Office of Inspector General

Awarding Discretionary Funds in the

U.S. Department of Transportation

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Executive Summary

At the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation, the Office of Inspector General (OIG) reviewed funding programs within the Department of Transportation (DOT) to assess the manner in which discretionary funding decisions are made. Our objectives were to: (1) evaluate the existence and adequacy of the criteria, developed either statutorily or administratively, used to guide DOT officials in making discretionary funding decisions, and (2) determine the extent to which DOT officials were adhering to the applicable criteria.

On June 9, 1998, the President signed the "Transportation Equity Act for the 21st Century." This legislation reauthorizes numerous surface transportation programs, and includes a substantial increase in funding for departmental programs. Departmental officials have not yet completed their analysis of this Act, and its impact on the amount of discretionary funds available for surface transportation projects is not yet known. This report therefore does not reflect the potential impact of this legislation.

What Are Discretionary Funds?

For purposes of our review, we defined "discretionary" funds as all Federal financial assistance, except funds allocated by formula or other entitlement processes, for distribution to states, municipalities, and other eligible entities. Included in our definition of discretionary funds are "demonstration projects" and other projects specifically identified in DOT's Appropriations Act and congressional reports. Also included are those funds for which Congress relies on the Secretary of Transportation or the Operating Administrators to identify and select projects that represent the best use of taxpayers' dollars.

As the following chart shows, about 12 percent, or $3.2 billion, of Federal financial assistance provided by DOT represents discretionary funding.

About $2.1 billion was for demonstration and other projects identified in DOT's Appropriations Act or congressional reports. DOT has no discretion in how these funds were used. The remaining $1.1 billion represents funds that were awarded at the discretion of DOT.

How Are Discretionary Funding Decisions Made?

Each Operating Administration within DOT has developed its own criteria and process for selecting discretionary projects. This has resulted in inconsistent approaches within DOT.

Federal Transit Administration (FTA) did not have a process for prioritizing projects for its two major discretionary programs, New Fixed Guideway Systems ("New Starts") and Bus and Bus-Related Facilities. Although FTA identifies potential discretionary projects for congressional consideration, it does not identify relative priorities. For Fiscal Year (FY) 1997, FTA identified 17 New Start projects with funding requirements of $800 million. Congress provided $644 million for these 17 projects, and $173 million for 36 additional projects. In addition, FTA provided the Senate Appropriations Committee a listing of 74 pending Bus projects for $294 million. Congress funded 138 projects for $380 million, including 30 that were included on the FTA list.

Federal Highway Administration (FHWA) has developed criteria, and follows its established process for identifying and prioritizing projects for discretionary funding. However, the Administrator does not always select projects based on the relative priority assigned by FHWA's staff. Consequently, in FY 1997, $142 million, or 59 percent, of the $241 million awarded were for projects other than those identified by FHWA's staff as the highest priority. FHWA did not have documentation explaining its rationale for selecting lower priority projects.

For example, in the Ferry Boat discretionary program, the Administrator did not fund a $1 million project, rated by FHWA staff as a high priority ("most promising") project. This project was to replace a deteriorating ferry transfer bridge and pier structure, and bring them into compliance with the Americans with Disabilities Act. Currently, passengers in wheelchairs cannot get from the transfer bridge to the ferry boat without assistance. During our visit to the facility, we noticed the concrete and steel on the ferry transfer bridge were severely cracked, and the timbers on the pier were in poor condition.

Within the same region, FHWA awarded funds for two lower priority projects totaling $1.3 million to establish a new ferry service. One project was for a ferry

docking facility, and the other was for the construction of two ferry vessels. FHWA officials stated these projects were low priority ("qualified" category) because they were for new service, and included significant unknowns concerning ridership and insurance requirements. During our site visit, FHWA Division and state officials stated they were not certain the ferry service will be viable because the trip around the waterway is 15 minutes by car in traffic, 26 minutes by bus, and 39 minutes by ferry.

Federal Aviation Administration (FAA) also has developed criteria and was following its established process for identifying and prioritizing projects for discretionary funding. The Associate Administrator for Airports, not the Administrator, decides which projects receive discretionary funds. However, we found regional offices, with the Associate Administrator's approval after consultation with Headquarters staff, sometimes direct funds to lower priority projects within their region that were not the next highest national priority. Headquarters' approval was generally communicated to the regional offices by telephone and not documented, and, therefore, we could not review the rationale behind these decisions. FAA allocated $100 million, or 15 percent of its $669 million in FY 1997 discretionary funds, to lower priority projects. Although FAA officials provided documentation to support decisions on many projects, the selection of lower priority projects is contrary to FAA's established policy to fund the highest priority national projects.

We also found that FAA continues to experience problems with airport sponsors and airports not funding their highest priority projects with entitlement funds prior to competing for discretionary funds. According to FAA's Airport Improvement Program Handbook, ". . . field offices should encourage sponsors to use entitlement funds for the highest priority projects under consideration at the airport." Contrary to this policy, some airport sponsors and airports submitted applications to FAA requesting discretionary funds for high priority projects while obviously planning to use entitlement funds for low priority projects that would not favorably compete for discretionary funds in the national priority system. This practice created inequity across the country, specifically when other sponsors are abiding by FAA's policy.

Should Funding Decisions Be Based Solely On Criteria?

