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Use of Unrestricted Federal Funds of the Section 18 Program

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South Carolina's use of the Federal Highway Administration Section 18 program provision that allows the use of unrestricted federal funds as local match is analyzed. Answers are provided to the following three questions: Can a definition of unrestricted federal funds or a list of preapproved federal funding sources be provided? What are the mechanics of using the unrestricted federal funds for matching purposes? How can the match maximums be calculated? Two case studies that include a complete range of use of unrestricted federal funds are discussed.

In the past decades, many separate federal programs have been established to meet the transportation needs of social service programs and programs that serve the general public. Such programs either required local funds as match against the federal contribution or, in a few cases, required no local match. Match requirements were usually established to ensure local commitments for the program and to help share the program cost between the federal and local governments.

With Congress' approval of the Small Urban and Rural Public Transportation Program (Title III, Section 18, of the Surface Transportation Assistance Act of 1978), a new approach was legislated. This approach allowed the use of other federal funds to partly account for the local match requirements. This new flexibility in developing the local match for federal grants, known as the unrestricted federal share provision, recognized the limited matching resources at the small urban and rural level and has greatly aided one of the program's main goals: coordination of human service and general public transportation delivery at the local level.

The extent to which other federal funds are used to match the Section 18 funding is left in great degree to the state administering agency. Many states have interpreted the unrestricted federal share provisions rigidly whereas others have allowed great latitude. This difference among states is principally due to the nature of each state's existing program in small urban and rural areas. If a state has a tradition of public transportation services in nonurbanized areas, local financial

resources are most probably available to match the Section 18 funds and there is not quite the urgency to start a large number of new programs. The initiation of new programs requires a large initial investment and therefore more local match. In 1978, states like South Carolina had very few public transportation systems in nonurban areas and were therefore looking for the greatest flexibility possible to produce the local match for federal funds. Another major factor is the availability of state funds to assist counties, municipalities, or authorities in developing local match. Consequently, some states with a state public transportation subsidy program found it unnecessary to look for unique approaches to use the unrestricted federal funds provision.

This paper examines efforts in South Carolina to make the most efficient use of the Federal Highway Administration (FHWA) Section 18 program provision (Chapter I, 23 CFR §825.9b) that allows the use of unrestricted federal funds. The provision reads, "Half of the local share for both capital and operating expenses must be provided in cash, from sources other than federal funds or revenues from the other operation of the system. The other half of the local share may be made up of unrestricted funds from other Federal programs." In practice, this provision has been applied to administrative expenses as well.

The above reference to "efficient use", when viewed from the local perspective, means minimizing local cash need or stretching available local cash as far as possible. Ironically, and contrary to popular belief, making efficient use of local cash resources also makes efficient use of federal funds; therefore, all parties are benefiting.

To reduce any possible confusion that may have resulted from reading other related federal publications, the terms "soft match" and "nonrestricted federal funds" are synonymous with "unrestricted federal funds".

The three major questions that had to be answered

prior to South Carolina's use of the unrestricted federal funds provision were the following:

1. Can a definition or list of these funds be provided?
2. What are the mechanics of using these funds for matching purposes?
3. How can the match maximums be calculated?

DEFINITION

In April 1981, FHWA issued a memorandum (1) for the purpose of aiding grantees in certifying sources of unrestricted federal funds. South Carolina has since updated this chart to reflect recent changes in federal legislation. South Carolina and its grantees have also dealt with federal funds not referenced in this memorandum on a case-by-case basis. A clarification of the use of some such federal sources is presented in the case studies included in this paper.

MECHANISM

The state of South Carolina has designed a budgeting system for its Section 18 application process that uses standardized forms and procedures. These forms are the same as those presented in the case studies later in this paper. These tables recognize the expenditure budget and the revenue or grant calculation budget. The first table (see Tables 1 and 5) is designed to aid applicants in itemizing their projected expenditures into appropriate categories for Section 18 funding (operations, capital, and administration). The second table (see Tables 2 and 7) is designed to deal with the funding categories or revenue sources for the Section 18 program. This table takes information from the first table and, through the aid of the third and fourth tables (see Tables 3, 4, 8, and 9) a mechanism is provided for the calculation of match and system revenue.

