FTA FINANCIAL CONTRACTOR GUIDELINES AND STANDARDS FOR ASSESSING LOCAL FINANCIAL COMMITMENT OF PROPOSED CAPITAL INVESTMENT GRANTS PROJECTS

FEDERAL TRANSIT ADMINISTRATION
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1 INTRODUCTION AND PURPOSE

This document provides guidance to the Federal Transit Administration's (FTA) financial contractors on how to develop a Financial Assessment of a proposed project seeking funding from the Capital Investment Grants (CIG) program. Throughout the year, FTA will assign contractors work to perform these financial assessments. Many assessments are conducted as part of the project evaluation and rating process needed for preparation of FTA's *Annual Report on Funding Recommendations*. Additional assessments may be required at any time to rate New Starts or Core Capacity projects applying to enter the Engineering phase or Small Starts projects seeking construction grant agreements.

The contractor conducts financial assessments based on information submitted by the project sponsor, supplemented by historical information and industry databases. The evaluation is to be conducted in accordance with the guidelines and standards in this document, the *Guidance for Transit Financial Plans, June 2000,* the *Final Interim Policy Guidance, June 2016,* and the most recent version of FTA's *Reporting Instructions for the Section 5309 Capital Investment Grants Program (Reporting Instructions).*

FTA has developed the *Guidance on Transit Financial Plans* to define the content, scope and format of acceptable financial plans from project sponsors. As part of the financial assessment, FTA's financial contractor must evaluate the financial plan received from the project sponsor to ensure it contains all of the components with all of the attributes specified in that guidance. FTA is to be informed when a financial plan from a project sponsor is missing key information or has not been developed properly.

Each financial assessment includes two primary components:

- **Contractor financial assessment report and project ratings.** This written report is meant to provide information on the project sponsor's finances and the contractor's reasons for assigning the ratings. The information in this report enables FTA to make informed judgments about the appropriateness of the financial rating assigned and to ensure consistency among CIG projects. It must, therefore, be written clearly and succinctly in plain language, following the format provided by FTA. It should avoid duplicative statements, excessive tables and charts, and use of jargon.
- **Draft text for the project profile.** The project profile is the text explaining the financial rating given to a CIG project that is posted to FTA's website and made available to the public. The profile text is read by the general public, members of Congress and their staff, members of the media, etc. It must, therefore, be written clearly and succinctly in plain language, following the format provided by FTA.

The contractor shall review financial plans submitted by project sponsors according to the following Local Financial Commitment subfactors:

- Current Capital and Operating Financial Condition;
- Commitment of Capital and Operating Funds;

- Reasonableness of Capital and Operating Cost Estimates and Planning Assumptions and Capital and Operating Funding Capacity; and
- Proposed Share of Project Costs from Non-Section 5309 CIG funds.

FTA assigns ratings to each project sponsor's financial plan based on the financial subfactors outlined above. The ratings are then combined into a summary financial rating. The following sections describe the rating methodology and required products.

2. GUIDELINES AND STANDARDS FOR FINANCIAL RATINGS

Using this guidance, FTA's financial contractors are asked to develop a written financial assessment of a proposed CIG project that includes proposed ratings of high, medium-high, medium, medium-low, or low to each of the following subfactors: 1) current capital and operating condition, 2) commitment of capital and operating funds, and 3) reasonableness of capital and operating cost estimates and planning assumptions, and capital and operating funding capacity. A summary financial rating of high, medium-high, medium, medium-low, or low is then assigned based on a combination of the individual ratings for each measure according to the weights identified in Table 1. Finally, the summary local financial commitment rating takes into consideration the share of CIG funding requested by the project sponsor. If the summary local financial commitment rating is at least Medium and the CIG share is less than 50 percent of total project cost, the summary local financial commitment rating is raised one level.

FTA discusses the draft written assessment with the contractor to ask questions and ensure the guidance has been followed properly. If necessary, the contractor is asked to perform additional review or provide additional insights in response to FTA's questions. The draft assessment is then finalized and the final project ratings are established.

