tions, compensation, and operational efficiency have been small. On the negative side, the Section 13c warranty has caused some initial delays in the Section 18 program. It has also caused considerable uneasiness among operators because of the "unlimited liability" requirement. However, from the overall perspective, operational efficiency has not been signficantly affected and no major and lasting harm could be found. On the benefits side, no evidence was found that Section 13c has made a significant contribution to labor protection in the Section 18 program. Thus, although the warranty requirement has no serious negative impacts, it adds little, if any, measurable benefits.

Obviously, certain Section 13c benefits are not measurable in this study. These include the effects of Section 13c as an assurance to transit employees that their rights and interests are recognized and protected. In addition, it is possible that some employees who may have benefited from the Section 13c warranty were not detected in our investigation. From our interviews and the lack of Section 13c claims, we believe those employees to be very few. Their possible benefits may not compensate for the perceived or actual problems involved in implementing and maintaining the Section 13c protections in the Section 18 program.

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Abridgment

Using a State Management Plan Option for Section 18

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An overview of experiences of the Kentucky Department of Transportation with the federal Section 18 program for public transportation in nonurbanized areas is presented. The difference in administrative philosophy between urbanized-area and non-urbanized-area transit programs is given as one reason for the success of Section 18 in Kentucky. Kentucky's first state management plan was short and concise and drawn from existing transit programs. The revised management plan gives Kentucky the authority to administer the Section 18 program with little federal interaction after receiving federal approval of a list of potential grants. The intent of the new management plan is to shift the administration of the Section 18 program in Kentucky closer to a block-grant program. The major benefit to both the local systems and the state is in the time and effort saved in getting grants approved.

The first comprehensive federal transit assistance for communities of less than 50 000 population became a law on November 6, 1978. The non-urbanized-area public transportation program, or Section 18 as it is more commonly known, was signed into law after several years of strong lobbying by the smaller transit systems across the country. Ever since Section 5 of the Urban Mass Transportation Act of 1964 established an operating assistance program for urbanized areas in November 1974, the smaller systems had been asking for equal consideration. Nonurbanized areas were eligible to apply to the Urban Mass Transportation Administration (UMTA) for capital grants under Section 3 of the Act, but operating assistance was unavailable.

Although the Section 18 program that emerged from Congress offered the same types of assistance as the Section 5 program, it was quite different in many respects. These differences had a lot to do with the success of the Section 18 program in Kentucky.

For example, the funds were apportioned to the states and the states were given an active role in administering the program. In the Section 5 program, the states were given the option of taking a strong role for cities between 50 000 and 200 000 population. The Kentucky Department of Transportation (KYDOT) decided against assuming such a role because there were only five eligible cities and three different UMTA regional offices to deal with. KYDOT did, however, believe that it could serve a legitimate role as the administrator of the Section 18 program. For the smaller systems (those with fewer than 10 vehicles), it made a lot more sense to have the state capital, Frankfort, serve as the focal point for the Section 18 program rather than have each small operator deal individually with an UMTA regional office many miles away.

Another important difference relates to the decision to permit three funding categories: capital, operating, and administrative. KYDOT has always felt that the most critical aspect of operating an efficient and effective transit system, especially in small urban and rural areas, was good management. KYDOT wholeheartedly endorsed the administrative grant category at the higher 80 percent/20 percent funding ratio. This funding option has served as an incentive for some of the smaller urban systems to hire full-time managers and for some agencies to join together and establish regional public transportation coordinators to manage the existing services better and increase public awareness of the benefits of public transportation.

Still another major difference was in the agency selected at the federal level to administer Section 18. When the Federal Highway Administration (FHWA) was first being talked about as the federal agency responsible for Section 18, everyone was a little apprehensive. KYDOT, obviously, had a long history of involvement with FHWA in its highway programs. The public transportation staff of KYDOT had a little experience with FHWA in the Section 147 Rural Highway Public Transportation Demonstration Program of the Federal-Aid Highway Act of 1973, but staff was much more accustomed to dealing with UMTA on transit planning, Section 16b2 (Urban Mass Transportation Act of 1964), and other public transportation programs. FHWA's lack of transit experience concerned KYDOT. KYDOT did not believe that Section 18 should be administered just like any highway project. FHWA's policies and procedures were based on more than 60 years of experience in the highway field. On the other hand, the fact that the FHWA division office was right down the street was again a big benefit to both the state and the individual small system. In Kentucky, FHWA did, however, exhibit a strong interest in Section 18. Soon after Section 18 became law and before the emergency regulations were issued in December 1978, the FHWA division office asked to meet with KYDOT to discuss Section 18 and other KYDOT public transportation activities. It was this interest and spirit of cooperation that carried Section 18 to where it is today--Kentucky's new state management plan.

