

DOCUMENT RESUME

ED 213 511

PS 012 701

TITLE : Oversight Hearing on Head Start Transportation Policy. Hearing Before the Subcommittee on Human Resources of the Committee on Education and Labor, House of Representatives, Ninety-Seventh Congress, First Session (February 25, 1981).

INSTITUTION Congress of the U.S., Washington, D.C. House Committee on Education and Labor.

PUB DATE 81

NOTE 54p.; Portion marginally legible due to small print.

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS *Coordination; Federal Programs; *Finance Reform; Hearings; *Preschool Children; Preschool Education; *Public Policy; *Transportation
IDENTIFIERS Congress 97th; *Project Head Start

ABSTRACT The Subcommittee on Human Resources (Committee on Education and Labor) was convened to review federal transportation policy with regard to Project Head Start and to discuss possible solutions to problems which have recently surfaced. The problems are related to funding and the time provided to local Head Start programs to purchase and/or replace vehicles used for transporting children receiving Head Start services. Statements of witnesses appearing before the subcommittee and prepared statements concerned with transportation issues, such as the efficient coordination of transportation resources, are reported. (Author/RH)

* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *

OVERSIGHT HEARING ON HEAD START TRANSPORTATION POLICY

PE

ED213511

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it. Minor changes have been made to improve reproduction quality.

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON EDUCATION AND LABOR

HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, D.C. ON
FEBRUARY 25, 1981

Printed for the use of the Committee on Education and Labor



PS 012701

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON: 1981

79-866 O



COMMITTEE ON EDUCATION AND LABOR

CARL D PERKINS, Kentucky, *Chairman*

AUGUSTUS F HAWKINS, California
WILLIAM D. FORD, Michigan
PHILLIP BURTON, California
JOSEPH M. GAYDOS, Pennsylvania
WILLIAM (BILL) CLAY, Missouri
MARIO BIAGGI, New York
IKE ANDREWS, North Carolina
PAUL SIMON, Illinois
GEORGE MILLER, California
AUSTIN J. MURPHY, Pennsylvania
TED WEISS, New York
BALTSAR CORRADA, Puerto Rico
DALE E. KILDEE, Michigan
PETER A PEYSER, New York
PAT WILLIAMS, Montana
WILLIAM R. RATCHFORD, Connecticut
RAY KOGOVSEK, Colorado
HAROLD WASHINGTON, Illinois
DENNIS E ECKART, Ohio

JOHN M. ASHBROOK, Ohio
JOHN N. ERLBORN, Illinois
JAMES M. JEFFORDS, Vermont
WILLIAM F. GOODLING, Pennsylvania
E THOMAS COLEMAN, Missouri
KEN KRAMER, Colorado
ARLEN ERDAHL, Minnesota
THOMAS E. PETRI, Wisconsin
MILLCENT FENWICK, New Jersey
MARGE ROUKEMA, New Jersey
EUGENE JOHNSTON, North Carolina
LAWRENCE J. DENARDIS, Connecticut
LARRY E. CRAIG, Idaho
WENDELL BAILEY, Missouri

SUBCOMMITTEE ON HUMAN RESOURCES

IKE ANDREWS, North Carolina, *Chairman*

BALTSAR CORRADA, Puerto Rico
PAT WILLIAMS, Montana
CARL D PERKINS, Kentucky
(Ex Officio)

THOMAS E. PETRI, Wisconsin
E THOMAS COLEMAN, Missouri
(Ex Officio)

(U)

CONTENTS

	Page
Hearing held in Washington, D.C., on February 25 ¹ , 1981.....	1
Statement of—	
Master, Warren, Acting Assistant Secretary for Human Development Services, Department of Health and Human Services, accompanied by Bryant Tudor, Regional Administrator, Region IV, Atlanta, Ga.....	10
Patterson, Claude, chairman, Policy and Regulations Committee, National Head Start Association, Appleton City, Mo.....	5
Williams, Gloria M., president, North Carolina Community Action Association, Pittsboro, N.C.....	8
Prepared statements, letters, supplemental material, etc.—	
Andrews, Hon. Ike, a Representative in Congress from the State of North Carolina, opening statement of.....	1
Benedict, Robert, Commissioner of Aging, Department of Health and Human Services, letter to Chairman Andrews, with enclosures dated January 6, 1981.....	39
"Interagency Working Group on Rural Transportation Coordination," White House, issue paper, September 1978.....	33
Lordan, John J., Chief, Financial Management Branch, Office of Management and Budget, prepared statement of.....	28
Master, Warren, Acting Assistant Secretary for Human Development Services, Department of Health and Human Services, prepared statement of.....	9
Patterson, Claude, Head Start director, West Central Missouri Rural Development Corp., Appleton City, Mo., prepared testimony of.....	4
Tudor, L. Bryant, Regional Administrator, Department of Health and Human Services, Region IV, Atlanta, Ga.: Letter to Chairman Andrews, with attachments, dated October 2, 1980.....	29
Letter to Gordon Raley, with attachments, dated March 10, 1981.....	44
Williams, Gloria M., president, North Carolina Community Action Association, prepared testimony submitted by.....	7

OVERSIGHT HEARING ON HEAD START TRANSPORTATION POLICY

WEDNESDAY, FEBRUARY 25, 1981

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HUMAN RESOURCES,
COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:30 a.m., in room 2261 Rayburn House Office Building, the Hon. Ike Andrews (chairman of the subcommittee) presiding.

Members present: Representatives Andrews, Williams, Petri, and Coleman.

Staff present: Gordon A. Raley, staff director; Michelle Stent, legislative counsel; Deborah L. Hall, clerk; John E. Dean, minority senior legislative associate; and Mary Jane Fiske, minority senior legislative associate.

[The opening statement of Ike Andrews follows:]

OPENING STATEMENT OF HON. IKE ANDREWS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH-CAROLINA

Good morning, ladies and gentlemen. Pursuant to its oversight responsibility for the Economic Opportunity Act and specifically the Head Start program, the Subcommittee on Human Resources convenes this morning to review Federal transportation policy with regard to Head Start and discuss possible solutions to problems which have recently surfaced. The problems have to do with the ability of local Head Start programs to purchase vehicles in timely enough fashion so as to provide safe and reliable transportation to and from project sites for children receiving services through Head Start. One possible solution which has recently been suggested involves changing Federal audit procedures to permit depreciation of Head Start vehicles to be considered as a allowable operational expense, and to allow funds in this category to accrue year to year until a new vehicle is needed. Today we have called together program participants from the Federal, regional and local level in hopes that by "reasoning together" we can move closer to some solution.

Most of us who have been involved with the Head Start program over the past several years are aware that maintaining safe vehicles is becoming a major consideration. I am acutely aware of problems in my own district and have become increasingly aware lately that the problem is reaching national proportions. As an example, let me share with you portions of a letter from a Federal grants management specialist detailing a 1980 report on a Kentucky Head Start project's transportation fleet:

"In April 1980 (the Kentucky program) analyzed the condition of their vehicle fleet. . . . In order to bring the fleet up to long-range use and safety standards at least 35 new vans and \$13,500 toward the purchase of a new school bus would be needed.

"The report reflects that (the Kentucky program) has 63 vans of which 42 are over 6 years old, (from 44,000 to 120,000 miles). Seventy-five percent (or 47) of the vans have been determined to be in poor condition.

"It was reported that there are daily breakdowns, sometimes as many as four to five different ones. Three mechanics are employed, one of which responds to road calls.

(1)

In September 1980 the agency was awarded \$43,500 for the purchase of three vans. As can be seen this doesn't even begin to adequately address the needs. As evidenced by the validation, this agency is operating prudently in all program areas. They desperately need assistance to acquire new vans. Needless to say, without transportation there cannot be a Head Start program (Kentucky program) in the area.

We have four witnesses this morning. Since we are all here to work on a solution together, I believe I will ask all our witnesses to simply come to the witness table as a panel. We have with us Mr. Warren Master, Acting Assistant Secretary for Human Development Services. This is Mr. Master's first appearance before the Subcommittee. Accompanying Mr. Master is Mr. Bryant Tudor, the Region IV Administrator for Human Resources. Gloria Williams is President of the North Carolina Community Action Association. She is familiar with the problems of many Head Start programs in my home state. Mr. Claude Patterson is representing the National Head Start Association.

Mr. ANDREWS. Good morning. The reason we are here is that in many of the programs with which this subcommittee is concerned in the nutrition programs, community service agencies, Head Start, and various others, there is an ever-growing and tremendous problem in acquiring an adequate number of safe vehicles to transport those receiving services to and from the program sites and to deliver meals for older Americans.

We talked, we, meaning Gordon Raley and I, yesterday with a Mr. Lordan who couldn't be with us here today. Mr. Lordan is from the Office of Management and Budget. A lot of the problem, of course, has to do first of all with just being able to receive enough money to acquire these vehicles, and then there is a peculiar problem about being able to assimilate and hold on to enough money over a period of 3, 4, or 5 years so as to have money on hand with which to replace vehicles which become either unsafe or exorbitant to maintain relative to the cost of trading the vehicles for a new one.

Accounting procedures are apparently a part of the problem. According to OMB however the problem really resolves itself into adequate amounts of new money.

But be that as it may, while somewhat, though not thoroughly, I know what the problem is, I certainly don't know what the best answer is. I would hope that we could find an answer by simply revising some procedures at OMB. I am afraid it is not quite that simple. But if legislation is required in this area, then we would want to consider a proposal in hopefully passing some needed legislation. If regulations can be altered to resolve the problem, then that would seem to be preferable.