Even though the Operating Administrations have developed criteria and processes for identifying high priority projects, decision-makers frequently bring other factors into consideration for final project selection. These factors may include geographic distribution, prior funding, and priorities external to the program. In

our opinion, this flexibility is necessary. Without it, undesirable results, such as rewarding inefficient or ineffective infrastructure management, may occur. For example, a state or local government that fails to maintain its transportation systems could have many urgent replacement needs, thereby receiving a disproportionate amount of funding.

There is, however, an overriding need to fund the highest priority projects nationally. Although Congress has given DOT flexibility in selecting projects to receive discretionary funds, DOT has an obligation to ensure the best use of taxpayers' dollars, and therefore should generally select for funding those projects representing the highest national priority. When the highest national priority projects are not funded, a more thorough review and analysis of project alternatives is necessary to support these decisions. By documenting the rationale used to support decisions to fund lower priority projects while higher priority projects remain unfunded, the decision-makers can ensure these alternative project selections represent the best use of taxpayers' dollars.

What Improvements Are Underway?

Representatives in FTA, FHWA, and FAA generally concurred with the facts contained in this report. They also identified actions that are being taken to improve the effective use of discretionary funds. Within FTA, legislation recently enacted by Congress will require DOT to evaluate and rate New Start projects as they advance through the various stages of development. Projects will be subjected to a formal rating system (highly recommended, recommended, and not recommended) in order to receive FTA approval for advancing from preliminary engineering to final design and construction. In FHWA, the FY 1998 process has not been finalized. We were advised by the Administrator that he will place considerable reliance on staff recommendations, and the majority of project selections will come from the highest priority category. However, he indicated that discretion will be used to provide balance, fairness, and equity. FAA is revising its formula for identifying national priority projects to more closely rank projects as originally intended. In addition, once final project selections are made by Headquarters from its list of national priority projects, any deviations will require regional letters of justification approved by Headquarters. In the future, the FAA Administrator will be informed of discretionary funding decisions, however, the Associate Administrator for Airports will continue to make these decisions.

What Actions Should DOT Take?

Building upon one of Secretary Slater's visions, a "ONE DOT," and to make more consistent and effective use of discretionary funds, we recommend:

1. The Office of the Secretary of Transportation establish a Departmentwide policy for allocating discretionary funds. At a minimum, this guidance should require:

* The funding of the highest national priority projects.

* Documentation of the rationale used to support decisions to fund lower priority projects, while higher priority projects remain unfunded. This documentation should promote a more thorough review and analysis of project alternatives.

In addition to any future discretionary funding project selections, this recommendation applies to all existing low priority projects, for which no firm commitments have been made, as well as to any FAA national priority projects that FAA regional managers are unable to fund.

2. FAA intensify its review of all project submissions and develop appropriate procedures to lower the ranking of projects submitted by airport sponsors and airports that use their entitlement funds for low priority projects.

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I. INTRODUCTION

Background

Federal financial assistance to state and local governments, and other eligible entities, to improve transportation systems is provided in three primary ways: (1) formula or entitlement funds, (2) projects specifically identified in DOT's Appropriations Act or congressional reports, and (3) other discretionary funds.

Formula, or entitlements funds, to state and local governments, and other eligible entities, were established by congressional appropriations as a means of funding the development and maintenance of the country's transportation infrastructure. Funds principally come from charging specific users an excise tax, such as the gasoline tax and the airline passenger tax. These taxes are deposited into trust funds maintained by the Department of the Treasury and provide the main source of revenues for the annual appropriation to fund transportation improvement projects. These funds are distributed using established allocation formulas. Normally, states and local governments, and other eligible entities, are permitted to choose eligible projects to be funded by formula or entitlement funds. There are however, explicit processes followed by DOT Operating Administrations to approve these projects.

In DOT's Appropriations Act, and in congressional reports, Congress specifies some projects for mandatory funding. In DOT, some of these projects are identified, and funding is requested, in the Presidential Budget Submission to Congress. Others reflect congressional priorities. Collectively, these projects get funded with discretionary funds and DOT must support and execute these projects. The remaining discretionary funds, which we refer to as "residual," may be allocated as determined by the Secretary of Transportation and the Operating Administrations.

In FY 1997, DOT awarded $27.8 billion in Federal financial assistance, of which $3.2 billion (12 percent) was discretionary funds. Ninety-nine percent of these discretionary funds was administered by three of DOT's Operating Administrations: FTA, FHWA, and FAA. About $2.1 billion was for projects specifically identified in DOT's Appropriations Act or congressional reports for FTA's two major discretionary funding programs and FHWA demonstration projects. The residual remaining $1.1 billion was awarded by FHWA and FAA.

Objective, Scope, and Methodology

At the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation, the Office of Inspector General reviewed funding programs within the Department of Transportation to assess the manner in which discretionary funding decisions are made. Our objectives were to: (1) evaluate the existence and adequacy of the criteria, developed either statutorily or administratively, used to guide DOT officials in making discretionary funding decisions, and (2) determine the extent to which DOT officials were adhering to the applicable criteria.

Because funding decisions for FY 1998 had not been made at the time of our review, we focused on FY 1997 discretionary funding awards. For our review, we excluded research and other relatively small programs, and focused on about $910 million in eight FHWA programs and one FAA program. We also reviewed the manner in which DOT selected projects for inclusion in DOT's Presidential Budget Submission to Congress. The programs we reviewed and amounts awarded are shown in the following table.

