

Federal Transit Administration

Capital Cost of Contracting

Frequently Asked Questions

I am trying to help our State auditor resolve accounting for the Capital Cost of Contracting grants for FTA and California's State TDA regulations. The state does not currently allow for conversion of operating contracts to a capital cost. It does allow state match of the FTA Capital Grant process for Capital Cost of Contracting grant. How do we report the conversion of the operating costs to capital? Is it reported as an operating expense for both state and federal and then the federal audit will only see the capital grant amount? Or, does the state defer to the federal "capitalization" of these costs and need to have state audits reflect them as such?

There is no such thing as a "conversion of the operating costs to capital." The FTA Capital Cost of Contracting policy is as follows:

Capital Cost of Contracting. Some FTA recipients turn to an outside source to obtain public transportation service, maintenance service, or vehicles that the recipient will use in public transportation service. When recipient's contract for such service, FTA will provide assistance with the capital consumed in the course of the contract [emphasis added]. In the case of a contractor's providing vehicles for public transportation service, the capital consumed is equivalent to the depreciation of the vehicles in use in the public transportation service during the contract period. In the case of a maintenance contract, the capital consumed may be, for example, depreciation of the maintenance garage, or depreciation of the machine that lifts the vehicle. Capital consumed may also include a proportionate share of the interest the contractor might pay out as the contractor purchases and makes available to the recipient of these capital assets. FTA refers to the concept of assisting with capital consumed as the "capital cost of contracting."

Only the costs attributable to privately owned assets are eligible under this policy. With one exception, items purchased with Federal, State, or local government assistance are not eligible. The exception is a public transportation vehicle privately owned in which the recipient has invested FTA funds from the Over-the-Road Bus Accessibility Program to finance incremental capital costs of complying with the Americans with Disabilities Act (ADA). Capital consumed for service or maintenance in the provision of service outside the public transportation portion of the contract, such as for charter or school bus service, is not an eligible cost. In addition, FTA provides assistance for preventive maintenance, which is defined as all maintenance. In some instances, the recipient contracts with outside sources for both maintenance and public transportation service, and the contractor provides both maintenance and vehicles. In such cases, both FTA's capital cost of contracting and preventive maintenance standards will apply.

To avoid imposing burdensome accounting rules with regard to contracts for bus and paratransit-related services, FTA will allow the recipient to consider a percentage of leased service or

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contracted maintenance capital costs without further justification and will provide assistance for 80 percent of the resultant amount. EXHIBIT III–1, below, shows the percentages and the corresponding type of contract service for bus and paratransit-related services. The percentages are calculations using data from the NTD. Presented by type of contract, the calculations represent industry averages in counting capital-eligible activities as a share of total cost. The percentages apply whether the service is local, express, shuttle, or paratransit.

EXHIBIT III–1

PERCENT OF CONTRACT ALLOWED FOR CAPITAL ASSISTANCE WITHOUT FURTHER JUSTIFICATION

(*Based on assumption that contractor provides the assets)

Bus and Paratransit-Related Contract Services

Type of Contract: Percent of Contract Eligible for 80 Percent Federal Share

1. Service Contract (contractor provides maintenance and transit service; recipient provides vehicles) 40 percent.
2. Service Contract (contractor provides transit service only; recipient provides vehicles and maintenance) 0 percent.
3. Vehicle Maintenance Contract (contractor provides maintenance; recipient provides vehicles and transit service) 100 percent.
4. Vehicle Lease Contract (contractor provides vehicles; recipient provides maintenance and transit service) 100 percent.
5. Maintenance/Lease Contract (contractor provides vehicles and maintenance; recipient provides transit service) 100 percent.
6. Turnkey Contract (contractor provides vehicles, maintenance, and transit service) 50 percent.
7. Vehicle/Service Contract (contractor provides vehicles and transit service; recipient provides maintenance) 10 percent.

The calculations above in EXHIBIT III–1 are based on the assumption that the contractor (or someone other than the recipient) provides the assets. For example, if a contractor provides maintenance, FTA assumes in the calculations that the contractor does so in a facility provided by the contractor. For another example, in a contractor-operated vanpool program that qualifies under a Turnkey Contract (see type 6), a vanpool driver provides the service rather than a contractor employee, but the recipient does not provide the service.

A recipient may request FTA participation at a higher percentage of the contract than FTA shows in Exhibit III–1, but must provide actual costs and justification. (Posted: February 2009)

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