To explore these matters, we have this morning four witnesses here to work on a solution with us. I believe I will ask our witnesses to simply come to the witness table as a panel. We have with us Mr. Warren Master, Acting Assistant Secretary for Human Development Services. Mr. Master, if you will come around please. This is Mr. Master's first appearance before this particular subcommittee and we certainly welcome him. I look forward to working with you in any way that we can.

Accompanying Mr. Master is Mr. Bryant Tudor, a native of my congressional district, Wake County. Bryant is the Region IV Administrator for Human Resources from Atlanta.

Also Gloria Williams. Gloria, we especially welcome you. Gloria is president of the North Carolina Community Action Association. Come around if you will, Gloria. You're getting ready to have a big

event down in Wilmington, I believe, in the near future. I hope I can get down to that. She is familiar with the problems of many Head Start programs in my home State.

Claude Patterson is representing the National Head Start Association, and while it is a coincidence as far as I know, he happens to be from Mr. Coleman's State of Missouri, Appleton, Mo., I believe. And I am sure Mr. Coleman joins me in welcoming you, Mr. Patterson, as well as for that matter all of you.

Mr. COLEMAN. Mr. Chairman, if I may.

Mr. ANDREWS. Sure, go ahead.

Mr. COLEMAN. It is no coincidence that the leaders of the country come from Missouri. It is quite probable. Some of our leaders, even Presidents, have come from Missouri.

But seriously, I want to explain why I will have to be absent during probably most of this this morning. I am meeting with another subcommittee on which I have ranking responsibility right next door, but I am leaving my trusted aide here to take down notes and to make sure that all of the testimony is forwarded to me.

I especially apologize to Claude Patterson for having to skip out on him this morning, but we will take your testimony and we will be back in touch.

I appreciate that you are having this meeting. It is a very important subject matter which we definitely want to explore.

Mr. ANDREWS. Very good. Thank you, Mr. Coleman.

Bryant, if you then and Mr. Patterson will come around to the table.

Gordon, do we have any particular order?

Mr. RALEY. No; I don't think so.

Mr. ANDREWS. If any or all of you have some opening statement, I suppose we will hear all of those first. And if you have a written statement, of course if you prefer to read the statement, fine. We would like to encourage people to submit the statement for the record, particularly in a small hearing such as this, and instead just paraphrase or speak without reading. However that is entirely up to you.

May I also suggest that it would be well, for the record as well as for our edification, that if you want to elaborate upon the need for additional vehicles, that is fine, but really that is not the essence of why we are here. It is fine to document the need and give maybe one or two examples. But I hope you won't spend a great deal of time telling us of the need. I think we all pretty much know what the need is.

What we need to know is what is the problem in trying to meet the need. What regulation or what law is inhibiting your ability, if there be such? And what are your suggestions as to how that might be changed. Should you be leasing vehicles maybe rather than buying them? Then you will have a more even distribution of the vehicle acquisition cost over the years. Or should you be allowed to divert current moneys in any given fiscal year into some escrow account and save it.

The vehicular way, excuse the pun, of how to go about obtaining the moneys to meet the transportation needs is what we are pri-

marily concerned about rather than further illustrations of what the needs are. But again we leave that up to you.

Since Mr. Patterson is representing Head Start people, particularly nationwide, we will start with you, sir.

Mr. PATTERSON. Thank you, Mr. Chairman.

Mr. ANDREWS. Notwithstanding the fact that you are from Missouri. [General laughter.]

[Prepared testimony of Claude Patterson follows:]

PREPARED TESTIMONY OF CLAUDE PATTERSON, HEAD START DIRECTOR, WEST CENTRAL MISSOURI RURAL DEVELOPMENT CORP., APPLETON CITY, MO

Mr. Chairman, and distinguished members of the committee: Thank you for inviting me to testify before you. I am Claude Patterson, Head Start Director of West Central Missouri Rural Development Corporation, a Community Action Agency serving a nine-county area of West Central Missouri with headquarters in Appleton City, Missouri. I am also here as the Chairman of the Policies and Regulations Committee of the National Head Start Association.

Mr. Chairman, there are no earmarked dollars for the purchase of Head Start vehicles nor the establishment of transportation systems in Head Start. Head Start programs have had to rely primarily on either "one-time funding supplements" or the development of "carry-over funds" in order to find money with which to buy transportation vehicles. Even when transportation vehicles have been purchased in this manner it is only a matter of time until the vehicles are used up and there are no funds for replacing them. With inflation eating away at budgets across the last several years, one-time supplemental funds and carry-over funds are almost a thing of the past.

What we in Head Start are saying is that there is no realistic way in which we can lay aside money for the replacement of Head Start vehicles. As program administrators, when we purchase a new vehicle, we breathe a short sigh of relief and then begin to wonder how we can begin to replace this one when it wears out. I have checked with program operators in several states concerning the age of their vehicles, the mileage on those vehicles, and the problems associated with replacement. My findings are not at all unlike the situation in our own agency.

The multi-county agency with which I work serves some 6,200 square miles with a population of 135,000. This geographic area is larger than three states: Connecticut, Rhode Island, and Delaware. And, in fact, is more than twice the size of Delaware and Rhode Island combined, while the population is less than one-tenth their population.

We are operating some fourteen transportation vehicles. The age range of these vehicles is from three years to twelve years of age, with an average age of 8.7 years. The mileage range is from 26,000 to 117,000, with an average of over 89,000 miles. A look at our per vehicle maintenance costs indicates a 74.5 percent increase in maintenance costs after the first 50,000 miles on our vehicles. Whether we look at depreciation as a per mile depreciation allowance or a depreciation based on a time-related life expectancy, it is of little significance unless we have either an enabling regulation or enabling legislation to establish a realistic depreciation schedule. Our friends in the Office of Management and Budget would indicate that there is already in existence provisions for: (1) A depreciation allowance for buildings and equipment at the rate of 6.7 percent per year, and (2) A use allowance for operation and maintenance costs.

Mr. Chairman, a fifteen year depreciation schedule for a Head Start vehicle is not realistic. And the ability to collect a "use allowance" in the amount of operation and maintenance costs does not address the real practical problem of vehicle replacement. The local issues are: (1) What is a realistic depreciation allowance? We suggest not less than three (3) nor more than five (5) years; and (2) Can the local programs develop a carry over balance in a special depreciation account (escrow account) for vehicle replacement?

Additional practical considerations would suggest a stipulation is needed to insure that such depreciation dollars be used for the purpose of vehicle replacement. Also suggested is a needed requirement that interest earned on such an escrow account be applied to new vehicle acquisition.

A couple of the programs with which I have checked have attempted to establish a method of building a replacement costs fund. But in each case the agency is unsure regarding the legitimacy of these efforts.

Mr. Chairman, what I am trying to say is that action is needed that would provide that depreciation funds may be set aside as a legitimate escrow account for

the purpose of vehicle replacement. This action should include safeguards, such as reasonable time limits (three to five years) on use of escrow funds, provisions for designating successor agencies if needed, and permission to use interest accrued on the escrow account providing the interest is applied to new vehicle acquisition as an offset to inflation.

As to how to cause such action to occur, I will, of course, leave that judgement to you. I would, however, suggest that if OMB could have taken this action, then it should have done so. If OMB could not or would not take such action, then Congress needs to take the necessary steps to insure that this issue is realistically addressed. Mr. Chairman, I thank you very much.

STATEMENT OF CLAUDE PATTERSON, CHAIRMAN, POLICY AND REGULATIONS COMMITTEE, NATIONAL HEAD START ASSOCIATION, APPLETON CITY, MO.

Mr. PATTERSON. Mr. Chairman, it is a pleasure and I appreciate your inviting me to be here. I am Claude Patterson. I do operate a Head Start program in west central Missouri with the West Central Missouri Redevelopment Corp., which is a nine-county Community Action Agency. The headquarters are in Appleton City, Mo. As you indicated I am also here as chairman of the policies and regulation committee of the National Head Start Association.

I think that one of the problems that we are facing concerning this issue, the issue of this hearing, is that we have no earmarked dollars in Head Start for transportation. There is really no earmarked way in which a transportation system can be established or is to be established in Head Start.

Head Start programs have had to rely in the past on special one-time funds or on carryover funds for the purchasing of vehicles. Even when vehicles are purchased in this manner, it is only a matter of time until those vehicles are used up and there are no funds for replacing them. So with inflation eating away as it is, it is only a matter of time, in fact that time is past I believe when we can say that carryover funds and one-time funding supplements for vehicles are almost a thing of the past.

I guess what I am really saying is that there is absolutely no realistic way in which we can lay aside money for the replacement of Head Start vehicles. By realistic we mean in terms of amounts and also in a way that could carry over from one year to the next.

I have checked with a number of programs throughout the country and I am finding that their problems are not at all unlike our own. For example we, I would use more specifically, we operate some 14 vehicles throughout the nine counties. We have a mileage range on those vehicles from 26,000 miles to 117,000 miles. There is an age range of 3 years up to 12 years of age, and the average age of our vehicles is 8.7 years.

Mr. Chairman, part of the problem here is safety. One of our vehicles was involved in an accident that took two lives a few years ago. There is no good thing that can come out of that. The only thing that we can say is that it wasn't our fault, that our vehicle was involved and safety is a real issue.