Table 1: Financial Measure Weightings Used to Develop Summary Rating

Financial Factor	Contribution to Summary Rating
Current Capital and Operating Condition	25%
Commitment of Capital and Operating Funds	25%
Reasonableness of Capital and Operating Cost Estimates and Planning Assumptions, and Capital and Operating Funding Capacity	50%
Total	100%

The following sections describe each financial subfactor in greater detail.

2.1 Current Capital and Operating Condition Subfactor

The rating for the current capital and operating condition of the project sponsor is based on the average bus fleet age, the current ratio in the project sponsor's most recent audited financial statement, bond ratings if given within the last two years, and the project sponsor's recent experience regarding cash flow and service history. This subfactor rating reflects current rather than forecast conditions.

In arriving at a current condition subfactor rating, the majority of emphasis should be placed on the bus fleet age and current ratio, while the bond ratings, cash flow and service history receive less emphasis.

The following sections provide details on how contractors should assess each component of the current condition subfactor rating:

Average Bus Fleet Age
The basis for this rating component is the average bus fleet age as reported in the project sponsor's financial plan. The information submitted by the project sponsor should reflect their current, existing bus fleet. Contractors should check the latest National Transit Database report for the project sponsor for consistency with the average fleet age reported, but the NTD data should not be used as the basis for the rating as it can sometimes be several years old. If the contractor finds any discrepancy between the information reported and the NTD data, the contractor should request an explanation from the project sponsor, and explain the reported reason(s) for the difference to FTA. This section should not include information about future projections for the average fleet age.

If a project sponsor operates a rail system, the average fleet age of the rail vehicles is not used as a basis for the current condition rating.[1] The contractor may report the average rail fleet age in the current condition section of the financial assessment, but must include a statement making it clear to the reader that the information is not the basis for the current condition rating.

Current Ratio
The current ratio is defined as current assets divided by current liabilities as reported in the most recent audited financial statement submitted by the project sponsor. It is a measure of liquidity that is used in this context to get a sense of the agency's financial health. The higher the current ratio, the more capable the agency is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities.

[1] Rail cars are generally replaced in large groups on long procurement cycles, and tend to undergo mid-life overhauls to extend their useful life. Therefore, the average age of a project sponsor's rail fleet may not be an effective point-in-time indicator of a project sponsor's current condition.

Bond Ratings

Bond ratings are considered in this subfactor rating only if issued within the past two years. If the project sponsor has not issued bonds within the past two years, the assessment should include a sentence to that effect. The lack of bond ratings should not influence the subfactor rating either positively or negatively. If the project sponsor has issued multiple sets of bonds within the past two years, then only the most recent bonds should be the basis for the rating. This section should not include information about future, planned bond issuances.

Cash Flow and Service History

In determining the project sponsor's recent cash flow and service history, a historical period of two to three years should be considered. A recent history of service reductions or fare increases higher than general price inflation to correct operating deficits is a signal that the agency is not in good financial condition and may be incapable of funding the operation and maintenance of its proposed transit system. However, if a project sponsor has cash reserves, additional debt capacity, or other sources of funds committed to its transit system, and it has used these sources to cover operating deficits or to fund operating subsidies, then this situation is not a cash flow shortfall.

Regarding the recent service history of the project sponsor, minor service adjustments of five percent or less should not be considered major service cutbacks. Transit agencies frequently revise their service plans to provide more efficient transit service, and this may result in a net reduction in annual vehicle revenue miles. The purpose of the service history component of the rating is to identify situations where transit agencies are having difficulty operating and maintaining their existing transit system, but not to penalize transit agencies for improving the efficiency of their services.

Temporary aberrations in any of these measures would have less of an effect than ongoing systemic concerns. Lastly, if the contractor or FTA is aware of near term budget problems at the sponsoring agency that have not yet shown up in audited financial statements, this should be considered in the rating as well.

2.2 Commitment of Capital and Operating Funds Subfactor

The rating for the commitment of capital and operating funds subfactor is based on the percentage of funds that are committed or budgeted versus those considered only planned, uncertain, or unspecified. This subfactor rating should be based on the percentages presented in Table 2: Financial Plan Rating Standards.