Residual Discretionary Funded Programs
Included in Review

Organization	Program	FY 1997 Awards (in thousands)	Projects
FHWA	Ferry Boats	$18,200	20
	Public Lands Highways	$55,300	31
	Bridge Discretionary	$60,600	20
	Interstate	$12,900	3
	Interstate 4R	$66,400	8
	National Highway Systems Feasibility Studies	$8,000	7
	Timber Bridges	$7,700	26
	Scenic Byways	$12,000	78
FAA	Airport Improvement Program	$669,030	362
TOTAL		$910,130	555

Prior Audit Coverage

The Office of Inspector General issued an audit report entitled "Procedures for Issuing Airport Improvement Program Discretionary Grants," OIG Report Number: R9-FA-5-008, dated April 28, 1995, that included recommendations for improving the effectiveness of FAA's procedures for allocating Airport Improvement Program discretionary funds. We found that low priority projects

were funded, while higher priority safety and capacity projects were not. We also found airports were using entitlement funds for lower priority projects, thereby leaving their higher priority projects unfunded to better "compete" for discretionary funds. FAA concurred with our recommendations to award discretionary grants to the highest priority projects nationally, and to ensure airports use entitlement funds for the highest priority projects before FAA awards discretionary grants.

The General Accounting Office (GAO) issued a report entitled "Review of Project Selection Process for Five FHWA Discretionary Programs," dated November 7, 1997. The GAO found that during FYs 1995, 1996, and 1997, FHWA ". . . relied more on its discretion and less on the program staff's input and analyses than it did under an earlier process . . ." used during FYs 1992, 1993, and 1994. Under the new process, GAO found that FHWA selected 73 percent of the projects categorized as "most promising" or "promising." Under the older system, FHWA ". . . selected over 98 percent of all projects that the program staff recommended."

II. ANALYSIS AND RECOMMENDATIONS

The Secretary has delegated the authority to allocate the residual discretionary funds to Operating Administrations having grant programs. Congress and the Secretary rely on the Operating Administrations to identify projects that represent the best use of taxpayers' dollars. Congress gives DOT total flexibility for awarding these residual discretionary funds, so DOT's Operating Administrations can select essentially any project that meets eligibility requirements.

The Department relies on the Governmentwide requirements established by the Office of Management and Budget (OMB) for its guidance in managing discretionary funding programs. OMB requirements include pre-award policies that require:

* Public notice of intended funding priorities,
* Opportunity for public comment on intended funding priorities, and
* Review by a policy-level official for consistency with agency priorities for all grant awards above $25,000.

Accordingly, each Operating Administration has developed its own criteria and process for prioritizing and distributing funds. We recognize valid reasons exist for not strictly adhering to this criteria, and a degree of flexibility must exist in the decision-making process. Decision-makers frequently must bring other factors into consideration for final project selection. These factors may include geographic distribution, prior funding, and priorities external to the program. Without this flexibility, undesirable results, such as rewarding inefficient or ineffective infrastructure management, may occur. For example, a state or local government that fails to maintain its transportation systems could have many urgent replacement needs, thereby receiving a disproportionate amount of discretionary funding.

Each Operating Administration within DOT has developed its own criteria and process for selecting discretionary projects. This has resulted in inconsistent approaches within DOT. Both FHWA and FAA have formal processes emanating from the field and culminating in a list of prioritized projects established by Headquarters staff. Although these selection processes resemble each other, inconsistencies exist. In FHWA, the Administrator can, and frequently does, make selections from any eligible project, even those of a lower priority. Within FAA, the final selection of projects is facilitated by a numerical ranking system, and is made at the Associate Administrator level, in the order of national priorities. In FAA, the final decision is made by the Associate Administrator, while in FHWA, this decision is made by the Administrator. Also, in FAA, only high priority

projects are initially selected for funding, while in FHWA, the Administrator frequently selects projects having lower priority for funding.

Allocating Discretionary Funds

Both FHWA and FAA have many more projects competing for funds than funds available. In FY 1997, FHWA received applications totaling $2.4 billion compared to the $241 million awarded in discretionary funds. Similarly, FAA received $1.1 billion in requests compared to the $669 million available. Because available funds were substantially less than projects needing funds, FHWA and FAA have developed their own criteria and processes for ranking projects and allocating discretionary funds. Although FTA's discretionary funds are fully allocated in DOT's Appropriations Act, FTA does have input into the process that results in that allocation. Therefore, we will briefly discuss FTA's discretionary funding programs.

Federal Transit Administration. For FY 1997, Congress appropriated about $1.2 billion to FTA for its two major discretionary programs, the "Bus and Bus-Related Facilities Program" (Bus Program) and the "New Fixed Guideway Systems Starts Program" (New Starts Program). In the FY 1997 DOT Appropriations Act and congressional reports, all funds appropriated for these two programs were allocated to specific projects. FTA provided considerable input to Congress concerning these two programs and FTA's classification of projects competing for these discretionary funds.