What I am saying is that we need to be able to look at a way that more rapidly will allow us to replace vehicles. Whether we are looking at depreciation as a per mile cost alone or we are looking at depreciation as a time related life expectancy is of little significance unless we have either enabling legislation or enabling regulation to establish a realistic depreciation schedule.

It is my understanding that regulations exist now to allow for buildings and equipment to be depreciated about 67 percent per year. We are talking about a 15-year depreciation schedule for vehicles, which is not realistic.

We are talking of a use allowance for operation and maintenance. But depreciation hardly fits operation and maintenance because of one limiting factor at least, maybe among others. But the one is that we are limited in how we can carry that money over from one year to another. If it is a matter of an operating budget, we need to use it within that program year.

What we are saying is we need to have some way of carrying this over from one year to the next, such as an escrow account. In other words the question is, can local programs develop a carryover balance in a special depreciation account for vehicle replacement.

A second side of that then is the realistic depreciation allowance. We are suggesting not less than 3 nor more than 5 years.

I realize that practically there will need to be some stipulation as to the use of those funds and the use of the interest which will accrue on those funds and that it be earmarked.

In summary, what I am saying is that action is needed that would provide that depreciation of funds be set aside as a legitimate escrow account for the purpose of vehicle replacement.

If I might add one other thing. A couple of the programs with which I have checked have attempted to establish a method of building replacement cost funds. But in each case the agency is quite unsure regarding the legitimacy of those efforts. If they are legitimate those programs need to know that they are legitimate. And if they are not legitimate, could we not make them legitimate.

I don't want to be mean. But if OMB could have taken this action, then I think it should have done so. If it saw it as a problem, it should have done so. If OMB cannot or if it would not, then I suggest that Congress needs to take appropriate steps to assure that this issue is addressed realistically. I don't want to be mean with that, but we need this addressed.

Thank you, Mr. Chairman.

Mr. ANDREWS. Very good. Thank you, Mr. Patterson. I see you are getting right to the heart of the matter.

Mr. Petri has joined us. We welcome you here, sir.

As I am sure you know, we are discussing the problem of acquiring and reacquiring, vehicles and we are using Head Start as an example. But the problem is in many of the program areas, several of which are within the oversight jurisdiction of this subcommittee, the community service agencies, the Older Americans Act and nutritional programs for the elderly as well as others that are not within the jurisdiction of this particular subcommittee.

The problem apparently relates to OMB regulations. As I believe we will find out from Mr. Tudor, this problem applies not just to one particular site but rather to all programs within a region. And when you multiply that by the number of regional offices, I guess it becomes a national problem.

As example, if it is contemplated that a figure of \$1 million is to be available nationwide for one of these programs, OMB's policy is to determine by audit and verify by audit at the end of a fiscal year if there is say \$100,000 remaining unspent, then next year

that program would receive rather than \$1 million, \$900,000. The theory is that here is your million, you already have \$100,000 so here is another \$900,000 and that totals \$1 million for this year.

The problem with that is that it doesn't account for the fact that in certain years, certain programs do not need money to acquire vehicles. They may have, as Mr. Patterson's nine-county area in Missouri has, 14 vehicles. So there may be a given year during which he does not need another vehicle. But all of a sudden he reaches a point that depreciation and safety or other factors are such that he may need four, five, six, whatever replacement vehicles and he does not have enough money in that year's budget to be able to afford it. He might be able to afford it if they would let him accumulate his savings over a period of years. But that is not now, as we understand it, permitted by OMB regulations.

That is essentially what we are dealing with. Do we need to try to persuade OMB to alter the regulations? In the absence of that do we need legislation? That is the kind of problem. And I hope someone will address this: why not lease the vehicles and then you don't have acquisition costs in 1 year. The typical lease, I guess, from a typical lessor is such that you can have equal payments for a period of 36 or 48 months, or whatever, so that it can work into budget years as a constant figure rather than needing unusual amounts of money in a given year and not needing any money in subsequent years for a period of time. Then along comes a year in which you need either the acquisition cost or the trade-in cost.

If we are starting with the programs, I believe we will switch to Gloria and then we will move on up to the regional considerations of particular program problems and needs. Gloria has been introduced. She is a North Carolinian who has worked with Head Start for a number of years and now is chairman of the statewide committee there.

Gloria, we welcome you here. Tell us your comprehension of this problem and how it relates to the programs with which you are familiar.

[Prepared testimony submitted by Gloria Williams follows:]

PREPARED TESTIMONY SUBMITTED BY GLORIA M. WILLIAMS, PRESIDENT, NORTH CAROLINA COMMUNITY ACTION ASSOCIATION

Mr. Chairman, and Members of the House Education and Labor Subcommittee on Human Resources, I am honored to have the privilege to provide to you testimony relative to the need of an effective Head Start transportation policy. Thank you for this opportunity.

It has been acknowledged and recognized that transportation services are vital to the delivery of social services. I would like to focus my testimony on the need for adequate and safe vehicles for Head Start programs across the Nation, both rural and urban and the problems service providers face in their attempt to utilize Federal transportation resources efficiently, with specific emphasis on possible options for changes in auditing procedure to allow for an increased depreciation allowance on vehicles used for transporting children to and from Head Start program services.

Speaking from the grass-roots perspective of actually being involved with the day to day operations of a Head Start program, one of the major problems realized is the financial inability to provide on a continuous basis safe and sound vehicles to transport Head Start children. A great number of vehicles used by Head Start programs are old or outdated requiring excessive maintenance repair and upkeep cost. Vehicles used in rural programs experience even greater wear-and-tear and operational cost.

Realizing that management has a definite responsibility in assuring the safety of children that it is responsible for transporting, I am strongly endorsing and recom-

mending that an effective administrative depreciation policy or procedure be instituted which could allow a Head Start program to purchase or replace vehicles in order to ease operational expense problems. In pursuing such a course, the following areas must be addressed in dealing with the problem. (1) Depreciation of vehicles as an allowable operation expense, (2) establish the depreciation rate at a reasonable level; and (3) apply the rate consistently among program and agencies.

I refer to the establishment of escrow funds for a three to four year period, once a Head Start program has purchased a new van from available funding resources. The escrowed fund allowance would be based on mileage or annual depreciation at the end of the three to four year period, the grantee would have enough money to purchase a new vehicle. This would eliminate the continuous needs to request special Federal or State funds for vehicle replacement. In addition the outdated van could be serviced and used for emergency back-up purposes.

In conclusion and summary I have attempted to make the following recommendations to the subcommittee (1) Administrative procedure that would permit funds to be set aside as a legitimate escrow for the purpose of vehicle replacement (3-4 year) period, and a provision to permit interest accrued in escrowed funds to be applied to acquisition of vehicle as an offset to rising cost and inflation, (2) provision for agency to retain fully depreciated vehicles which are in good order as back-up vehicles. Such vehicles should not be used to expand service, and (3) such a procedure should be applicable to all agencies and take precedence over conflicting State laws and/or administrative practices.

I sincerely hope that this testimony has provided positive input and I will be happy to attempt to answer questions.

STATEMENT OF GLORIA M. WILLIAMS, PRESIDENT, NORTH CAROLINA COMMUNITY ACTION ASSOCIATION, PITTSBORO, N.C.

Ms. WILLIAMS. I want to thank you, Mr. Chairman. I am happy to be here and to meet also with the other members of the subcommittee.

I would simply like to speak from a grassroots perspective in support of what has already been said. I have primarily been affiliated with the day-to-day operations of a Head Start program and can attest to the problems that are there as it relates to most agencies' inability as it relates to finances to be able to support and buy and replace Head Start vehicles.

So my main reason for being here is to support, strongly support an administrative policy of procedure or regulation that would in fact permit Head Start programs to purchase vehicles through a depreciation method. It could perhaps be an escrow account or whatever that would run not over a 15-year period but over a 3- or 4-year period. Also it would be hoped that such an account could be permitted to accrue interest and that this interest would help offset rising costs and inflation and would permit this agency a program to replace the vehicle.

This is what we stand in support of. I also am here representing the Southeast Association of CAP Agencies. So that once a vehicle is run down, a Head Start program does not have to look to the State, to defense, to other transportation areas to seek out funding to get a vehicle on the road so that they can transport their children safely to and from the centers.

I support this effort nationwide in both urban and rural areas, and I would say that the problem is twice as bad in a rural setting.

These are mainly the things that I want to say. I would like to add one additional thing, and that is that I feel strongly that the vehicle that is set aside, if it can be repaired, that this vehicle should be used for backup purposes, that this should also be considered in committee in cases of emergencies and other similar breakdowns.

Thank you, and I will be glad to answer questions. I hope that what I have said will have some merit to some type of policy to support this concept.

Mr. ANDREWS. Gloria, I assure you that it will. Thank you very much for a fine statement.

If it suits you Mr. Petri, I thought we would just listen to all four witnesses somewhat as a panel. We may start asking questions after the four have made a statement and then any one of the four will be available to respond to our questioning. That makes sense unless you have to leave before that time.

Mr. PETRI. No; I will be here.

Mr. ANDREWS. All right, let's go on then with Mr. Master next, if we may.

He says he has to leave at 11:30 a.m. I assume we will be finished by then with the opening statements.

Incidentally, do any of you wish to submit a written statement for the record? If you have not I hope you will. We are planning to have this record published and we want to present it to OMB along with our own conclusions and recommendations within the near future. Your written statement, as well as your verbal statements, will be used in support of whatever we ultimately recommend. So if you have written statements, without objection, please hand them to either Gordon or to the stenographer and without objection they will become a part of the record.