This subfactor rating should be based primarily on the capital rating. If the rating for capital commitment differs substantially from the rating for operating commitment, FTA chooses to place emphasis on the capital commitment rating because the purpose of the CIG program is to fund capital projects. Furthermore, a project sponsor's demonstration of operating funds commitment is based upon assumptions regarding future operating costs and revenue sources needed to operate the proposed transit system in the opening year of the project, which can be many years in the future. Therefore, there is generally more uncertainty associated with the projected commitment of operating funds.

The degree of commitment and availability of capital and operating funds is evaluated based on the evidence provided by the project sponsor. Evidence of the commitment of funds may include the Metropolitan Planning Organization's (MPO) adopted Transportation Improvement Program (TIP), legislative approvals, passed local referenda, inclusion of the project in state budgets, adopted Capital Improvement Plans (CIP), official board resolutions, cash reserves, documentation of available debt capacity, etc. If the project sponsor's financial plan does not provide supporting documentation showing funding commitments, the contractor should ask the project sponsor for such information. If no information is provided, the funds should be considered planned.

For each capital and operating funding source proposed in the sponsor's financial plan, the financial assessment should provide the following information in paragraph form:

- The name of the funding source;
- The dollar amount and percentage of total (capital or operating) that the source comprises;
- A description of the proposed funding source;
- An overview of the steps required to commit the funds or establish the funding source;
- A description of the documentation provided by the project sponsor that explains or verifies the level of commitment;
- For any funding sources that are not yet committed, a succinct description of the additional steps required to commit the funds, including projected timing for each step based on information from the project sponsor;
- If bonding or loan programs are proposed, the financial assessment should describe the proposed financing methods, including the source(s) of repayment

and whether any additional steps are required to commit the funds to the project;[2] and

- A concluding statement providing the level of commitment for the funding source and the contractor's reason(s) for such classification.

The funding source names, amounts, percentages, and levels of commitment described in the text of the financial assessment should match the data populated by the financial contractor in Tables 1 and 2 in the financial assessment report. The contractor is responsible for ensuring the information for each funding source is consistent throughout the financial assessment and profile text, including as changes and edits are made during the revision process.

The contractor should not describe recent historical experience or future growth assumptions about any funding sources in this section of the financial assessment. Instead, information on actual and projected growth rates for specific funding sources is provided in the reasonableness of cost estimates and planning assumptions section of the assessment.

2.2.1 Commitment of Capital Funds

The following definitions should be used by contractors to properly classify the level of commitment for each capital funding source:

Committed: Committed sources are programmed capital funds that have all the necessary approvals (legislative or referendum) to be used to fund the proposed project without any additional action. These capital funds have been formally programmed in the MPO's TIP and/or any related local, regional, or state CIP or appropriation. Examples include dedicated or approved tax revenues, state capital grants that have been approved by all required legislative bodies, cash reserves that have been dedicated to the proposed project, and additional debt capacity that requires no further approvals and has been dedicated by the transit agency to the proposed project.

Budgeted: This category is for funds that have been budgeted and/or programmed for use on the proposed project but remain uncommitted, i.e., the funds have not yet received statutory approval. Examples include debt financing in an agency-adopted CIP that has yet to receive final legislative approval, or state capital grants that have been included in the state budget, but are still awaiting legislative approval. These funds are almost certain to be committed in the near future. Funds will be classified as budgeted where

[2] Some financing sources may require additional steps in order to be committed to the project, even when the underlying source(s) of repayment may be committed. An example of this is a Transportation Infrastructure and Finance Innovation Act (TIFIA) loan. In this example, the proposed source of repayment may be committed by the project sponsor, such as commitment of local sales tax revenue to the project in the project sponsor's CIP. However, in order for the TIFIA loan to be commited, the loan would need to be approved by the U.S. Department of Transportation. If contractors have questions about how to properly classify bonding or loan programs, they should contact FTA for assistance.

available funding cannot be committed until the Full Funding Grant Agreement (FFGA) is executed, or due to local practices outside of the project sponsor's control (e.g., the project development schedule extends beyond the TIP or CIP period).

