

# **GUIDEBOOK ON HEALTH AND HUMAN SERVICES REVENUE AS PUBLIC TRANSIT LOCAL MATCH**

FINAL GUIDEBOOK

Prepared for  
National Cooperative Highway Research Program  
Transportation Research Board  
of  
The National Academies of Sciences, Engineering, and Medicine

PRIVILEGED DOCUMENT

This report, not released for publication, is furnished only for review to members of or participants in the work of the NCHRP. This report is to be regarded as fully privileged, and dissemination of the information included herein must be approved by the NCHRP.

Prepared by

Suzie Edrington, Michael Walk, Kristi Miller, and Todd Hansen  
Texas A&M Transportation Institute  
The Texas A&M University System

In association with  
Kittelson & Associates, Inc.

July 2017

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# TABLE OF CONTENTS

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List of Tables .....	3
List of Figures .....	3
Introduction.....	1
Terminology .....	1
Objectives .....	1
Methodology .....	2
Suggested Reference Documents .....	2
Guidebook Organization .....	3
State-Administered FTA Grant Programs and Local Match Requirements .....	5
Overview of Relevant FTA Grant Programs.....	5
Local Match Revenue for FTA Grants.....	7
Public Transit-Human Services Transportation Coordination.....	9
What Is Public Transit-Human Services Coordination? .....	9
Why Coordinate Transportation? .....	9
FTA Requirements for a Coordinated Transportation Plan .....	10
Coordinating Council on Access and Mobility .....	12
Benefits and Challenges of Transportation Coordination .....	13
Questions About Coordinated Transportation Revenues As Match for FTA Grants .....	15
1. Can Fare Revenues Be Used as Local Match? .....	15
2. Can Grant Funds from Other Federal Programs Be Used as Local Match for FTA Grants? .....	16
3. Can a Transit Agency Use Revenue from Contracts for Coordinated Transportation to Match FTA Grants? .....	17
4. Do FTA Regulations for the Use of Revenue from Coordinated Transportation Contracts Differ for the Various FTA Grant Programs?.....	17
5. What Discretion and Responsibilities Do State DOTs Have on How Coordinated Transportation Revenues Are Used to Satisfy Match for FTA Grants? .....	19
6. What Should Be Considered when Reporting Revenue from Coordinated Transportation Contracts and Applying the Revenue as Local Match? .....	20
7. How Should a Transit Agency Treat Contributions as Match? .....	23
8. What Should Be Considered when Setting the Price for Providing Coordinated Transportation? .....	25

9. Does a Transit Agency Have to Fully Allocate Costs for Coordinated Transportation?...	28
10. Can a Transit Agency Use FTA-Funded Vehicles for Coordinated Transportation?.....	30
11. Can a Transit Agency Report Coordinated Transportation Passenger Trips to NTD?.....	31
12. How Should a Transit Agency Report Revenue from Coordinated Transportation Contracts? .....	32
13. Does an FTA-Funded Transit Agency Have to Adhere to FTA and State DOT Rules/Regulations when Providing Coordinated Transportation?.....	33
14. Do Coordinated Transportation Trips Provided by a Transit Agency Have to be within the Current Public Transit Service Hours/Areas and Advance Reservation Requirements?.....	34
15. Can a Transit Agency Prioritize Coordinated Transportation Trips over Public Transit Trips? .....	35
16. What Are the Considerations if a Transit Agency is the Prime or Subcontractor for Providing Coordinated Transportation (Particularly Medicaid)? .....	36
References.....	39
Appendix A: Revenue Sources from Public Transit-Human Services Transportation Coordination .....	A-1
Appendix B: Excerpts from FTA Circulars Regarding Local Match .....	B-1
Appendix C: Excerpts from the Super Circular (2 CFR 200) Regarding Local Match and Contributions.....	C-1
Appendix D: List of Qualified Human Services Organizations for which Charter Service is Allowed.....	D-1

## LIST OF TABLES

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	Page
Table 1. Suggested Reference Documents.....	3
Table 2. State-Administered FTA Grant Programs that Explicitly Target the Needs of Transportation-Disadvantaged Populations .....	6
Table 3. Reported Benefits of Transportation Coordination .....	13
Table 4. Reported Challenges of Transportation Coordination .....	14

## LIST OF FIGURES

---

	Page
Figure 1. Federal Funding and Authorization Bills for Surface Transportation.....	5
Figure 2. Consolidation and Continuation of Section 5316, Section 5317, and Section 5310.....	11
Figure 3. Comparison of Reporting Contract Revenue as Local Match or to Decrease Project Costs.....	22
Figure 4. Three Possible Strategies to Price Coordinated Transportation Services .....	26
Figure 5. Common Types of Relationships Involving Transit Agencies and Human Service Agencies or Transportation Brokers .....	37





# ABSTRACT

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Public transit agencies that coordinate public transit with human services agencies may receive revenue that is allowed to be used as local match for Federal Transit Administration (FTA) grants. However, documenting this revenue and determining which funds are eligible as local match for FTA grant programs may be confusing. State departments of transportation continue to receive questions and make decisions about how to account for revenue generated from coordinating public transit with human services agencies—including Medicaid non-emergency medical transportation.

This guidebook provides helpful information to respond to questions about coordinating public transit with human services agencies and provides resources for better understanding the rules and regulations to account for and report revenues and ridership that are from coordinated human services transportation. The guidebook contains several appendices with additional information, including excerpts from relevant federal regulations and a matrix of sources of revenue from coordinated transportation along with specific transit agency examples of each revenue source.



# INTRODUCTION

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Public transit agencies that coordinate public transit with human services agencies may receive revenue that is allowed to be used as local match for Federal Transit Administration (FTA) grants. However, determining documenting this revenue and determining which funds are eligible as local match for FTA grant programs may be confusing. State departments of transportation (state DOTs) continue to receive questions and make decisions about how to account for revenue generated from coordinating public transit with human services agencies—including Medicaid non-emergency medical transportation (NEMT).

## Terminology

For the purposes of this guidebook, the following terms will be used:

- *Human services agency*: An organization that provides services to meet the needs of disadvantaged populations, including, but not limited to, persons with disabilities, seniors, low-income individuals, youth, and students. These services could be related to education, food, health, medical care, and other needs. Federal circulars and other reference documents may refer to human services agencies as *social services agencies*, *health and human services agencies*, or similar names.
- *Human services transportation*: Refers to a range of transportation services that are designed to meet the needs of individuals who have difficulties providing their own transportation due to age, disability, or income, sometimes referred to as transportation-disadvantaged populations.
- *Transit agency*: An organization that provides public transit, which is regular, continuing shared-ride surface transportation that is open to the general public or open to a segment of the general public defined by age, disability, or low income (Federal Transit Administration 2017). Transit agencies are usually nonprofits or local or state government entities, and they are usually supported, in part, by federal funds provided through FTA. Transit agencies may directly operate public transit or purchase transportation services.
- *Coordinating public transit with human services agencies*: When a transit agency coordinates its services with human services agencies and provides human services transportation (most likely under some form of written agreement). This guidebook also uses *coordinated transportation* as a short form of the term.

## Objectives

This *Guidebook on Health and Human Services Revenue as Public Transit Local Match* is intended for transit agencies and state DOTs and answers common questions about match for

FTA funds when the match comes from revenues associated with coordinating public transit with human services agencies. The guidebook is designed to:

- Provide helpful information to respond to common questions about coordinating public transit with human services agencies.
- Provide resources for better understanding the rules and regulations to account for and report revenues and ridership that are from coordinated transportation.
- Provide an inventory of types of local match revenues associated with coordinated transportation services along with transit-agency examples of each revenue source.

The purpose of this guidebook is not to address how a public transit agency can provide Medicaid NEMT service. Medicaid NEMT has an extensive set of regulations and requirements that vary across states. Although this guidebook will provide some insights into Medicaid NEMT, the guidebook's purpose is to provide information on how revenue generated from coordinating public transit with human services transportation, including Medicaid NEMT, can be used as local match for FTA grants.

## **Methodology**

This guidebook is a product of National Cooperative Highway Research Program (NCHRP) Project 20-65, Task 64—Health and Human Services Revenue as Match. To create this guidebook, researchers first conducted a literature review of previously published reports, articles, web pages, and presentations from local and national sources that explore local match options for revenues generated from coordinated transportation. The review included seven topic areas: coordinated transportation, revenue match or local match, National Transit Database (NTD) reporting, cost allocation, human services programs, Medicaid NEMT, and public transit.

Following the literature review, researchers developed a questionnaire to collect information from industry professionals and tested the questionnaire with 50 people from state DOTs and transit agencies. Researchers adjusted the questionnaire to include open-ended questions and then distributed the questionnaire via email to transit agencies across the country and to 50 state DOTs. All contacts received follow-up reminder emails one week after initial contact. In total, 54 different transit agencies and DOTs representing 17 different states responded. The responses to the questionnaire helped to provide examples for the coordinated transportation revenue matrix provided in Appendix A of this guidebook.

## **Suggested Reference Documents**

There are several reference documents available to help assist state DOTs and transit agencies with the topics of FTA grant management, coordinated public transit-human services transportation plans, and cost allocation procedures. Table 1 provides a list of reference

documents that provide helpful information in addition to this guidebook. Readers are encouraged to check for the most recent version of FTA circulars.

**Table 1. Suggested Reference Documents**

<b>Document Title</b>	<b>Year Published</b>	<b>Description</b>
FTA Circular 5010.1E: <i>Award Management Requirements</i>	2017	FTA general guidance for recipients of FTA grants.
FTA Circular 9030.1E: <i>Urbanized Area Formula Program: Program Guidance and Application Instructions</i>	2014	FTA guidance for recipients of Section 5307.
FTA Circular 9040.1G: <i>Formula Grants for Rural Areas: Program Guidance and Application Instructions</i>	2014	FTA guidance for recipients of Section 5311.
FTA Circular 9070.1G: <i>Enhanced Mobility of Seniors and Individuals with Disabilities Program Guidance and Application Instructions</i>	2014	FTA guidance for recipients of Section 5310.
NCHRP Research Results Digest 353: <i>Identification of Local Matching Fund Requirements for State-Administered Federal and Non-Federal Public Transportation Programs</i>	2011	Research containing local match requirements per state for FTA state-administered urban and rural programs and for non-federal public transit programs.
NCHRP Research Results Digest 354: <i>A Review of Human Services Transportation Plans and Grant Programs</i>	2011	Research concerning the costs and perceived effectiveness of coordinated public transit-human services transportation plans and related FTA grant programs.
Transit Cooperative Research Program (TCRP) Synthesis 65: <i>Transit Agency Participation in Medicaid Transportation Programs</i>	2006	Reports on real and perceived barriers to coordinating NEMT and public transit and provides keys to successful coordination.
TCRP Report 129: <i>Local and Regional Funding Mechanisms for Public Transportation</i>	2009	Provides a summary of funding sources available to states and local entities to fund public transit.
TCRP Report 144: <i>Sharing the Costs of Human Services Transportation (Volumes 1 and 2)</i>	2011	Provides a toolkit for sharing the costs of human services transportation.
2 Code of Federal Regulations (CFR) 200: <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i>	2014	Also known as the Super Circular, 2 CFR 200 consolidates administrative requirements for various federal grants into one title in the Code of Federal Regulations.