Following is an explanation of how the administration of Section 18 has evolved in Kentucky and has led up to the new state management plan. The Section 18 emergency regulations were issued on December 13, 1978. In early January 1979, KYDOT met with all existing non-urbanized-area transit systems to discuss the program. From the data gathered at that meeting and information received from FHWA, KYDOT submitted in late January a program of projects containing five capital, seven administrative, and seven operating projects. A short, six-page state management plan was prepared in early February. The plan contained some basic goals and objectives, an explanation of the KYDOT method of assuming a fair and equitable distribution of funds, a mechanism for faster coordination, public input procedures, application evaluation criteria, methods for dissemination of information on Section 18, reporting requirements for local projects, and the ability of KYDOT to provide technical assistance.

The primary goal of KYDOT was to get Section 18 project applications written and approved as quickly as possible. KYDOT did not spend a lot of time preparing a polished management plan, hoping to cover every possible situation that might occur. KYDOT made some mistakes and had some problems but, most important, Section 18 funds were awarded to local systems expeditiously. In fact, the first application was submitted to FHWA for approval in February 1979 and approved in March 1979. This was just one week after the first program of projects was approved. That particular application was one that had been submitted to UMTA in May 1978 for Section 3 funds and was returned to the applicant to seek Section 18 funds.

KYDOT did not prepare any formal application guidelines until March 1980. Until that time, the acceptable format included the 11 items listed in the emergency regulations and some standard assurances and resolutions taken from the UMTA Section 3 guidelines. If a transit system requested a sample application, it was sent a copy of one of the better Section 18 applications previously submitted.

The FHWA division office seemed to be satisfied with the KYDOT approach. Many of the early problems encountered centered around local match requirements. A majority of the federal agencies were slow in determining what unrestricted funds from other federal programs meant. Section 13c of the Urban Mass Transportation Act of 1964, as amended, never did seem to be a big issue. The KYDOT interpretation was that the state could not be held liable if the financial obligation was passed on to each applicant. To date, all applicants have signed the special warranty.

The program seemed to be going fairly smoothly, but the amount of paperwork that was going back and forth between KYDOT and FHWA was beginning to overwhelm everyone. It seemed that every aspect of an individual project had to get FHWA approval or concurrence. In almost every instance, approval was never in doubt, but FHWA written policies (Federal Highway Program Manual) dictated the need for FHWA action.

It was, in fact, the FHWA division office staff that first approached KYDOT about seeking more state autonomy over the Section 18 program. In March 1980, FHWA wrote some final draft regulations that were to be issued to replace the December 1978 emergency regulations. Those draft final rules did have an outline for a state management plan that, if approved by FHWA, would turn most of the administration of Section 18 over to the states. States would have the authority to review and approve applications and would only have to ask FHWA to authorize funds.

This type of arrangement between states and FHWA is not a new concept. The Federal-Aid Highway Act of 1973 permitted the U.S. Department of Transportation (DOT) to pass on to the states responsibilities concerning projects on the federal aid system, except the Interstate system, when states certified that they would comply with all required laws, regulations, directives, and standards. DOT had to make a final project inspection, and the states had to make periodic reports. KYDOT has been operating under this arrangement for more than five years. The results are that less time has to be devoted to paperwork between KYDOT and FHWA and more time can be spent on actual project-related activities.

The new KYDOT state management plan was submitted to FHWA in May 1981. As mentioned earlier, the format follows that outlined in the proposed draft final regulations of March 1980. The plan, exlusive of the appendices, is only 12 pages long and is divided into 10 sections. The plan, in itself, does not change any of the Section 18 procedures or guidelines that have been used all along. What it does do, however, is turn over 90 percent of the responsibility for the program to KYDOT. After the annual program of projects is approved by FHWA, the administration of Section 18 rests with KYDOT. FHWA still has to authorize funds for each project, but that is handled by FHWA fiscal staff and each application does not have to be approved by the FHWA planning and research staff.