Excuse me. Go ahead, Mr. Master.

[Prepared statement of Warren Master follows:]

PREPARED STATEMENT OF WARREN MASTER, ACTING ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman, I am Warren Master, Acting Assistant Secretary for Human Development Services. With me is Mr. Bryant Tudor, administrator of the HDS Regional Office in Atlanta. I am pleased to be here today to give you a description of our demonstration project on coordinated transportation services and to answer any questions you might have.

There are about 300 urban public transit systems in the United States. In urban areas public transportation has become vital. However, many are unable to use their services. The Department of Transportation has identified 7½ million urban residents, not including the homebound, with disabilities and special services needs which restrict their use of public transportation. In rural areas, where there is much less public transportation available, the problem is even more acute.

In recent years, State and local agencies and the Federal Departments of Transportation and Health and Human Services, all of which fund or administer special transportation services, have begun to explore methods of working together to coordinate the many and varying transportation services for those with special needs. The Office of Human Development Services Transportation initiative was started in 1975. The demonstrations included the following variety of activities.

In rural Arkansas a clearinghouse was set up to track times when agencies were not using their vehicles and the number of empty seats when the vehicles were in service.

Preventive maintenance and repair programs were started using public transit garages. Economies of bulk parts purchasing and tax-free fueling were instituted.

New organizations were created with vehicles pooled under one management responsible to a joint agency policy board to relieve those agencies no longer desiring to provide transportation.

Moneys needed to run these coordinated services—to pay for fuel, repairs, wages and other operating costs—came from purchase of service agreements with and among the local participating agencies. Progress became apparent in a single year.

The clearinghouse in Fayetteville, Arkansas arranged some 25,000 additional trips.

In another demonstration in Howard County, Maryland, transportation service levels were increased by 54 percent.

Equally striking is the experience in Jacksonville, Florida where services provided using the vehicles of 9 agencies more than doubled passenger trips provided to some 25 health and human service programs.

Quality of service also changed in the demonstrations. Vehicles were now professionally maintained, and when they did break down, back-up vehicles were dispatched rather than cancelling services and appointments. Driver training was begun to ensure sensitivity to passengers special needs, prepare for a possible crisis, and generally manage the dangers involved in transportation service. Overall results show that the availability of technical assistance and administrative seed moneys, provided through the demonstration programs, was more than matched by an ability and drive to improve service management and significantly stretch available resources. The experience, also enabled us to identify the most common problems which create barriers to successful coordination. These were voiced in varying ways by nearly all human service, charitable and voluntary transportation providers.

For example, insurance was both very difficult to obtain and expensive. Special services did not fit into conventional transportation insurance categories, and the risk involved and cost of underwriting these unusual operations was generally unknown. At one site, insurance was so difficult to obtain that the project was forced to turn to Lloyds of London, a company which insures one-of-a-kind risks at very high premiums.

Accounting and recordkeeping problems created difficulties at several sites, especially those transporting Medicaid and social service clients.

At several urban-based projects, attempts to coordinate service through public transit systems resulted in a more expensive service and the independent agency operations were reestablished.

In brief, the projects demonstrated that coordination of special transportation services can be done successfully. They also showed, however that assistance is needed to break down barriers to coordination.

As a first step, work began with the insurance industry, White House domestic policy staff and the National Governors Association to develop a human service transportation insurance classification which reduced rates and opened up new methods of low-cost liability insurance. With States adopting the classifications, the process to resolve this problem was underway even before the demonstration period ended.

Follow-up work on the accounting issues has resulted in simpler and more uniform methods for cost-sharing, accounting, reporting and auditing as demonstrated by a consortium of six States (Michigan, Ark., Mass., N.C., S.C., and Iowa) assisted by the Office of Management and Budget and Federal regional councils.

To improve Federal agency coordination, the secretary of HHS formally recognized the Office of Human Development Services as the department's lead agency for all transportation issues and called for an expanded work program with other Federal agencies. HHS has since completed agreements to increase funding available to coordinate rural transportation services, and has begun a limited but concerted technical assistance effort directed at States and localities.

These efforts represent important steps in meeting the acute needs of human service transportation. Mr. Chairman, at this time I will be happy to respond to any questions you or the panel may have.

STATEMENT OF WARREN MASTER, ACTING ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY BRYANT TUDOR, REGIONAL ADMINISTRATOR, REGION IV, ATLANTA, GA.

Mr. MASTER. Mr. Chairman, we have prepared testimony and we can submit that for the record. I discussed that with Gordon a day or so ago. I think I can very briefly summarize our comments for the agency in less than a minute.

The testimony discusses transportation issues generally and the kinds of applications in human services programs that we have been involved in for the last 5 years.

You are addressing a much more specific issue today and rather than go into all of those larger program policy issues, I will just come to this point. I don't think Mr. Tudor or I would disagree

with any of the observations made. These are practical operational problems. They are faced by grantees not only in Head Start but in other human services programs across the country.

In talking with program officials in our agency, we have tried to identify how we have dealt with this problem in the past, as Mr. Patterson mentioned earlier one way has been to deal with it at the end of the year through carryover balancing. That obviously isn't terribly assuring for the grantees because they can't run their operation in a business-like fashion. They can't count on this money from one year to the next, and we recognize that problem.

When there are a large number of vehicles, usually not all of the vehicles fall apart at once. So another way the problem is dealt with is to stagger the replacement costs over a period of years. This doesn't alleviate the problem completely but it does help, I gather. And that is probably why this has not been raised as a major problem previously, or at least we haven't had that kind of groundswell support for it. There have been ways of dealing with it.

The problem you mentioned earlier is that of another competing value. As I understand it in colloquial terms, though I am not an economist, the Government's money can gather interest. The question raised by OMB, by the executive branch generally, would be why do we want that money sitting out in banks accruing interest for the grantees, while we, the Federal Government, have to borrow money. We have heard a lot of this argument in the last couple of weeks.

So those are the two competing values as I see it and as we are trying to deal with the problem. But we will be glad to answer any other more specific questions.

Mr. ANDREWS. Very good. Thank you, Mr. Master.

And then next is Mr. Bryant Tudor, Region IV Director. Bryant, we are pleased to have you here.

Mr. TUDOR. Thank you, Mr. Chairman.

Mr. ANDREWS. Bryant and I discussed this in Atlanta in his office back about the first of the year. That is really I guess what prompted the hearing, although we had heard this complaint before. I guess you zeroed in on it more specifically than anyone I had talked with up until that time. So we are especially pleased that you can come here now and repeat that story, if you will.

Mr. TUDOR. To be very brief, you have heard the crux of the problem. I got involved because in Region IV the title XX programs, the aging programs, all are buying vehicles. It is becoming more difficult now for them to accrue funds to replace these vehicles and it has just geometrically progressed to the point that I am afraid at some time we will be confronted with having to come up with several millions of dollars across program lines just to replace worn out vehicles.

You have heard the testimony which I think indicates the problem. In my efforts to respond to grantee requests, we could not find an easy way to get around the regulations to permit a replacement fund for vehicles. We are attempting to offer some suggestions, and they have not been satisfactory at this time.

With that I would be willing to respond to specific questions dealing with escrow accounts. I think as Warren indicated the

problem is allowing the funds to accrue. There are regulations prohibiting this. I am not sure what the answer is myself.

Thank you.

Mr. ANDREWS. Let me ask any of you if you could help me with this, if you will. It seems that with the four of you and others with whom I discussed it, no one seems to indicate any particular problem in acquiring the vehicles in the first instance. Instead, everybody seems to address the problem of replacing that vehicle with another vehicle. And yet the problem seems to relate to the fact that you can't carry over funds.

Why is the problem greater in replacing vehicles or paying the money with which to pay the difference between the trade-in and the new one rather than with acquiring the new one in the first instance?

Mr. MASTER. I can respond to that, at least from the agency perspective. I gather that there is no increase in the funding. I don't know what Mr. Patterson's funding level is.

Let's say a multicounty organization has a funding level of \$300,000 a year. That will be static, just remain the same over a period of years. In the first year of funding you take x amount of dollars out of the \$300,000 to purchase the vehicles at let's say \$12,000, \$15,000 a clip. It costs you perhaps \$1,500 a year to serve one child. That is 10 children fewer that you would be serving that year, presumably.

Then the next year, years 2, 3, 4, or 5, whatever, you are serving 10 more youngsters. It is coming out of that same \$300,000. Then along comes the fifth or sixth year when you have to replace the one vehicle. You still have only \$300,000. What do you do? You have to reduce the number of youngsters, presumably, in your program or make some other savings to replace the vehicle.

The only recourse we have is to make available surplus funds or carryover funds, in effect, to help those grantees. That is the way we see it from the agency level. I don't know what it is like from the grantee perspective.

Mr. ANDREWS. I think part of the problem unquestionably—and this is not aimed at any particular person or any particular administration—is that, any President, any Appropriations Committee chairman or any Budget Committee is trying to look as good as they can and they want to be able to say they reduced costs during a given year, or they at least held the line on costs.

Hence, if they permit the carryover, they make that year look worse or next year look worse rather than looking to the 5-year or 6-year expense of the total and making it divisible by five or six, which is I think much more realistic. But politically it looks good to use that carryover money as part of the appropriation for next year and hence the appropriation for next year is obviously smaller. That accumulates in terms of accumulating a profit. Then that fifth or sixth year down the road the problem bursts into a large sum of money.