## Guidebook Organization

After this introduction, the guidebook is organized into the following chapters:

- **State-Administered FTA Grant Programs and Local Match Requirements**  
This chapter provides a brief history of legislation authorizing federal financial support for transportation since 2006 and discusses how some FTA grant programs have changed over time. To keep the guidebook focused on coordinated transportation and the needs and questions of state DOTs, the chapter discusses only those state-administered grant programs that explicitly support human services transportation. Additionally, the chapter introduces the concept of using revenue from coordinating public transit with human services transportation (including Medicaid NEMT) as local match for FTA grants.
- **Public Transit-Human Services Transportation Coordination**  
The next chapter discusses FTA requirements and guidance concerning coordinated public transit-human services plans, and the benefits and challenges of transportation coordination.
- **Questions About Coordinated Transportation Revenues as Match for FTA Grants**  
The final chapter provides answers to common questions that state DOTs and transit agencies may have concerning accounting for and reporting coordinated transportation revenues as local match for FTA grants. The chapter also includes discussion of some rules and regulations related to operating coordinated transportation services.
- **Appendices**
  - Appendix A: Revenue Sources from Public Transit-Human Services Transportation Coordination.
  - Appendix B: Excerpts from FTA Circulars Regarding Local Match.
  - Appendix C: Excerpts from the Super Circular (2 CFR 200) Regarding Local Match and Contributions.
  - Appendix D: List of Qualified Human Services Organizations for Which Charter Service is Allowed.





# STATE-ADMINISTERED FTA GRANT PROGRAMS AND LOCAL MATCH REQUIREMENTS

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Federal funding for public transit comes primarily through the U.S. Department of Transportation (USDOT). Funding for the USDOT is authorized by the Fixing America’s Surface Transportation Act (FAST Act), approved by Congress in December 2015 to fund federal surface transportation programs from October 2015 through September 2020. FAST Act provides funding for the USDOT and its subsidiary agencies, including FTA. FTA administers the different public transit grant programs authorized under Title 49, Chapter 53 of the United States Code (USC).

Prior to the FAST Act, the previous two federal funding authorization bills were Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21) and the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Figure 1 displays effective dates (federal fiscal years) of the current and last two federal funding authorization bills for surface transportation.



**Figure 1. Federal Funding and Authorization Bills for Surface Transportation**

## Overview of Relevant FTA Grant Programs

FTA administers many different grant programs to support various types of public transit services and projects. FTA’s grant programs are organized by purpose or geography—including separate programs to support urban and rural areas. Most of these grant programs require that either the state or the local entity contribute a certain percentage of funds to match the federal grant. The non-federal matching requirements are different among the states and even within the same state depending on the grant program. In addition, states administer their own public transit grant programs with specific matching fund requirements that may differ between programs and types of transit systems (urban or rural). NCHRP Research Results Digest 353: *Identification of Local Matching Fund Requirements for State-Administered Federal and Non-Federal Public Transportation Programs* presents tables with information on state and local matching fund percentage requirements for each urban and rural federal program administered by each state.

Although certain details of FTA grant programs and the associated match requirements have changed with each federal funding authorization, the major components and purposes of the

grants have remained relatively consistent since 2006. Each grant has unique purposes, supported activities, and administrative and regulatory requirements.

Each grant program is structured to provide a predictable funding source for transit services to the targeted populations based on factors that represent relative need. State-administered grants are an effective and efficient method of providing funds, particularly given the numerous small recipients of assistance at the local level under these programs and the emphasis on coordination with human service transportation programs at the state and local level (Federal Transit Administration 2016a). Typically, the governor of a state will designate the state DOT to administer the FTA grant programs that are a state responsibility.

Within the overall set of FTA grant programs, FTA provides formula grant funding for both capital and operating assistance to state governments to help carry out national goals related to mobility for transportation-disadvantaged populations, including elderly individuals, individuals with disabilities, and economically disadvantaged individuals in both urban and rural areas. Table 2 lists the state-administered grant programs under the FAST Act that explicitly support public transit for transportation-disadvantaged populations.

**Table 2. State-Administered FTA Grant Programs that Explicitly Target the Needs of Transportation-Disadvantaged Populations**

Title of Program	Description of the State’s Role and Eligible Uses of Funds	Local Match Requirement <sup>a</sup>
<b>Section 5307 – Urbanized Area Formula Grants</b>	<p>For small-urbanized areas (under 200,000 in population), FTA apportions funds to the governor of each state (or the governor’s designee, typically the state DOT) for distribution. The state may authorize small-urbanized areas as either direct recipients of FTA grants or subrecipients of FTA funds through the state.</p> <p>Eligible uses include public transit capital projects, job access and reverse commute projects, and transportation-related planning. Certain expenses associated with mobility management programs are eligible under the program. All preventive maintenance and some Americans with Disabilities Act (ADA) complementary paratransit service expenses are eligible to be reimbursed at the capital rate of 80%. For small-urbanized areas with populations less than 200,000, operating assistance is an eligible expense.</p>	20% capital 50% operating <sup>b</sup>
<b>Section 5311 – Formula Grants for Rural Areas</b>	<p>FTA apportions funds to states and federally recognized Indian tribes.</p> <p>Eligible uses are planning, capital, operating, job access and reverse commute projects, and the acquisition of public transportation services in rural areas (under 50,000 in population according to the last decennial Census). Certain expenses associated with mobility management programs are eligible under the program. All preventive maintenance and some ADA complementary paratransit service expenses are eligible to be reimbursed at the capital rate of 80%.</p>	20% capital 50% operating

Title of Program	Description of the State’s Role and Eligible Uses of Funds	Local Match Requirement <sup>a</sup>
<b>Section 5310 – Enhanced Mobility for Seniors and Individuals with Disabilities</b>	FTA apportions funds to states for rural and small-urbanized areas and to a designated recipient(s) in large-urbanized areas. Grant funds are available to improve mobility for seniors and individuals with disabilities by removing barriers to transportation service and expanding transportation mobility options. Purchased transportation services are eligible for federal reimbursement at the capital rate 80 percent.	20% capital 50% operating

Sources: FTA Grant Programs Website (Federal Transit Administration 2016a).

<sup>a</sup> In most cases, there are additional, program- and project-specific limits to the federal contribution. However, the table displays the local match requirement that applies to most projects. Federal contribution for operating costs is limited to 50 percent of the net operating cost (i.e., after revenue from fares is subtracted from operating costs).

<sup>b</sup> Operating assistance is available for urbanized areas with populations less than 200,000 and certain small transit agencies (100 or fewer vehicles) operating in large urbanized areas with population 200,000 or more.

## Local Match Revenue for FTA Grants

As previously discussed, FTA grant programs include a requirement for states and local entities to share project costs, also referred to as providing local match. Although common sources of revenue for transit agencies, fare revenue, passenger donations, and revenue from contracts for fares are not eligible to be used as local match. These revenues lower the operating deficit (gross expenses less fare revenues) but cannot be used as local match for FTA grants.

There are many other possible sources of revenue that can be used to provide local match. Revenues that are eligible for match may vary depending on the grant program. Transit agencies that coordinate public transit with human service agencies may generate revenues that are eligible to be used as local match.

### *Revenue Generated by Public Transit-Human Services Transportation Coordination*

Revenue from public transit-human services coordination may come from local and state sources or may come from federal programs that allow funds to be used to provide transportation. The following list provides categories of revenue from coordinated transportation services and examples of each:

- **Grant revenue**—Revenue that comes directly through a grant from a state or federal agency. For example, a transit agency may receive grant funds from the U.S. Department of Labor’s Workforce Investment Act program to transport eligible persons to education, training, and employment activities.
- **Contracted services**—Revenue earned according to a formal agreement to provide transportation services. The original source of funds may also be from a state or federal

program. For example, a transit agency may have a contract with the Administration on Aging to provide transportation services to help older individuals live independently in their homes and communities.

- **In-kind contributed services**—Services (not cash) provided by a separate entity that benefits transit operations and where the transit agency has no obligation to pay for the services. Contributed services could be a source of revenue if another entity is providing volunteers to help individuals with disabilities transfer between fixed routes.
- **Donations**—A donation of cash or assets that benefits the transit agency and the transit agency has no obligation to reimburse the entity providing the donation. For example, a transit agency could receive a donation of vehicles either to be used to provide transportation service or to be converted to cash.

All the examples provided above are actual coordinated transportation projects listed in Appendix A, which is a table of revenue sources related to coordinated public transit-human services that can be used as local match. Appendix A also provides transit agency examples of how the revenues are used. All details and examples contained in Appendix A were accurate as of 2016; however, due to the changing nature of grant programs and transportation services, some details may change and programs may cease over time.

### ***Medicaid NEMT Revenue as Match***

As a part of public transit-human services transportation coordination, transit agencies can earn contract revenue by providing Medicaid NEMT. The state health and human services department that is responsible for Medicaid is also responsible for defining the requirements for each state's Medicaid NEMT program. The state Medicaid agency may contract directly with transportation providers, including transit agencies, to provide Medicaid NEMT; or the state Medicaid agency may contract with a state or regional broker that then subcontracts with transportation providers, including transit agencies, to provide Medicaid NEMT. In the context of Medicaid NEMT, a transportation broker is an entity that manages and maintains customer eligibility information, coordinates the scheduling of trips, and purchases transportation services from public, private, or non-profit transportation providers. Transit agencies may use Medicaid NEMT revenues as local match for FTA grants.

# **PUBLIC TRANSIT-HUMAN SERVICES TRANSPORTATION COORDINATION**

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This chapter discusses public transit-human services coordination, the history of FTA requirements and guidance concerning coordinated transportation plans, and the benefits and challenges of transportation coordination.