The Presidential Budget Submission to Congress for FY 1997 reflected 17 projects with funding requirements of $800 million, which FTA identified as part of its New Starts Program. FTA also provided an annual report to Congress entitled "Report on Funding Levels and Allocations of Funds for Transit New Starts," which identified the same 17 projects. The President's Budget Submission did not include a list of projects for FTA's Discretionary Bus Program. However, in response to a question at a hearing before the subcommittee of the Senate Appropriations Committee on DOT's Appropriations for 1997, FTA provided a listing of 74 projects, totaling $294 million, with applications pending for discretionary bus funds.

In DOT's FY 1997 Appropriations Act, Congress specified funding for 53 New Starts projects amounting to $817 million. The 53 projects included funding for the 17 New Starts projects identified by FTA, at a reduced funding level of $644 million. In addition to the New Starts projects, DOT's FY 1997

appropriation included funding for 138 projects, totaling $380 million for FTA's Bus Program. Among these 138 projects, 30 were included in FTA's list of 74 pending applications. This demonstrates that FTA's FY 1997 Budget reflects both Congress' discretion to fund its priority projects, as well as Congress' support for funding DOT's priority projects.

The way FTA projects are evaluated and rated may change. Legislation recently enacted by Congress[1] will require DOT to evaluate and rate New Start projects as they advance through the various stages of development (preliminary engineering, final design, and construction). The legislation will require that projects be subjected to a formal rating system (highly recommended, recommended, and not recommended) to receive FTA approval for advancing from preliminary engineering to final design and construction. This rating is to be based on the results of alternatives analysis, project justification criteria, and the degree of local financial commitment. Under the present system, projects were also evaluated and rated (high, medium, or low) against the project evaluation criteria. However, under the current system, projects were not required to achieve any minimal rating to advance from preliminary engineering through final design.

Federal Highway Administration. The FHWA Headquarters begins the discretionary funding process for each of its eight discretionary funding programs by issuing a solicitation memorandum to all states. The memorandum asks the states to propose projects for funding and provides guidance for submitting projects for consideration.

The states' submissions are reviewed by FHWA division and regional offices for compliance with Federal eligibility requirements. Each regional office consolidates the states' eligible projects, and submits them in alphabetical order to FHWA Headquarters.

At Headquarters, the FHWA Office of Engineering reviews all projects for eligibility using criteria established for each discretionary funding program. For example, to be eligible for the Ferry Boat discretionary funding program, the following criteria must be met.

FHWA Eligibility Criteria
Ferry Boat Discretionary Funding Program

* Ferry facility must be publicly owned.

[1] "Transportation Equity Act for the 21st Century," H.R. 2400.

* Both vehicular and passenger-only ferry facilities are eligible.
* Vehicular ferry facilities must be on a route classified as a public road that is not an Interstate route.
* Ferry must only operate in a state, between states, or in international waters involving the islands of Hawaii and Puerto Rico, Alaska and Washington, Canada and the United States.

Ineligible projects are disallowed, and eligible projects are further reviewed and ranked. Eligible projects in each of FHWA's eight programs are then categorized as: "most promising," "promising," and "qualified." The criteria for these categories, like eligibility determinations, are also specific to each FHWA discretionary funding program. For example, the following criteria are used to categorize candidate projects in the Ferry Boat discretionary funding program.

FHWA Categorization Criteria
Ferry Boat Discretionary Funding Program

Most Promising

* Provides for construction of a usable facility.
* Sponsor has plan to leverage private funds or significant amounts of other resources.

Promising

* Facility is very costly in light of limited resources.

Qualified

* Project involves design or location work only.
* Facility involves new service and lacks firm commitments (i.e., construct terminal but no existing ferries).
* Requirements of the project are poorly defined.
* Project involves minor work approaching maintenance.

Once the projects in each of the discretionary funding programs are categorized, the following information is provided to the FHWA Administrator:[2]

[2] Similar information is provided to the Administrator for each of the eight discretionary programs.

* Program background
* Prior allocations
* Congressional support
* Congressional earmarking
* An allocation plan that includes
* Funding available for allocation,
* Number of candidate projects and total amount of their request,
* Grouping of candidates by category (most promising, promising, and qualified) and criteria used for that grouping,
* Specific information on each candidate project listed by state in alphabetical order.
* Selection criteria as shown below.

FHWA Selection Criteria
Ferry Boat Discretionary Funding Program

Statutory: None

Regulatory: None

Other:
* Results in a usable facility.
* Benefits of the projects.

Commitment of other funding sources.

FHWA field offices comments on project.

Congressional earmarking and/or interest in a project.

Past allocations under this discretionary program.

Reasonable request in relationship to the funds available. In general those projects that require more than a fifth of the funds available are not selected.

The Administrator uses this information to make final project selections. We were advised by the FHWA Executive Director that in making final project selections, the Administrator considers all the above factors, and makes a conscious effort to achieve geographical balance. As a result, he indicated that projects selected may not all fall within the "most promising" category, even though some projects categorized as "most promising" have not been funded.

Project Selection. Although FHWA's system for prioritizing and categorizing discretionary funds identified 202 "most promising" projects totaling $920 million, FHWA's allocation included only 137 "most promising" projects, totaling $99 million, and 56 lower priority projects. FHWA used over half of its FY 1997 discretionary funds ($142 million, or 59 percent) for projects that it determined were lower priorities, as shown below.