MATCH CALCULATION

In 1980, a formula was derived by FHWA and revised by South Carolina that provided a systematic method to account for the correct use of unrestricted federal funds in the grantee's budget. This method can be used by all states. The procedure adheres to the basic requirement that unrestricted federal funds must be shown as expenditures if they are to be shown as revenues. This balancing of expenditures and revenues also holds true for in-kind values. This formula, which is presented below, is to be used in cases where the unrestricted federal funds are in excess of one-half of the local match. It will also work when local resources exceed match requirements. Cases in which both unrestricted federal funds and local resources exceed match requirements are addressed in the following paragraphs.

In the formula,

- X = unrestricted federal funds match,
- A = gross expenditures,
- B = farebox revenues,
- C = total unrestricted federal funds available,
- Z = unrestricted federal fund revenues,
- Y = net expenditures, and
- X = unrestricted federal funds as local share match.

$$X = (A - B - C) / 9 \tag{1}$$

where 9 is the denominator used for capital and administrative expenditures. A denominator of 3 is

used for operations expenditures.

$$Z = C - X \tag{2}$$

$$Y = A - B - Z \tag{3}$$

For example,

- A = \$100 000 (gross administrative expenses).
- B = 0 (farebox attributed to administrative cost).
- C = \$25 000 [Comprehensive Employment and Training Act (CETA) Training grant].
- X = $(\$100\ 000 - 0 - \$25\ 000) / 9 = \$75\ 000 / 9 = \8333 (federal Section 18 share = \$66 666).
- Z = $\$25\ 000 - \$8333 = \$16\ 667$.
- Y = $\$100\ 000 - 0 - \$16\ 667 = \$83\ 333$.

Note that in dealing with capital and administrative budgets X should always be one-tenth of Y.

To test the formula, simply multiply Y (\$83 333) by the required local match (administrative expenses 20 percent) and check to see whether half of the local match is equal to X: $\$83\ 333 \cdot 20\ \text{percent} = \$16\ 667$ and $\$16\ 667 / 2 = \8333 .

Note that sometimes the local share and/or the total local match must be rounded upward to accommodate the formula. It should be remembered that this formula only works when the unrestricted federal funds are in excess of one-half the required local match. When using the formula for operation expenditures, the formula must be $X = (A - B - C) / 3$.

There are cases where other values are also in excess of the allowed match. This can occur when in-kind values and local contracts are used and they exceed the required local share. That portion that cannot be used as match appears as operating revenues. Under the Section 18 program, farebox revenues must be counted as operating revenues. In addition, federal funds must be used to cover op-

Table 1. Case 1 proposed transportation budget expenditures: July 1, 1981-June 30, 1982.

Line No.	Category	Proposed Budget Section 18 Project Request (\$)	Total Program This Year (\$)
1	Operation charges		
	Personnel	405 750	405 705
	Fringe benefits	60 863	60 863
	Contractual services	0	
	Licenses		
	Maintenance	75 000	75 000
	Fuel and oil	175 000	175 000
	Indirect charges (utilities, etc)		
	Other	10 000	10 000
	Total	726 613	726 613
2	Capital charges		
	Construction	444 236	444 236
	Equipment	363 995	363 995
	Other (lease)	28 800	28 800
	Total	837 031	837 031
3	Administrative charges		
	Personnel	61 600	61 600
	Fringe benefits	12 320	12 320
	Office supplies and equipment	^a	
	Contractual services	25 000	25 000
	Travel	5 000	5 000
	Training	2 500	2 500
	Public relations	500	500
	Printing and publications	1 250	1 250
	Dues and subscription	500	500
	Insurance	30 000	30 000
	Indirect charges (utilities, rent, etc.)	100 430	100 430
	Other	9 600	9 600
Total	248 700	248 700	
4	Total expenses	1 812 344	1 812 344

^aIndirect.

Table 2. Case 1 proposed transportation budget revenues: July 1, 1981-June 30, 1982.