## **What Is Public Transit-Human Services Coordination?**

Public transit is a shared-ride passenger transportation service that is available to the public and is eligible for federal funding from FTA. Human services transportation refers to a range of transportation services that are designed to meet the needs of individuals who have difficulties providing their own transportation due to age, disability, or income. Coordination refers to all sorts of ways in which transit and human service agencies agree to work together to increase the efficient delivery of transportation services and expand transportation access for transportation-disadvantaged populations. Examples of public transit-human services coordination include the following:

- A community service agency that sponsors vocational training and employment for individuals with intellectual disabilities wants to provide transportation to the training center and to job placement for work experience. The agency contracts with the local transit agency to extend a bus route to the training center and to provide additional bus trips at specific times of the day, Monday through Friday.
- Head Start programs promote school readiness of children from low-income families. The local Head Start agency contracts with the rural transit provider to provide transportation service for children to attend Head Start programs.
- State Medicaid benefits include non-emergency transportation to and from authorized medical appointments (Medicaid NEMT). The state Medicaid NEMT broker contracts with the local transit agency to provide shared-ride demand-responsive transit service for Medicaid beneficiaries.

## **Why Coordinate Transportation?**

Transportation coordination generally means better resource management, shared power and responsibility among agencies, and shared management and funding (Burkhardt et al. 2004). When entities work together to jointly accomplish their objectives, they can achieve more effective, efficient, and accessible transportation options for those who need them most.

FTA encourages state DOTs and designated recipients to participate in interagency efforts such as State Rural Development Councils, Economic Development Councils, and Human Service

Transportation Coordinating Councils. Coordinating councils at the state and local levels often include participation from public and private transportation providers, human services agencies, and passengers, including seniors and individuals with disabilities. These councils actively work to identify needs, resources, and gaps for seniors, individuals with disabilities, and others who require assistance with transportation services (Federal Transit Administration 2014c).

## **FTA Requirements for a Coordinated Transportation Plan**

SAFETEA-LU stipulated that transit agencies should coordinate transportation services with human services agencies. Starting in fiscal year 2007, FTA required projects funded through three programs—Section 5316 Job Access and Reverse Commute (JARC) Program, Section 5317 New Freedom Program, and Section 5310 Mobility for Seniors and Individuals with Disabilities—must be derived from a locally developed, coordinated public transit–human services transportation plan (Carini et al. 2011).

The coordinated transportation plan should be developed through an inclusive process that involves representatives from public, private, and nonprofit transportation and human services providers, and the public. The coordinated transportation plan should provide strategies for meeting local needs and prioritize transportation services for funding and implementation (Federal Transit Administration 2014c). The intent of this requirement is to bring the right people to the table to discuss human services transportation issues and identify opportunities for transit agencies to assist more people, reduce service gaps and overlaps, and increase the cost effectiveness of services (Carini et al. 2011).

MAP-21 consolidated two grant programs (JARC and New Freedom) with other formula funding programs and revised the requirements for a coordinated transportation plan. Details about the purposes of and changes to the JARC and New Freedom grant programs are provided below.

### **Job Access and Reverse Commute**

SAFETEA-LU introduced the JARC program as Section 5316. The funding and authorization for JARC was established to address the unique transportation challenges faced by welfare recipients and low-income persons seeking to obtain and maintain employment.

JARC supports capital, planning, and operating expenses for projects that transport low-income individuals to and from job activities related to employment, and for reverse commute projects (Federal Transit Administration 2016b).

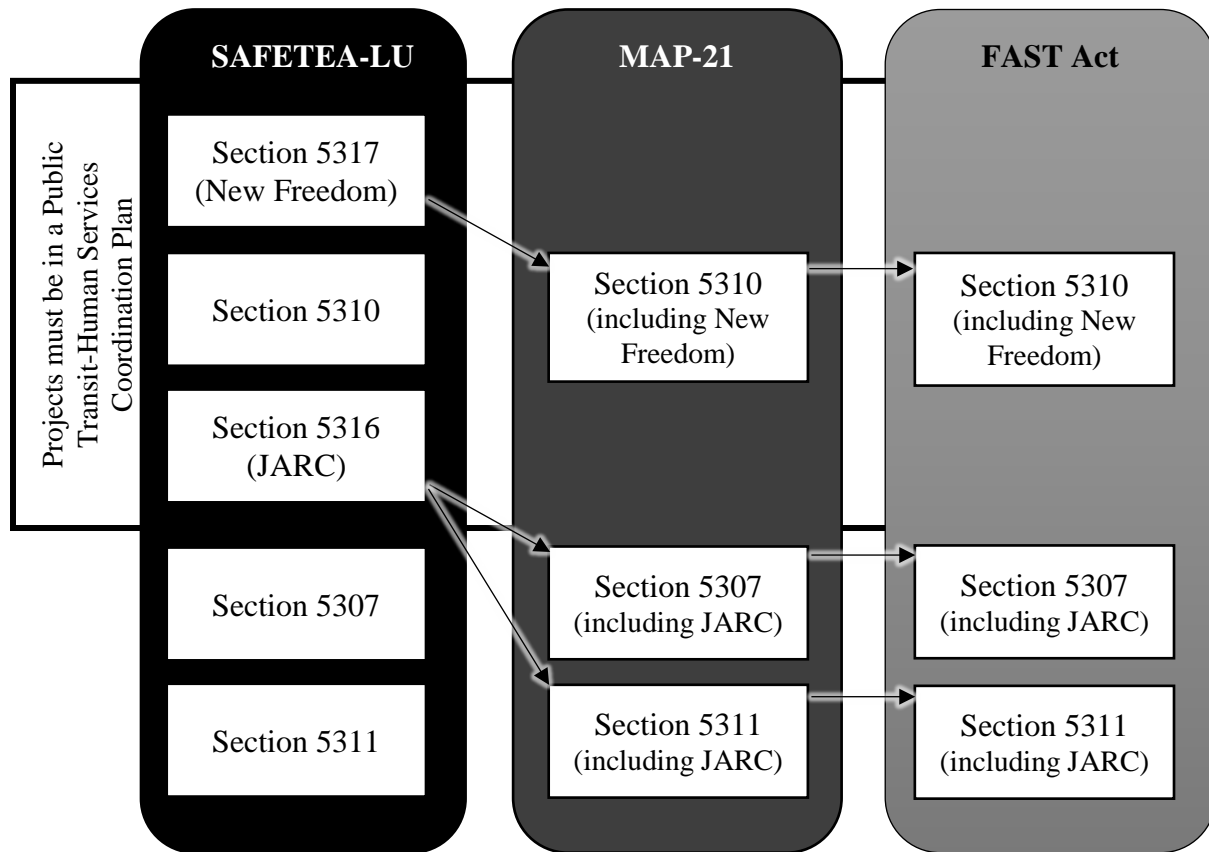
Under MAP-21, the JARC program was consolidated into the Section 5307 and Section 5311 programs. Relevant JARC activities continue to be funded under these two programs (see Chapter IV, Section 5 of FTA Circular 9030.1E for Section 5307 recipients and Chapter III, Section 3[f] of FTA Circular 9040.1G for Section 5311 recipients). MAP-21 removed the requirements that JARC projects be included in a coordinated transportation plan.

### New Freedom

SAFETEA-LU established the Section 5317 New Freedom program to support new public transit services and public transit alternatives beyond those required by the ADA for individuals with disabilities. The New Freedom program was intended to fill the gaps between human service and public transit services and to facilitate the integration of individuals with disabilities into the workforce and full participation in the community (Federal Transit Administration 2007).

Under MAP-21, the New Freedom program was consolidated into the Section 5310 Enhanced Mobility for Seniors and Individuals with Disabilities program (see Chapter III, Section 13 of FTA Circular 9070.1G for the eligible activities for Section 5310 recipients). Projects selected for funding under the Section 5310 program must be included in a locally developed, coordinated public transit–human services transportation plan (Knapp et al. 2014).

The revisions under MAP-21 carried through in the FAST Act, and FTA continues to require projects funded under Section 5310 to be included in a coordinated transportation plan. Figure 2 shows the changes in requirements for Section 5316, Section 5317, and Section 5310 grant programs.



**Figure 2. Consolidation and Continuation of Section 5316, Section 5317, and Section 5310**

## **Coordinating Council on Access and Mobility**

In addition to statutory requirements to encourage transportation coordination, Executive Order 13330 established the federal Interagency Transportation Coordinating Council on Access and Mobility (Council) in 2004 (Executive Order 13330—Human Service Transportation Coordination 2004). The executive order recognized that transportation plays a critical role in providing access to employment, health care, education, community services, and activities necessary for daily living. The order also stated that transportation services are often fragmented, underused, or difficult to navigate and can be costly because of inconsistent, duplicative, and often restrictive federal and state program rules and regulations. The Council is responsible for making recommendations that advance the goals of the executive order to simplify customer access to transportation, reduce duplication of transportation services, streamline federal rules and regulations that may impede the coordinated delivery of services, and improve the efficiency of services using existing resources.

The Secretary of Transportation chairs the Council, and the Council is comprised of the secretaries of Health and Human Services, Education, Labor, Veterans Affairs, Agriculture, Housing and Urban Development, Interior, and Justice, as well as the commissioner of the Social Security Administration and the chairperson of the National Council on Disability.

Chapter 53 Section 3006(c) of the FAST Act requires the Council to produce a strategic plan that will accomplish the following:

- Outline the role and responsibilities of each federal agency with respect to local transportation coordination, including nonemergency medical transportation.
- Identify a strategy to strengthen interagency collaboration.
- Address a cost-sharing policy and recommendations to increase participation by recipients of federal grants in locally developed, coordinated planning processes.
- To the extent feasible, address recommendations in reports by the Government Accountability Office to facilitate local coordination of transportation services (United States Government Accountability Office 2014a, 2014b).
- Examine and propose changes to federal regulations that will eliminate federal barriers to local transportation coordination, including NEMT.
- Recommend to Congress changes to federal laws that will eliminate federal barriers to local transportation coordination, including NEMT.



## Benefits and Challenges of Transportation Coordination

Researchers working on this guidebook asked DOTs and transit agencies about the benefits and challenges of coordinating human services transportation with public transit. Table 3 and Table 4 describe the identified benefits and challenges, respectively.