That is not a very good business procedure. I don't think private businesses operate that way. But anyway that is part of the problem.

Let me put it this way. How many of these vehicles are leased rather than purchased? You don't seem to refer to that. Are any of them, 5 percent, 20 percent, none of them?

Mr. MASTER. There are very few. I guess Bryant has the largest of the 10 regions.

Mr. TUDOR. I just happened to check with one program yesterday in Kentucky. It is called Kentucky youth research. I think they have got 65 vans and they have about 2 or 3 that are leased. It becomes cost prohibitive to lease them.

Mr. ANDREWS. Why is that the case?

Mr. TUDOR. There is a regulation, Mr. Chairman, if you will bear with me a moment, that deals with leasing. I will try to paraphrase it. It says if a 3-year leasing cost is more than purchase price plus the servicing cost, it is more economical to purchase the equipment. Then you have to purchase the equipment and you cannot lease it.

Mr. ANDREWS. What regulation is that?

Mr. TUDOR. It is 45 CFR chapter 10, section 1067.17-4, part 2, subpart F.

Mr. ANDREWS. My gosh. [Laughter.]

Mr. TUDOR. This is one of the problems.

Mr. ANDREWS. What does it say again, now?

Mr. TUDOR. If the 3-year leasing cost is more than purchase price plus the servicing cost, and they are talking about equipment, this is not even referring directly to vehicles, if it is more economical to purchase the equipment, then you have to purchase it. You cannot lease it.

I presume, at one of the agencies it is something like \$300 per month I think just to lease one van.

Mr. ANDREWS. I am not surprised. It depends in a large part over what period of time you are leasing. If you could lease for 5 years, it may very well not be that high. Most leases now I believe in the private sector are more than 36 months. I happen to know that has tended to lengthen as various things, costs are more, vehicular costs keep going up. I think 36 months probably was a usual lease period, lease/purchase type period, say 5 or 6 or 7 or 8 years ago. But I dare say we can find out, I am sure. But I imagine at most financial institutions which acquire leased vehicles for lessees I believe the average term of the lease would now considerably exceed 3 years. I believe it would be more like 4 or 5 years.

What do any of you think of the rationale of leasing, assuming regulations permitted leasing in a manner more commensurate with the marketplace of today? I realize lease costs are considerable, and I know or at least I believe that most of the lease arrangements involve costs somewhat in excess of normal interest rates, but I believe not especially high, somewhat higher but very little more than just the interest is about what it amounts to.

In other words a lease/purchase arrangement is almost synonymous with simply what we call financing the vehicle in the first place; in other words borrowing the money to buy it with and paying the money back in installment payments plus an agreed upon or more or less market rate of interest. It is about the same difference.

Would that be a feasible response to the problem if that were permitted?

Mr. PATTERSON. There are a couple of things: one, the whole idea of crossing program year lines, the idea of having a multiyear lease when we are funded on a year-to-year basis. In other words, can we make that kind of long term commitment.

Mr. ANDREWS. Apparently you can if it is done within the 3 years. Now it seems to have to do with not the philosophy of can you lease, but can you obligate the program beyond the current year. Apparently you can if a lease can be arranged.

Mr. PATTERSON. Somebody is going to be making money somewhere along the line in the leasing divisions. I am wondering if it is going to be the most cost effective approach?

Mr. ANDREWS. It isn't going to be the most cost effective for you obviously. What any of us would rather do would be to receive an amount of money each year and be able to deposit that and earn the interest from it and hence increase our budget rather than do the opposite, rather than buy the vehicle in an arrangement whereby we have to diminish our future allotments of money by paying interest.

But is that the only reason? Or aren't we just talking about the reason now being not to overcome this problem that we can't accrue money but are rather we back to talking about having more available money for programs?

Mr. PATTERSON. The available money for programs is not the issue that I would want to address but rather the ability to use money for vehicles over year after year.

Mr. ANDREWS. But you could do that through the lease arrangement.

Mr. PATTERSON. That is one way.

If I might address one point that Mr. Master brought out, the two values with regard to interest. The whole idea of the Federal Government preferring to not have to borrow that additional money and then turn it over to programs, they pay interest, the Government pays interest, the local programs collect interest to use for aiding in the buying of vehicles, I have no problem with the concept of that money being laid up to our account with the funding agency.

In other words if we are going to be able to build a line item for depreciation in the budget, that line item to be held in escrow by the Federal Government, that would be fine with me. After 3 years this amount would be funded us for the actual use of purchase of vehicles.

It isn't that it has to be in our local banks. It isn't that that transfer of funds has to actually come to our local agency but to our account and that it can accrue to our account over a period of 3 to 5 years as opposed to losing it at the end of the first year. So this would allow the Federal Government to collect the interest and hold it in our account.

Mr. MASTER. It occurs to me as I am listening to this discussion that there are pros and cons to each option. Whichever one you take there is something on the debit side.

One that occurs to me on the leasing beyond what you just mentioned is that in many of the vehicles we do need special

equipment to serve the handicapped. In the Head Start program there is a 10-percent requirement. Nationwide, I think we are at 12 percent. In North Carolina, I would assume that you are probably over the 10 percent also. So that adds a new twist if you are leasing. If you have your own fleet of 14 vehicles, I guess you usually do something for all of them.

Many of these vehicles across the country serve more than just one target population including the handicapped and the elderly. It makes it a little bit more problematic.

Mr. ANDREWS. Mr. Petri, since you have to leave at 11:30 a.m. I believe I will defer to you at this time for your questions. I don't have to leave until noon. So you go ahead.

Mr. PETRI. I have a couple, Ike.

What kind of vehicles are you talking about? Are these small buses or cars and small buses?

Mr. MASTER. Mainly vans, I would say nationwide. Some small buses, it varies.

By the way, one other kind of working arrangement in addition to owning your own vehicles, or leasing vehicles, is to have a third party that you can purchase the service from. I don't know if that is the case in North Carolina or Missouri specifically. But that is a growing mode of operation.

In Howard County, here, for example, near Columbia, a private nonprofit group was formed to provide that service so the Head Start program, development disabilities program, aging programs would purchase service from them. They don't have this kind of logistic problem then because they have obligated their money. They have spent their money every year. So they don't have to purchase the vehicles. They are just purchasing the service from another provider.

Mr. PETRI. And that provider purchases the vehicle?

Mr. MASTER. Right, and he normally builds in a replacement cost to the purchase of service fee.

Mr. PETRI. Could you combine the things, Mr. Andrews is talking about—leasing and all, by trying to go to central purchasing by the Government? I would suspect you could get a better deal. Most companies, great big ones, have fleet purchase deals they get direct from the factory. They don't buy it from the local auto dealer. They get prices remarkably lower than you and I have to pay in the store. And that would be even more true, especially, with vans and things.

If you bought in volume the company could put these things in at the factory and not have to do it in one little town or another if some modification was required. It would involve very little cost, and then just have the Government charge so much a month or year to each agency for that vehicle, and have it owned by the central purchasing agency. We would have another control mechanism too to see if somebody were overpurchasing or underpurchasing and why, because they could get statistics from different operations all around the country that way.

Would there be any merit in that? Or do the advantages of handling the purchase on a local basis outweigh the advantages of doing it on a more central basis?

Mr. MASTER. I think you laid out the battle of the pros and cons, because the more you centralize the more you take away the flexibility of the local operation.

Mr. PETRI. There is no reason an agency couldn't have 30 vehicles in a catalog and then update what was in the catalog according to request. Companies do it all the time. For the Federal Government that would be a little hard, but there is no reason it couldn't be done, if we are going to make suggestions to OMB as to how they ought to be organizing their business.

I don't know how the military does it. I know how the Postal Service and others that purchase large amounts of vehicles handle it. The Postal Service doesn't let each postmaster buy vehicles. It buys them from American Motors or others on 1-year or 5-year contracts. I am sure they have various formulas or ways of allocating them or providing them to different post offices all around the country.

Mr. MASTER. I don't know what kind of appeal that sort of centralized system would have to the grantees.

Ms. WILLIAMS. It would be complicated simply because grantees don't have the same funding year nor the same physical years. And it all depends on the number. If it was in a region, it might be considered that it would be a matter of trying to correlate all those grantees together to come up with those who might be in the same funding cycle, et cetera, and to actually know what is available for carryover, what is available for purchasing.

I think the concept is good. But it is the problem that we have as grantees and how they are funded and when we are funded.

Mr. PETRI. If you in effect were leasing and an agency were purchasing, you would be able to do it on a month-to-month basis or 6-month basis or 1-year basis. Then it wouldn't make any difference when it started, I don't think.

Mr. MASTER. One thing that occurs to me is the kind of policy option that you would want to take a look at in terms of the demonstration program where we have discretionary authority. It might be interesting to have some analysts flush out a possible demonstration effort in a number of States where, instead of centralizing along the Federal line, you could, where there was an interest in a State, say North Carolina or Wisconsin, put together as a part of a demonstration program, a statewide consortium of the grantees so that they don't lose control. They would still have some flexibility.

There are a number of demonstration models we could look at to test this idea.

Mr. PETRI. Or maybe the grantees would want to think about using Hertz or some other people who have experience in managing purchase and rental of vehicles on some sort of an experimental basis to see if they would be interested in providing that service to these agencies and if they could do it at a cheaper cost and better than it is currently being done.