Line No.	Category	Proposed Budget for Section 18 Project (\$)			Total Project Request (\$)	Total Program This Year (\$)
		Capital	Administrative	Operations ^d		
	Operating revenues					
	Farebox			37 000	37 000	37 000
	Other (contracts)			620 653	620 653	620 653
1	Total			657 653	657 653	657 653
2	Total expenditures	837 031	248 700	726 613	1 812 344	1 812 344
3	Net operating loss (line 1 minus line 2)			68 960	68 960	68 960
	Local share					
	Local subsidy	91 322	14 715	17 240	123 277	123 277
	In-kind services	36 000	9 600		45 600	45 600
	Donations (cash)					
	Advertisement					
	Charter profits					
	State funds	16 084	555		16 639	16 639
4	Total	143 406	24 870	17 240	185 516	185 516
5	Unrestricted federal funds	24 000	24 870	17 240	66 110	66 110
6	Other federal funds					
7	Total local match (add lines 4, 5, and 6)	167 406	49 740	34 480	251 626	251 626
8	Federal Section 18 funds	669 625	198 960	34 480	903 065	903 065
9	Total revenue (add lines 1, 7, and 8)	837 031	248 700	726 613	1 812 344	1 812 344

^aJuly 1, 1981 to June 30, 1982.

Table 3. Case 1 itemized available revenues.

Source	Available Funds (\$)
Farebox	37 000
Local subsidy	
State	16 639
City X	
Building fund	52 847
Section 147 ^a	4 000
Lease van deposits	225
Advertising	0
Charter	0
Total	93 711
In-kind	
Land donated	36 000
Building leases	6 000
Utilities	3 600
Total	45 600
Contracts	
Regional Planning Council	109 000
Career awareness	2 500
County School District	
No. 2	3 000
No. 4	2 250
No. 1	2 500
Concerned parents	3 600
City X vocational rehabilitation	5 400
Munford Fuller	17 500
Mental health	5 400
Vocational rehabilitation	1 500
Case coordination	4 000
City X Department of Social Services	2 000
City X adult development	6 000
Regional center	9 000
Total	173 650
Unrestricted federal funds	
Title XX	402 920
Department of Labor (CETA)	124 139
State Department of Social Services	7 500
Senior Citizens Employment Program employees	8 400
Retired Senior Volunteer Program	750
CETA (leased vans)	24 000
Total	585 709
Total	935 670

^aSale of junk vehicles originally purchased with Section 147 funds (Federal-Aid Highway Act of 1973).

erating costs if they are shown as operating expenses of the Section 18 project. This holds true equally for funds budgeted to cover administrative or capital expenses. With this restriction (the balancing of revenues and expenditures) and the fact that there may not be enough Section 18 funds to go

around, the use of this formula to minimize the use of Section 18 funds makes a lot of sense. The formula used in the event that more than one resource exceeds the required match is presented below (this formula will work for capital or administrative expenses; operation expenses would use a denominator of 0.5):

$$Y = (A - B - C - D) / 0.8 \quad (4)$$

where D is the total available local share and V is the local share match. In the following example, D = \$20 000; all other values remain as shown in the previous example.

$$Y = (\$100\,000 - 0 - \$25\,000 - \$20\,000) / 0.8 = \$55\,000 / 0.8 = \$68\,750.$$

$$X = (68\,750 \cdot 20 \text{ percent}) / 2 = \$6875 \text{ (or one-tenth of } Y \text{ in administrative and capital budgets).}$$

Federal Section 18 share = \$55 000.

$$V = X = \$6875.$$

$$Z = (C - X) + (D - V) = (\$25\,000 - \$6875) + (\$20\,000 - \$6875) = \$31\,250.$$

The formula can be tested by subtracting Z and B from A to equal Y: If $Y = A - Z - B$, then $Y = \$100\,000 - \$31\,250 - 0 = \$68\,750$.

These formulas are of assistance only after a prospective grantee has determined what funds can be designated contracts and/or unrestricted federal funds, in-kind values, local subsidy, etc.

CASE STUDIES

The case studies that follow provide detailed examples of how unrestricted federal funds and other resources are used and the procedures required by South Carolina.

Case A

Case A is a regional system that delivers services under a family-of-services arrangement by using formula $X = (A + B + C) / 3$ and a special transit fare provision. The property has used Section 18 funds for two years. Transportation service is provided in the family-of-services arrangement to a six-county service area. In this case, the family-of-services arrangement includes fixed-route subscription, demand response, and charter services to the general public and to 19 separate client groups.

Table 4. Case 1 use of revenue and match funds.