The first two sections of the plan are introductory in nature and state basic KYDOT goals and objectives and its organizational structure. The third section details the types of technical assistance that will be offered to Section 18 grantees, such as transit planning, grant writing, system start-up, and management assistance. KYDOT strongly believes that management assistance is the most important and beneficial service that a state can provide. Other sections explain how KYDOT will promote and encourage coordination with existing public and private carriers primarily through the planning process and a mandatory coordination meeting prior to the submission of any grant application. The section on the KYDOT method for the distribution of funds simply states that distribution will be based on needs identified through the planning process and on the interest generated at the local level. KYDOT has been fortunate in that the amount of funds apportioned to Kentucky has exceeded the amount of qualified applications.

The most important section of the plan describes how KYDOT will manage Section 18 and ensure compliance with all necessary laws and regulations. The simplest way to explain how Section 18 is managed in Kentucky is to follow an application through the process. KYDOT accepts applications anytime. Applicants are encouraged to set the Section 18 application to a local fiscal year. KYDOT will also accept two-year applications.

First, the annual program of projects is prepared through consultation with existing grantees and submitted with the KYDOT overall federal aid program of projects. The entire program goes through the A-95 review process at one time (Office of Management and Budget Circular A-95: Evaluation, Review, and Coordination of Federal and Federally Assisted Programs and Projects). Once a project has been cleared through the A-95 process and the program of projects has been approved by FHWA and UMTA, the application process starts.

Applicants are encouraged to submit draft applications three to four months before the beginning of the applicant's fiscal year. Existing grantees are expected to write their own application, and KYDOT offers to write applications for new applicants. The first step for first-time applicants is to submit a short (three- to five-page) proposal, including an estimated budget. It is hoped that most problems can be ironed out before a lot of time and effort is devoted to writing an entire application. The proposal review concentrates on the proposed budget and the state objectives of the project in an attempt to match funding to anticipated results. KYDOT pays a lot of attention to the financial expectations of a prospective applicant. The type of service to be provided is basically left to the local decision makers. KYDOT provides a lot of guidance and assistance to applicants in preparing realistic budgets so that the local community is well aware of the costs associated with providing transit service, especially in regard to the required level of matching funds. After an acceptable proposal has been negotiated, a draft application is prepared. New applicants and existing grantees seeking another year's funding are now on the same schedule. Applications are prepared in accordance with KYDOT guidelines. The guidelines are incorporated in the state management plan.

After the final application is reviewed by the KYDOT staff, it is recommended to the KYDOT Secretary for approval. If the Secretary concurs in the staff's recommendation, the KYDOT Office of the Controller sends the necessary forms to FHWA to get the federal funds authorized. A copy of the application is sent to FHWA for its files. When funds are authorized, a contract is executed between the grantee and KYDOT and the project is ready to go.

KYDOT has authority to review and approve all subcontracts, specifications, and budget modifications. This also includes the construction and inspection of maintenance facilities. FHWA does periodic reviews but does not really enter the picture again until the closeout of a particular grant.

Just as it scrutinizes a grantee's budget during the application process, KYDOT monitors requests for reimbursement. KYDOT maintains this fiscal orientation throughout the entire project. Its primary role is that of a financial manager of the federal funds. Local decision makers should have the responsibility for providing the most appropriate level and type of service for their community within the financial resources available. KYDOT will, however, provide technical assistance to communities interested in improving their performance. By maintaining a tight hold on the financial aspects of a project, KYDOT can subtly encourage systems to improve performance.

Time savings should be the most dramatic result of the implementation of the new management plan. The application approval process (the time between the submission of a final application and the execution of the project contract) should be reduced by two to three months. The time needed to approve specifications, subcontracts, and budget modifications should be reduced by one month. This management concept also frees up more staff time and makes it possible to provide additional technical assistance and project monitoring because a lot of the paperwork between KYDOT and FHWA has been eliminated. Obviously, KYDOT can be more responsive to the needs of each grantee.