**Table 3. Reported Benefits of Transportation Coordination**

<b>Benefit</b>	<b>Description</b>
Leverages community expertise and resources	Coordinating transportation can help to make full use of local knowledge and resources, increasing the efficiency and effectiveness of providing human services transportation.
Serves community needs	Because coordinating transportation is grounded in a locally defined and locally coordinated plan, community needs and the provision of transportation and human services can be better aligned.
Avoids service duplication; increases service productivity and efficiency	Coordinating transportation can improve the efficiency of transportation services by reducing unnecessary redundancies in service and more efficiently using existing transportation resources (e.g., vehicles, drivers, and administrative staff).
Aids with funding extended services and providing local match for federal grants	The revenues earned by a transit agency from contracts to provide coordinated transportation can help to extend or increase public transit services. The revenues may be eligible as local match for relevant federal grants.
Provides a consistent source of contract revenues	The demand for human services (particularly medical) trips is usually reliable and consistent. Therefore, delivering human services transportation can provide a transit agency with consistent and reliable contract revenues.

**Table 4. Reported Challenges of Transportation Coordination**

<b>Challenge</b>	<b>Description</b>
Differences among participating agencies' policies and expectations	Coordinating transportation and human services requires several entities to cooperate and agree on service provision, expectations, and policies. Agencies involved in the coordination process may have different and conflicting policies and practices. For example, a transit agency and a human services agency may have different expectations on shared trips, reservation windows, and service areas.
Increased training and administration needs	Providing human services trips may result in increased training and administration needs. Trips may require additional documentation; both drivers and administrative staff may need to be trained on these requirements, and processes may need to be designed to successfully adhere to all requirements. Additional training for drivers and support staff may be needed if the practices and policies of the transit agency are not the same as the human services agencies.
Requirements for documentation	Different human services programs may require different forms and details in documentation of services. For example, as outlined by the Social Security Act, Medicaid reimbursement requires verification of receiving medical services on the date of transportation, etc. Documentation may also be required for canceled trips. These documentation requirements are not a normal part of general public transit service and therefore may place additional administrative requirements on transit agencies providing human services transportation.
Challenges for data collection and quality control; requirements for new performance measures	As discussed previously, providing human services trips may increase a transit agency's administrative tasks. Accurately collecting the necessary data to track trips may prove difficult, and transit agencies may need to enhance data collection methods to be able to distinguish human services trips from other general public transit trips. In addition, providing human services trips may affect the transit agency's performance measures and could require separate performance reporting for general public transit and human services transportation.
Differing levels of commitment and coordination among agencies	The entities involved in coordinating transportation and human services may differ in their willingness to invest their time, effort, and resources to make the coordination successful.
Contract rates that may not cover fully allocated costs	The transit agency's price for providing human services transportation may not actually cover the fully allocated costs of providing the service. The challenge of setting a fair and sustainable price is further discussed in this guidebook.

# QUESTIONS ABOUT COORDINATED TRANSPORTATION REVENUES AS MATCH FOR FTA GRANTS

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This chapter provides answers to common questions that state DOTs and transit agencies may have concerning accounting for and reporting revenue from public transit-human services coordinated transportation as local match for FTA grants. The chapter also includes answers to questions about rules and regulations for providing coordinated transportation services.

## 1. Can Fare Revenues Be Used as Local Match?

No, fare revenues cannot be used as local match. Fare revenues include revenue from the sale of transit fare media, cash fares, donations from passengers, and contracts for fares. Contracts for fares are agreements to pay fares for trips provided to specific passengers or groups of passengers. Fare revenues are subtracted from operating costs to calculate the operating deficit (also called the net operating cost). The net operating cost is eligible for partial reimbursement under some FTA grant programs, depending on the eligible activities under the grant program and the characteristics of the transit agency.

- **Section 5307**—FTA eligible recipients in urbanized areas with a population of less than 200,000 may use Section 5307 funds for operating assistance. FTA imposes no limitation on the amount of the Section 5307 apportionment that recipients in these urbanized areas may use for operating assistance. Federal operating assistance is limited to 50 percent of the net operating cost. The remaining 50 percent must come from a local match.

Recipients in urbanized areas with populations of 200,000 or more may not use Section 5307 funds for operating assistance unless the recipient is eligible under the Special Rule. Under the Special Rule, transit agencies that operate 100 or fewer buses in fixed route or demand responsive services (excluding ADA complementary paratransit), during peak service hours may receive operating assistance. The amount of operating assistance is a variable percentage of the share of the apportionment that is attributable to such agencies within the urbanized area, as measured by vehicle revenue hours (or other locally agreed upon allocation measure). Any operating assistance applied must have an equal local match.

- **Section 5311**—FTA eligible recipients in rural areas may use Section 5311 funds for operating assistance. Operating assistance must have an equal local match.
- **Section 5310**—Under the FAST Act, a state or local governmental entity that operates a public transit service and that is eligible to receive direct grants under Section 5307 or Section 5311 is an eligible direct recipient for Section 5310 funds. FTA eligible

recipients may use Section 5310 funds for operating assistance. Operating assistance must have an equal local match.

Section 5310 funds may be used to acquire transportation services under a contract, lease, or other arrangement. Both capital and operating costs associated with contracted service are eligible for the federal capital rate (80 percent federal share, 20 percent local match). The eligibility of the purchase of services at the capital rate is authorized in 49 USC 5310(b)(4) and limited to the Section 5310 program.

## 2. Can Grant Funds from Other Federal Programs Be Used as Local Match for FTA Grants?

Yes, FTA permits transit agencies to use funds appropriated or otherwise made available by federal programs other than the USDOT to be used as local match. However, the federal funds must be eligible to be used for transportation according to the regulations and laws of the federal program that provided the funds (Federal Transit Administration 2015b). The only USDOT funds that can be used as local match for Section 5311 projects are from the Federal Lands Highway Program (49 USC 5311[g]).

FTA circulars provide guidance for use of federal non-USDOT agency funds as local match:

- **Section 5307**—FTA Circular 9030.1E states that local match for Section 5307 recipients may include “amounts appropriated or otherwise made available to a department or agency of the government (other than the DOT) that are eligible to be expended for transportation” (Federal Transit Administration 2014a).
- **Section 5311**—FTA Circular 9040.1G states that local match for Section 5311 recipients “may be derived from amounts appropriated or otherwise made available to a department or agency of the government (other than DOT) that are eligible to be expended for transportation” (Federal Transit Administration 2014b).
- **Section 5310**—FTA Circular 9070.1G states that local match “may be derived from federal programs that are eligible to be expended for transportation, other than DOT programs, or from DOT’s Federal Lands Highway program” (Federal Transit Administration 2014c).

Many federal agencies permit funds to be used for transportation. TCRP Report 144 *Sharing the Costs of Human Services Transportation* (Volume 2, Chapter 4), identifies key federal programs that fund human services transportation. For example, the U.S. Department of Health and Human Services (DHHS) administers several grant programs whose funds can be used for transportation (Burkhardt et al. 2011), including but not limited to:

- Medicaid (the largest of DHHS programs).
- Temporary Assistance for Needy Families.

- Head Start.
- Community Services Block Grant Programs.

An additional example is the U.S. Department of Veterans Affairs, which provides grants for transportation to and from Veterans Affairs medical facilities in highly rural areas (called Highly Rural Transportation Grants) and also provides funding for veterans transportation services using a network of transportation options, including transit agencies (U.S. Department of Veterans Affairs n.d.).

### **3. Can a Transit Agency Use Revenue from Contracts for Coordinated Transportation to Match FTA Grants?**

Yes, transit agencies can use revenues from contracts to provide coordinated transportation as local match if the FTA grant program specifically permits such use of funds.

The FTA circulars that provide guidance for Section 5311 and Section 5310 grant recipients specifically mention “income from contracts to provide human services transportation” as valid sources of local match revenue (Federal Transit Administration 2014b, 2014c). The FTA circular for Section 5307 states that “amounts received under a service agreement with a state or local social service agency or private social service organization” are eligible to be used as local match. Although the Section 5307 circular initially uses slightly different terminology (i.e., “a social service agency” instead of “human services”), the same circular instructs applicants to “include expenses incurred to provide human services transportation under contract” as a part of eligible operating expenses (Federal Transit Administration 2014a, p. C-1).

Appendix B provides excerpted language from the local match sections of the three FTA circulars referenced in the response to the previous question. The excerpts describe the eligibility of revenue from contracted services to be used as local match for Section 5307, Section 5311, and Section 5310.

### **4. Do FTA Regulations for the Use of Revenue from Coordinated Transportation Contracts Differ for the Various FTA Grant Programs?**

FTA grant programs for which state DOTs have at least some oversight responsibilities (i.e., Section 5307, Section 5311, and Section 5310) have some apparent differences in how contract revenue from providing coordinated transportation is treated and allowed to be used as match.

#### ***Restrictions on Program Income as Local Match***

Transit agencies must usually treat revenue from service contracts as program income. Program income means “gross income earned by the recipient, or subrecipient, that is directly generated by a supported activity, or earned only as a result of the federal award during the period of performance” (Federal Transit Administration 2017, Chapter VI[7][a]). Generally, program

income may not be used to reduce the local share of the grant from which the income was earned but may be used as local share in future grants (Federal Transit Administration 2017). Additionally, the FTA *Award Management Requirements* circular (FTA Circular 5010.1E) directs award recipients to consult program-specific circulars, which may have specific requirements on the use of program income. FTA Circular 5010.1E gives a specific example that, under some FTA programs, income from a “service agreement with a State or local social service agency or a private social service organization to provide transportation may be used as the non-federal share for the Award in which the income is earned” (Federal Transit Administration 2017, Chapter VI[7][g]). The three program-specific circulars for Sections 5307, 5311, and 5310 all address program income using slightly different language.

The FTA circular for Section 5307 includes explicit language that equates social service contract revenue with program income and reiterates that program income cannot be used as local share for the grant that generated the income unless the program income is a result of an *earlier grant*. “Program income generated by an earlier FTA grant may be used as local share for a subsequent eligible public transportation project” (Federal Transit Administration 2014a, Chapter III[8][c]).

The FTA circular for Section 5311 includes language that states “Unlike other forms of program income, income from contracts to provide human services transportation *may be* used as the local match for the grant *in which* the income is generated” (Federal Transit Administration 2014b, Chapter III[4][c], emphasis added).

The FTA circular for Section 5310 does not define revenue from contracts to provide human services transportation as program income. The circular does explicitly state that “income from contracts to provide human service transportation may be used...to provide local match for Section 5310 operating assistance” (Federal Transit Administration 2014c, Chapter III[16][a]).