Source	Capital (\$)			Administration (\$)			Operations (\$)			Total (\$)
	Total	Match	Revenue	Total	Match	Revenue	Total	Match	Revenue	
Fares							32 000	0	32 000	
State	16 084	16 084	0	555	555	0				
Local subsidy	77 072	77 072	0							
In-kind	36 000	36 000	0	9 600	9 600	0				
Advertising										
Charter										
Contract	14 250	14 250	0	14 715	14 715	0	118 294	17 240	101 054	
Unrestricted federal funds	24 000 ^a	24 000	0	24 870	24 870	0	536 839	17 240	519 599	
Total local match		167 406			49 740			34 480		251 626
Total revenue			0			0			657 653	657 653
Total funds	167 406			49 740			692 133			909 279

Note: Total funds available = \$935 670. Excess local subsidy = \$26 391 (excess is in contract revenue).

^aValue obtained from the use of CETA vans purchased with federal funds.

Table 5. Case 2 proposed transportation budget expenditures: July 1, 1981-June 30, 1982.

Line No.	Category	Proposed Budget Section 18 Project Request (\$)	Total Program This Year (\$)
	Operation charges		
	Personnel	322 600	322 600
	Fringe benefits	52 000	52 000
	Contractual services	0	0
	Licenses	100	100
	Maintenance	156 600	156 600
	Fuel and oil	253 000	253 000
	Indirect charges (utilities, etc.)	0	0
	Other	0	0
1	Total	784 300	784 300
	Capital charges		
	Construction	0	0
	Equipment	21 000	21 000
	Other (lease)	34 890	34 890
2	Total	55 890	55 890
	Administrative charges		
	Personnel	85 700	85 700
	Fringe benefits	12 500	12 500
	Office supplies and equipment	6 000	6 000
	Contractual services	6 800	6 800
	Travel	3 000	3 000
	Training	0	0
	Public relations	15 000	15 000
	Printing and publications	0	0
	Dues and subscription	1 400	1 400
	Insurance	18 000	18 000
	Indirect charges (utilities, rent, etc.)	40 000	40 000
	Other	4 000	4 000
3	Total	192 400	192 400
4	Total expenses	1 032 590	1 032 590

Table 6. Detail of case 2 proposed transportation budget expenditures.

Category	Expenditure (\$)
Operation charges	
Personnel	
Drivers' salaries	265 100
Overtime	30 000
Dispatchers' salaries	27 500
Total	233 600
Maintenance	
Wages	61 200
Fringe benefits	10 400
Tires and tubes	27 000
Maintenance materials	50 000
Contract maintenance	8 000
Total	156 600
Administrative charges	
Contractual services	
Professional service	4 000
Computer maintenance	2 800
Total	6 800
Indirect	
Utilities	26 000
Rent	6 000
Total	32 000
Other	
Unclassified supplies	3 000
Miscellaneous repairs	1 000
Total	4 000
Capital	
Equipment	
Fifteen radios at \$1400 each ^a	21 000
Other (lease of eight CETA vans) ^b	34 890
Total	55 890

^aInstalled with first year's warranty.

^b\$363.44/month x 8 vans x 12 months (same cost and methodology as used for previous year).

The expenditure budget for 1981-1982 is provided in Table 1. Table 2 presents the revenue budget for 1981-1982, and the appropriate support information is given in Tables 3 and 4. These last two tables delineate in detail the revenue sources of the applicant and how they are to be used. Due to the complexity and interrelatedness of Tables 2-4, the closest attention is required.

The itemization of unrestricted federal funds in Table 3 includes Titles XIX and XX of the Social Security Act, the Older Americans Act, and CETA Title II.

The revenue budgets for capital, administration, and operations (Table 2) are analyzed below in relation to the use of unrestricted federal funds and other contract resources.

Capital Budget

The capital budget is considered self-explanatory due to its relative simplicity. It should be noted, however, that the \$24 000 of unrestricted federal funds represents (as given in Table 4) the value of leased vehicles. Since the vehicles are those purchased with federal funds, the rental or lease value equivalents cannot be used as in-kind but are used rather as unrestricted federal funds. This \$24 000, as well as the \$36 000 in-kind value, is included in the \$837 031 total capital expenditure.