<u>Planned:</u> This category is for funds that are identified and have a reasonable chance of being committed, but are neither committed nor budgeted. Examples include proposed sources that require a scheduled referendum, reasonable requests for state/local capital grants, and proposed debt financing that has not yet been adopted in the agency's CIP.

<u>Uncertain:</u> This category is applied when it is unclear from the agency's submission whether or not a funding source is committed, budgeted, or unavailable. Instances where the plan to secure committed funds is deemed to be unreasonable may be classified as uncertain. This category applies to funding sources that the agency describes as committed or budgeted but for which no supporting documentation is provided. Also, funding proposals that have repeatedly failed (more than once), such as failed local referendums or repeated denial of state grants, will be classified as uncertain.

<u>Unspecified:</u> This category is applied when the proposed non-federal funding sources are not sufficient to cover the proposed local share or have not been clearly identified.

Project sponsors of CIG projects frequently use a dedicated local funding source to provide all or part of the non-CIG share. Examples include sales tax or property tax revenues that are dedicated to the transit agency. Thus, the project sponsor has discretion on how to use the funds. In order for the dedicated revenues to be considered committed, the project sponsor must provide written documentation that the funds are committed to the CIG project. For example, the project sponsor could provide a copy of an official board resolution committing the funds to the project, or evidence that the project and funding amounts are included in the agency's adopted CIP.

As described in FTA's *Final Interim Policy Guidance,* **if there are significant private contributions to the capital project, such involvement would increase the commitment of funds rating one level.** Private contributions can include outside investments that result in cost-effective project delivery, financial partnering, and other public-private partnership strategies. If a contractor is preparing a financial assessment of a project that proposes significant private contributions, the contractor should contact FTA for specific guidance.

2.2.2 Commitment of Operating Funds

The commitment of operating funds is based on projected revenues needed to operate and maintain the entire transit system in the opening year of the CIG project. In most, but not all cases, a CIG project will usually result in additional operations and maintenance (O&M) costs for the operating agency, so revenues must be identified and committed.

While the definitions for commitment levels of operating funds are generally the same as those described for capital funds, the proper classification of operating funds requires additional considerations. In many cases the opening year of the CIG project is beyond the planning period of official programming documents such as TIPs, state budgets, and agency operating budgets, most of which cover periods of five years or less. Therefore, these financial programming documents usually cannot be relied on as evidence of commitment of system-wide operating funds in the opening year of the CIG project.

To properly classify the proposed funding sources for operation of the entire transit system, the contractor needs to understand the approval steps required for each source. If this information is not clear from the financial plan submitted by the project sponsor, the contractor is expected to request additional information from the project sponsor in a timely manner.

The following examples provide guidelines on how to classify common sources of operating funds:

- Fare revenues and other ancillary revenues such as interest income and advertising revenues should be considered committed if they are within the direct control of the transit agency, and are existing sources.
- Federal formula funds, such as FTA Section 5307 Urbanized Area Formula Funds used for preventative maintenance, should be considered committed or budgeted if they flow directly to the transit agency based on the formula apportionment.[3]
- Operating revenues that are subject to annual appropriations, such as general fund revenues from a state legislature, are generally considered planned.

It is the contractor's responsibility to understand the approval steps required for each proposed operating funding source, to clearly describe the sequence of those steps, and to present the reason(s) for the resulting levels of commitment.

[3] In this example, the Federal formula funds would be considered committed if the opening year of the project is within the existing TIP period, and the funds are included in the existing TIP. However, if the opening year of the project is beyond the existing TIP period, the funds should be considered budgeted.

2.3 Reasonableness of Capital and Operating Cost Estimates, Planning Assumptions, and Funding Capacity Subfactor

The assumptions used in the financial plan are critical to determining whether the project sponsor can construct and operate the proposed CIG project while continuing to operate and maintain the existing transit system, as required by the Fixing America's Surface Transportation Act (FAST). The rating for the reasonableness of the financial plan is based on whether the capital and operating planning assumptions are comparable to historical experience, the reasonableness of the capital cost estimate of the project, adequacy of meeting state of good repair needs, and the project sponsor's financial capacity to withstand unexpected cost increases or funding shortfalls.

