Appendix B
FY 2011 Evaluation and Rating Process

FY 2011 New Starts and Small Starts Evaluation and Rating Process

This document describes the methodology that the Federal Transit Administration (FTA) uses to evaluate and rate candidate New Starts and Small Starts projects as of July 2009, including FTA's evaluations for the *FY 2011 Annual Report*. This methodology is a departure from the process used in the evaluation of projects included in the *Annual Reports* for fiscal years 2004-2010 due to the passage of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) Technical Corrections Act of 2008 (Pub. L. 110-244), which amends 49 U.S.C. 5309 and specifies that all project justification criteria be given "comparable but not necessarily equal weights." These changes are intended to reflect as much of the spirit of SAFETEA-LU as can be implemented prior to completion of the statutorily-required rulemaking process as well as FTA-initiated (and industry-requested) efforts to streamline the reporting and evaluation processes. FTA is continuing to explore additional streamlining opportunities through regulation and policy guidance. The changes made to the rating and evaluation process since the FY 2010 *Annual Report* are as follows:

- **Adjusted Project Justification Criteria Weights**. As announced in the July 2009 final policy guidance, to comply with the SAFETEA-LU Technical Corrections Act, FTA has modified the weights assigned to each of the project justification criteria. The new weights are as follows: cost effectiveness, 20 percent; land use, 20 percent; economic development, 20 percent; mobility improvements, 20 percent; operating efficiencies, 10 percent; and, environmental benefits, 10 percent.
- **Operating Efficiencies Criterion**. As announced in the July 2009 final policy guidance, FTA is again considering operating efficiencies as a stand-alone project justification criterion, giving it comparable weight to the other criteria per the requirements of the SAFETEA-LU Technical Corrections Act. Previously, FTA did not include operating efficiencies as a stand alone criterion, but instead considered it as part of the cost-effectiveness criterion.
- **Other Factors**. FTA is no longer emphasizing specific items that it will consider when determining whether to modify a project's justification rating based on "other" factors. Rather, FTA is considering "other" factors on a project-by-project basis. Thus, FTA is no longer calling out congestion management strategies, with automobile pricing strategies in particular, or the contents of a "make-the-case" document as items it will specifically consider or formally rate as "other" factors. In addition, FTA is not formally and explicitly rating the reliability of information provided on costs and travel forecasts, but is still considering reliability of the information when determining whether the project justification rating should be changed based on "other factors".
- **Operating Financial Plan Rating.** FTA has determined that the type of contracting arrangement used or considered by a project sponsor is not useful or appropriate in determining the strength of the overall project. Thus, FTA eliminated a project sponsor's use or consideration of contracting out operations and maintenance when evaluating and rating the operating financial plan.
- **Annual Inflation Adjusted Cost Effectiveness Breakpoints**. FTA has conducted its annual inflation adjustment to the breakpoints for rating the cost effectiveness of

proposed New Starts projects based on the Gross Domestic Product Index (also known as the GDP deflator), which is an alternative to the consumer price index.

Section I of this document introduces 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 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 criteria. These materials are posted on FTA's website under *New Starts Project Planning and Development*: http://www.fta.dot.gov/planning/newstarts/planning_environment_2620.html.

Project evaluation is an on-going process. It is based on an analysis of the documentation submitted to FTA by local agencies to support their proposed project. As New Starts and Small Starts projects proceed through project development, the estimates of costs, benefits, and impacts are refined. The project ratings are updated annually by FTA as necessary to reflect new information, changing conditions, and refined financing plans. If project information has not changed from the previous year, a new evaluation and rating is not required.

I. LEGISLATIVE BACKGROUND

SAFETEA-LU continues the evaluation process provisions first established by the Transportation Equity Act for the 21st Century (TEA-21) in 1998. SAFETEA-LU requires the U.S. Department of Transportation to submit an annual report to Congress that includes the Secretary's evaluation, ratings, and a proposal on the allocation of funds among applicants for amounts to be made available to finance grants and loans for capital projects for new fixed guideway systems and extensions to existing fixed guideway systems and new Small Starts projects.

Like TEA-21, SAFETEA-LU 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." This approval is based, in large part, on an evaluation of the proposed project's New Starts criteria. Specifically, a project must achieve an overall rating of at least *Medium* in order to advance into each stage of development. Likewise, Small Starts projects must receive FTA approval to advance from "alternatives analysis" to "project development," a single development phase that incorporates the features of both preliminary engineering and final design. Small Starts projects must also receive at least a *Medium* overall rating to advance. FTA also evaluates and rates projects for the purposes of developing its annual funding recommendations.