In summary, program income generally is not allowed to be used as local match within the grant’s period of performance, with some exceptions. FTA Circular 5010.1E allows revenue from coordinated transportation to be used as local match within the grant’s period of performance if the specific FTA grant also allows such use. The FTA circulars for Section 5311 and 5310 both allow use of revenue from coordinated transportation as local match, but the FTA circular for 5307 appears to restrict such use. Given these differences between grant programs, the possible complexities in interpreting whether certain program income is eligible as match within a grant’s period of performance, and the likelihood that program circulars may be revised, state DOTs and transit agencies are encouraged to contact the appropriate FTA regional representative for guidance.

### ***Treatment of Contract Revenue to Reduce Net Project Cost or as Local Match***

Recipients of Section 5311 and Section 5310 grants have an option to apply income from a contract for coordinated transportation either to reduce the net project cost or to provide local

match for operating assistance. This option gives grant recipients flexibility to meet local, unique funding needs.

The FTA circular for Section 5307 refers to income from service agreements with social service agencies as contract revenue, eligible as local match for operating assistance.

More discussion on using contract income to reduce project costs or as local match is provided in the answer to the question 6. *What should be considered when reporting revenue from coordinated transportation contracts and applying the revenue as local match?*

## **5. What Discretion and Responsibilities Do State DOTs Have on How Coordinated Transportation Revenues Are Used to Satisfy Match for FTA Grants?**

State DOTs have the responsibility to ensure that subrecipients adhere to all FTA regulations required by the grant program. State DOTs can provide additional guidance and direction to subrecipients concerning contracts with human services agencies, with some limitations, as described below.

### ***Recipient/Subrecipient Obligations***

A designated recipient or direct recipient of FTA grants may choose to pass its grant funds through to another agency (a subrecipient) to carry out the purposes of the grantee's agreement with FTA. To do this, the grantee must enter into a written agreement with the subrecipient that assures FTA that the grantee will be able to comply with its obligation to satisfy the requirements of the grant agreement. Passing FTA grant funds on to a subrecipient does not relieve the grantee of its responsibilities to carry out the terms and conditions of the grant agreement.

For example, FTA typically apportions Section 5311 funds to state DOTs. The state DOT then allocates those funds to subrecipients (states and local governmental authorities, nonprofit organizations, and operators of public transit or intercity bus service) that operate rural transit services. State DOTs must ensure that subrecipients adhere to all FTA regulations required by the grant program. Therefore, states have an obligation to ensure that revenues from contracts for coordinated transportation are appropriately applied.

### ***Subrecipients Have the Option***

States have discretion on how Section 5311 funds are allocated to subrecipients, and states are allowed to develop state-specific formulas and procedures for allocating Section 5311 funds to subrecipients (Federal Transit Administration 2014b).

However, in the context of Section 5311, subrecipients have the option to use income from human services transportation contracts as local match or as income to reduce the net project

cost. States may not prohibit a subrecipient from using income from human service agency contracts as a source of local match (Federal Transit Administration 2014b, Chapter III[4][c]).

The FTA circulars for Section 5307 and Section 5310 do not address the issue of states placing restrictions on subrecipients' treatment of contract revenue.

### ***State DOT Guidance and Direction***

State DOTs can provide additional guidance and direction to subrecipients concerning contracts with human services agencies. For example, a state DOT may provide guidance on pricing transportation service, on documenting service, and on the detail needed to request reimbursement of funds. This guidance may be more restrictive (not less restrictive) and more detailed than FTA regulations but must not contradict FTA regulations.

## **6. What Should Be Considered when Reporting Revenue from Coordinated Transportation Contracts and Applying the Revenue as Local Match?**

Transit agencies can use revenue from contracts for coordinated transportation as local match. However, transit agencies and state DOTs must consider some additional issues when reporting and applying this revenue:

- What type of contract was used to generate the revenue?
- Should the revenue be used to reduce net project cost or as local match?
- How is the revenue reported for NTD?
- How should contributions or in-kind services be treated?

### ***Type of Contract***

The type of contract determines whether the revenue can be eligible to be used as local match.

#### **Contracts for Fares**

Contracts for fares are agreements to pay fares for trips provided to specific passengers or groups of passengers. FTA considers revenue from contracts for fares as fare revenue, so the revenue is not eligible to be used as local match (Federal Transit Administration 2014b). Revenue from such contracts for fare is reported to NTD as passenger fares (Federal Transit Administration 2016c).

#### **Contracts for Service**

Contracts for service are formal agreements to provide transportation services. When a transit agency contracts for a third party to pay for transportation services (usually based on a per-mile or per-hour agreement), the revenue is considered contract revenue and is eligible to be used as local match for FTA grants.



NTD instructions for reporting contract revenue are discussed in the answer to question 12. *How should a transit agency report revenue from coordinated transportation contracts?*

***Treatment of Contract Revenue to Reduce Net Project Cost or as Local Match***

Assuming revenue from coordinated transportation is from a contract for service, FTA gives recipients of Section 5311 and Section 5310 grants the option of whether to apply the revenue as contract revenue (eligible to be used as local match) or to use the revenue to decrease the net project cost (Federal Transit Administration 2014b, 2014c). If a transit agency treats contract service revenue as local match, the transit agency will decrease the need for other sources of local match for FTA grants. If a transit agency uses contract revenue to decrease the project cost (similarly to how farebox revenue must be treated), the agency will lower the net project cost, which lowers the amount eligible for up to 50 percent federal operating assistance.

Section 5307 grantees do not have an option for how to apply revenue from contracts for service; contract revenue should be applied as local match (Federal Transit Administration 2014a).

Figure 3 provides a simplified comparison of how treating coordinated transportation contract revenue as either local match or as revenue to decrease project costs can affect the transit agency's net project cost eligible for up to 50 percent federal operating assistance. In Figure 3, the transit agency has annual operating costs of \$100,000 and collected \$25,000 in revenue from passenger fares and \$30,000 in revenue from its contract to provide coordinated transportation. The FTA grant program provides a maximum of 50 percent of the net operating cost as federal operating assistance. The different ways to report coordinated transportation contract revenue can have a significant impact in the FTA local match requirements (see the difference between the values calculated in line 8 of Figure 3).

		<b>Option 1: Apply Contract Revenue as Local Match</b>	<b>Option 2: Use Contract Revenue to Decrease Project Costs</b>	<b>Comments</b>
1	<b>Operating Costs</b>	\$100,000	\$100,000	
<b>Income to Reduce Operating Cost</b>				
2	Fare Revenue	(\$25,000)	(\$25,000)	
3	Coordinated Transportation Contract (used to reduce project costs)	—	(\$30,000)	Only applied under Option #2
4	<b>Net Operating Cost</b>	\$75,000	\$45,000	Line 1 + 2 + 3
<b>Sources of Revenue</b>				
5	Maximum FTA Operating Assistance (50%)	(\$37,500)	(\$22,500)	50% of net operating cost
6	<i>Required Local Match</i>	\$37,500	\$22,500	Equal to FTA operating assistance
7	Coordinated Transportation Contract (used as local match)	\$30,000	—	Only applied under Option #1
8	Additional Local Match Needed	\$7,500	\$22,500	

**Figure 3. Comparison of Reporting Contract Revenue as Local Match or to Decrease Project Costs**

The data in Figure 3 are a simplified portrayal of one example. The financial realities for transit agencies and states are far more complex and unique at the local level. State DOTs and transit agencies should evaluate options and consult with your FTA regional representative to understand the most advantageous way to report revenue from coordinated transportation contracts.

### ***Reporting Revenue to NTD: Criteria for Reporting Income as Contract Revenue***

Section 5307 and Section 5311 recipients have to report data to NTD for transit services provided, including costs and revenues. NTD classifies revenue in several categories, one of which is contract revenue. However, only revenue from contracts that pay for the fully allocated costs of the transit service provided is reported as contract revenue to NTD. For additional details, see the response to question 12. *How should a transit system report revenue from coordinated transportation contracts?*

### ***Contributed Services***

Another form of revenue generated by coordinated transportation is contributed services. Contributed services are services or assets that benefit transit, and the transit agency is under no obligation to pay for the services. Contributed services include in-kind services.

Contributed services have a specific set of regulations and requirements, which are discussed in the next section.

## **7. How Should a Transit Agency Treat Contributions as Match?**

The law recognizes the value of contributions and in-kind contributions as a source of revenue, but not all contributions are eligible as local match. The Office of Management and Budget (OMB) and FTA policy determines what is eligible. For example, the FTA regional office that oversees a grant determines if contributed equipment or services is acceptable as an in-kind match.

### ***Contribution Defined***

NTD defines contributed services (including in-kind services) as “services (not cash) provided by a separate entity that benefits transit operations where the transit agency has no obligation to pay for the services. For example, a city government may provide staff to help a transit agency plan and promote a new downtown transit shuttle service. Because this is a donation, the transit agency is under no obligation to pay for the staff resources. Typically, transit agencies use in-kind services for the local or state share of Federal grants” (Federal Transit Administration 2016c).

The Super Circular (2 CFR 200) defines third-party in-kind contributions as follows: “Third-party in-kind contributions means the value of non-cash contributions (i.e., property or services) that—(a) Benefit a federally assisted project or program; and (b) Are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award” (2 CFR 200.96). Additional definition and guidance concerning contributions is provided in 2 CFR 200.306 and 200.434. (Excerpts from 2 CFR 200.306 and 200.434 of are provided in Appendix C.)

### ***Contribution Requirements and Documentation***

FTA grant recipients may apply in-kind contributions toward local share provided that:

- The recipient formally documents the value of each non-cash contribution.
- The value of the contribution represents a cost that would otherwise be eligible under the project.
- The contribution is a necessary and reasonable service for accomplishing the project.
- The contribution must not be counted toward satisfying a matching requirement of another federal grant agreement, federal procurement contract, or any other award of federal funds.

The contribution must be a service or asset that would otherwise be part of the project expenses. In fact, the cost of the project for which the contribution is credited must include the value of the contribution to the extent the contribution is used as local match (Federal Transit Administration 2015b). For example, a donated desk could only be used as in-kind local match if the project’s original budgeted cost included the purchase of a desk as a necessary and allowable expense. The desk’s value must be listed as part of the project cost and also as a revenue (part of the local share).

The complexities and nuances surrounding contributions are many. State DOTs and transit agencies are encouraged to read the full text of the relevant sections of the Super Circular, provided in Appendix C of this guidebook. Contact your FTA regional representative for further assistance.

### ***Reporting Contributions as Local Match***

When a transit agency uses contributions as local match for FTA grants, the value of these contributions must be reported both as a project cost and as a revenue. The revenue can be used as local match for FTA grants and NTD reporting. For NTD reporting, contributions should be reported as either a state or local source of funds, depending on the source of the contribution (Federal Transit Administration 2016c).