To determine the rating for this subfactor, the contractor should weigh the reasonableness of the assumptions against the financial capacity of the project sponsor, placing more emphasis on the assumptions since they are usually the underpinning for any financial capacity that may be demonstrated.

Projects rated highly will use conservative assumptions for revenue growth (i.e., lower than recent historical experience) and cost inflation (i.e., above recent historical experience) and have sufficient financial capacity. To achieve a "medium" or higher rating, planning assumptions and capital cost estimates must be consistent with recent historical experience and the project sponsor must have sufficient financial capacity to withstand unexpected cost increases or funding shortfalls.

The following sections provide guidance on the major components of this subfactor.

2.3.1 Capital Planning Assumptions and Cost Estimates

The evaluation of capital planning assumptions and cost estimates focuses on the sensitivity of the financial health of the agency with respect to the assumptions regarding revenue forecasts, socio-economic conditions, cost inflation, finance charges, and the reasonability of the capital cost estimates. This section of the assessment must discuss the proposed project as well as the capital program for the entire transit agency for the 20-year financial plan period.

The contractor should describe in the assessment the revenue growth assumptions used in the system-wide capital plan and their reasonableness based on recent historical experience. Inflation assumptions and their reasonableness should also be described. Generally, assumptions are viewed as reasonable if they represent a continuation of a trend that has been experienced historically, or are consistent with the current economic outlook. A common method used by financial contractors for trend analysis is calculation of compound annual growth rates (CAGR) to compare projected growth rates to recent historical experience. However, there are other valid methods for assessing the reasonability of future assumptions. FTA expects contractors to use their professional judgment and expertise to determine the appropriate methods to employ to evaluate and assess the reasonableness of future assumptions included in a project sponsor's financial plan submittal.

The assessment should include a discussion of the reasonableness of the Federal funding assumptions for both the project and the entire capital program. FTA prefers that contractors assess each major Federal funding source individually. Depending on the project sponsor's financial plan, sources could include FTA Section 5307 Urbanized Area Formula funds and/or FTA Section 5337 State of Good Repair Formula funds. These sources should be analyzed to determine the reasonableness of the growth assumptions compared to recent historical experience.

With respect to assumptions for annual appropriations from the CIG program, FTA has indicated to project sponsors that typically projects receive no more than $100 million in CIG funding per project per year although there have been occassions when FTA has allowed higher annual CIG amounts to be assumed for very large projects. These CIG annual payments are determined by FTA with project sponsors on a case-by-case basis, and take into consideration the overall CIG program funding level authorized and appropriated each year, the number of existing signed construction grants and their agreed upon CIG payments, and the number of new CIG projects anticipated to be ready for funding in the same timeframe as the proposed project. Therefore, contractors should identify in their assessment the annual CIG funding assumptions used by the project sponsor in the financial plan. If the amount assumed is greater than $100 million per year, the contractor should discuss with FTA whether that should be considered an optimistic assumption or one that FTA has agreed is acceptable.

Every financial assessment should include a section that describes the project sponsor's assumptions regarding finance charges associated with the proposed CIG project and the contractor's opinion as to the reasonableness of those finance charges. Finance charges incurred by the project sponsor must be included in the capital cost estimate of all CIG projects. Specifically, only finance charges that are expected to occur prior to either the revenue service date or the fulfillment of the CIG funding commitment in the construction grant, whichever occurs later in time, should be included. For any finance charges that the project sponsor includes in the CIG project cost, it is the contractor's responsibility to describe the assumptions and provide an opinion regarding the reasonableness of the assumptions.

FTA will provide the financial contractor with a copy of the latest project management oversight contractor (PMOC) report. The financial contractor should review the report to obtain brief text from it that can be included in the financial assessment describing the reasonableness of the capital cost estimate.

This section of the financial assessment must also focus on cost estimates for the transit agency's entire capital program for the 20-year planning horizon. The contractor should assess whether the capital plan is consistent with the CIP and the agency's fleet management plan. For example, the capital expenditures related to the replacement of fleet vehicles should coincide with the schedule and expenditures in the fleet management plan. The financial assessment should also address whether the financial plan provided by the project sponsor adequately explains state of good repair costs.