FTA's evaluation includes a review of the information submitted to support each proposed project and the assignment of a rating to each evaluation criterion. Based on these criteria-

specific ratings, FTA assigns candidate New Starts projects summary ratings for project justification and local financial commitment, and develops the overall project rating. FTA also assigns ratings to Small Starts projects based on a subset of the New Starts evaluation criteria. *Sections 1.A* and *1.B* below present the criteria used by FTA in its New Starts and Small Starts evaluation process; *Section 1.C* provides an overview of how these criteria fit into the overall evaluation process; and *Section 1.D* summarizes how overall project ratings are derived.

I.A Project Justification Criteria

SAFETEA-LU Section 3011(a) amended 49 U.S.C. 5309(d) to require that projects proposed for New Starts funding be justified based on a comprehensive review of the following criteria, as had been the case under TEA-21:

- Mobility Improvements;
- Environmental Benefits;
- Operating Efficiencies;
- Cost Effectiveness;
- Transit Supportive Land Use;
- Economic Development Effects; and
- Other Factors.

49 U.S.C. 5309(e) requires that Small Starts projects be evaluated on the basis of the following project justification criteria:

- Cost Effectiveness;
- Transit Supportive Land Use;
- Economic Development; and
- Other Factors.

The development of this information is intended to be less complex than required for New Starts. A subset of very simple and low cost transit projects, termed "Very Small Starts" projects, will be evaluated and rated using an even more simplified process. These Very Small Starts have the following features:

- Substantial transit stations,
- Traffic signal priority/pre-emption, to the extent, if any, that there are traffic signals on the corridor,
- Low-floor vehicles or level boarding,
- "Branding" (distinguishing through marketing and physical characteristics) of the proposed service,
- 10 minute peak/15 minute off peak frequencies or better while operating at least 14 hours per weekday (not required for commuter rail or ferries),
- Corridors with existing riders who will benefit from the proposed project that exceed 3,000 per average weekday, and
- A total capital cost less than $50 million (including all project elements) and less than $3 million per mile, exclusive of rolling stock.

Very Small Starts projects that meet these criteria, adequately documented in the Small Starts project submission to FTA, will receive a rating of *Medium* for project justification. FTA finds

that projects which meet these characteristics are by their nature cost effective and have transit supportive land-use and economic development effects appropriate to the proposed level of investment.

Section III of this appendix presents the specific measures FTA is currently using to represent each of the project justification criteria, and how FTA will evaluate them. As announced on January 13, 2010, FTA intends in the near term to initiate a rulemaking to better define and account for the wide range of benefits of major transit investments.

I.B Local Financial Commitment

Continuing the approach under TEA-21, SAFETEA-LU Section 3011(a) amended 49 U.S.C. 5309(d) to require 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. Section 5309(d) further allows for an evaluation of the extent to which the project proposes a local financial commitment that exceeds the required non-Federal share of the cost of the project.

The measures used 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 or Small Starts programs, including Federal formula and flexible funds, the local match required by Federal law, and any additional capital funding;
- The strength of the proposed capital financial plan; and
- The ability of the sponsoring agency to fund operation and maintenance of the entire system as planned once the project is built.

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

Small Starts projects may qualify for a highly simplified financial evaluation if the project sponsor can demonstrate the following:

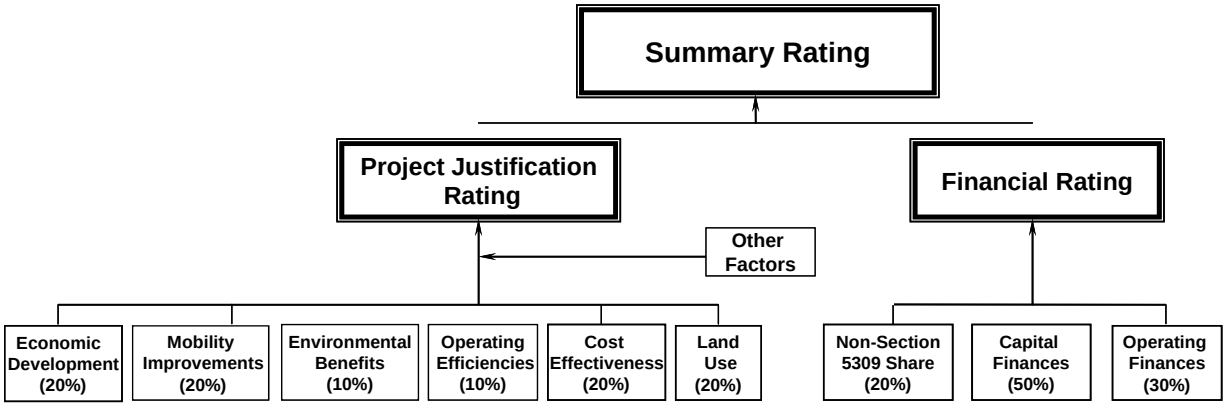
- A reasonable plan to secure funding for the local share of capital costs or sufficient available funds for the local share (all non-Small Starts funding must be committed before receiving a Project Construction Grant Agreement);
- The additional operating and maintenance cost to the agency of the proposed Small Starts project is less than 5 percent of the agency's system-wide operating budget; and
- The agency is in reasonably good financial condition.