Administrative Budget

The applicant has multiplied administrative expenses by 10 percent to determine exactly the maximum amount of unrestricted federal funds that can be used as match. All other unrestricted federal funds are left for use in the operations budget. Tables 3

Table 7. Case 2 proposed transportation budget revenues: July 1, 1981-June 30, 1982.

Line No.	Category	Proposed Budget for Section 18 Project (\$)			Total Project Request (\$)	Total Program This Year (\$)
		Capital	Administrative	Operations ^a		
	Operating revenues					
	Farebox			88 000	88 000	88 000
	Other (contracts)	22 557	30 650	331 000	654 307	654 307
1	Total	32 557	90 650	619 100	742 307	742 307
2	Total expenditures	55 890	192 400	784 300	1 032 590	1 032 590
3	Net operating loss (line 1 minus line 2)	23 333	101 750	165 200	290 283	290 283
	Local share					
	Local subsidy		5 000	30 000	35 000	35 000
	Local contracts		5 175	11 300	16 475	16 475
	Donations (cash)					
	Advertisement					
	Charter profits					
	State funds	2 334		0	2 334	2 334
4	Total local share	2 334	10 175	41 300	53 809	53 809
5	Unrestricted federal funds	2 334	10 175	41 300	53 809	53 809
6	Other federal funds	0	0	0	0	0
7	Total local match (add lines 4, 5, and 6)	4 667	20 350	82 600	107 617	107 617
8	Federal Section 18 funds	18 666	81 400	82 600	182 666	182 666
9	Total revenue (add lines 1, 7, and 8)	55 890	192 400	784 300	1 032 590	1 032 590

^aJuly 1, 1981, to June 30, 1982.

Table 8. Case 2 itemized available revenues.

Source	Available Funds (\$)
Farebox	88 000
Local subsidy	
State pilot project	200 000
City W	35 000
Advertising	0
Charter	0
Total	235 000
In-kind	0
Contracts	
X county development center	26 400
Y county comprehensive services	30 000
Z county activity center	19 700
W developmental learning center	43 700
Z council on aging	13 800
Total	133 600
Unrestricted federal funds	
X county day care (Title XX)	18 200
Private day care (Title XX)	24 000
Y council on aging (Title XX)	14 000
W council on aging (Title XX)	33 400
Vocational rehabilitation	20 700
Department of Social Services (Title XIX)	170 000
CETA	
Title II	30 800
Title VI	50 000
Title II	34 890
Total	395 990
Total	852 590

and 4 will produce the exact source of the \$24 870 value of unrestricted federal funds. Based on the nature of federal grants or contracts that can be designated unrestricted federal funds, it is usually difficult to determine how much of the grant or contract must be applied to administrative expenses and how much to operating expenses. Therefore, in the absence of a clear direction specified in the grant or contract, the grantee is free to allocate any reasonable portion of the grant or contract funded to either the administrative or operating budget. However, it is clear that match derived from lease or rental value must be applied to capital expenses. Once again, this \$24 870 value, as well as the \$9600 in-kind match value, is a component of the \$248 700 total administrative expenditures.

Operations Budget

The applicant has used formula $X = (A - B - C)/3$ to determine how much unrestricted value can be used for match and how much must be shown as operating revenues. As is clearly evident, this applicant makes major use of unrestricted federal funds to support operations costs. The volume of unrestricted or contract funds indicates a highly coordinated transportation system that makes excellent use of the provisions of the Section 18 program.

In looking at the proposed transportation budget revenue (Table 2), it should be noted that through the use of unrestricted federal funds the applicant is proposing a \$1 812 344 program that requires only \$123 277 in local subsidy. Much of this \$123 277 is generated from contracts that purchase client use of the existing fixed-route bus system. Such contracts can be viewed as reimbursements of special transit fares, as specified in Urban Mass Transportation Administration Circular C 9050.1 of June 10, 1977.

Case B

Case B is a regional system that delivers services under the family-of-services arrangement by using formulas $X = (A - B - C)/9$, $Y = (A - B - C - D)/0.8$, and $Z = (A - B - C - D)/0.5$. This applicant has received funding under the Section 18 program since November 6, 1978. Transportation services are provided to four counties by use of a consolidated system of general public and human service resources. This consolidation includes both services and funding.

