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STATUS OF THE CENTER CITY COMMUTER CONNECTION PROJECT; PHILADEL--ETC(U)
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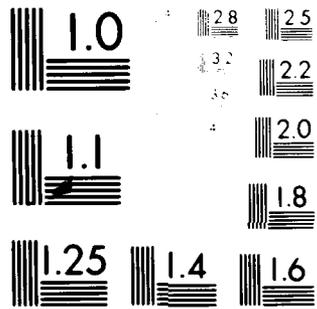
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\$254 million. UMTA's Administrator originally approved the project in June 1975, when construction was estimated to cost \$300 million, with UMTA expected to pay 80 percent or \$240 million. In January 1977, UMTA and the city agreed on a fully funded grant contract which committed a maximum of \$240 million in Federal funds for construction. The contract allows Federal participation above the authorized amount only for certain extraordinary costs, including inflation beyond the rate estimated in the grant application. UMTA headquarters is currently evaluating a city request for \$17.2 million under this escalation clause, which UMTA's regional office has recommended be approved. The Federal share of this request, \$13.8 million, would bring UMTA's total approved share of the project cost to about \$254 million, with the city funding the additional cost growth. The total cost estimate of \$325 million represents an 8.3-percent increase over the grant application estimate.

The project is nearly 60-percent complete with full operation scheduled for January 31, 1984. That date has not varied since the construction management consultant, Philadelphia Railway Consultants, adjusted the schedule before the start of construction in mid-1978. UMTA, Philadelphia Railway Consultants, and the city of Philadelphia project officials believe the target date will be met.

Our work was conducted at UMTA's regional office, the city's Department of Public Property, and the Philadelphia Railway Consultants project office. We reviewed project records and interviewed UMTA, city, and other local transportation officials about the project approval, management, cost, schedule, grant conditions, and expected benefits. Detailed information on our observations and concerns follow.

NEED TO CONSIDER COSTS OF ALL RELATED
PROJECTS WHEN GRANT IS AWARDED

Costs of certain other related projects not part of the Center City Commuter Connection construction grant were not identified or considered in either the study which evaluated the need for this project or in UMTA Administrator's approval of the project. In addition to the estimated \$325 million cost to construct the tunnel, about \$75 million will be spent on certain related projects not part of the basic construction grant, increasing the total cost of this project to over \$400 million. In our opinion, it is a fundamental management principle that all such related costs should be identified and considered by UMTA in the grant approval and award process. In this instance, we have not attempted to determine whether these additional costs could have changed the analysis justifying the project and possibly leading to a decision to select a more cost-effective alternative. However, on future grants all such costs should be considered.

Officials of Southeastern Pennsylvania Transportation Authority (SEPTA), the owner of the commuter rail system, identified 11 transit projects directly related to the construction and operation of the tunnel project, with a total estimated cost of about \$71 million. UMTA will fund 80 percent of these capital improvements or about \$57 million. Some of these projects include

- modifications of commuter cars to make trains now operating on two different systems interchangeable and able to operate continuously,
- interlockings, and
- storage yard expansion.

In addition to the SEPTA grants related to this project, UMTA officials identified three related capital grants, which they will fund for \$22.7 million. UMTA has committed \$13.7 million for two of these projects.

- The structural overbuild above the tunnel for a new shopping mall is \$9.2 million.
- Rehabilitation of a subway station which will connect with the new commuter rail station is \$4.5 million.

Also, UMTA is processing a \$9 million grant for the concourse to connect the subway station and the new commuter rail station.

CERTAIN GRANT CONDITIONS
HAVE NOT BEEN MET

The grant contract initiated in January 1977 is subject to the following six conditions to be met by the city, set forth in a Memorandum of Understanding signed by the Secretary of Transportation, UMTA Administrator, city officials, and representatives of Philadelphia's business and financial communities:

- Private commercial development of the area near the tunnel.
- A commitment by the city to finance needed public improvements in the tunnel area.
- Employment and training of minority persons.
- Agreement by the city to provide opportunities for minority contractors to participate in the project.
- A commitment to complete the project without a strike or work stoppage.

--A commitment by the city to work with the State and other governmental units in developing a long-term financing mechanism for meeting the region's transit operating costs.

The city of Philadelphia has not been able to fully meet two of these six grant conditions. The city has not developed an effective program to allow minority business to participate fully in the project nor have the governmental units in the region developed a permanent means of financing the region's transit operations.

Need for an effective
minority business program

UMTA and city officials believe that the city has not had an effective program to ensure that the minority business community is participating as jointly agreed to in the construction of the project. According to UMTA's regional civil rights officer, the program has been ineffective because the city did not properly carry out the minority business enterprise plan it established in 1978.