Small Starts projects that meet these criteria and request greater than 50 percent Small Starts funding to cover project construction costs will receive a local financial commitment rating of *Medium*. Small Starts projects that meet these criteria and request 50 percent or less in Small Starts funding will receive a *High* rating for local financial commitment. Small Starts projects which cannot qualify for this highly simplified financial evaluation will be evaluated and rated in the same manner as other Small Starts projects.

I.C The Evaluation Process

FTA evaluates proposed New Starts projects against the full range of criteria for both project justification and local financial commitment, as described in Figure I-1. Small Starts are evaluated against a subset of these measures including cost effectiveness, land use, economic development effects, other factors, and local financial commitment. The specific project justification and local financial commitment measures included in Figure I-1 are described in detail in *Sections II* and *III* of this document, respectively.

Figure I-1 New Starts Evaluation Process



I.D Overall Project Ratings

SAFETEA-LU amendments to Sections 5309(d) and (e) of Title 49 require that FTA assign overall ratings on a five-tier scale of *High*, *Medium-High*, *Medium*, *Medium-Low*, or *Low* to each New Starts or Small Starts project.

The overall project rating is determined by averaging the rating for project justification and local financial commitment. When the average of these ratings is unclear (e.g. project justification rating of *Medium-High* and local financial commitment rating of *Medium*), FTA will round up the overall rating to the higher rating (e.g. project justification rating of *Medium-High* and local financial commitment rating of *Medium* yields an overall rating of *Medium-High*) except in the following circumstances:

- A *Medium* overall rating requires a rating of at least *Medium* for both project justification and local financial commitment.
- A *Medium-Low* overall rating requires a rating of at least *Medium-Low* for both project justification and local financial commitment.

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 as necessary (if project information has not changed from the previous year, a new evaluation and rating is not required) in support of budget recommendations presented in the *Annual Report* and when a project sponsor requests FTA approval to advance their proposed New Starts project into preliminary engineering and final

design or Small Starts project into project development. Consequently, as proposed New Starts and Small Starts projects proceed through the project development process, information concerning costs, benefits, and impacts is refined and the ratings are updated to reflect new information.

II. SUMMARY PROJECT JUSTIFICATION RATING

The following summarizes FTA's process for evaluating the project justification criteria of proposed New Starts projects. As announced on January 13, 2010, FTA intends in the near term to initiate a rulemaking to better define and account for the wide range of benefits of major transit investments.

II.A Project Justification Rating

FTA assigns a summary project justification rating of *High, Medium-High, Medium, Medium-Low* or *Low* to each project based on consideration of the ratings applied to the project justification criteria presented in *Section I.A* and each of the specific measures identified in Table II-1:

Table II-1 New Starts and Small Starts Project Justification Criteria

Criterion	Measures/Categories
Mobility Improvements (New Starts only)	• Number of Transit Trips • User Benefits per Passenger Mile • Number of Transit Dependents Using the Project • Transit Dependent User Benefits per Passenger Mile • Transit Dependents Compared to Share of Transit Dependents in the Region
Environmental Benefits (New Starts only)	• EPA Air Quality Designation
Operating Efficiencies (New Starts only)	• Incremental difference in system-wide operating cost per passenger mile between the build and the baseline alternatives
Cost Effectiveness (New Starts and Small Starts)	• Incremental Cost per Hour of Transportation System User Benefit between the baseline and build alternatives
Transit Supportive Land Use (New Starts and Small Starts)	• Existing Land Use
Economic Development Effects (New and Small Starts)	• Transit Supportive Plans and Policies • Performance and Impacts of Policies

For mobility improvements, 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. The mobility improvements ratings process is described in greater detail in *Sections II.D* below.

For the cost effectiveness criterion, specific dollar breakpoints are defined for *High, Medium-High, Medium, Medium-Low* and *Low* ratings (these breakpoints are presented in *Section II.B*). Transit Supportive Land Use factors are presented in *Section II.C,* decision rules for the environmental benefits criterion are described in *Sections II.E,* and consideration of "other factors" is described in *Section II.F*.

FTA assigns weights to the project justification criteria as follows: mobility improvements (20%), environmental benefits (10%), operating efficiencies (10%), cost effectiveness (20%), public transportation supportive land use (20%), and economic development effects (20%).