## 8. What Should Be Considered when Setting the Price for Providing Coordinated Transportation?

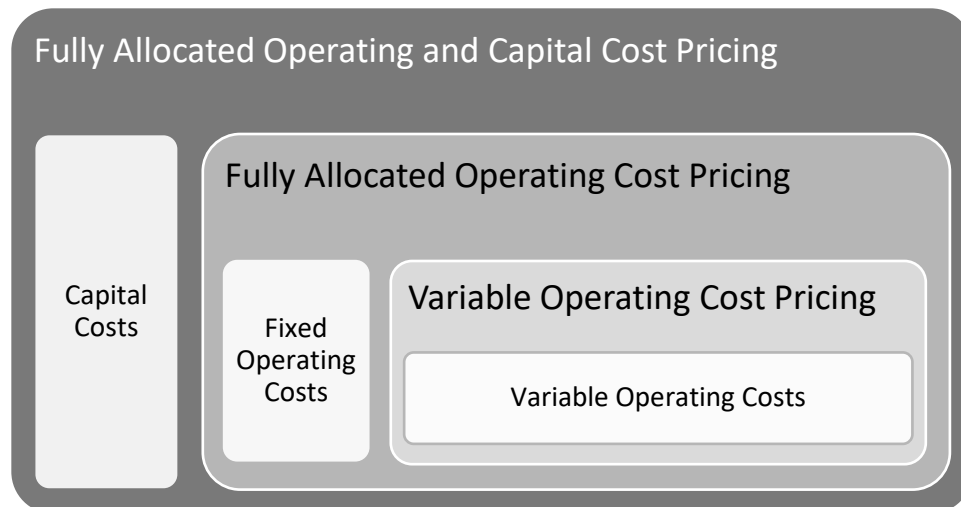
Transit agencies coordinating their services with human services agencies have the opportunity to set the price of services during contract negotiations or as a part of competitive procurement process. Transit agencies that use a robust cost allocation methodology to reflect that different kinds of trips (fixed route, demand responsive; rural, urban) requiring different amounts of resources (miles, hours) are in a better position to negotiate prices for services. For more details on cost allocation, see the response to question 9. *Does a transit agency have to fully allocate costs for coordinated transportation?* If a transit agency provides coordinated transportation at a price that does not recover a fair share of the cost of providing the services, the transit agency's financial sustainability may be at risk.

When a transit agency negotiates a contract to provide coordinated transportation, the transit agency should price services to recover a fair share of the costs in accordance with the relative benefits received for the contracted service. The costs to deliver different types of service (fixed route, demand responsive) can differ significantly, and the costs to deliver shared ride passenger trips can differ based on the time and miles required for each passenger trip. The key for transit agencies providing coordinated transportation is to equitably allocate transportation costs. If a transit agency operates contracted services for a price less than the variable costs to operate the service, a financial subsidy is required from another source. If a transit agency does not recover the variable costs of providing contracted services, the transit agency may operate at a financial deficit that will negatively affect the transit agency's ability to sustain services.

### *Approaches to Setting the Price*

There are several possible methodologies for setting the price of service, including the three methodologies outlined below that sequentially capture a greater portion of a transit agency's full costs (depicted in Figure 4):

- Setting the price based on the variable operating costs.
- Setting the price based on the variable operating costs and a portion of fixed costs.
- Setting the price based on the variable operating costs, a portion of fixed costs, and direct capital costs or a contribution toward capital replacement costs.



**Figure 4. Three Possible Strategies to Price Coordinated Transportation Services**

### **Variable Operating Cost Pricing**

The variable operating cost refers to cost of providing an additional hour and/or mile of service and can be expressed as a single- or two-factor unit cost (e.g., variable cost per vehicle mile or vehicle hour; variable cost per vehicle mile plus variable cost per vehicle hour). Variable costs exclude fixed costs (e.g., administrative salaries, computers, office space) and therefore represent the marginal cost of providing the service (marginal cost is the change in the total cost that arises when adding the additional service). This approach to setting the price is often the easiest because costs directly associated with providing the miles and hours of a service can be allocated to that service. For shared ride, demand responsive service, variable costs should be allocated based on *passenger* miles and *passenger* hours, which may require additional effort to record and report individual passenger trip characteristics.

There is some risk in charging only the variable cost for coordinated transportation service. The revenue to offset fixed costs must come from another source. If the transit agency prices coordinated transportation service based on variable costs, other sources of revenue should fairly and equitably cover fixed costs.

On the other hand, the transit agency may decide negotiating a variable cost makes sense. The inclusion of fixed costs and capital costs in the rate may not outweigh the benefit of transportation coordination, such as reduced duplicative service in the community, reduced administration across organizations, and higher productivity.

For a variable operating cost-pricing model, the contract revenue does not pay for the fully allocated cost of providing the service. Therefore, NTD requires transit agencies to report the revenue as federal, state, or local revenue instead of contract revenue (Federal Transit Administration 2013a, 2016c). How the contract revenue is reported to NTD does not directly affect how the revenue is treated under FTA grant programs.

### **Fully Allocated Operating Cost Pricing**

Setting the contract price using a fully allocated methodology incorporates both variable and fixed costs into the price of providing coordinated transportation service. The price includes the variable costs directly associated with providing the service, such as driver labor and maintenance expenses based on miles of service, and a portion of the fixed costs, such as administration and general management. Fixed costs can be allocated based on different variables (for example, miles, hours, passengers, peak vehicles, or a percent of costs in proportion to the variable costs). A fully allocated price includes a portion of the transit agency's fixed costs that are commensurate with the human services transportation's use of those fixed costs.

Any capital cost directly attributable to the contracted service should be assigned to that service as a one-time expense or an expense over time based on an appropriate depreciation schedule. For example, if a transit agency is required to acquire a new computer software for a contracted service, the capital procurement should be allocated to the cost of providing that contracted service. Pricing the fully allocated cost of service will help to ensure the transit agency's financial sustainability.

Revenues from contracts that recover the fully allocated operating cost of the contracted transportation service are reported as contract revenue to NTD (Federal Transit Administration 2013a, 2016c).

### **Fully Allocated Operating and Capital Cost Pricing**

Another method for setting the price for providing coordinated transportation is to include fully allocated operating costs and also an allocation for capital assets (vehicles, facilities) to represent the eventual need to replace or repair capital assets required to provide any service. The method for assigning capital replacement costs to different transportation programs will vary across transit agencies; however, the methodology should be transparent, consistent, and defensible to ensure that all parties involved understand the methodology.

Again, as long as the contract revenue covers the fully allocated operating cost of the contracted transportation service, revenues are reported to NTD as contract revenue.

### ***Additional Pricing Considerations***

Although financial sustainability is necessary for a transit agency to continue to provide services, setting and negotiating a fully allocated price may be a challenge for different reasons. However, "all costs must be paid sooner or later by someone" (Burkhardt et al. 2011, p. 18). Not including fixed costs in the contract price "often results in failing to bill agencies for enough money to cover all costs of the transportation services they are purchasing...; this can cause a severe financial shortfall for the provider" (Burkhardt et al. 2011, p. 18).

## 9. Does a Transit Agency Have to Fully Allocate Costs for Coordinated Transportation?

No, there is currently no FTA regulatory requirement to fully allocate costs to all transportation programs provided by the transit agency. However, assigning all expenses to the appropriate transportation program will assist a transit agency to better understand costs and help to determine a fair price for contracted services.

The principles of cost allocation are important, as portrayed in the following statement from the Coordinating Council on Access and Mobility in 2006 (Federal Interagency Coordinating Council on Access and Mobility 2006):

A basic rule of appropriations law is that program funds must only be used for the purposes intended. Therefore, if an allowable use of a program's funds includes the provision of transportation services, then that Federal program may share transportation costs with other Federal programs and/or community organizations that also allow funds to be used for transportation services, as long as the programs follow appropriate cost allocation principles.

Allowability of costs is determined in accordance with applicable Federal program statutory and regulatory provisions and the cost principles in the OMB Circular that applies to the entity incurring the costs. Federal cost principles allow programs to share costs with other programs and organizations. Program costs must be reasonable, necessary, and allocable. Thus, vehicles and transportation resources may be shared among multiple programs, as long as each program pays its allocated (fair) share of costs in accordance with relative benefits received.

Given that program funds must be used only for the purposes intended, transit agencies will find allocating costs to be helpful both to understand costs and to negotiate agreements for coordinated transportation.

For example, a human services agency contracting with a transportation provider that coordinates services may ask to verify that the human services agency will pay only its fair share of program costs and that all costs are for the purposes intended. A good cost allocation methodology with documentation from the most recent financial reports will be responsive and build confidence.

### ***Allocated Costs vs. Fully Allocated Costs***

There is a difference between a transit agency's costs being *allocated* and *fully allocated*. That is, when costs are *allocated* to coordinated transportation services, the costs are assigned in reasonable proportion to the benefit provided (2 CFR 200.4). A transit agency that uses a pricing model to recover variable operating cost (as discussed in the previous question) is allocating its



operating costs to the service in a reasonable and consistent way. However, the variable operating cost does not include fixed costs.

Fully allocated costs include both variable and fixed costs. When a transit agency fully allocates costs for coordinated transportation services, and sets the price for contracted services based on fully allocated costs, each program sponsor pays the variable costs and a portion of fixed costs proportional to the amount of transit service the program received.

### ***Approaches to Fully Allocating Costs***

There are many possible ways to allocate and assign costs for transit services contacted to human services agencies. A full, in-depth discussion of the various steps and techniques is beyond the scope of this guidebook. *TCRP Report 144: Sharing the Costs of Human Services Transportation* provides additional guidance.

### ***Approaches to Allocating Indirect Costs***

If a transit agency is part of a larger organization, such as a city or county government or a council of governments, the larger organization may incur costs for central services in support of the transit system. For this discussion, the larger organization is referred to as the parent organization. Typical central services include procurement, legal, payroll, and human resources. The expenses of the parent organization are referred to as indirect costs. Indirect costs are typically part of fixed costs. Transit agencies have several options available for allocating indirect costs:

- **Fully capture and allocate indirect costs**—The parent organization may be able to accurately capture the portion of indirect costs that are due to program activities. For example, if an organization has several staff to manage accounting, and one staff person is assigned 50 percent of her time to contracts for coordinated transportation. Fifty percent of that person's salary and related payroll benefits could be included as a direct cost rather than an indirect cost.
- **Use a federally negotiated indirect cost rate**—The parent organization may have a federally approved indirect cost rate. An indirect cost rate is a tool for determining the proportion of indirect costs each program should bear. The indirect costs are assigned as a percent of the modified direct total costs (MDTC).
- **Apply the OMB default indirect cost rate of 10 percent**—A parent organization that does not have a federally approved indirect cost rate can use the OMB default rate of 10 percent of the MDTC (2 CFR 200.414).

