

## 4 Instructions for Calculating and Reporting Project Finance Information

TEA-21 requires FTA to ensure that proposed New Starts projects are supported by an acceptable degree of local financial commitment and resources, including evidence of stable and dependable funding sources to construct, maintain and operate the fixed guideway capital investment, as well as the rest of the transit system. Project sponsors submit financial plans, project finance templates, and supporting documentation to FTA and selected contractors. FTA evaluates the sponsor's financial condition and local financial commitment based on the financial submission. This assessment is used to report specific measures from which a rating is assigned. All candidate New Starts projects in or seeking entry into Final Design or Preliminary Engineering are rated.

FTA uses three measures to determine the Local Financial Commitment:

- The proposed share of total project costs from sources other than the New Starts portion of Section 5309, including Federal formula and flexible funds, the local match required by Federal law, and any additional capital funding;
- The strength of the proposed capital funding plan; and
- The ability of the sponsoring agency to fund operation and maintenance of the entire transit system as planned once the guideway is built.

The evaluation of each measure results in FTA assigning a summary financial rating of “high,” “medium-high,” “medium,” “low-medium,” or “low” to reflect FTA's assessment of the sponsoring agency's ability and commitment to meet the funding requirements of the New Start investment. As a project proceeds through the project development process, it is expected that project cost estimates and local funding sources will become more refined and committed. Consequently, projects in or requesting entrance into final design must meet a higher rating threshold than projects in preliminary engineering. A detailed review of FTA financial rating process is found in the companion document, “Guidelines and Standards for New Starts Evaluation and Ratings.”

Increasing demands on limited New Starts funds has brought additional scrutiny to the New Starts rating process. Congress and others have directed FTA to improve the financial reporting guidance and to aggressively evaluate the financial capacity of project sponsors to successfully implement the transit major capital investment program. For this reason, FTA has developed more detailed instructions for preparing financial submittals and demand that project sponsors provide all the required information, including a 20-Year Cash Flow Projection and backup documentation.

**Failure to include any of the elements required for the financial review will adversely impact the project's financial rating and may result in a “low” financial rating. A “low” rating for the project finance criteria ensures a “not recommended” project rating, which will prevent a project from moving forward in the New Starts project development process.**

## 4.1 Financial Information Reporting Items

Sponsoring agencies will submit documentation of local financial commitment to FTA and the designated contractor. FTA needs the following items to evaluate and rate the project sponsor's local financial commitment:

- a completed **New Starts Project Finance Worksheet**;
- a comprehensive **Financial Plan**; and
- **Supporting Documentation**.

These items are described in detail in the next sections.

### 4.1.1 *New Starts Project Finance Worksheet*

Sponsoring agencies complete the **New Starts Project Finance Worksheet** (see Template 13) and are encouraged to work closely with FTA staff and FTA contractors to ensure that the most appropriate and up-to-date information is applied in the assessment. FTA staff and FTA contractors will then review information in order to assess each measure and assign ratings. The **New Starts Project Finance Worksheet** is designed to provide a uniform reporting method for the basic financial information and transit system characteristics necessary for FTA to assess the local financial commitment for the proposed major capital investment. The New Starts Project Finance Worksheet is not intended to substitute for a financial plan for a major capital investment. **A written explanation should be provided for not submitting any requested or current data. Failure to adequately justify any non-compliance will adversely impact the project's financial rating.**

### 4.1.2 *Financial Plan*

A financial plan must be included in the sponsoring agency's New Starts Financial submission. The FTA evaluates the financial plan to ensure that the agency has the financial capacity to construct and operate the proposed New Starts project as well as operate and maintain the rest of the transit system. The FTA has developed new guidance on the content and format of financial plans for transit agencies. The *Guidance for Transit Financial Plans, June 2000*, has been sent to all project sponsors and FTA regional offices and is available on FTA's web site at <http://www.fta.dot.gov/> in the New Starts section. The document specifies the contents and format of an acceptable financial plan. All agencies submitting information in the New Starts process are required to submit financial plans that adhere to the *Guidance for Transit Financial Plans*. Failure to provide a complete financial plan will adversely impact the project's financial rating.

### 4.1.3 *Support Documentation*

The **Support Documentation** (see Exhibit 4-1 for examples) provided by sponsoring agencies to FTA staff and contractors should be developed as part of the New Starts planning and project development process (systems planning, alternatives analysis, Major Investment Studies, Preliminary Engineering, Environmental Impact Statement, and Final Design). The current data should be applied to report this measure, and documentation for each of the funding sources should be provided. All underlying financial assumptions should be identified in the project finance plan and reflect capital financing strategies, projected operating and maintenance costs, revenue stream assumptions, and cash flow projections.

It is important for sponsoring agencies to understand that “high,” “medium-high,” “medium,” “low-medium,” or “low” ratings assigned by FTA will be directly related to the ability of reviewers to readily identify, locate, review, and assess the provided documentation. A concise, well-organized submittal is to the advantage of the sponsoring agency.

*Exhibit 4-1: Examples of Financial Plan Supporting Documentation*

**General Documentation**

- Background information and description of the transit agency, including organizational structure and an outline of any other significant capital projects underway (e.g., annual A-128 audits, annual reports, current budget).
- Background information and description of the New Starts fixed guideway project, including project status (e.g., project pamphlets, planning and engineering reports used to select and define the project).
- Information describing current and forecast economic conditions in the region (e.g., regional socioeconomic reports, regional planning estimates of socioeconomic growth used in the development of the financial and ridership estimates).

**Financial Documentation**

- Agency operating and capital cash flow analysis for the 20-year period (in year of expenditure dollars) as required by planning guidelines. The cash flow analysis should include expenses and revenues for the proposed project.
- A description of the types and amounts of funds (in year of expenditure dollars) for the transit system and proposed project (e.g., local, state, Federal, sales tax, bonds, flexible funding, innovative funding sources).
- Operating and maintenance cost estimates (in year of expenditure dollars) for the entire planned transit system, including the proposed project.
- Capital cost estimates (in year of expenditure dollars) for the proposed project, broken out by major cost categories, including contingencies.
- Description of innovative financing techniques (e.g., innovative funding sources or financing techniques to be used to support the project or to be implemented as part of a larger system-wide program).
- Capital and Operating Financing Plans, other related reports.
- Correspondence or other documentation indicating local source’s “intent to commit” if no formal commitment or programming of local funding is yet in place.

**Additional Documentation**

- Regional Long Range Transportation Plan
- Regional Transportation Improvement Program (TIP)
- Major Investment Study (MIS) or Alternatives Analysis (AA), Environmental Impact Statement (EIS), if applicable
- Independent Audit Reports