FTA is working with the transit community to: 1) develop more robust methodologies for measuring economic development effects so as to distinguish them from land use benefits and avoid double counting; and 2) develop more robust measures for environmental benefits. The proposed measures for these criteria in this guidance are intended to be an interim approach. In October 2008, FTA published a "Discussion Paper on the Evaluation of Economic Development" to consider one possible approach for better capturing a project's economic development effects. FTA is reviewing the comments received on that proposal and will be considering them as part of New Starts streamlining activities. FTA convened a panel of experts in October 2008, to explore ways in which environmental benefits of New Starts projects might be considered and weighed in the rating process. A report of that panel's deliberations was released in April 2009. As announced on January 13, 2010, FTA intends in the near term to initiate a rulemaking to better define and account for the wide range of benefits of major transit investments.

If well documented, and considered by FTA to be a significant benefit to a proposed project that is not otherwise captured in the other evaluation criteria, "other factors" may increase or decrease a summary project justification rating by no more than one step (for example, from *Medium-Low* to *Medium* or from *Medium-High* to *High.*)

Failure to submit acceptable information (for example, reliable travel forecasts) will result in a *Low* rating for the affected project justification criteria.

II.B Cost Effectiveness

In its evaluation of the cost effectiveness of a proposed project, FTA currently considers the incremental cost per hour of transportation system user benefits in the forecast year. Transportation system user benefits reflect the improvements in regional mobility (as measured by the weighted in- and out-of-vehicle changes in travel-time to users of the regional transit system) caused by the implementation of the proposed New Starts project. The cost

effectiveness measure is calculated by (a) estimating the incremental "base-year" annualized capital and operating costs of the project (over a lower cost "baseline" of transit service), and then (b) dividing these costs by the projected user benefits. The result of this calculation is a measure of project cost per hour of projected user (i.e. travel-time) benefits expected to be achieved if the project is added to the regional transit system. Proposed projects with a lower cost per hour of projected travel-time benefits are evaluated as more cost effective than those with a higher cost per hour of projected travel-time benefits.

Table II-2 below presents the thresholds FTA will use in FY 2011 for assigning a *High, Medium-High, Medium, Medium-Low* or *Low* cost effectiveness rating for each proposed project. FTA publishes updates to these breakpoints annually to reflect the impact of inflation.

Table II-2 Cost Effectiveness Breakpoints

High	$12.49 and under
Medium-High	$12.50 - $15.99
Medium	$16.00 - $24.99
Medium-low	$25.00 - $30.99
Low	$31.00 and over

The breakpoints that FTA uses to assign cost effectiveness ratings are based, fundamentally, on the value of the project's benefits (cost per hour of transportation system user benefits with an adjustment to account for congestion benefits and non-mobility benefits). U.S. Department of Transportation (USDOT) guidance (*Departmental Guidance for the Valuation of Travel time in Economic Analysis, April 9, 1997*) describes, in detail, the derivation of the standard values of time to be used by all USDOT Administrations in the economic evaluation of proposed projects. Consistent with this departmental guidance, FTA values travel time-savings at 50 percent of Median Household Income published by the Census Bureau, divided by 2,000 hours.

When the cost effectiveness breakpoints were initially established in fall 2002 for the FY 2004 *Annual Report*, the most recent data available from the U.S. Census was year 2000. At that time, the median household income reported by the U.S. Census was $42,148. Using 2000 hours per year as specified in USDOT guidance, the value of time in year 2000 was calculated at $10.54 per hour. However, FTA acknowledged that the time savings for transit users alone did not capture the full range of benefits of major transit projects. Pending improved reliability of the estimates of highway congestion relief, FTA assumed that congestion relief adds about 20 percent to the travel time savings generated by the project. Hence, each hour of transit time savings would represent a total direct benefit of about $12.65 per hour in year 2000 dollars to all users of the transportation system. Further, indirect benefits (economic development, safety improvements, pollutant reductions, energy savings, etc.) increased that value. Assuming that indirect benefits are approximately equal to the direct transportation benefits, FTA increased the value of each hour of transit travel time by a factor of two to about $25 in year 2000 dollars. FTA used this value to establish the breakpoint between a "Low" and "Medium-Low" rating for cost effectiveness. Since that time, the breakpoints have been inflated annually based on the Gross Domestic Product Index (also known as the GDP deflator), which is an alternative to the consumer price index.

The establishment of the breakpoints described above attempted through broad assumptions to capture the non-mobility related benefits of transit projects. FTA's premise that mobility and non-mobility benefits are exactly equal was necessarily an estimate because of limited and unreliable data then available about non-mobility benefits. Thus, as announced on January 13, 2010, FTA intends in the near term to initiate a rulemaking to better define and account for the wide range of benefits of major transit investments. The intent is to better quantify non-mobility benefits so that, if possible, they can be included along with the mobility benefits in the comparison to cost to determine the cost effectiveness of a proposed investment.

Very Small Start projects include low-cost elements such as service branding, low-floor buses operating at improved frequencies, transit stations with real-time passenger information, and traffic signal priority, all of which FTA has determined to be cost effective by their very nature. Therefore, Very Small Starts projects automatically receive a *Medium* rating for cost effectiveness.