Discretionary Funds Awarded in FHWA
By Category

Category	FY 1997 Awards (in thousands)	Projects	Percent of Funds
Most Promising	$98,650	137	41%
Promising	$63,240	21	59%
Qualified	$53,990	26	
Not Qualified - administratively *	$17,500	7	
Other	$7,700	2	
TOTAL	$241,080	193	100%

* Projects statutorily eligible for discretionary bridge funding, but 1) had requested fourth quarter funding, 2) were high cost projects, or 3) were previously fully funded with apportioned bridge funds. Projects were funded in FY 1997 from this category because funds remained in the program after higher priority projects were funded.

For three of the eight FHWA discretionary programs, all projects that were selected for discretionary funding were categorized "most promising." However, in the remaining five discretionary programs, shown in the chart below, FHWA selected 40 lower priority projects (16 "promising," and 24 "qualified"), when 65 "most promising" projects remained available for selection.

FHWA Discretionary Funding Decisions
Programs With Unselected Most Promising Projects

PROGRAM	MOST PROMISING			PROMISING		QUALIFIED	
	Submitted	Selected	Not Selected	Submitted	Selected	Submitted	Selected
Ferry Boats	29	14	15	4	2	6	4

Public Lands Highways	36	9	27	11	5	59	16
Interstate 4R	19	3	16	26	3	18	2
Nat'l Hwy Systems Feasibility Studies	8	3	5	7	2	10	2
Timber Bridges	24	22	2	32	4	N/A	N/A
TOTAL	116	51	65	80	16	93	24

Shaded boxes indicate lower priority projects that were selected when "most promising" projects remained unfunded.

For example, in the Ferry Boat discretionary program, a state submitted a $1 million project that would replace a deteriorating ferry transfer bridge and pier structure, and bring the structures into compliance with the Americans with Disabilities Act. Currently, a passenger in a wheelchair cannot get on or off the ferry boat from the transfer bridge without assistance.

During our site inspection of the ferry transfer bridge and pier, we noticed the concrete and steel on the ferry transfer bridge were severely cracked, and the timbers on the pier were in poor condition. We also viewed a videotape of divers conducting an underwater inspection, which showed a diver picking wood off by hand from the decayed timbers. This project was rated as "most promising," but was not selected for funding, although this state received funding in another discretionary program for a project categorized as promising. We asked the FHWA Executive Director why this most promising project was not selected, while the promising project was selected. He indicated he could not provide the basis for this decision.

Within the same region, FHWA selected two "qualified" projects totaling $1.3 million to establish a new ferry service. One project was for a ferry docking facility (docking facilities existed at the other end of the proposed ferry route). The other project was for the construction of two commuter ferry vessels to transport passengers between the existing and proposed docking facilities. FHWA officials stated these projects were placed in the "qualified" category because they were for new service, which included significant unknowns concerning ridership and insurance requirements. Funds for these two projects have been obligated, but no payments have been made to the state because construction has not started. During our site visit to the proposed service location on April 23, 1998, construction had not begun. Additionally, state officials said the river would have to be dredged before the dock could be constructed.

Contrary to the project description, instead of constructing the ferry vessels, the

state has decided, with FHWA Division office approval, to contract for the ferry service for 18 months to determine if a viable market exists. The funds allocated to construct the two ferry vessels will instead be used by the state for contracting this ferry service. We were advised by the FHWA highway engineer responsible for the Ferry Boat Program that contracting for ferry services would not be eligible for discretionary funding. Senior Counsel to the OIG advised us that leasing ferry boat service is not eligible for discretionary funding under 23 U.S.C. § 129, unless the project requires ferry boat construction, and only then if the provided ferry boats are publicly owned and operated.

FHWA Division and state officials advised us they are not certain that the ferry boat service (either contracted or with purchased ferry boats) will be viable because the trip around the waterway is 15 minutes by car in traffic, 25 minutes by bus, and 39 minutes by ferry. According to FHWA Division and state officials, the service will only survive if the contracted service provider can attract tourists to the ferry service. The state anticipates to have the dock constructed by June 1998, and to begin the ferry service at that time.

The funds for this new ferry service were sufficient to cover the unfunded "most promising" project request to replace a deteriorating transfer bridge and pier structure. We asked the FHWA Executive Director why the lower priority requests were selected instead of the higher priority request. He indicated he could not provide the basis for this decision.

We asked FHWA for supporting documentation and rationale for selecting lower priority projects when "most promising" projects were left unfunded. The FHWA Executive Director told us that "geographical balance" was a significant factor in making final project selections, as well as past allocations to the state, reasonableness of the request to funds available, and congressional support for the project.

To verify the geographical balance factor, we reviewed the 56 funded projects that were categorized as "promising" and "qualified" against the 65 unfunded projects that were categorized as "most promising." Our analysis showed 10 lower priority projects were awarded to states that had no "most promising" projects. These awards supported FHWA's objective of achieving geographical balance. However, we also found that 13 "promising" and "qualified" projects were awarded in states where "most promising" projects remained unfunded; apparently in contrast to FHWA's stated objective of geographic balance. Thirty-three lower priority projects were awarded to 12 states after all of their "most promising" projects were funded, while 5 states that had eligible projects received no funding. Three of these five states had projects in the "most promising" category.