Tables 5-9 are provided to give a detailed picture of the applicant's budgeting process. Table 5 provides an itemized budget of proposed expenditures, and Table 6 provides more detail on certain expenditure items. The revenue budget is provided in Table 7 and is supported by information provided in Tables 8 and 9. As given in Table 8, the applicant has designated the use of Social Security Act Titles XIX and XX and CETA Title II resources for unrestricted federal funds.

The revenue budgets for capital, administration, and operations (Table 7) are analyzed below in relation to the use of unrestricted federal funds and other contract resources.

Table 9. Case 2 use of revenue and match funds.

Source	Capital (\$)			Administration (\$)			Operations (\$)			Total (\$)
	Total	Match	Revenue	Total	Match	Revenue	Total	Match	Revenue	
Fares							88 000	0	88 000	
State	2 334	2 334	0	52 725	0	52 725	142 275	0	142 275	
Local subsidy	30 000	30 000	0	5 000	5 000	0				
In-kind	0			0			0			
Advertising	0			0			0			
Charter	0			0			0			
Contract	0			5 175	5 175	0	128 425	11 300	177 125	
Unrestricted federal funds	34 890 ^a	2 333	32 557	48 100	10 175	37 925	313 000	41 300	271 700	
Total local match		34 667			20 350			52 600		107 617
Total revenue			32 557			90 650			619 100	742 307
Total funds	67 224			111 000			671 700			849 924

Note: Total funds available = \$852 590. Excess local subsidy = \$2666 (excess is in state pilot funds).

^aLease value of CETA vehicles.

Capital Budget

As Table 9 indicates, \$34 890 of unrestricted federal funds is available to the applicant as a revenue source. As indicated at the bottom of Table 6, these funds were derived from the equivalent lease value of eight vans purchased with CETA federal dollars. These vans are shared among the total fleet resources of the applicant. Due to the proposed small capital outlay (the limited amount of equipment actually to be purchased), the use of the formula $X = (A - B - C)/9$ only allows the use of \$2333 in unrestricted federal funds match and the remaining available unrestricted federal funds appear as \$32 557 in other revenues.

Administrative Budget

Table 9 indicates the availability of \$48 100 in unrestricted federal funds. As the fourth column of Table 7 indicates, \$10 175 of this total sum is used for matching purposes and the remaining \$37 925 is shown in the "other revenue" category. The distribution requires the use of the formula $Y = (A - B - C - D)/0.8$ due to the availability of local funds in excess of the required local subsidy. The applicant also receives \$52 725 in administration expenses from the state of South Carolina for demonstration purposes. This amount is used as "other revenue" and brings the total to \$90 650.

Operations Budget

Table 9 shows that the total range of resources available to the applicant is used to assist in meeting operation expenses. Of the total \$313 000 available in unrestricted federal funds, the formula $Y = (A - B - C - D)/0.5$ places \$41 300 as match and \$271 700 as "other revenue". In this case, D in the formula equals the total of local contracts and state demonstration funds. Both of these sources are in excess of the required local subsidy. In this case, contracted revenues are used as local share, since they are viewed as reimbursements of special transit fares, and operation revenues could be overmatched due to the calculation of the formula. Table 8 presents an itemization of local contract sources. Table 9 gives the subdivision of available local contract funds. After all available local government subsidies are used for match, the remaining shortfall (\$11 300) is determined and local contract funds are used. Once this shortfall

is drawn from the available local contracts, the remaining \$117 125 is shown as "other revenue".

CONCLUSIONS

In conclusion, the first two years of dealing with the Section 18 unrestricted share provision has yielded the following:

1. The process for using the provision is not simple.
2. The process requires a well-designed system to account for the use of federal funds and a well-trained state staff to provide technical assistance.
3. The complexity required to account for the use of unrestricted federal share places a burden on applicants during the application phase, the grant phase (invoicing and bookkeeping), and the post-grant phase (auditing).
4. The concept makes efficient use of available funds and allows for the initiation of projects that otherwise would most likely never have begun.
5. The concept supports and justifies the coordination and/or consolidation of public transportation programs at the local level.

To summarize, South Carolina feels that its position of allowing total flexibility in the use of the unrestricted federal funds provision has been and still is well justified and that this provision has had major impact on the initiation of new systems and the coordination of existing systems in South Carolina. It is speculated that, with the advent of reduced federal funding, this provision will take on even greater importance.

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REFERENCE

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