II.C Transit-Supportive Existing Land Use and Economic Development Effects

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

Land Use Factors

1. Existing corridor and station area development;
2. Existing corridor and station area development character;
3. Existing station area pedestrian facilities, including access for persons with disabilities; and
4. Existing corridor and station area parking supply.

Economic Development Effects Factors

1. 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.
2. 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 project sponsors to submit information in support of an optional "other land use considerations" category.

The evaluation of transit supportive land use and economic development effects is similar for Small Starts projects, but eliminates the growth management and "other land use considerations" factors and simplifies the reporting of information supporting the remaining factors. More information on the land use evaluation process for Small Starts projects can be found in Appendix A of the *Interim Guidance and Instructions for Small Starts*.

FTA considers Very Small Starts projects which meet the minimum existing ridership threshold of 3,000 daily boardings to be in corridors with transit-supportive land use and economic

development effects appropriate to the proposed level of investment. Therefore, Very Small Starts projects automatically receive *Medium* ratings for transit supportive land use and economic development effects.

Based on information submitted to FTA by local agencies, FTA gauges each category by the factors identified above. FTA assigns numerical ratings from one of five ("1" to "5") for each of the factors. Each factor is weighted equally within its category, averaged, and combined into category-specific ratings. These category ratings are then combined equally and converted to a descriptive rating of *High*, *Medium-High*, *Medium*, *Medium-Low* or *Low* to determine the overall land use or economic development effects rating.

Additional detail on FTA's land use and economic development effects rating process is contained in *Guidelines and Standards for Assessing Transit-Supportive Land Use and Economic Development Effects*. Table II-3 summarizes 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

I. EXISTING LAND USE		
Existing Land Use		
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: • Existing corridor and station area development; • Existing corridor and station area development character; • Existing station area pedestrian facilities, including access for persons with disabilities; and • Existing corridor and station area parking supply.		

Table II-3 Ratings Applied in Assessment of Economic Development Effects Criterion

II. TRANSIT-SUPPORTIVE PLANS AND POLICIES		
Growth Management **(DOES NOT APPLY TO SMALL STARTS)**		
Phase of Project Development		
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, along with 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: • Concentration of development around established activity centers and regional transit; and • Land conservation and management.		

Table II-3 Ratings Applied in Assessment of Economic Development Effects Criterion (cont.)

II. TRANSIT-SUPPORTIVE PLANS AND POLICIES		
Transit-Supportive Corridor Policies		
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.
Ratings based on assessment of the following: • Plans and policies to increase corridor and station area development; • Plans and policies to enhance transit-friendly character of corridor and station area development; • Plans to improve pedestrian facilities, including facilities for persons with disabilities; and • Parking policies.		

Table II-3 Ratings Applied in Assessment of Economic Development Effects Criterion (cont.)

II. TRANSIT-SUPPORTIVE PLANS AND POLICIES		
Supportive Zoning Regulations Near Transit Stations		
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: • Zoning ordinances that support increased development density in transit station areas; • Zoning ordinances that enhance transit-oriented character of station area development and pedestrian access; and • Zoning allowances for reduced parking and traffic mitigation.		

Table II-3 Ratings Applied in Assessment of Economic Development Effects Criterion (cont.)

II. TRANSIT-SUPPORTIVE PLANS AND POLICIES		
Tools to Implement Land Use Policies		
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.
Ratings based on assessment of the following: • Outreach to government agencies and the community in support of land use planning; • Regulatory and financial incentives to promote transit-supportive development; and • Efforts to engage the development community in station area planning and transit-supportive development.		

Table II-3 Ratings Applied in Assessment of Economic Development Effects Criterion (cont.)

III. PERFORMANCE AND IMPACTS OF LAND USE POLICIES		
Performance of Land Use Policies		
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: • Demonstrated cases of development affected by transit-oriented policies; and • Station area development proposals and status.		

Table II-3 Ratings Applied in Assessment of Economic Development Effects Criterion (cont.)

III. PERFORMANCE AND IMPACTS OF LAND USE POLICIES		
Potential Impact of Transit Project on Regional Land Use		
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: • Adaptability of station area land for development; and • Corridor economic environment.		

As Table II-3 indicates, FTA takes into consideration the stage of development of a proposed project in its evaluation of land use and economic development effects 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

Five measures are applied to estimate mobility improvements: (1) the number of transit trips using the project; (2) their user benefits per passenger mile on the project; (3) the number of trips by transit dependent riders using the project; (4) their user benefits per passenger mile on the project; and (5) the share of user benefits received by transit dependents compared to the share of transit dependents in the region.