Our results are similar to those presented by GAO in a recent report.[3] GAO found that during FYs 1995, 1996, and 1997, FHWA ". . . relied more on its discretion and less on the program staff's input and analyses than it did under an earlier process . . ." used during FYs 1992, 1993, and 1994. Under the new process, GAO found that FHWA selected 73 percent of the projects categorized as "most promising" or "promising." Under the older system, FHWA ". . . selected over 98 percent of all projects that the program staff recommended."

FHWA's process for selecting discretionary projects in FY 1998 has not been finalized. However, we were advised by the Administrator that he plans to revise the categories used in rating projects to: "best qualified," "qualified," and "not qualified." He also stated that he will place considerable reliance on staff recommendations, and the majority of project selections will come from the best qualified category. However, he indicated that discretion will be used to provide balance, fairness, and equity among the states.

Federal Aviation Administration. In 1995, we issued an audit report that included recommendations for improving the effectiveness of FAA's procedures for allocating Airport Improvement Program discretionary funds.[4] During that audit, we found low priority projects were funded, while higher priority safety and capacity projects were not. We also found airports were using entitlement funds for lower priority projects, thereby leaving their higher priority projects unfunded to better "compete" for discretionary funds.

FAA concurred with our recommendations to award discretionary grants to the highest priority projects nationally, and to ensure airports use entitlement funds for the highest priority projects before FAA awards discretionary grants. Accordingly, FAA implemented a new process which was intended to allocate discretionary funds based on national priorities, and to oversee use of entitlement funds for low priority projects when discretionary funds are requested by the airport sponsors.

This new process, which was in effect throughout FY 1997, starts with airport sponsors and airports compiling a multi-year Capital Improvement Plan jointly with the local FAA Airport District Office (ADO). In preparing this plan, sponsors and airports are required to consider all possible funding sources, including both discretionary and entitlement funds. FAA's Airport Improvement

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[3] GAO Report on Review of Project Selection Process for Five FHWA Discretionary Programs, dated November 7, 1997.

[4] Procedures for Issuing Airport Improvement Program Discretionary Grants, OIG Report Number: R9-FA-5-008, dated April 28, 1995.

Program Handbook requires FAA field offices to "encourage sponsors to use such [entitlement] funds for the highest priority projects under consideration at the airport." This policy was established to fund the highest priority projects, leaving the remaining projects to "compete" for discretionary funding, and reflects a "common-sense" Government.

ADOs input each sponsor's and airport's plan into the "National Plan of Integrated Airport Systems/Capital Improvement Plan" database. The database was established to implement the Airport Capital Improvement Plan (Plan) process, including a project description (purpose, facility component, and type), year planned, and possible funding sources. From the sponsors' Plans, the ADO prepares a local Plan based on project need, timeliness, and consistency with FAA goals. Using a computer database, these projects are assigned a National Priority Number. This number is calculated by assigning points to the project's purpose, facility component, project type, and airport size. The projects that have the lowest calculated number are the highest national priorities.

FAA National Priority Calculation

Factor	Points Range	Examples	Points
Purpose	0 pts. to 5 pts.	Safety/Security	0
		Reconstruction	1
		New Airport (Community)	5
Component	1 pt. to 5 pts.	Runway	1
		Taxiway	3
		Terminal	5
Type	1 pt. to 3 pts.	Security Improvement	1
		Landscaping for Noise	2
		Service Road Improvement	3
Airport	1 pt to 6 pts.	Large and Medium Hubs	1
		Commercial Service	3
		General Aviation < 20 Aircraft	6

For FY 1997, the National Priority Numbers ranged from the highest priority (11) to the lowest priority (536). The ADO uses the National Priority Number, along with the other factors mentioned above, to select projects for inclusion in its Plan. The Plan is then submitted to the FAA regional office where the region combines the Plans of each of its ADOs, and in consultation with the ADO, ranks the regional projects, yielding an overall Regional Plan. The Regional Plan is then forwarded to FAA Headquarters.

FAA Headquarters reviews the Regional Plans for compliance with program

objectives, combines them, and then allocates available funds among eight categories by considering Airport Improvement Program goals and how well the Regional Plans meet these goals. This allocation of funds was approved by the Associate Administrator for Airports. We were advised that in FY 1997, the FAA Administrator was not briefed on this allocation, or departures from this allocation, but will be in the future. The FY 1997 awards by category are shown below.

FAA Funding Categories

Category	FY 1997 Awards (in thousands)	Projects
Large and Medium Hub Airports	$245,780	66
Small Hub Primary Airports	$72,590	38
Non-Hub Primary Airports	$95,080	82
General Aviation Airports	$25,420	33
Non-Primary Commercial Service Airports	$29,710	17
Reliever Airports	$40,890	26
Noise Projects	$152,960	64
System Planning Projects	$6,600	36
TOTAL	$669,030	362

FAA Headquarters first allocates funds to cover "commitment" projects. Commitment projects are generally large construction projects that take several years to complete. As a result, FAA enters into agreements with the sponsors to provide multi-year funding. Since the progress of these projects would be significantly disrupted if Federal funds are not made available from year to year, these projects are funded before other discretionary requests. FAA Headquarters then allocates the remaining funds for national priority projects. A numeric national priority cutoff level for each category is determined based on anticipated available funding. Each region is subsequently allocated funding authority to fund commitment projects and as many national priority projects as possible. As additional funds become available towards the end of the fiscal year, due to reprogramming of funds not used nor needed by sponsors during the current year, most of these funds go to national priority projects not yet funded.