## 10. Can a Transit Agency Use FTA-Funded Vehicles for Coordinated Transportation?

Yes, transit agencies can use FTA-funded vehicles for coordinated transportation (including Medicaid NEMT) service. The federal Interagency Transportation Coordinating Council on Access and Mobility's *Final Policy Statement* on vehicle resource sharing (Federal Interagency Transportation Coordinating Council on Access and Mobility 2006) states:

Federal cost principles do not restrict grantees to serving only their own clients. To the contrary, applicable cost principles enable grantees to share the use of their own vehicles if the cost of providing transportation to the community is also shared. This maximizes the use of all available transportation vehicles and facilitates access for persons with disabilities, persons with low income, children, and senior citizens to community and medical services, employment and training opportunities, and other necessary services. Such arrangements can enhance transportation services by increasing the pool of transportation resources, reducing the amount of time that vehicles are idle, and reducing or eliminating duplication of routes and services in the community.

Transit agencies may also need to consider FTA shared use policies, contained in Chapter IV, Section 4, "Equipment and Supplies (Including Rolling Stock) of FTA Circular 5010.1E.

FTA permits both shared and incidental use of FTA-funded property to provide grantees maximum flexibility in determining the best and most cost-effective use of FTA-funded property. Shared use is defined as those instances where a participant in an FTA grant, separate from the direct recipient, occupies part of an FTA-funded asset and the participant pays for its pro rata share of the costs of the asset. Shared uses must be declared at the time of review before a grant award. Incidental use is defined as those instances where an asset acquired with FTA funds for purposes of public transit is utilized in a limited fashion for non-transit uses (Federal Transit Administration 2017).

Both shared and incidental uses of FTA-funded property must be compatible with the purpose of the project. For real property and equipment, FTA approval is required for shared and incidental uses. However, approval is *not required* when the shared and incidental use involves coordinated public transit-human services transportation (Federal Transit Administration 2017). FTA permits incidental use (Federal Transit Administration 2017) as long as:

- The incidental use does not interfere with public transit operations.
- The transit agency recaptures all costs related to the incidental use, including wear and tear and excise taxes on fuel.
- The transit agency uses the revenue from the incidental use for public transit expenses.
- Private entities pay all applicable excise taxes on fuel.

## **11. Can a Transit Agency Report Coordinated Transportation Passenger Trips to NTD?**

In general, passenger trips on coordinated transportation services (including Medicaid NEMT) should be reported to NTD as unlinked passenger trips if the service is part of a coordinated public transit-human services plan (Federal Transit Administration 2016c) and was provided on either demand-responsive or demand responsive-taxi modes (Federal Transit Administration 2013a, 2013b).

Generally, coordinated transportation services using fixed route will count all boarding passengers and report these passengers to NTD as unlinked passenger trips.

### ***Reporting Sponsored Passenger Trips***

Transit agencies should use 100 percent passenger counts when reporting these passenger trips. This requires data from driver logs or dispatching systems that keep records of all passenger trips provided.

NTD requires rural transit agencies to report sponsored service unlinked passenger trips (e.g., Medicaid and other human services transportation trips) as a separate category from regular unlinked passenger trips (i.e., typical public transit service) (Federal Transit Administration 2013a).

NTD requires urban transit agencies to report three types of unlinked passenger trips: total and (separately) ADA paratransit passenger trips and sponsored service passenger trips (Federal Transit Administration 2013b). Total unlinked passenger trips should consist of all types of trips, including ADA and sponsored. ADA trips and sponsored trips are mutually exclusive, so an ADA passenger trip cannot be counted also as a sponsored passenger trip.

### ***Who Reports the Trips***

Which organization is responsible for reporting passenger trips to NTD is not always straight forward—especially in the case where a transit agency purchases transportation from another public transit agency.

There are several different types of possible contractual relationships between transit agencies, private transportation providers, and human services agencies. In the case where the transit agency directly operates coordinated transportation service, the transit agency would report unlinked passenger trip to NTD in the agency's NTD report. However, not all contracts are that straightforward. For more detail on this issue, see the response to question 16. *What are the considerations if a transit agency is the prime or subcontractor for providing coordinated transportation?*

### *Allocating Service Provided to Urbanized and Non-Urbanized Areas*

Transit agencies serving urbanized and non-urbanized (rural) areas and filing a full urban NTD report must allocate services to urbanized and rural areas according to the service area using NTD form FFA-10. Allocations must be prepared for each mode (e.g., motor bus and commuter bus) and service type (directly operated or purchased transportation). Serving an area is defined as operating a transit service that has a trip end (origin or destination) in that specific urbanized or rural area (Federal Transit Administration 2016c). For example, a transit agency may serve both an urban and a rural area or more than one urban area.

How service is allocated across service areas depends largely on the type of federal funding received (i.e., Section 5307 or Section 5311) and the primary purpose of the transit agency. The NTD policy manual (Federal Transit Administration 2016c) discusses in detail the various possible scenarios and the appropriate allocation methods to use. In general, the transit agency should report its total data (passengers, miles, hours, revenues, and costs) and then use form FFA-10 to allocate these data to the various areas served using a consistent and defensible methodology (e.g., by a percentage of vehicle miles in each area or other methodology) that is consistent with the NTD policy manual.

## **12. How Should a Transit Agency Report Revenue from Coordinated Transportation Contracts?**

The criteria for reporting revenue from coordinated transportation contracts may be different depending on whether the reporting activity is for FTA grants management or for NTD.

In the context of FTA grants, Section 5310 and Section 5311 recipients have the option to treat and report revenue from coordinated transportation contracts as either income to reduce the cost of the project or as local match. However, Section 5307 recipients are instructed to treat contract revenue as program income that can be used as local match in subsequent grants. For more details on this topic, see the response to question 4. *Do FTA regulations for the use of revenue from coordinated transportation contracts differ for the various FTA grant programs?*

NTD has set specific criteria for reporting revenue from contracts for service. If a transit agency's contract for providing coordinated transportation meets the two criteria below, then revenue from that contract should be reported as contract revenue to NTD.

- There is a written agreement between the buyer and the seller that obligates the seller to provide a transportation service and the buyer to pay for the transportation service.
- The buyer pays the fully allocated costs of operating the service.

If there is no written agreement, or the contract price does not pay for the fully allocated cost of the service, then the revenue should be reported based on its original source (Federal Transit Administration 2013a).

The following are three examples of revenues that are reported based on the original source:

- Payments received directly from the federal government (non-USDOT) should be reported as *Other Federal Funds*.
- Payments received directly from a state government (including state Medicaid payments if received directly from the state) should be reported as *State Funds*.
- Payments received from a local entity (including a Medicaid transportation broker or other public or private entity) should be reported as *Local Funds*.

### **13. Does an FTA-Funded Transit Agency Have to Adhere to FTA and State DOT Rules/Regulations when Providing Coordinated Transportation?**

Yes, a transit agency that receives FTA funds (or a contracted service provider that is delivering a transportation service on behalf of the public transit agency) must comply with all applicable federal and state rules and regulations, including but not limited to drug and alcohol testing, Title VI, and environmental justice (49 CFR 37.23).

There is, however, an exception to *one* regulation for transit agencies that receive only Section 5310 funds: “Recipients and subrecipients that receive only Section 5310 program assistance are not subject to FTA’s drug and alcohol testing rules but must comply with the Federal Motor Carrier Safety Administration (FMCSA) rule for all employees who hold commercial driver’s licenses (49 CFR part 382)” (Federal Transit Administration 2014c). In other words, if vehicle drivers are required to have a commercial driver’s license, the recipient or subrecipient must maintain a drug and alcohol testing program as outlined by FMCSA. If vehicle drivers are not required to have a commercial driver’s license, then no drug and alcohol testing program is required for recipients or subrecipients that receive *only* Section 5310 funds. All other FTA regulations still apply.

If the operator of human services trips does not receive FTA funds (either directly or indirectly through a contractual agreement with an FTA recipient or subrecipient), then FTA rules and regulations do not apply. However, other regulatory agencies may have their own set of regulations and procedures to follow. For example, FMCSA has its own set of regulations and safety requirements that apply to transportation of passengers using small vehicles (Federal Motor Carrier Safety Administration 2015). Also, state Medicaid agencies have regulations and documentation requirements to receive Medicaid reimbursement (e.g., verification of the services provided and verification of receiving medical services on the date of transportation [Social Security Act 1902(a)(27)]) (Centers for Medicare and Medicaid Services n.d.).

If the transit agency creates a separate, independent entity that does not provide public transit service and does not benefit from FTA funds (e.g., a non-profit entity that only provides human services transportation), FTA rules and regulations would not apply to that independent entity. However, FMCSA rules may still apply.

## **14. Do Coordinated Transportation Trips Provided by a Transit Agency Have to be within the Current Public Transit Service Hours/Areas and Advance Reservation Requirements?**

In general, if allowed by local policy and state law, transit agencies can provide coordinated transportation trips outside of current public transit service hours and areas and may use different advance reservation requirements than general public transit services. For ease of discussion, the term *service policies* will be used to refer to a transit agency's typical service areas, service hours (i.e., span of service), and advanced reservation requirements.

The origins, destinations, and trip times in coordinated transportation (e.g., Medicaid NEMT) are not necessarily restricted to a transit agency's normal service policies; the transit agency may have to operate outside of its typical service policies to meet the needs of customers. In addition, human services agencies may have different expectations on advanced reservation requirements than the transit agency's current advanced reservation windows. Of course, a transit agency's obligation to provide a coordinated transportation trip within a given amount of time, during a given service window, and across a given geographic region is determined by whatever contractual arrangement or agreement the transit system has with the human services agency.

Transit agencies need to negotiate carefully regarding the provision of coordinated transportation trips in order not to stretch agency resources beyond what the transit agency can reasonably provide. In addition, any difference between the service policies for coordinated transportation trips and general public transit trips could lead to customer confusion.

If a transit agency provides demand-responsive transportation service to a specific group of passengers outside current public transit service hours and areas, could such a service be construed as a charter service? See the following discussion.