Number of Transit Trips Using the Project

The number of transit trips on the project indicates whether or not the project provides benefits for a large number of users. All else being equal, projects that benefit more trips are more effective mobility improvements than projects that benefit fewer trips.

User Benefits per Passenger Mile on the Project

User benefits quantify traveler mobility benefits for all users of the transit system, expressed in terms of travel time savings. In order to rate projects in comparison to one another, this measure is normalized by the annual passenger miles traveled on the New Starts project in the forecast year. The result is a measure of the intensity of the user benefits.

Number of Trips by Transit Dependents Using the Project
The number of trips by transit dependent riders indicates whether or not the project provides benefits for a large number of transit dependent people. All else being equal, projects that benefit more transit dependent people are more effective mobility improvements for transit dependents than projects that benefit fewer transit dependent people.

Transit Dependent User Benefits per Passenger Mile
This measure indicates whether the New Starts project would result in significant benefits for the average transit dependent passenger. User benefits to transit dependents are quantified as the user benefits for the lowest socio-economic stratum reflected in the local travel forecasting model (usually based on auto-ownership or income).

Share of User Benefits Received by Transit Dependents Compared to the Share of Transit Dependents in the Region
This measure indicates whether or not a project is in a relatively transit dependent corridor for the particular metropolitan area. The numerator is calculated by taking the amount of user benefits received by the lowest socio-economic stratum and dividing by the total amount of user benefits for the project. The denominator is calculated by taking the number of person-trips made regionally by the lowest socio-economic stratum and dividing by the total person-trips made regionally.

After reviewing the ratios submitted for the fifth measure (share of user benefits received by transit dependents compared to the share of transit dependents in the region), FTA did not believe the quality of the data was sufficient to warrant including the metric in the mobility rating calculation. For each of the remaining four measures, projects were aligned in order and categorized into five groups, separated by the logical breakpoints indicated by the submitted data for the measure. Projects in the highest grouping received a "5," while projects in the lowest grouping received a "1." To arrive at the mobility improvements rating, FTA assigned the following weights to the four measures: (1) the number of transit trips using the project, 37.5%; (2) user benefits per passenger mile on the project, 37.5%; (3) the number of trips by transit dependent riders using the project, 12.5%; and (4) transit dependent user benefits per passenger mile on the project, 12.5%.

II.E Environmental Benefits
In its evaluation of environmental benefits that would be realized through the implementation of a proposed project, FTA currently only considers the Environmental Protection Agency's current air quality designation of the metropolitan area in which the project is located. This measure is defined for each of the transportation-related pollutants (ozone, CO, and PM-10), 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. Specifically, FTA follows the following decision rule when assigning ratings for environmental benefits:

- Projects in non-attainment areas for any transportation-related pollutants receive a *High* rating.
- Projects that are in attainment areas receive a *Medium* rating.

As announced on January 13, 2010, FTA intends in the near term to initiate a rulemaking to better define and account for the wide range of benefits of major transit investments.

II.F Other Factors

Consistent with 49 U.S.C. 5309(d) and (e), FTA also includes other factors when evaluating project justification. This may include any other factor which the project sponsor believes articulates the benefits of the proposed major transit capital investment but which is not captured within the other project justification criteria.

As described in FTA's September 2009 *Guidance on New Starts/Small Starts Policies and Procedures*, FTA is no longer emphasizing specific items that it will consider when determining whether to modify a project's justification rating based on "other" factors. Rather, FTA is considering "other" factors on a project-by-project basis. Thus, FTA is no longer calling out congestion management strategies, with automobile pricing strategies in particular, or the contents of a "make-the-case" document as items it will specifically consider or formally rate as "other" factors. In addition, FTA is not formally and explicitly rating the reliability of information provided on costs and travel forecasts, but is still considering reliability of the information when determining whether the project justification rating should be changed based on "other factors".

The overall "other factors" rating is introduced *after* the assignment of an initial project justification rating. FTA may increase this initial project justification rating by a maximum of one step (i.e. from *Medium* to *Medium-High*) if there are compelling "other factors". In less compelling cases, other factors may be reported alongside other project information in the *Annual Report*, but not formally considered in the project's evaluation and rating. Where information in support of being considered as an "other factor" is not determined to be worthy of such recognition, it is neither considered in FTA's evaluation nor reported.

III. SUMMARY LOCAL FINANCIAL COMMITMENT RATING

The following provides a summary of FTA's process for evaluating the local financial commitment of proposed New Starts and Small Starts projects. Small Starts projects that meet the criteria described in *Section I.B* receive a summary local financial commitment rating of *Medium* or *High*, depending on the Small Starts share. Those Small Starts projects that cannot meet those criteria must be evaluated and rated based on the criteria described in this section.