FAA's guidance for preparing the Airport Capital Improvement Plan states "In awarding AIP (Airport Improvement Program) funds to sponsors, the FAA has always emphasized use on the highest priority projects." It further states "FAA must distribute funds to the regions in a way that ensures that, nationally, the highest priority projects are being funded." It goes on to say "The distribution of AIP discretionary funds will be based on this plan." This guidance assigns

responsibility to FAA Headquarters to set national priorities and goals, and resolve any conflicts between Regional Plans and national priorities. The guidance also assigns responsibility to the regional offices for implementing the Regional Plans.

Project Selection. In FY 1997, the national priority number was calculated for 684 projects, of which 344 projects, including commitment projects, were identified for discretionary funding. The regions funded 281, leaving 63 national priority projects unfunded. Instead, the regions used about $118 million (more than enough for the 63 unfunded projects) to fund 62 "lower priority" projects and 19 high priority projects either not listed on the plan or required Military Airport Program projects. Accordingly, FAA used 15 percent ($100 million) of its FY 1997 discretionary funding for projects it determined were lower priority, as shown below.

Discretionary Funds Awarded in FAA
By Category

Category	FY 1997 Awards (in thousands)	Projects	Percent of Funds
High Priority Projects (including commitment projects) on Plan	$550,790	281	85%
High Priority Projects not on Plan plus Military Airport Projects	$18,310	19	
Lower Priority Projects on Plan	$53,770	35	15%
Lower Priority Projects not on Plan	$46,160	27	
TOTAL	$669,030	362	100%

Of the 63 high priority unfunded projects, 37 projects were in categories where lower priority projects were funded while higher priority projects were not.[5] We asked FAA regional offices why these 37 national priority projects were not funded, while other lower priority projects were funded. As of April 30, 1998, we obtained explanations and/or documentation on 33 national priority projects that were not funded, and 56 lower priority projects that were funded. Supporting documentation existed for the following reasons given for not funding high

[5] There were 17 unfunded projects in the Noise category, for which funds are specifically set aside. An additional 9 unfunded projects were for system planning. Funds for these projects typically are not used for airport capital improvement projects.

priority projects:

* Delay in project progress
* Project no longer an airport requirement
* Project being funded by the state
* Misclassification in determining the National Priority Number
* Required matching funds not met

Reasons provided for funding the lower priority projects included:

* Project considered a higher "regional" priority regardless of national priority number
* Emergence of higher priorities due to natural disasters
* Misclassification in determining the National Priority Number
* Innovative financing considerations[6]

However, regional offices sometimes directed funds away from national priority projects to low priority projects of particular regional interest, with the Associate Administrator for Airports' approval. For example, in one region, a national priority runway reconstruction project with a score of 52 points (the FY 1997 funding level "cutoff" for this category was 52) went unfunded. The airport had received bids and was ready to award a contract for the $3.5 million project to reconstruct sections of two deteriorating runways, which required frequent sweepings to remove debris. FAA did not provide discretionary funds for this project in FY 1997.

Within the same region and within the same funding category, a project with a score of 142 points (the funding level cutoff was 52 points) to extend a taxiway was funded for $742,000. Although this amount would have partially funded the higher priority project, regional officials chose to fund the lower priority project, even though a high national priority project remained unfunded. In other regions, but within the same funding category, 11 lower national priority projects totaling $5.4 million were funded. These projects had scores ranging from 72 to 162, all below the cutoff. For example, a project with a score of 72 to rehabilitate and realign a taxiway was funded for $1.1 million. FAA also funded another project with a score of 142 to extend a taxiway for $418,000.

We were advised by FAA representatives that changes in project funding are generally approved by the Associate Administrator for Airports after consultation

[6] FAA is authorized to carry out a demonstration program to provide information on the use of innovative financing techniques for airport development projects to Congress and the National Civil Aviation Review Commission.

with Headquarters staff. However, Headquarters' approval was generally communicated to the regional offices by telephone and not documented, and therefore we could not review the rationale behind these decisions.

Funds used on these lower priority projects in other regions could have been used to fund the national priority runway reconstruction project, or other projects that scored higher on the national priority system. As shown in the chart below, nationally there were 226 higher ranking projects, excluding national priority projects, in six funding categories that were passed over to fund a lower priority project.

Number of Higher Scored Projects Not Funded ("Passed Over")
When a Lower National Priority Project Was Funded

Commercial Service	General Aviation	Large and Medium Hubs	Non-Hub Primary	Small Hub	Reliever	TOTAL
0	73	28	40	11	74	226

Although FAA's policy is to fund the national priority projects, in practice, once discretionary funds are allocated to a region, those funds generally stay in that region, even if high priority safety and capacity projects remain unfunded. As the above example illustrates, the region received the funds based on the national priority projects, but frequently used the funds on lower priority regional projects. This practice is contrary to FAA policy to fund the highest priority national projects, and essentially reverts back to the "old way" of doing business.

