finance, and process criteria established by Section 5309(e) and be consistent with Executive Order 12893, "Principles for Federal Infrastructure Investments," issued January 26, 1994.
- Existing FFGA commitments should be honored before any additional funding recommendations are made, to the extent that funds can be obligated for these projects in the coming fiscal year.
- The FFGA defines the terms of the Federal commitment to a specific project, including funding. Upon completion of an FFGA, the Federal funding commitment has been fulfilled. Additional project funding will not be recommended. Any additional costs beyond the scope of the Federal commitment are the responsibility of the grantee.
- Funding for initial planning efforts such as alternatives analysis is provided through the Section 5303 Metropolitan Planning or Section 5307 Urbanized Area Formula Grants programs.
- Firm funding commitments, embodied in FFGAs, will not be made until the final design process has progressed to the point where costs, benefits, and impacts are accurately forecasted.
- Funding should be provided to the most worthy projects to allow them to proceed through the process on a reasonable schedule, to the extent that funds can be obligated to such projects in the upcoming fiscal year. The results of the project evaluation process and resulting finance, justification, and overall ratings determine whether particular projects are "worthy."

Again, FTA emphasizes that project evaluation and rating is an on-going process. As proposed New Starts projects proceed through the project development process, information concerning costs, benefits, and impacts is refined and the ratings may be updated to reflect new information.