



U.S. Department
of Transportation
**Federal Transit
Administration**

Administrator

1200 New Jersey Ave., S.E.
Washington, DC 20590

JAN 24 2008

The Honorable Tim Kaine
Governor
Patrick Henry Building, 3rd Floor
1111 East Broad Street
Richmond, Virginia 23219

Dear Governor Kaine:

The Federal Transit Administration (FTA) has reviewed the Metropolitan Washington Airports Authority's (MWAA) September 21, 2007 request to advance the Dulles Corridor Metrorail Project—Extension to Wiehle Avenue (the Dulles Project or the Project) into Final Design. FTA has evaluated the Project under the New Starts criteria and has also considered the full range of risks associated with the Project. Unfortunately, the project in its current form faces the following challenges to meeting the statutory criteria.

Under the New Starts evaluation process, the Project in its current form would receive an overall New Starts rating of Medium-Low, which would render it ineligible to advance into Final Design. This rating, described in more detail below, is based on the information currently available. Even if MWAA were able to improve the New Starts rating, however, other factors have led FTA to doubt that there is a "reasonable likelihood" that the Project in its current form would continue to meet the statutory New Starts evaluation criteria in the future, as is required by 49 U.S.C. § 5309(d)(5). These factors are: (1) the management arrangements under which the Project would be implemented; (2) MWAA's limited experience with transit projects and with exceptionally large design-build contracts; and (3) the uncertainties of the Washington Metropolitan Area Transit Authority's (WMATA) ability to finance its ongoing capital needs systemwide in order to maintain service levels and a state of good repair.

Based on extensive experience with over \$80 billion of investments in New Starts projects, FTA is concerned that the cumulative risks and uncertainties that characterize the Dulles Project in its current form are extremely likely to result in further cost escalation and schedule delays. Thus, the current Dulles Project does not appear to be a prudent investment under the New Starts Program. The New Starts rating process and considerations of Project risks and uncertainties are discussed in greater detail below.

New Starts Rating

Based on FTA regulations at 49 CFR Part 611 on major transit investment projects and the *FY 2009 New Starts and Small Starts Evaluation and Rating Process* guidance, a project must receive a "Medium" rating or higher for both the Project Justification and Local Financial Commitment criteria to obtain a "Medium" overall rating and advance into Final Design. The Dulles Project in its current form would receive a "Medium-Low" rating for Project Justification, based on a "Medium" rating for Transit Supportive Land Use and a "Low" rating for Cost Effectiveness." The Project also would receive a "Medium-Low" rating for Local Financial Commitment. Hence, the Project's Overall Summary Rating would be "Medium-Low." The two primary elements leading to the Project's Summary Rating are the Cost Effectiveness Rating and the Capital Financial Plan Rating.

Cost Effectiveness. In an October 4, 2007 response to MWAA's application to enter the Project into Final Design, FTA stated that its acceptance of approximately \$250 million in cost reductions to achieve a \$2.96 billion Project budget was dependent on "commitments" for these cost reductions being in place before FTA could make a decision on Final Design approval. Orally, MWAA informed FTA that proof of these commitments would be forthcoming by mid-December 2007. On January 17, 2008, FTA received MWAA's letter indicating that change orders would be signed for \$16.5 million in the Firm Fixed Price portion of the MWAA-Dulles Transit Partners contract and that Dulles Transit Partners had committed to work towards a target of an additional \$67.1 million worth of savings under the Allowances portion of the contract. FTA was expecting verification of the cost reductions in the form of copies of change orders processed as required by Article 19 of the MWAA-Dulles Transit Partners contract. Specifically, FTA was anticipating receipt of copies of negotiated change orders to the Firm Fixed Price portion of the contract, directed change orders to the Allowances portion of the contract, and documentation of WMATA and MWAA "owner" changes.

Because FTA has not yet received satisfactory confirmation of the proposed cost reductions, the Cost Effectiveness index value of the project would be computed without consideration of the proposed cost reductions. The exceptions were the Route 7 and Spring Hill Road improvements, which were reduced from the budget because they are clearly not integral parts of the Dulles Project. Consequently, the resulting Cost Effectiveness index value would exceed \$31.00 and would merit a "Low" rating. As indicated in FTA's *FY 2009 New Starts and Small Starts Evaluation and Rating Process* guidance, a "breakpoint" of \$30.00 and over equates to a "Low" Cost Effectiveness rating. A "Low" Cost Effectiveness rating combined with a "Medium" Land Use Rating would result in a "Medium-Low" Project Justification rating.

- *Capital Financial Plan.* FTA's primary concerns with MWAA's capital financial plan for the Project in its current form are that it includes: (1) optimistic assumptions on the number of toll transactions and the growth in toll revenues, which are not consistent with