Some of the problems we noted in FAA's distribution of FY 1997 discretionary funds are being addressed. FAA is making changes in FY 1998 to improve the process. For example, FAA revised the national priority system to permit greater emphasis on the type of project and less on the airport size. The revised system also gives higher priority to projects that increase an airport's capacity (number of possible aircraft take-offs and landings). The new formula used in FY 1998 to calculate the national priorities more closely ranks projects as FAA intended its new process to do. FAA has also revised its policy and procedures concerning the planning and funding of specific projects. Once final project selections are made by Headquarters from its list of national priority projects, any deviations from the plan will require regional letters of justification approved by the Associate Administrator for Airports.

Use of Entitlement Funds for Low Priority Projects. We also found that FAA continues to experience problems with airport sponsors and airports not funding

their highest priority projects with entitlement funds prior to competing for discretionary funds. According to FAA's Airport Improvement Program Handbook, "Although the priority system is generally not used in approving projects for entitlement funding, field offices should encourage sponsors to use entitlement funds for the highest priority projects under consideration at the airport." Contrary to this policy, some airport sponsors and airports submitted applications to FAA requesting discretionary funds for high priority projects while obviously planning to use entitlement funds for low priority projects that would not favorably compete for discretionary funds in the national priority system.

We reviewed planned discretionary and entitlement projects in six of eight funding categories as submitted to FAA Headquarters for consideration in discretionary funding decisions. Both discretionary requests and planned entitlement projects are included in regional submissions to Headquarters. Applying FAA's national priority criteria to determine which projects would be scored above the cut-off level, we found airport sponsors planned to use $61.5 million in discretionary funds for high priority projects, while planning to use $61.5 million in entitlement funds for projects that were below the cut-off. Had the regional submissions followed FAA policy, 85 of 111 national priority projects in these categories could have been fully or partially funded by entitlement funds.[7] A breakdown of these discretionary funding requests by airport category is provided below.

Inappropriate Discretionary Fund Requests

Airport Category	Requests for Discretionary Funds		Requests Could Have Been for Entitlement Funds	
	Projects	Dollars (1)	Projects	Dollars (1)
Commercial Service	10	$4.8	8	$2.4
General Aviation	5	$3.5	5	$3.5
Reliever	13	$19.2	13	$12.9
Large and Medium Hub	14	$13.7	12	$11.9
Small Hub	21	$37.4	15	$15.7
Non-Hub	48	$45.0	32	$15.1
TOTAL	111	$123.6	85	$61.5

(1) in millions

Allowing states and primary airports to plan discretionary funds for high priority projects and entitlement funds for low priority projects creates inequity in the national priority system, and penalizes sponsors who adhere strictly to FAA

[7] Of the planned $61.5 million in discretionary funds, FAA awarded $45.1 million.

policy. Awarding discretionary funds to sponsors engaging in these practices can cause national priority projects to remain unfunded. For example, a state requested discretionary funding for a security fencing project with a score of 13 (high priority) while requesting entitlement funds for an airport obstacle removal project with a score of 111. This and other examples of requests for discretionary funding for high priority projects and entitlement funds for low priority projects are included in the following chart.

Examples of Discretionary Funds
Requested for High Priority Projects

Airport Category	Cutoff Level	Sponsor	Description	Cost ($000)	Score	Funding Category
Commercial Service	41	State	Security Fencing	$700	13	Discretionary
			Security Fence Upgrade	68	13	Discretionary
			Runway Overlay and Widening	2,070	41	Discretionary
			Terminal Apron Rehabilitation/ Expansion	$900	71	Entitlement
			Airport Obstacle Removal	550	111	Entitlement
General Aviation	41	State	Rehabilitate Runway	600	41	Discretionary
			Site Preparation/Runway	1,000	426	Entitlement
Reliever	41	State	Rehabilitate Runway	2,000	41	Discretionary
			Construct Apron	1,650	201	Entitlement
Large & Medium Hub	31	Airport	Construct Burn Pit	4,500	31	Discretionary
			Rehabilitate Runway	750	41	Entitlement
			Construct Dependent Runway	3,164	111	Entitlement
Small Hub	52	Airport	Deicing Facilities	4,230	32	Discretionary
			Rehabilitate Apron	2,120	82	Entitlement
Non-Hub	52	Airport	Airport Rescue and Firefighting Vehicle	500	12	Discretionary
			Resurface Runway	2,750	52	Discretionary
			Improve/Expand Apron	3,700	162	Entitlement

To ensure national priority projects are funded, FAA must prelude sponsors from planning the use of discretionary funds for high priority projects before entitlement funds are planned.

III. RECOMMENDATIONS

Building upon one of Secretary Slater's visions, a "ONE DOT," and to make more consistent and effective use of discretionary funds, we recommend:

1. The Office of the Secretary of Transportation establish a Departmentwide policy for allocating discretionary funds. At a minimum, this guidance should require:

* The funding of the highest national priority projects.

* Documentation of the rationale used to support decisions to fund lower priority projects, while higher priority projects remain unfunded. This documentation should promote a more thorough review and analysis of project alternatives.

In addition to any future discretionary funding project selections, this recommendation applies to all existing low priority projects, for which no firm commitments have been made, as well as to any FAA national priority projects that FAA regional managers are unable to fund.

2. FAA intensify its review of all project submissions and develop appropriate procedures to lower the ranking of projects submitted by airport sponsors and airports that use their entitlement funds for low priority projects.