Lastly, the assessment should describe any sensitivity analysis performed by the project sponsor as part of the financial plan submittal. However, it is not within the scope of a financial assessment for the contractor to provide a conclusion or opinion as to the adequacy of any sensitivity analysis performed by the sponsor, or to conduct an independent sensitivity analysis. If the project sponsor did not provide any sensitivity analysis, the assessment should merely provide a sentence explaining that.

2.3.2 Capital Funding Capacity

Financial capacity to absorb unexpected cost increases or funding shortfalls is based on the adequacy of cash balances or reserve funds, and/or the availability of additional debt financing or other committed funds. This type of financial capacity is separate and distinct from the contingency amounts that are already included in the project budget. In assessing capital funding capacity, it is necessary to determine from the project sponsor's financial plan how the project sponsor would cover unexpected cost overruns or funding shortfalls. If the financial plan does not provide this information, the contractor should request it from the project sponsor. The contractor should not speculate on potential sources that the contractor believes would be used to cover unexpected cost overruns or funding shortfalls.

The agency should have a minimum of additional financial capacity (whether it is through reserve funds, debt capacity, lines of credit or access to capital markets) equal to at least 10 percent of the total project cost. This capacity should not require reducing service or deferring state of good repair needs, and should allow for maintenance of adequate cash balances and debt service coverage ratios. Deferred capital expansion projects may be appropriate for offsetting funding shortfalls. Calculations of capital funding capacity should be based on the project construction period.

2.3.3 Operating Planning Assumptions and Cost Estimates

This section of the financial assessment concerns the operation of the proposed project as well as entire transit system for the 20-year financial plan period. The evaluation of operating planning assumptions and cost estimates focuses on the sensitivity of the financial health of the agency with respect to the assumptions in the operating plan regarding ridership and revenue forecasts, socio-economic conditions, cost inflation, and the reasonability of the operating cost estimates. The contractor should review the following assumptions, to determine whether they are in line with historical experience and those of other similar transit systems (accounting for localized conditions):

- Unit costs;
- Service levels;
- Ridership;
- Fleet size;

- Farebox recovery;
- Average fare;
- Inflation rate; and
- Fare increases.

The contractor should describe in the assessment the operating revenue and cost growth assumptions used in the operating plan and their reasonableness based on recent historical experience. Inflation assumptions and their reasonableness should also be described.

Some systems are planning major service expansions of their transit system during the financial plan period and/or may have recently undergone major service expansions in the recent historical period. In these situations, contractors need to select appropriate methods to evaluate the reasonableness of revenue and cost growth assumptions relative to recent historical experience, while considering the changes in levels of service. FTA expects contractors to use their professional judgment and expertise to apply appropriate methods of analysis. Contractors may also refer to the section on operating metrics in FTA's *Financial Contractor's Guide for Conducting Financial Capacity Assessments for the Capital Investment Grants Program* for additional information on selecting appropriate methods of analysis to assess operating trends.

2.3.4 Financial Capacity to Operate and Maintain Entire System

Operating financial capacity is evaluated using the agency-wide operating plan. This is often referred to in the transit industry as "working capital." It is expressed as a percentage of annual system-wide operating expenses that the project sponsor can cover from additional debt capacity, cash reserves, or other committed funds. Positive cash balances, reserve accounts, and/or a new source of committed funds are acceptable means of proving operating financial capacity. Deferred maintenance and reduced service are unacceptable means of addressing unexpected cost increases or funding shortfalls.