Mr. MASTER. I can think of one State that would have an unfair advantage. That is Michigan. They might have more options available.

Mr. PETRI. It is different, but the same type of problem, that even universities have in providing meal services or something. For

example some of them do it themselves. They sometimes go to centralized caterers that do it on a national basis and sometimes I suppose on a regional basis. Food is different than vehicles but it is still purchasing something that you need to get your job done.

Well, those are really all I have.

Mr. DEAN. Mr. Coleman has been very interested in coordinated transportation systems. So on the basis of a hearing we held in November, I came up with a couple of questions for you, Mr. Patterson.

Do you find that the useful life of a vehicle varies greatly on whether it is used in a rural or an urban setting? Is there a difference?

Mr. PATTERSON. I certainly do. In two of our small towns, in fact we have no town over 10,000 within our nine-county area in population. We have two of our towns where we do not leave the city limits to fill the Head Start centers. We have in the other counties rural routes, and the rural routes will shake the daylights out of a bus. It will shake the life out of one literally. They do seem to have more suspension problems, more drive train problems in the rural areas. So we do have a difference in life expectancy.

Mr. DEAN. In terms of depreciation, should it be based on the age of the vehicle or on the mileage. From what you are saying it seems as though there should be a rural versus urban differentiation.

Mr. PATTERSON. It seems to me that that would be more realistic. I do know that within the last week when we found out about this testimony, we did a little research on the type of maintenance costs that we have had. We found that it was not based on town versus country, but it was based on miles. We saw 74.5 percent increase in costs of maintenance after the 50,000 miles.

Mr. DEAN. In terms of those maintenance costs that you encounter, are the breakdowns that occur on the older vehicles, safety-related breakdowns or things like they won't start in the morning?

Mr. PATTERSON. We have had both. We have had the kinds where you have to replace a motor. But that is not a safety issue. If you go down the road and you lose a motor, you pull over to the side of the road in order to protect the children until you get alternative transportation to get them home.

But the safety issues involving suspension systems, shock absorbers can be replaced as a service item, but if you lose a spindle bolt you have yourself a real problem because then you lose control of the front end. We have been able to catch some of those just as they seem to be going out.

Mr. DEAN. Have you had any injuries in transportation?

Mr. PATTERSON. Not as a direct result of this. We have indicated the accident that we had, but not as a direct result of the vehicle condition. We have not.

Mr. DEAN. Anybody on the panel can answer this one. Is there a big difference in the gasoline mileage on the newer vehicles as compared to the older vehicles that would be an argument for replacing this equipment now, like comparing say a 5-year-old vehicle with a 1981 model? Do you find there is a big difference or are they about the same? I know they are about the same size.

Mr. PATTERSON. The last new vehicle that we bought I believe was in 1974.

Mr. DEAN. Is that right?

Mr. PATTERSON. Yes. We have a 1977 and a 1978, both of which we bought used because of limited funds again. We had to stay within the budget. But both of those were bought used within the last 3 months. So we don't have any basis of comparing with 1981. I wish I knew someone who did.

Mr. DEAN. Can anybody else comment on that in terms of efficiency? I realize we should have EPA up here to testify.

Ms. WILLIAMS. I can only comment to the operational costs. And of course there is a significant difference. We haven't purchased a vehicle since 1979 so I can't make any relevant remarks on that.

Mr. MASTER. I don't know if this is in part related to your earlier question to Mr. Patterson on the urban versus rural.

As I understand it we don't have any acid test for approving requests for new vehicles. It is basically the agency's word on whether the vehicle is worn out and if funds are available. So I don't know that we need a special threshold that you pass. We don't have one right now.

Mr. DEAN. I see. This will be my final question.

In a typical Head Start project, what hours of the day is the vehicle in use? Is it just in the a.m.?

Mr. PATTERSON. The standard model, and we are given five different options with which we can operate a Head Start program at the local level. The standard option would be a half day, usually like 8:30 to 12:30 or 1, a half day 5 days a week. Then that would deal with the classroom setting.

But Head Start is a multidisciplinary program which provides comprehensive health services, parent involvement, community involvement type activities. And so these buses may be used from 7:30 or 8 in the morning until maybe 10:30, 11 at night. But the classroom itself would be, for the standard model, 5 days a week a half day.

Mr. DEAN. On this regulation concerning a 3-year lease compared to a purchase price, who makes the determination on the comparison in costs? Is that a national policy or is there shopping around? It would seem to me that somebody may want to come in with a discount that would meet this regulation. Is that determined annually? And who makes that determination?

Mr. TUDOR. The local agency usually explores that possibility if they need to replace a vehicle. Each grantee will look at all their options and they do it individually.

Mr. DEAN. On that one in Kentucky where they have 65 vans and 3 were leased, I assume that the three leases met this regulation?

Mr. TUDOR. They must have.

Mr. MASTER. I think that is essentially going back to what Mr. Petri was getting at earlier. The advantage to keeping the control at the grantee level is that they will shop around because they have a fixed budget. That is the incentive to make the best deal you can.

Mr. DEAN. Thank you, Mr. Chairman.

Mr. ANDREWS.-I will switch to Mr. Williams, but before that, back to the lease.

To find a way it seems to me around that, let's say you are leasing a vehicle, the purchase price for which is on the trade-in. The difference is let's just say \$10,000. Apparently from what you read, the permitting of that to be done over a 3-year period, if that is less than the original cost and so forth, whether it is or not would depend on the payout at the end of the lease.

In other words you can lease a vehicle under an arrangement whereby the full \$10,000 is paid within the 3 years and at the end of the 3 years there is a zero balance and the option is yours. That obviously would necessitate relatively high monthly payments.

You could, on the other hand, if the cost is \$10,000, you can pay it over a 3-year period with a residual balance of say \$5,000 and that would cause your monthly payments to probably fit the regulation you read because the 3-year total amount paid would be far less than the original \$10,000, even though the interest is added.

I just wonder, there doesn't seem to have been much consideration given to leasing as a way of getting around the OMB's prohibition against the carryover money, and it seems to me that is the most obvious one to at least be considered.

Mr. MASTER. I am pretty sure that the private nonprofit group that I referred to in Howard County, Md. in which the Head Start program, the aging program, the developmental disabilities programs participate and purchase the service from this private nonprofit group, that the group both purchase and lease vehicles. I don't know that we have done in our agency an analysis of some kind of cost comparison study of purchasing/lease arrangements.

Mr. ANDREWS. I can tell you that without you doing that study. It is going to cost you more obviously to lease the vehicle and pay interest on it than it is for Uncle Sam to give you the amount of money you need to give you leave to buy the vehicle. Obviously that is cheaper. And obviously that is what you would prefer.

What I am trying to do is get around to something that we can accomplish. I don't think we are going to be able to accomplish that exactly. The only way you could do that is maybe with the original purchase you might put in your grant application: We need as startup various things including x numbers of vehicles. On a grant basis to establish the program you might get that money simply as vehicle money.

But apparently that is not really the basis of the problem. The problem is this amortizing over a period of years the cost of exchanging that vehicle as a trade-in or keep it for a back-up, by one means or another get another vehicle. And how to get that amortized into annual budgets seems to be the problem.

So yes, it would be cheaper. You need not do the study. Obviously it would be cheaper on you, maybe not on the government at large, but on the program it would be cheaper just to receive the money from somewhere with which to purchase the vehicle. Otherwise with any of these other arrangements you are going to be paying interest and certain carrying charges and so forth which leaves you less money. If your total remains constant you have less money left over after vehicle or transportation costs for other purposes. I understand that.

OMB, you see, argues: Yes, that is true, we want to therefore reverse that and keep our this-year's cost less by not permitting you to accumulate these funds, if you have them at the end of the year we will subtract that from your appropriation of next year and that makes total appropriations smaller from up here.

I think the two sides of that coin are what is constituting the problem.

I don't know what the best answer is. I do sense that the possibility of leasing so as to get your cost amortized in a constant way from year to year and not be bothered by losing your carryover money, thus not being able to accumulate one-term purchases every several years, couldn't be alleviated by the lease arrangement.

And perhaps again I am back now to where I was. Maybe that 3-year business could be handled by having a residual rather than trying to pay for the vehicle in 36 equal payments. Maybe you could allow, as many of us who lease do, a residual of something other than zero, a balance left at the end of the 3 years with an option to renew.

You can keep your monthly costs of your 36 months of payments much less than the cost of the vehicle, so as to probably get around that regulation with all the numbers and letters.

Mr. Williams has a peculiar problem about transportation, I happen to know. He is from Montana. I don't know how rough the roads are, as you were saying, Mr. Patterson, in some areas of Missouri. But his problem among others is vast, vast distances. Their vehicles have to travel unusual numbers of miles to serve his area for a given program.

But anyway, Mr. Williams, we will call on you to address any statements or questions you might have to us or to the full panel.

Mr. WILLIAMS. Thank you, Mr. Chairman.

You are correct about the wide open spaces out there. Traveling from corner to corner in Montana is to go from Chicago to Florida. So our Head Start children, although they don't travel those distances, are carried in buses that have seen a few miles.

Let me ask Mr. Tudor, is there a cost-sharing allowance for the operations and maintenance of these vehicles between government levels?

Mr. TUDOR. Yes, sir.

Mr. WILLIAMS. Would you describe that to the committee?

Mr. TUDOR. Where there is a coordinated system, such as a community action agency, if we give money to Head Start, they will buy a bus and the community action agency will usually operate the vehicle. They will be transporting the elderly. They will be serving meals on wheels. So they can charge the Head Start budget that use allowance. Most of the coordinated systems that do exist use this allowance.