We were told that the goal of 10-percent participation by minority business in the project is questionable because of the classification of some of the firms as minority owned. UMTA and the city differed on the reasons. UMTA's civil rights officer attributed this problem to the city's failure to fully carry out its plan. However, an equal opportunity officer for the city felt that UMTA was primarily interested in awarding contracts and, therefore, did not support the city when it questioned whether some firms were really minority controlled.

UMTA and the city are now developing a new affirmative action program. UMTA is funding an Office of Minority Opportunity within the city's Department of Public Property to be responsible for meeting UMTA's affirmative action policy for all UMTA grants.

A permanent means of financing
the region's transit operations
has not been found

According to the January 1977 Memorandum of Understanding, a long-term financial solution is critical if the crises which characterize transit financing in the region--and affect the quality of transportation service--are to be overcome. To date, a solution to this problem has not been found and the transportation crises in the region seem to have worsened.

In signing the grant contract, the city promised to work with the State and other governmental units in developing a long-range financing mechanism for meeting the region's transit operating costs. Efforts have been made to work toward this goal. Regional committees consisting of representatives of Philadelphia and its surrounding counties were formed to work on

approaches to institutionalize a funding base for SEPTA, the owner of the commuter rail system. However, finding a long-term financial solution for the region's commuter rail network is a very complex regional problem which involves commitments and compromises by a number of political jurisdictions. Because alternative sources for funding commuter rail operations have not been found, rail fares in the region have been increased significantly to cover increasing operating costs since construction of the tunnel began.

RIDERSHIP LOSSES UNDERMINE
THE TUNNEL'S USE

The ridership gains predicted for the tunnel and used to justify the Government's investment will not materialize if current ridership trends continue. The cost-benefit study supporting construction of this project predicted that ridership on the existing commuter rail system would reach about 186,000 trips a day in 1985--a 55-percent increase over the 120,000 trips a day recorded in 1975. Subsequent fare increases have driven a significant number of people away from the rail system. In the past 17 months, the average rail commuter fare in the Philadelphia region has risen 65 percent, causing a 20-percent decline in ridership in 1981.

According to SEPTA officials, further fare increases will result in additional significant ridership decreases. Consequently, SEPTA has turned its attention to finding ways to reduce its operating costs, so that fares will not have to be increased as much. SEPTA believes that significant cost savings could be achieved if the railroad union work rules pertaining to salary and benefits governing the crews that operate the trains were changed. However, SEPTA has no direct role in negotiating these rules for the work crews, who are employees of Conrail. SEPTA is currently studying ways to take over the operation of the rail system from Conrail, and either operate it with its own employees or by contracting with another carrier to provide these services. With this change, SEPTA hopes to be able to change the work rules and consequently reduce its operating costs.

UMTA REGIONAL OFFICE COMMENTS

We discussed the issues raised in this report with the Director, Office of Grants Assistance for UMTA's region III. He generally agreed with our observations. However, he pointed out that some of the projects which are not part of the basic construction grant may have been initiated even if this project had not been constructed. However, he agreed that some projects, such as car modifications allowing continuous operation of the existing cars, were directly related to the project's construction.

CONCLUSIONS

All costs associated with the Center City Commuter Connection project were not identified or considered when UMTA entered into the grant contract with the city. Such action is basic in the grant approval and award process. All provisions of the grant have not been met and the one requiring development of a long-term financing plan to meet transit operating costs is likely to be particularly troublesome until a solution is found. Finally, revenues are down because reduced riders and operating costs are up.

RECOMMENDATIONS

We recognize the construction status of this project is already advanced, and the issues raised here will have a limited effect on the remainder of this grant contract. However, we believe our recommendations, if adopted, will have an effect on the approval and oversight of future UMTA grants as well as the future operation of the commuter rail system in Philadelphia.

Accordingly, we recommend that the Secretary of Transportation direct the UMTA Administrator to

- identify and consider all costs of related projects when making grant awards,
- require UMTA's Philadelphia regional office to increase its monitoring efforts to ensure that all grant conditions are met, and
- assist SEPTA in determining ways to reduce operating costs so that commuter rail ridership can be maintained and the use of the tunnel can be ensured.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

B-204573

We are sending copies of this letter to the cognizant House and Senate legislative and appropriation committees; the Director, Office of Management and Budget; and the Administrator, UMTA.

Sincerely yours,

A handwritten signature in black ink, appearing to read "W. H. Sheley, Jr.", written in a cursive style.

W. H. Sheley, Jr.
Director