

**Statement of
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Federal Transit Administration
Before the
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
U.S. House of Representatives
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Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee, I am pleased to testify on behalf of the Federal Transit Administration (FTA) regarding FTA's resources and oversight involving the Washington Metropolitan Area Transit Authority (WMATA). I will first address the status of transit across the Nation and the challenges transit agencies are facing, with a focus on WMATA. I will then turn to FTA's general oversight framework for WMATA programs and grants. Finally, I will address the recent oversight reviews FTA has conducted of WMATA, noting the steps FTA is taking to provide technical assistance. Based on FTA's oversight reviews of WMATA and ongoing program interactions with them, WMATA is in general compliance with our statutory and regulatory requirements.

United States public transportation in 2009 is a true success story. In community after community we see greater ridership, increasingly innovative operations and key public support for its services. In general, transit agencies are increasing their use of productive marketing techniques and other business management practices with positive results for customers.

However, public transportation has even greater potential. This is a pivotal moment for communities to ensure public mobility by expanding travel choices and enhancing accessibility through public transportation. Also, while there is more to be done, transit has made major strides in promoting access to transportation for people with disabilities, including access to jobs.

WMATA illustrates this national trend. As has been reported, WMATA has experienced record ridership in recent months — hitting an all-time high of 1,120,000 trips on Inauguration Day. Metrorail ridership last month was more than 19.1 million passenger trips, which is a 3.24 percent increase from last year and a 7.91 percent increase from five years ago. This additional demand comes at a cost. Growing ridership has put strains on equipment, rolling stock, and facilities. Demand for service is on the rise while local revenues are strained.

FTA's nationwide partnership with state and local governments to support public transportation is evident in our relationship with WMATA. In fiscal year 2008, FTA provided \$237 million to WMATA for capital investments. This represented 35 percent of WMATA's total capital spending, or 13 percent of the agency's total capital and operating spending. The WMATA growth in ridership and the system's effects on regional development both demonstrate the value of the Federal investment.

The American Recovery and Reinvestment Act (ARRA) provides the Washington, D.C. region with \$214.6 million in public transportation funds for capital improvements. WMATA will receive \$201.8 million and FTA is working with WMATA to ensure that critical milestones are met for the use of funds. This investment will accelerate needed improvements for transit customers throughout the Washington, D.C. region including an allocation of \$16.9 million to MTA and \$13.7 million to the Potomac and Rappahannock Transportation Commission, Virginia Railway Express, and Fredericksburg Regional Transit.

Moreover, the reauthorization of FTA's programs, which will expire at the end of Fiscal Year 2009, will provide additional opportunities for considering ways to improve public mobility. As Secretary of Transportation LaHood has noted, an important element of the reauthorization should focus on livable communities. This means fostering pedestrian and bike-friendly communities, providing more transportation choices, and offering better access to jobs and housing. The WMATA bus and rail system investments have supported transit-oriented, mixed-use development that contribute significantly to the clustering of regional business centers near public transportation and offer an alternative to urban and suburban sprawl and automobile-focused commuting.

Nonetheless, the Washington, D.C. region and the Nation face great transit challenges. One of the biggest challenges is to secure the resources necessary to meet the increasing demand to operate transit and ensure that public transportation infrastructure is sound. FTA is about to release a report to Congress on public transportation regarding rail modernization investments. The study finds that among the seven largest rail operators, which includes WMATA, more than one-fourth of the rail assets are in marginal or poor condition and funding to bring assets to good condition is insufficient. The study identifies a backlog of unmet recapitalization needs of about \$50 billion for these rail transit operators. Additional investment is needed simply to maintain overall public transportation asset conditions. WMATA is no exception.

The current Metro Matters Funding Agreement ends June 30, 2010. Last year, WMATA developed an unconstrained Capital Needs Inventory to establish a baseline of capital needs, support development of a regional funding strategy, and to serve as a foundation for a strategic capital planning process. The inventory is split into three categories: investments to maintain the existing system in a "State of Good Repair" and deliver safe and reliable service (\$7.1 billion); investments to expand system capacity to meet growing demand (\$3.5 billion); and investments to improve infrastructure, service and business practices to provide more cost-effective, quality service (\$700 million). This needs inventory totals \$11.3 billion, or roughly \$1.1 billion per year for FY 2011-2020. The WMATA staff is currently prioritizing those needs and will present plans based on various funding scenarios in July. The Board will begin formal consideration of a "Beyond Metro Matters" program in September.