The problem with a use allowance is it is only about 2 percent I think under OMB Circular 102. It will allow for you to maintain your operating costs, drivers, and your gas. The buses wear out quicker. They are then confronted with the problem of replacing that vehicle.

The use allowance usually has limitations that will not allow you to charge enough money to accumulate a fund to replace the

vehicle at the time it is worn out. It is allowed, but it usually just covers operating costs.

Mr. ANDREWS. Let me say to Mr. Williams if I may, since he got here a little late and I understand why. It was for a very good reason. But the real problem we are here about this morning is not just the overall problem of transportation for the programs, though that is obviously the umbrella of the conversation. But specifically the problem is that of an OMB regulation.

What is happening is say for a given program you have \$1 million a year, just to use an illustration. And you have the problem of how to find the money every 3 or 4 years to replace vehicles. The problem specifically is this. If at the end of a year from that \$1 million let's say you accumulate 5 percent or \$50,000 which you would like to carry over and add to it next year and the next year so at the end of 5 years you will have \$250,000.

But OMB takes the position that if you are to be funded at \$1 million a year and you have say \$50,000 left over, next year you will get \$950,000 and they will say now you have your \$1 million because you already have \$50,000 onhand, here is another \$950,000 so you now have your \$1 million.

You never can accumulate any money for vehicular replacement because they won't permit you, as you would in business, to say this vehicle is going to last 4 years or whatever it is, so we will set aside one-fourth per year of what it is going to cost us to trade, then the fourth year we won't have any more vehicle requisition money than we had the second or third or the fourth. We don't have to have a budget increase. We have used a percentage of our budget for each of the 4 years but they won't permit that.

They won't in effect take back the money you have accumulated at the end of each year, hence you can't accumulate any money for this occasional expenditure, which is very considerable.

That is the narrow part of the OMB regulation that we are really here about this morning. Should we try to prevail upon the OMB to permit the accumulation of reasonable amounts of money for vehicle acquisition or reacquisition? If we can't do that, should we attempt it by legislation itself? That is really the essence of it rather than do the older vehicles use more gas than the new ones and that kind of thing.

Mr. WILLIAMS. Mr. Chairman, this accounting procedure used by OMB is an example of the larger problem. Let me interject here to say that I made this point, you will recall, in somewhat similar hearings that we had in the last Congress. The point being that the Congress distributes money in such a way that we account for only numbers of people. With regard to this specific problem, that is the wrong way to distribute money because it costs more to drive a bus round trip 100 miles and pick up 6 students than it does to drive it 6 miles and pick up 100 students.

Yet this Congress refuses in many instances, and I know that the chairman represents a rural area, this Congress refuses in many instances to recognize the high cost of space. And this example of the accounting procedure that OMB refuses to go to or the Congress has neglected to legislate is yet another example of us refusing to look at the high cost of space in an appropriate manner.

Thank you, Mr. Chairman.

Mr. ANDREWS. Only yesterday Mr. Lordan, if I have the name correct, and Mr. Saunders, if I am pronouncing it correctly, from OMB were kind enough to come to my office. The reason for that was that Mr. Lordan could not be here today so he agreed to come up and discuss this some with us yesterday.

I attempted to state your case, so to speak, as best I could to Mr. Lordan and he did give some responses. He couldn't be here today but his associate, Mr. Saunders is here. I just wonder—no one is meaning this as any chastisement of OMB at all, but on the other hand there is an obvious difference of desire on the part of OMB and the people who are here as witnesses. They are telling their side of it. Would you care to make any explanations or corrections or statements?

Mr. SAUNDERS. Mr. Chairman, I really don't have any explanations other than our prepared statement that we gave you yesterday. In that statement I think we said that there are basically only two ways in which our policies allow grantees to acquire vehicles. That is either through the Federal Government purchasing those vehicles and giving them to the grantee or having the grantee use his own funds and then depreciate it.

With those two options our policies don't allow any other means of doing that. Other than what we talked about yesterday, the idea of rental of equipment or purchasing the transportation service, those are the only two suggestions I think that we have at this time.

Mr. ANDREWS. We do appreciate your presence. We will be back with you and others of your office in the near future, I presume, to see if we can maybe obtain some more options that are, in the opinion of the grantees, more feasible.

We did discuss yesterday that among other things—and we haven't mentioned that but very little if any today, I presume there are some areas, primarily urban areas, where it might be feasible to consider just contracting transportation for certain programs with a private provider who would furnish the buses or vans or cars as needed and would transport in the case of Head Start the children or the meals or the elderly person to the mealsites, et cetera, on some kind of a mileage or other basis.

Is that procedure, private contracting, utilized to any appreciable extent? Is it considered? Is it deemed to be feasible or not feasible?

Mr. MASTER. Mr. Chairman, while you were out, in response to a question by Mr. Petri I mentioned that there are a number of projects across the country, one right in our back yard in Howard County, Md., that is a form of purchasing a service.

Mr. ANDREWS. That is Mr. Snodgrass whom we discussed yesterday, I think.

Mr. MASTER. But there are a number of these kinds of arrangements where, as Bryant was mentioning earlier, a number of human services providers can get together, such as with Head Start programs and aging programs, especially in rural areas where you don't want to send a van or a bus around with five Head Start students and drive 100 miles when you can transport other people as well. You add to the number of miles. You add to the selection of the options that you people have for participating in

programs. It really improves the access to the human services programs.

So this is being done. We are trying to promote a better awareness of this across the country.

Mr. ANDREWS. It should not be this way but it seems like what you really need to find is not necessarily the most economical way to provide the transportation. That should be the objective, but instead it seems that the objective becomes to provide a means of transporting that has a sort of a flat or constant cost in order to guarantee safe transportation.

It seems to me you are sort of forced to consider that, though it may be more expensive, rather than this acquisition of your own vehicles, then trading them in at reasonable intervals, because that means you concentrate the cost on every 3 or 4 or 5 years, whereas with OMB not permitting the accumulation of money, it seems to me you are sort of forced to consider, unless we can get that changed, either leasing the vehicles or contracting with the private provider. That is something that will give you equal monthly costs so you don't accumulate funds, which in effect they are not taken from you but they are counted against you next year so in fact they are.

It just seems you haven't, except in certain isolated cases, sought ways of getting that constant monthly or constant annual cost which would be leasing or contracting, at least to any appreciable extent, and get leasing with a large residual so as to get around the 3-year requirement.

I am just wondering if any of those things are more feasible than to try to go the route we are now pursuing of either dynamiting OMB out of its regulatory position or going the cumbersome, lengthy, difficult way of trying to legislate some method which may seem feasible today but may not be feasible 2 or 3 years from now. I sort of hate to get it written in granite as to how it is to be done.

I just therefore would assume it to be desirable that more consideration be given than apparently has thus far been given to methods of acquiring your vehicles or meeting your transportation needs by means of which the cost is the same each year rather than the fluctuation of buying a bunch of vehicles; then having no purchase money needs for x years, then all of a sudden having huge purchase or repurchase needs in some year.

Yes, Mr. Patterson?

Mr. PATTERSON. I believe when we start talking about dollars and costs, we in Head Start get a little edgy and gun-shy because what we do is translate that into services and I know that you do. But when we get down to the grassroots and we see the kids and when we see the services and we know that there are certain services that we are not able to provide because of limited funds, we get a little edgy when we have to take a more expensive route for providing the same service.

For example if we go the lease route and actually pay more, even though it is equal in terms of monthly payments and predictable in that regard, we see that additional cost as cutting back on services.

I would hope that in your deliberations and decisions that forcing Head Start into a posture of paying more for the service so as

to make those costs predictable would not be your first option. I would hope that.

The same point I think is being addressed with the depreciation allowance. That would allow us to write into a budget a predictable amount and would accomplish I think the same purpose as far as being predictable but at lesser costs.

The third point that I would make concerns purchase of service. In about 15 percent of the programs which I talked with there is a form of purchase of service, whether with a contracting service or a bus service, a schoolbus service. But at most that is 15 percent. In many of the other areas that were questioned as to methods and can they contract, the response that I got from many, not all, was to the effect that they serve in a multidistrict setting.

Many of the ones I talked with were rural and they cross school lines, for example. In some instances they cross county lines, and there is no other system of transportation now existing with which they can contract that would serve that same area, you see. It would be that there may be two bus companies serving two or three different school districts that would have one Head Start program within it. And so that is one of the reasons why that has not been more prevalent I think than it is.

Mr. MASTER. Mr. Chairman, we would be glad to formally consider some of these options, analyze the situation, and get together in an interdisciplinary group. In fact that is the kind of thing that we would do, having had this discussion.

Mr. ANDREWS. I hope that you will do that. I hope that you will.

Back to a point earlier, it seems like in a sense the problem is an accounting problem. But in a major sense, looking at it from the two perspectives of the program level of consideration and say the OMB or total consideration, we really I think are talking about an amount of money.

OMB obviously I think, and I should not be trying to speak for OMB. I will just say as I understand their explanations and thinking that I probably perceive something of their vantage point. They are seeing exactly the opposite than you.