III.A Local Financial Commitment Rating

FTA assigns a summary local financial commitment rating of *High, Medium-High, Medium, Medium-Low* or *Low* to each project following consideration of individual ratings applied to the following measures for local financial commitment:

1. **Share of non-Section 5309 New Starts funding**;
2. Stability and reliability of the proposed project's **capital finance plan**, including the following factors:
   - Current capital condition;
   - Commitment of capital funds;
   - Reasonable capital planning assumptions and cost estimates and sufficient capital funding capacity.
3. Stability and reliability of the proposed project's **operating finance plan**, including the following factors:
   - Current operating financial condition;
   - Commitment of operations and maintenance (O&M) funds;
   - Reasonable operations planning assumptions and cost estimates and sufficient O&M funding capacity.

These ratings are based on an analysis of the financial plans 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.

As noted at the beginning of this document, FTA has determined that the type of contracting arrangement used or considered by a project sponsor is not useful or appropriate in determining the strength of the overall project. Thus, FTA eliminated a project sponsor's use or consideration of contracting out operations and maintenance when evaluating and rating the operating financial plan.

The summary local financial commitment rating considers as one criterion the Section 5309 New Starts funding share of project capital costs. The following ratings are assigned to this criterion:

- >60 percent Section 5309 New Starts funding share = *Low* rating
- 50-60 percent Section 5309 New Starts funding share = *Medium* rating
- 35-49 percent Section 5309 New Starts funding share = *Medium-High* rating
- < 35 percent Section 5309 New Starts funding share = *High* rating

FTA rates the capital and operating finance plans according to the standards defined in Tables III-1 and III-2 on the following pages. Additional detail on FTA's process for rating local financial commitment is contained in its *Guidelines and Standards for Assessing Local Financial Commitment*.

Numerical ratings from 1 to 5 (*Low* to *High*) are assigned to each of the three subfactors under the capital and operating finance plan measures. These subfactors are weighted as follows to

arrive at summary ratings for the capital and operating finance plan measures: (1) current capital/operating condition 25%; (2) commitment of capital/operating funds 25%; and (3) cost estimates/planning assumptions/capacity 50%. FTA weighs the proposed non-New Starts share as 20 percent of the summary local financial commitment 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 as 30 percent of the rating. These ratings are combined and converted by FTA into a summary local financial commitment rating of *High, Medium-High, Medium, Medium-Low* or *Low*.

Small Starts projects which do not qualify for the streamlined financial evaluation process presented in *Section 1.B* of this appendix are subject to the full financial evaluation and must meet the "PE" standards described in Tables III-1 and III-2 before entering project development and the final design criteria before receiving a Project Construction Grant Agreement.

Failure to submit either a capital or operating financial plan for evaluation will result in a *Low* rating for local financial commitment.

Table III-1 Capital Plan Rating Standards

	High	Medium-High	Medium	Medium-Low	Low
Current capital condition	- 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
Commitment of capital funds	For final design – 100% of Non-Section 5309 New Starts funds are committed or budgeted. 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 or 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 or 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 or 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 or budgeted. For PE - The sponsor has not identified any reasonable funding sources for the Non-Section 5309 New Starts funding share.
Capital cost estimates and planning assumptions/ Capital funding capacity	Financial plan contains very conservative capital planning assumptions and cost estimates when compared with recent historical experience. 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.	Financial plan contains conservative capital planning assumptions and cost estimates when compared with recent historical experience. 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.	Financial plan contains capital planning assumptions and cost estimates that are in line with historical experience. 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 estimated project costs.	Financial plan contains optimistic capital planning assumptions and cost estimates. 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.	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	Medium-High	Medium	Medium-Low	Low
Current Operating Financial Condition	- Historical and actual positive cash flow. No cash flow shortfalls. - Current operating ratio exceeding 2.0 - No service cutbacks in recent years.	- Historical and actual balanced budgets. Any annual cash flow shortfalls paid from cash reserves or other committed sources. - Current operating ratio is at least 1.5 - No service cutbacks in recent years.	- Historical and actual balanced budgets. Any annual cash flow shortfalls paid from cash reserves or annual appropriations. - Current operating ratio is at least 1.2 - No service cutbacks or only minor service cutbacks in recent years	- Historical and actual cash flow show several years of revenue shortfalls. Any annual cash flow shortfalls paid from short term borrowing. - Current operating ratio is at least 1.0 - Major Service cutbacks in recent years	- Historical and actual cash flow show several years of revenue shortfalls, or historical information not provided. - Current operating ratio is less than 1.0 - Major service cutbacks in recent years
Commitment of O&M Funds	For final design - 100% of the funds needed to operate and maintain the proposed transit system are committed or budgeted. 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.	For final design - Over 75% of the funds needed to operate and maintain the proposed transit system are committed or budgeted. 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.	For final design – Over 50% of the funds needed to operate and maintain the proposed transit system are committed or budgeted. For PE – While no additional O&M funding has been committed, a reasonable plan to secure funding commitments has been presented.	For final design - Sponsor has identified reasonable potential funding sources, but has received less than 50% commitments to fund transit operations and maintenance. For PE - Sponsor does not have a reasonable plan to secure O&M funding. No unspecified sources.	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. For PE - Sponsor has not identified any reasonable funding sources for the operation and maintenance of the proposed transit system.
Operating Cost Estimates and Planning Assumptions/ O&M Funding Capacity	The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are very conservative relative to historical experience. Projected cash balances, reserve accounts, or access to a line of credit exceeding 50 percent (6 months) of annual systemwide operating expenses.	The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are conservative relative to historical experience. Projected cash balances, reserve accounts, or access to a line of credit exceeding 25 percent (3 months) of annual systemwide operating expenses.	The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are consistent with historical experience. Projected cash balances, reserve accounts, or access to a line of credit exceeding 12 percent (1.5 months) of annual systemwide operating expenses.	The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are optimistic relative to historical experience. Projected cash balances, reserve accounts, or access to a line of credit are less than 8 percent (1 month) of annual systemwide operating expenses.	The assumptions supporting the operating and maintenance cost estimates and revenue forecasts are far more optimistic than historical experience suggests is reasonable. Projected cash balances are insufficient to maintain balanced budgets.