Transit authorities with dedicated Federal, state, and local funding sources are more capable of meeting capital and operating needs. Most other transit agencies of similar

size as WMATA have dedicated funding sources. For example, the Bay Area Rapid Transit District (BART) has dedicated state and local sources of funding for transit such as real estate taxes, a local sales tax measure, and a variety of statewide bond sources aimed at specific activities like construction, seismic upgrades and improvements. Additionally, the Metropolitan Atlanta Regional Transportation Authority (MARTA) receives a dedicated one-cent sales tax from Fulton and DeKalb Counties, of which no more than 50 percent can be used for operating assistance. In contrast, and as a 2007 Government Accountability Office report highlights, WMATA has no dedicated local funding source. Instead, it relies on state and local jurisdictions for annual operating subsidies and to match Federal capital assistance.

To address the need for stable and reliable funding, Congress recently enacted a provision in the Rail Safety Improvement Act authorizing the appropriation of \$1.5 billion over 10 years for Federal grants to WMATA. The funds authorized are conditioned on the District of Columbia, Maryland, and Virginia establishing a dedicated matching source of funds. FTA is closely following the state and local actions required by this new federal law. FTA understands that both the Virginia and Maryland legislatures have passed identical bills and that the District of Columbia will take action on May 5.

FTA's fundamental role is making investments in public transportation and providing technical assistance to public transportation providers. This investment role is accompanied by fiduciary responsibilities specified in Federal law. FTA undertakes a range of oversight activities. The foundation of our oversight program as required by law is the Triennial Review. FTA also conducts other oversight reviews including Financial Management Oversight reviews, Procurement System Reviews, and Financial Capacity Assessments.

What follows is a brief overview of each of those reviews and the results from recent WMATA reviews. Based on FTA's oversight review of WMATA and our overall program management, WMATA is in general compliance with our statutory and regulatory requirements.

The Triennial Review, mandated by Federal law since 1982, evaluates the approximately 600 recipients of Section 5307 Urbanized Area Formula Grants on a three-year cycle; 200 each year. Broad in scope, the Triennial Review examines 23 different areas and provides FTA with the opportunity to review a transit agency's system, policies, and records and to provide technical assistance to grantees in areas identified as having oversight findings.

One type of focused oversight review that FTA conducts is the Financial Management Oversight (FMO) Review. Authorized by 49 U.S.C. Section 5327(c), the FMO review evaluates a transit agency's financial management systems to ensure that it is adhering to Federal financial management requirements.

Another specialized review is the Procurement Systems Review (PSR). The PSR promotes and facilitates improved grantee procurement procedures, fosters the use of

industry best practices, and assesses a grantee's compliance with Federal procurement requirements. FTA's top 30 grantees (based on the total amount of obligated dollars) undergo Procurement System Reviews on a triennial basis. WMATA is one of FTA's top 30 grantees.

Finally, FTA utilizes a specialized review for compliance in areas such as drug and alcohol, civil rights and state safety oversight as well as for planning a major capital project, such as constructing a new or extending an existing system like Metrorail. The "Financial Capacity Assessment" review examines the financial capability of grantees to construct and operate major capital investments while continuing to operate and maintain their existing transit system. Financial Capacity Assessments analyze a grantee's detailed 20-year financial plan including determining the reasonableness of the projections used, the ability of the grantee and other funding partners to provide the required local share of the project's capital cost, the grantee's financial capacity to withstand delayed or reduced Congressional appropriations, unanticipated conditions, or budget overruns, and the grantee's ability to operate and maintain the existing system as well as the project.

Since 2004, FTA has conducted 10 Oversight Reviews of WMATA:

- 2 Procurement Systems Reviews (2004, 2007)
- 2 Triennial Reviews (2005, 2008)
- 3 ADA Civil Rights Reviews (2007)
- 1 Financial Management Oversight – Full Scope Review (2008)
- 1 Financial Capacity Assessment (2008) for the Dulles Corridor Metrorail Project
- 1 Drug and Alcohol Audit (2009)
- 2 State Safety Oversight Reviews of the Tristate Oversight Committee (2004, 2007)

FTA's Washington, D.C. Metropolitan Office provides dedicated support to WMATA in all areas, as it has done since 1999, and manages both the WMATA grants and oversight reviews.

FTA conducted a Triennial Review of WMATA in 2008. During the Triennial Review, FTA may identify "findings" that indicate areas in which the grantee must improve to assure that it is meeting the statutory and regulatory requirements for receiving and managing FTA funds. The 2008 review identified findings in 4 of the 23 areas reviewed. These areas include Satisfactory Continuing Control, Planning, Charter Bus, and Maintenance. Of these findings, the most significant was in the area of Satisfactory Continuing Control. This finding was related WMATA's recent development and implementation of a new software system for tracking vehicle maintenance. The 2008 Triennial Review also underscored the need for WMATA to better document policies and procedures for requesting approval of incidental use of Federally-funded assets, and the disposition of Federal assets, as well as an excess real property plan. To address these oversight findings, FTA is providing direct technical assistance to WMATA.

