

To: State Section 5311 Program Managers and Intercity Bus Industry Representatives
From: Mary Martha Churchman, Director
Office of Transit Programs
FTA Office of Program Management

RE: Implementation of Two Year Pilot of In-Kind Match for Intercity Bus

For many months, FTA has had ongoing conversations with intercity bus industry representatives, a private consultant working on intercity bus issues, and a State DOT to explore the possibility of capturing the value of unsubsidized intercity bus service as a source of in-kind local match for intercity bus projects funded with Section 5311(f). Greyhound and the American Bus Association submitted comments to the docket for the revisions to the Section 5311 program circular that reflected the outcome of those preliminary conversations, and several States submitted comments in support of the intercity bus industry's proposal.

On October 20, 2006, FTA executive management approved a two year pilot allowing States to use The capital costs of private sector intercity-bus service as in-kind match for the operating costs of connecting rural intercity bus feeder service funded under 49 U.S.C. 5311(f). The concept approved for implementation in the pilot is not quite as expansive as the original proposal.

Background:

Section 5311(f) of Title 49, U.S.C., requires each state to use 15% of its annual apportionment under Section 5311 to support intercity bus service, unless the Governor certifies that the intercity bus needs of the states are adequately met. SAFETEA-LU strengthened this requirement by requiring consultation with intercity bus operators prior to certification.

In the last several years Greyhound has terminated most of its rural service, but Greyhound and other private operators maintain service between larger cities. Smaller regional carriers and rural transit systems can help support the national network of intercity bus service and meet the mobility needs of rural residents by providing feeder service that connects rural communities to the closest city with intercity bus service.

Several States have conducted comprehensive state intercity bus needs assessments and identified corridors that could be supported by 5311(f) funding for feeder service, providing intercity connections to rural communities and increasing ridership and productivity to help sustain the unsubsidized intercity service provided by Greyhound and other operators.

However, even when the State was interested and willing to use 5311(f) funds to meet identified needs and the private operator needed and desired the connecting service, lack of sources of local match often impeded implementation of the feeder service.

A consultant working with Washington State came up with a creative financing scheme which Greyhound endorsed and promoted to FTA. While FTA rejected the original proposal to use the entire value of the unsubsidized intercity bus network in a State as a form of credit to be awardable for match, we continued to work with the advocates to refine the proposal. Greyhound, the American Bus Association, the consultant (Fred Fravel, of KFH group) and several states sought FTA's approval of the concept in comments submitted to the Docket for the proposed revisions to the Section 5311 program circular. FTA executive management discussed the proposal on October 20, 2006 and agreed to test a limited version of the concept in a two year pilot for Section 5311 grants obligated during FY 2007-2008.

When the Circular is finalized, we will respond to the comments in the preamble but not incorporate the provision in the Circular, since we are just agreeing to a two year test of the concept. Depending on whether the pilot proves that the concept is workable and beneficial, it could be extended and incorporated into later iterations of the Circular, or legislative changes could be proposed in the next authorization.

Implementation Instructions:

A. Defining the FTA Assisted Project:

To use the capital provided by a private operator as in-kind match, the FTA assisted project must be defined as including both the feeder service and an unsubsidized segment of intercity bus network to which it connects.

B. Costs allowable as In-Kind Match:

In order to be eligible to be used as in-kind match, a cost must be otherwise allowable under the project. Thus, to be eligible under Section 5311, the costs contributed by the private operator as in-kind match must connect the rural community to further points. Also, since FTA can only fund the net project cost and the private operator is presumed to be collecting at least enough in fares to cover the operating costs of the service, we are only allowing the capital costs of the unsubsidized service to be used as in-kind match. To simplify matters, we will use the percentages allowed in the capital cost of contracting guidance to determine how much of the private operator's total costs are attributable to capital. (E.G., 50% where the operator provides and maintains all the equipment, less if FTA funded equipment is provided.)

C. Simplified Example of a Project:

1. Feeder Service – rural community A to intercity bus terminal in City B

Total Operating Costs	\$15,000	Service operates 2 round trips per day, 5 days per week. 1000 miles total @ \$15/mile.
Less Farebox Revenue	\$5,000	Based on weekly ridership of 20 passengers who use the feeder to connect with intercity service at point B
Net Operating costs	\$10,000	subsidized by 5311(f)

Note: City B may be either under or over 50,000 in population if the origin in Point A is a non-urbanized area.