### ***Charter Service***

Although the use of FTA funding for charter service is prohibited (Federal Transit Administration 2014a, 2014b, 2014c) except under certain circumstances outlined in 49 CFR 604, demand-responsive service is not considered charter as long as the service is to individuals, or regular and continuing, or arranged and operated in the same manner as general public demand-responsive service (74 Fed. Reg. 41, March 4, 2009). Even if the transportation service is *exclusive*, federal law (49 CFR 604.7) allows FTA recipients to perform charter service if that service is to a *qualified human services organization* for the purpose of service to persons with mobility limitations due to advanced age, with disabilities, or with low income. The list of qualified human services organizations is included in 49 CFR 604 Appendix A and is also provided as Appendix D of this guidebook.

## ***ADA Requirements***

Transit agencies should also be aware of the requirement under the ADA to provide equivalent service for persons with disabilities. Equivalent service means that service provided to persons with disabilities is the same level and quality as the service provided to persons without disabilities. The equivalency requirement applies to response time, fares, geographic service area, hours and days of service, and other factors (Federal Transit Administration 2015a). Therefore, if the transit agency is providing coordinated transportation trips, the trips provided to persons with disabilities must be equivalent (in service area, hours and days, and timeliness) to coordinated transportation trips provided to persons without disabilities.

In addition, if the coordinated transportation trips are provided by fixed-route transit, transit agencies (already) offer complementary paratransit service to meet the requirements of the ADA.

### **15. Can a Transit Agency Prioritize Coordinated Transportation Trips over Public Transit Trips?**

No, a transit agency providing demand-responsive service cannot prioritize coordinated transportation trips over general public demand-responsive trips solely because the transit agency has a contract for coordinated transportation.

#### ***Prioritizing Service by Trip Purpose***

However, transit agencies providing general public demand-responsive service are permitted to restrict or prioritize by trip purposes (e.g., medical trips only) as long as all passengers are treated equally by the transit agency (Federal Transit Administration 2015a). FTA Circular 4710.1 Section 7.4 discusses demand-responsive services and issues related to equivalency for individuals with disabilities. Transit agencies cannot treat passengers any differently based on passenger characteristics (e.g., disability, age, income) and must ensure that policies that restrict or prioritize service do not discriminate and are equivalent for all individuals.

The transit agency's criteria for restricting or prioritizing trips can only apply to *trip purpose*. If the transit agency prioritizes medical trips over other trips, then the agency must do so both for general public passengers and for passengers using coordinated transportation. Prioritizing coordinated transportation trips over public transit trips would amount to interfering with public transit, which is restricted under FTA's shared and incidental use policies. See FTA Circular 5010.1E and the discussion concerning the shared use of FTA-funded vehicles in response to question 10. *Can a transit agency use FTA-funded vehicles for coordinated transportation?*

#### ***ADA Complementary Paratransit Considerations***

The ability to restrict or prioritize trips based on trip purpose *only applies* to general public demand-responsive service and *does not apply* to ADA complementary paratransit (i.e.,

paratransit service provided to complement fixed-route transit). FTA Circular 4710.1 Section 8 discusses requirements for complementary paratransit. Prioritizing service based on trip purpose for ADA complementary paratransit is not acceptable and is prohibited according to the circular:

Just as individuals may ride a fixed route service for any purpose, complementary paratransit riders can also ride the complementary paratransit system for any purpose. Prioritizing one type of trip (e.g., work trips) over another (e.g., shopping trips) in the final scheduling and dispatching processes is prohibited. As discussed in Appendix D § 37.131,

This is a simple and straightforward requirement. There can be no restrictions or priorities based on trip purpose in a comparable complementary paratransit system. When a user reserves a trip, the entity will need to know the origin, destination, time of travel, and how many people are traveling. The entity does not need to know why the person is traveling, and should not even ask.

The regulations permit a transit agency to set limitations based on trip purpose for any services it provides beyond the requirements. For example, an agency may limit subscription service or will-call trips to certain trip purposes.

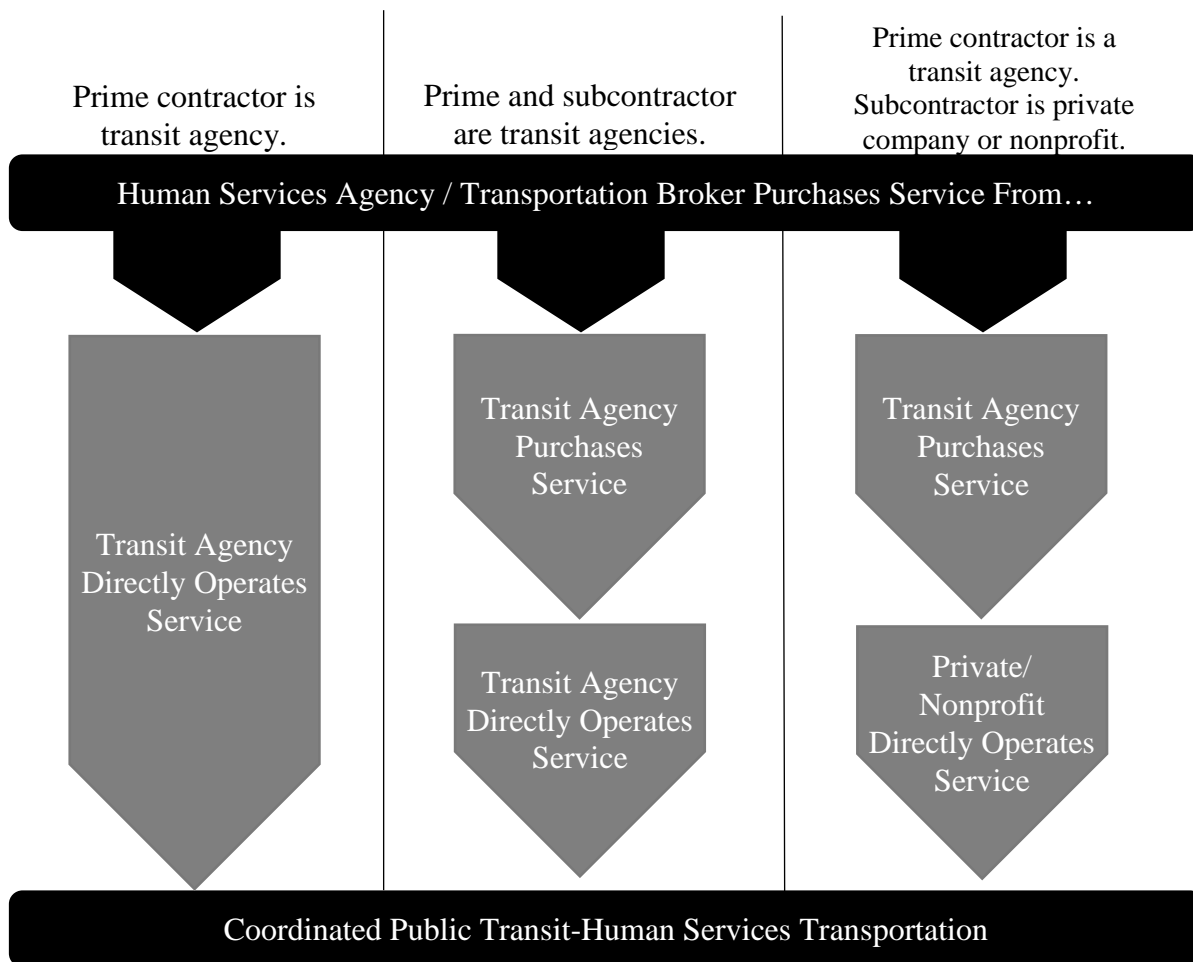
## **16. What Are the Considerations if a Transit Agency is the Prime or Subcontractor for Providing Coordinated Transportation (Particularly Medicaid)?**

In the context of coordinated transportation, there are many possible types of contractual relationships involving transit agencies, private transportation providers, and human services agencies or transportation brokers. In the context of Medicaid NEMT, a transportation broker is an entity that manages and maintains customer eligibility information, coordinates the scheduling of trips, and purchases transportation services from providers, including transit agencies, taxicab companies, and other entities. Describing all possible contractual relationships is beyond the scope of this guidebook. However, three common relationships involving at least one transit agency are the following:

- A transit agency directly operates the service under contract with a human services agency or transportation broker.
- A transit agency that has a contract with a human services agency or transportation broker contracts with another transit agency to provide the service.
- A transit agency that has a contract with a human services agency or transportation broker contracts with a private or nonprofit transportation provider to provide the service.



Figure 5 provides an illustration of these relationships.



**Figure 5. Common Types of Relationships Involving Transit Agencies and Human Service Agencies or Transportation Brokers**

***NTD Reporting***

Transit agencies should report coordinated transportation passenger trips (e.g., Medicaid NEMT trips) when those trips are part of a coordinated public transit-human services transportation plan (Federal Transit Administration 2016c). If the transit agency directly operates the service on behalf of the sponsor of coordinated transportation (e.g., a human services agency), the transit agency should report the service data to NTD. Also, the transit agency should report the all necessary service data to NTD if the transit agency purchases service from a private or nonprofit provider who is not an NTD reporter (the situation depicted in the right of Figure 5). Expenses for the service should be shown as purchased transportation.

However, when more than one transit agency is involved in providing coordinated transportation (e.g., both the prime and subcontractor are transit agencies as depicted in the center of Figure 5),

the agencies must ensure that both the costs and passengers of coordinated transportation are not double-reported to NTD. If both the buyer and provider of transportation are transit agencies (and NTD reporters), the agency that provides (i.e., directly operates) the service should report the operating data for passengers, miles, hours; report expenses for direct operation; and report revenue as a contracted service. The transit agency buying the service reports service expenses as purchased transportation and reports revenues from the source/sponsor.

There are many other nuances and special circumstances possible. Urban reporters to NTD are required to select the type of contractual relationship they have with buyers and sellers of transportation services, and urban reporters have to declare which entity will be reporting the purchased transportation as directly operated service (Federal Transit Administration 2013b).

For additional guidance on NTD reporting, readers are encouraged to consult the NTD Policy Manual and the urban or rural reporting manuals, whichever apply.

### ***Meeting Regulatory Requirements as a Subcontractor***

Entities providing transportation services as a subcontractor are usually responsible for adhering to the rules and regulations governing the original source of revenue for the prime contractor. For example, an entity providing coordinated transportation service under contract with a transit agency must abide by the applicable rules and regulations attached to the original sources of funds, which could be FTA grants or federal funds through a state human services agency. In addition, the buyer of service is responsible for ensuring that the seller is operating in compliance with the rules and regulations.

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