Over the past five years, two Procurement System Reviews were conducted of WMATA – one in 2004 and one in 2007. The 2007 review did not identify any major findings, although it did note deficiencies in 13 of the 56 areas reviewed, WMATA addressed these by updating its Policy Instructions and Memorandums, which are part of its Procurement Procedures Manual. FTA considers these issues resolved. We have encouraged WMATA to update the Procurement Procedures Manual to reflect the requirements contained in FTA's Circular 4220.1F, issued in November 2008.

Furthermore, to assist in preventing deficiencies, FTA offers direct training opportunities as well as access to industry training through our partnership with the National Transit Institute (NTI). Additionally, for 90 days after the completion of a Procurement System Review, FTA contractors are available to assist grantees in closing out findings by providing subject matter expertise and suggested industry best practices.

FTA also completed a Financial Management Oversight (FMO) review of WMATA and issued findings in October 2008. Of the ten findings from this review, nine remain open. Two of the findings rose to the level of Material Weakness: *Indirect Cost Allocations Not Consistent with FTA Approved Plan* and *Grant Budget Revisions Not Approved by FTA*. Changes in staff at the senior-level and below in the Chief Financial Officer's office began during the execution of this review in December 2007 and continued until March 2009. This affected WMATA's ability to respond to the draft report with a sufficient Corrective Action Plan, and WMATA's ability to take the actions needed to implement that plan. Working closely with FTA, WMATA has submitted two responses to address four findings to date and FTA has closed one of those findings. This leaves a total of eight findings still open with FTA currently reviewing an April 2009 submission from WMATA regarding two other findings: *Encumbrances not tracked* and *Documentation for payroll deductions not available*.

One of the most recent reviews conducted by FTA was a Financial Capacity Assessment for the Dulles Corridor Metrorail – Extension to Wiehle Avenue project in December 2008, which included a review of WMATA's capital and operating plan as well as that of the Metropolitan Washington Airports Authority (MWAA), which is constructing the project. WMATA was included in the scope of the review because MWAA will transfer ownership of the extension to WMATA when the project has met the conditions specified in an intergovernmental agreement between the two agencies. Thus, per the requirements in the law governing FTA's Major Capital Investment Program, FTA needed to ensure that the existing system could continue to be operated and maintained once the extension was built.

FTA's Financial Capacity Assessment concluded that MWAA and WMATA have the financial capacity to implement the Dulles Corridor Metrorail – Extension to Wiehle Avenue Project while continuing to operate and maintain the existing system, even when key financial plan assumptions are subjected to stress tests. The December assessment found that WMATA was in a stable financial condition. Even as operating costs grew over the last several years, WMATA's operating cost recovery remained

steady due to fare increases and robust growth in non-fare operating revenues; ridership grew; and capital investment outpaced depreciation.

Based on the results of the Financial Capacity Assessment, FTA concluded that the financial plan developed by MWAA and WMATA was reasonable and demonstrated WMATA's ability to continue to operate and maintain the existing system as well as the new extension. FTA executed a Full Funding Grant Agreement for the Dulles Corridor Metrorail —Extension to Wiehle Avenue Project on March 10, 2009.

As the Wiehle Avenue Metrorail extension project advances, FTA has retained the services of a Project Management Oversight Contractor to assist MWAA on a full-time basis. This is a step in the right direction and demonstrates the Federal commitment to a successful project.

Overall, FTA's partnership with WMATA has provided significant Federal public transportation investment in the National Capital Region, which has been matched with local resources. The benefits of this partnership to the region are notable. In support of this Federal investment, FTA carries out its fiduciary role through a robust oversight program which evaluates grantees' capacity to comply with statutory, regulatory, and administrative program requirements. FTA recently conducted supplemental specialized reviews of WMATA beyond FTA's Triennial Review. There are findings from a recently completed Financial Management Oversight review that remain open and FTA is working with WMATA on the satisfactory conclusion of this process. In general, WMATA is in compliance with FTA statutory and regulatory requirements.

Mr. Chairman, I thank the subcommittee again for the opportunity to address key aspects of WMATA's finances, operations, and investments, and FTA's oversight role of our Federal investments. I look forward to answering any questions you might have.