2. Connecting Service – from Intercity bus terminal in City B to Big City C.

Total Operating Costs	\$20,000	Documented fully allocated costs (both capital and operating) of unsubsidized privately operated service - 2 trips each day that connect with the feeder service. (ten trips per week) 500 hours of service @ \$40/hour. (If there are more trips per day that do not connect with the feeder, those costs aren't counted.)
Less Operating Costs	\$10,000	The operating portion of the fully allocated costs is not allowable as in-kind match because the private operator is not operating at a loss, so farebox revenues are presumed to cover all the operating costs. Capital cost of contracting ratios may be used to determine the percentage of the total unsubsidized cost of the private service attributable to capital – 50% if no FTA provided vehicles are used. The remainder is operating costs.
Value of Capital contributed by private operator	\$10,000	May be used as In-Kind match

Note: Both City B and City C are on the route on which the private intercity bus operator provides scheduled service. In this example there is just one destination, but in other cases there may be additional segments of the network included in the calculation – for example, service from B to D as well as B to C.

3. FTA Assisted Project - Service from rural community A to Big City C

Operating Deficit Segment A-B	\$10,000	Funded by 5311(f) – Federal Share
Capital Costs Segment B-C	\$10,000	In-Kind Match – Local Share
Net Cost of project A-C	\$20,000	Net Project Cost – included in program of projects and in TEAM Budget

Note: The example above assumes a 50/50 match ratio for operating assistance. The Federal share may be greater if a State is eligible to use the sliding scale match ratios.

D. Use of Private Capital as In-Kind match for Subsidized Private Sector Routes or Service Contracted from Private Operator:

A contribution of unsubsidized private capital can also be used to provide in-kind match when Section 5311(f) funds are used to subsidize an unprofitable rural intercity bus route that might otherwise be discontinued by the private operator. Section 5311(f) funds can be used to pay for the operating deficit and the local match can come from the capital costs contributed by the private operator. Or a State (or local transit agency) can contract with a private operator to provide rural intercity bus service, and pay for the operating deficit with Section 5311(f) funds, with the private operator providing in-kind match in the form of the value of the unsubsidized capital portion of the contracted service.

E. Excess or Insufficient In-Kind Match:

If there is excess in-kind match available from the value of the capital costs, it cannot be used to increase the Federal share above the actual operating deficit of the project. In the simplified example above, if the capital costs of the connecting service were \$12,000, the Federal share of the project provided in Section 5311(f) funds would still be \$10,000 because that is what is needed to pay the operating deficit of the feeder service. Only \$10,000 of the capital costs are used for in-kind match.

On the other hand, if the value of the unsubsidized capital contribution does not provide sufficient in-kind match to equal the Section 5311(f) funds needed to cover the operating deficit, the State or local agency has to produce the difference in cash. In the simplified example above, if the capital costs of the unsubsidized service were only \$8000, the \$10,000 operating deficit of the feeder service could be paid with \$8000 in Section 5311(f) funds and \$2000 in cash from other sources.

F. Period of Availability of the In-Kind Match:

Once included in an approved grant obligated within the two year pilot period, the capital contribution described in the application may be used as in-kind match until the Federal share is fully expended.

G. Documentation Required in State's Application for Section 5311:

When applying to use the unsubsidized capital as in-kind match, the State must provide supplemental information with its Section 5311 grant application.

1. For each Section 5311(f) project using the match, the State must provide a detailed description of the feeder service and the connecting service, identifying locations served by each, and the

connections. Only those runs that actually connect with the feeder service can be used for match. For example, if the private operator makes four trips per day through point B but the feeder service only operates twice daily, only the capital costs of the two daily connecting trips can be used as in-kind match.

2. Itemize the total and net costs of each segment used in the project description (for example A-B and B-C, by actual place names, and level of service.) The value of the in-kind match must be based on the documented fully allocated costs incurred by the private operator in providing the connecting service, with reasonable calculations by methods such as costs per mile, or costs per hour. Capital Cost of Contracting percentages may be used to determine the amount of fully allocated costs attributable to capital, unless the operator can provide documentation that the capital costs (including preventive maintenance) are higher. The detailed information may be presented in table form, as in the simplified example above.
3. If the capital costs do not provide sufficient match for the entire operating deficit of the feeder service, additional cash match is required, and should be documented in the application.
4. The application should include documentation that the private operator has consented to the arrangement, documented the costs of the private service being used for in-kind match, and acknowledged that the private service is part of the FTA project and thus is covered by the labor warranty and other Federal requirements.

H. Regional Review and Processing of Grant Application:

When a State applies to use this source of in-kind match during the two year pilot in FY 2007 or 2008, the FTA region will review the documentation to ensure that the project as defined is eligible for Section 5311(f) assistance and that sufficient local match is provided by the in-kind capital contribution to match the operating assistance provided.

I. Assessment of Pilot Project:

I invite States and industry to comment about the implementation of the pilot as it proceeds. Your observations about any procedural issues and reflections on the impact of the pilot in increasing the rural intercity bus connections are welcome at any time, but we particularly invite you to submit an assessment of the two year pilot in July, 2008, as FTA considers next steps.