III.B Local Financial Commitment Rating Decision Rules

In addition to the non-Section 5309 New Starts program share, capital and operating financial rating considerations and weights described above, FTA uses the following decision rules to calculate the overall local financial commitment rating.

- If the Section 5309 New Starts share, which accounts for 20 percent of the local financial commitment rating, brings the overall local financial commitment rating to less than *Medium*, it will be excluded from the calculation. In other words, a New Starts funding share of less than 80 percent can improve the project's rating but it cannot hurt it. This rule was applied for the first time in FY 2007 in order to respond to direction in SAFETEA-LU that FTA evaluate the percent of the Section 5309 New Starts program share, as required by Section 5309(d)(4)(B)(v), while ensuring that no project is required to provide more than the required 20 percent match as provided in Section 5309(h)(5).
- If either of a proposed project's capital or operating finance plan receives a *Medium-Low* or *Low* rating, the summary local financial commitment rating for the project cannot be higher than a *Medium-Low*.
- To receive a summary local financial commitment rating of *Medium-High*, both the capital and operating finance plans must be rated at least *Medium-High*.

IV. RATINGS AND FUNDING RECOMMENDATIONS

The information below contains principles FTA adheres to when making funding recommendations.

49 U.S.C. 5309(d)(1)(B)(ii) directs FTA to consider proposed New Starts projects for Full Funding Grant Agreements (FFGA) and proposed Small Starts for Project Construction Grant Agreements (PCGA), only if they receive a *Medium*, *Medium-High*, or *High* overall project rating. FTA notes, however, that project ratings are intended only to reflect the worthiness of each project, not the readiness of a project for an FFGA or PCGA. A rating of *Medium* or higher does not translate directly into a funding recommendation in any given fiscal year. Proposed projects that are rated *Medium* or higher will be eligible for multi-year funding recommendations in the Administration's proposed budget <u>only if</u> other requirements have been met (i.e., completion or nearing completion of the Federal environmental review process, demonstrated technical capability to construct and operate the project, development of a firm and final cost estimate and financial plan, etc.) and if funding is available.

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

- Any project recommended for new funding commitments should meet the project justification, local financial commitment, and process criteria established by Sections 5309(d) and 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 and PCGA define the terms of the Federal commitment to a specific project, including funding. Upon completion of an FFGA or PCGA, 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, although FTA works closely with grantees to identify and implement strategies for containing capital costs at the level included in the FFGA or PCGA at the time it was executed.
- Funding for initial planning efforts such as alternatives analysis is no longer eligible for Section 5309 funding under SAFETEA-LU, but may be provided through grants under the Section 5303 Metropolitan Planning program, the Section 5307 Urbanized Area Formula program, the Section 5339 Alternatives Analysis program, or from Title 23 "flexible funding" sources.
- Firm funding commitments, embodied in FFGAs or PCGAs, will not be made until projects demonstrate that they are ready for such an agreement, i.e. the project's development and design has progressed to the point where its scope, costs, benefits, and impacts are considered firm and final.
- Funding should be provided to the most qualified investments 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. Funding decisions will be based on the results of the project evaluation process and resulting project justification, local financial commitment, and overall project ratings, and considerations such as project readiness and the availability of funds.
- Small Starts projects that request less than $25 million in total Small Starts funding or whose request can be met with a single year appropriation or with existing appropriations are generally proposed to be funded under a one-year capital grant rather than a PCGA.

Again, FTA emphasizes that project evaluation and rating is an on-going process. As proposed New Starts and Small 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.