Table 2: Financial Plan Rating Standards

	High	Medium High	Medium	Medium Low	Low
Current Capital and Operating Condition (25% of local financial commitment rating)	• Average bus fleet age under 6 years. • Current ratio exceeding 2.0 • Bond ratings less than 2 years old (if any) of AAA (Fitch/S&P) or Aaa (Moody's) • Historical positive cash flow. No cash flow shortfalls. • No service cutbacks in recent years.	• Average bus fleet age under 6 years. • Current ratio exceeding 1.5 • Bond ratings less than 2 years old (if any) of AA (Fitch/S&P) or Aa3 (Moody's) or better • Historical positive cash flow. No cash flow shortfalls. • No service cutbacks in recent years.	• Average bus fleet age under 8 years. • Current ratio exceeding 1.2 • Bond ratings less than 2 years old (if any) of A (Fitch/S&P) or A3 (Moody's) or better • Historical positive cash flow. No cash flow shortfalls. • Only minor service adjustments in recent years	• Average bus fleet age under 12 years. • Current ratio exceeding 1.0 • Bond ratings less than 2 years old (if any) of BBB+ (Fitch/S&P) or Baa (Moody's) or better • Historical positive cash flow. No cash flow shortfalls. • Major service cutbacks in recent years.	• Average bus fleet age of 12 years or more. • Current ratio less than1.0 • Bond ratings less than 2 years old (if any) of BBB (Fitch/S&P) or Baa3 (Moody's) or below • Recent historical cash flow problems. • Major service cutbacks in recent years.
Commitment of capital and operating funds (25% of local financial commitment rating)	• At least 75% of the Non-Section 5309 capital funds are committed or budgeted. • At least 75% of the funds needed to operate and maintain the proposed transit system in the opening year of the project are committed or budgeted.	• At least 50% of the Non-Section 5309 capital funds are committed or budgeted. • At least 50% of the funds needed to operate and maintain the proposed transit system in the opening year of the project are committed or budgeted.	• At least 30% of the Non-Section 5309 capital funds are committed or budgeted. • At least 30% of the funds needed to operate and maintain the proposed transit system in the opening year of the project are committed or budgeted.	• At least 10% of the Non-Section 5309 capital funds are committed or budgeted. • While no additional operating and maintenance funding has been committed, a reasonable plan to secure funding commitments has been presented.	• Less than 10% of the Non-Section 5309 capital funds are committed or budgeted. • The applicant does not have a reasonable plan to secure operating and maintenance funding.
Reasonableness of capital and operating cost estimates and planning assumptions/capital funding capacity (50% of local financial commitment rating)	• Financial plan contains very conservative planning assumptions and cost estimates when compared with recent historical experience. • The applicant has access to funds via additional debt capacity, cash reserves, or other committed funds to cover cost increases or funding shortfalls equal to at least 50% of estimated project cost and 50% (6 months) of annual system wide operating expenses.	• Financial plan contains conservative planning assumptions and cost estimates when compared with recent historical experience. • The applicant has access to funds via additional debt capacity, cash reserves, or other committed funds to cover cost increases or funding shortfalls equal to at least 25% of estimated project cost and 25% (3 months) of annual system wide operating expenses.	• Financial plan contains planning assumptions and cost estimates that are consistent with recent historical experience. • The applicant has access to funds via additional debt capacity, cash reserves, or other committed funds to cover cost increases or funding shortfalls equal to at least 15% of estimated project cost and 12% (1.5 months) of annual system wide operating expenses.	• Financial plan contains optimistic planning assumptions and cost estimates when compared to recent historical experience. • The applicant has access to funds via additional debt capacity, cash reserves, or other committed funds to cover cost increases or funding shortfalls equal to at least 10% of estimated project cost and 8% (1 month) of annual system wide operating expenses.	• Financial plan contains planning assumptions and cost estimates that are far more optimistic than recent history suggests. • The applicant has a reasonable plan to cover only minor (< 10%) capital cost increases or funding shortfalls. • Projected operating cash balances are insufficient to maintain balanced budgets.

2.4 Summary Financial Plan Rating

FTA gives a 25 percent weight to the current financial condition of the project sponsor, a 25 percent weight to the commitment of non-CIG funds, and a 50 percent weight to the reasonableness of the financial plan submitted by the project sponsor. The proposed CIG share of the total project capital cost, and whether a project sponsor is providing significant overmatch, is considered after the above weights are applied. If the summary local financial commitment rating is rated at least Medium and the CIG share is less than 50 percent of the project's capital cost, then the summary local financial commitment rating is raised one level.

3. PRODUCTS AND SCHEDULE

The contractor is responsible for two products: the **Financial Assessment Report** and the **draft text** for the **Project Profile**.

3.1 Financial Assessment Reports

The contractor shall develop a Financial Assessment Report for each assigned CIG project. Financial Assessment Reports are based on the project and agency's financial evaluation, additional review of agency financial planning materials, and FTA comments and discussions. The reports include a summary of the findings, an analysis of each evaluation factor, ratings for each financial factor, and the summary financial rating. The contractor shall submit both a draft and final Financial Assessment Report. FTA will edit and comment on the draft assessment report prior to requesting a final version.

The Financial Assessment Report includes a financial rating summary at the beginning, which consists of a series of tables that show the current proposed financial ratings for each of the subfactors analyzed in relation to past ratings of the project from previous years (provided by FTA). The report also includes a section where the contractor discusses changes in the ratings from the previous year. Lastly, the report includes recommendations for improvement so as to give the project sponsor guidance on how to improve the financial rating in future submissions.

The contractor should not share or discuss the Financial Assessment Report with the project sponsor. Only once FTA is satisfied with the quality and content of the Financial Assessment Report, will FTA request a final version from the contractor. FTA will share the final report with the project sponsor.

Financial Assessment Reports must be written in a clear, straightforward manner so that the information can be understood by multiple audiences who do not have formal financial training. In addition, any financial terms should be defined or explained. For example, if there is a section describing an agency's debt service ratio, a sentence should be included explaining what a debt service ratio is and how it is calculated. The contractor should take great care to only include information and discussions in the report that are directly relevant to the determinations called for in this guidance document.

3.2 Draft Text for the Project Profile

The draft text for the project profile should be concise and explain and support the financial ratings. The profile text is read by the general public, members of Congress and their staff, members of the media, etc. It must, therefore, be written clearly and succinctly in plain language, following the format provided by FTA.

FTA provides contractors with a profile template, including some boilerplate text that is to be used, so that all project profiles are consistent. The contractors shall adhere to the format and content of the profile template. If the contractor feels that modifications to the text are needed due to special or unique circumstances, these should be discussed with FTA. And finally, the contractor is responsible for ensuring that the information and ratings in the project profile match the information and ratings contained in the Financial Assessment Report. The contractor's draft text for the project profile will be edited by FTA staff. Final project profiles will be posted to FTA's website.

3.3 Schedule

3.3.1 Ratings and Assessments for Annual Report

The products described in the preceding section must be produced and delivered according to tight schedules dictated by the publication of the *Annual Report on Funding Recommendations*. FTA will provide the contractor a detailed schedule of all deliverables at the beginning of each *Annual Report* cycle. Typically submissions are received in early September, with draft assessments due in October. The timing for final assessments may differ depending on the extent of comments from FTA on the draft and the number of projects being reviewed at the same time. The sequence of submissions is as follows:

Product
Draft financial assessment report and draft project profile
Final financial assessment report and project profile

3.3.2 Ratings and Assessments for Engineering Requests

Requests to enter the Engineering phase can occur at any time throughout the year. FTA has an obligation to complete these reviews in a timely manner. The schedule for the financial assessment is as follows:

- Draft financial assessment reports and draft project profiles are due four weeks after the contractor receives the submission and based on FTA feedback.
- Final financial assessment reports and project profiles are due from the contractors two weeks after the contractor receives FTA comments on the draft report.

3.3.3 Sufficiency Reviews

For each Financial Assessment Report assigned, the contractor shall complete a sufficiency review, and inform FTA at the soonest possible date, but no later than one week after receipt of the financial plan submission, of any omissions or other concerns regarding the submittal. For the sufficiency review, the contractor should ensure that the project sponsor has submitted all the documents in the Local Financial Commitment Checklist found in FTA's Reporting Instructions posted on FTA's website at: https://www.transit.dot.gov/funding/grant-programs/capital-investments/how-apply. In addition, the Financial Contractor should review the project sponsor's cash flow[4] for conformance to FTA's *Guidance for Transit Financial Plans*. The contractor may later determine that additional information is required to complete the Financial Assessment report once the more detailed review is underway.

[4] The cash flow model should be submitted electronically in excel format with formulas included rather than just hardcoded numbers.