They are saying why should the total budget of the total U.S. Government, and our responsibility is in that regard, why should the Treasurer be out in the marketplace borrowing money through Treasury bills or otherwise and paying 13 or 15 or whatever percent for borrowed money to send to a program in Missouri to put in the bank so they won't have to pay interest and instead can maybe even accumulate a little interest to add to theirs. We are trying to do just the opposite. We are trying to hold the total cost of Government down. We don't want to be out borrowing money to purchase buses 4 years from now and hence having to pay interest on those 4 installments of money over a total of that 4-year period.

It is just exactly the opposite of your position. Your position is that we don't want to lease the vehicles and have to pay the bank or somebody from our operating money and hence reduce the service to our kids. We don't want to have to be using our money to pay interest. It is very understandable, and that should be your position. You are trying to look after your kids or your various people you serve. And that should be your criteria: To cut our

vehicular cost as much as we can so as to use our money for services.

But I can in all fairness see that OMB's position is just exactly the reverse. We are trying to use the taxpayers' money as efficiently as we can and hence we are trying to provide for this year only those moneys that are needed to serve these kids or elderly people or whatever for this year. We don't want to be borrowing money for some of your costs that are going to occur some years in the future. That is in effect what would be happening.

Mr. Patterson, I remember that you said, then we do not need to necessarily receive the money each year and escrow it and receive interest, if the OMB or the Congress would instead just say well, all right, we are holding or we will provide 4 years from now by putting in your budget at least in numbers if not in actual dollars one-fourth of what it is going to cost to trade this vehicle for another one 4 years from now. If by authority rather than cash you would let us accumulate certain figures to the end that 4 years from now you would give us an extra \$10,000 to replace this vehicle, we don't necessarily have to have the money now.

Mr. Saunders, how does that occur to you? In other words you are not putting out any money until 4 years from now. But you are not running up their budget in that fourth year in that you let their budget authority include, if it is to be \$10,000 for a given vehicle 4 years from now, you will let their budget authority be increased by \$2,500 each year and you will give them the money, the \$10,000 in the fourth year.

Mr. SAUNDERS. It sounds very good now. I would hate to make any sort of an official statement on that. I would hope that in the record you would suggest that to OMB as an option.

My own feeling is that if you do that you are still going to have to make 1 year an increase in that particular amount of money to that particular grantee.

Mr. ANDREWS. You will to that particular grantee, but it just occurs to me that when you consider the large number, I know CSA has more than 900 programs over the Nation at large. When we are talking about the relatively vast number of programs and the relatively vast number of vehicles, I dare say that the actual output of moneys would not vary. It would with that grantee we just used as an example. But for another grantee's vehicle, that is assuming that program is starting this year with a new vehicle. They are not by any means all starting with new vehicles. In fact it seems to be on the contrary.

So I dare say the number of actual expenditures of money on this escrow amount of money but of Federal obligation would probably come out to be about the same each year, I would imagine.

Mr. SAUNDERS. It would be something we would be more than happy to look at. I couldn't make a statement at this point.

Mr. MASTER. Mr. Chairman, it may be that we can resolve this internally. I think what you suggested is very practical.

Mr. ANDREWS. That gets away from who benefits from whom in this business. Nobody would. You are just back to a realistic appropriating in each year what is needed for transportation without letting them accumulate the interest or the Government having to borrow the money in any given year and the Government having

to pay the interest while they accumulate it. You are back to actually using a paper depreciation method whereby they incur costs for each particular program, maybe say 4 years. You just give them budget authority of one-fourth of that each year without the Government having to go into the marketplace and get the money until the year it is actually to be spent.

Mr. MASTER. The way that could be accomplished, let's say in the State of North Carolina or, in less populated areas, on a regionwide basis, would be an agreed upon schedule for all the grantees. Then you would know for grantee X in North Carolina the moneys that would be available within that State or within that region out of carryover funds, that is the last quarter of the fiscal year before it lapses.

So in effect we would still be putting the same amount into that program nationwide as we planned at the beginning of the year, and that grantee in the first year of the program would get a certain amount for vehicle replacement costs. Then the schedule rolled out for a 5- or 6-year period or whatever it is would also show that grantee receiving funds, let's say 5 years down the pike, and the second year other grantees would get it.

In other words if you had an agreed upon schedule either on a statewide basis or regionwide basis, that would accomplish what you are trying to get at.

Mr. ANDREWS. But OMB doesn't want to let you carry over the money even regionally, but maybe they would let you carry over the authority.

Mr. MASTER. Let me clarify one point. I am not sure that this information got out in the right way or that you are receiving it the way I understand it.

It is only after the fiscal year is over that as an agency we have to reprogram those funds. In that last quarter of the fiscal year if we see in the State of North Carolina based on monthly financial reports, that there are some that will be in excess, that is when we can make a determination to fund one-time costs. That is what I mentioned earlier, that that is the way we have been replacing a lot of vehicles.

I don't know if any of your vehicles are replaced that way in Missouri or North Carolina. But let's say in a particular State if we expect to have \$100,000 in the Head Start program carried over in that last quarter of the fiscal year, we can then make one-time grants. They don't increase the operating cost of the program because the costs don't carry over to other fiscal years. But to purchase vehicles for example, that would be a legitimate one-time cost.

I guess what I was saying earlier, to take your proposal, would be to have a schedule for the use of some portion of those carryover funds from one year to the next. We wouldn't need OMB approval or clearance on that.

Mr. ANDREWS. I am going to have to leave. I have a noon luncheon over on the Senate side with a group, an obligation I have had for some time. I am going to therefore excuse myself, but if Mr. Williams or Gordon or any of you for that matter wish to carry on, I will appoint whomever is left down to the last one as acting

chairman. I believe that will meet with the rules, inasmuch as votes are not to be taken anyway.

So at this point I would ask Mr. Williams to continue as chairman.

I appreciate the opportunity to be with you. And I hope you will in your various States, Mr. Patterson, or nationwide or regionwide or in all respects see what you can come up with from your own people.

Bryant, you have in Atlanta accountants and so forth on the staff there, I am sure, very competent ones for that matter.

Mr. TUDOR. Yes.

Mr. ANDREWS. See what they can come up with. I guess they of course know OMB's or the administration's position in not wanting to borrow money in any given fiscal year to let it be accumulated somewhere to be spent x years from now. They want to make this year look as good as they can by holding down the amount they have in this year's budget and they want to use next year's budget for any carryover money they have left. So maybe this matter of accumulating authority rather than money is a feasible answer. I don't know. But get your accountants to look into that or you yourselves or whomever you think would be appropriate.

Let's not necessarily have formal hearings to communicate with each other. Let me hear from you. If you come up with something, get it written up in some way and drop it in the mail to us, or call Gordon or whatever. If another hearing seems feasible, perhaps even a markup type hearing with some legislation before us, if we can't do it any other way then we will do it that way.

But the subcommittee wants to propose to OMB or in the way of legislation something that is feasible and is reasonable from the standpoint of the taxpayers as well as from the standpoint of the programs and their recipients.

I think we made some headway at least, but apparently we are still a good ways from any agreement as to just what we should propose. I believe that you can help us arrive at that. I know that you can, and we invite you to do that. Let us hear from you as individual members or through the staff or by whatever means you think to be best for your purposes.

Thank you again for being here, and I will excuse myself.

Mr. Williams, would you like to move around here or just continue from where you are?

Mr. WILLIAMS. I will stay here.

Mr. ANDREWS. Whichever suits you.

Thank you.

Mr. WILLIAMS [presiding]. We obviously are not going to be able to turn this into the working session that is going to be necessary to find a solution to this problem.

Does anyone at the hearing desk have any further questions of the panel of witnesses?

Mr. DEAN. No.

Mr. WILLIAMS. Do the witnesses have any further remarks?

Mr. MASTER. It was a pleasure being here.

Mr. WILLIAMS. I echo the statements of the chairman and agree with the suggestion of you, Mr. Master, that this problem is best handled if we can do it within the Department of Health and

Human Services working with this committee staff and members and OMB to find a solution that does not require us to pass legislation.

With that I thank the members of the panel for your appearances and work here today.

This hearing is closed.

[Thereupon, at 12:07 p.m., the subcommittee adjourned, subject to call of the Chair.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF JOHN J. LORDAN, CHIEF, FINANCIAL MANAGEMENT
BRANCH, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman and Members of the Subcommittee: The Office of Management and Budget welcomes this opportunity to discuss procedures for allowing depreciation on vehicles used for transporting children to and from Head Start program services.

As you know, the President announced in his economic message last week that there will be no cut in Project Head Start. This program, then, is one of the few not affected by the stringent budget measures that the President has concluded are necessary in order to bring about economic recovery. It is doubly important then that this program be well managed, and that those carrying it out be fully accountable for program funds.

The Office of Management and Budget has traditionally played a role in standardizing the administrative aspects of Federal assistance programs. Our Circulars A-102, "Uniform requirements for grants to State and local governments," and A-110, "Uniform requirements for grants to universities, hospitals, and nonprofit organizations," establish standard provisions for such things as application forms, financial reports, bonding and insurance practices, audit procedures, and the like. Similarly, OMB has established uniform rules that all agencies, and all programs, must use in determining the costs of grant programs. We have three such sets of cost principles for three distinct groups of grant recipients: Circular A-21, "Cost principles for educational institutions"; Circular A-87, "Cost principles for State and local governments"; and Circular A-122, "Cost principles for nonprofit organizations."

Although the language of each of these sets of cost principles is tailored to the organizational structure and accounting conventions of the various affected groups, they are at heart the same. Each provided that the Federal Government will pay its fair share of total costs, whether those costs can be charged directly to a grant, or whether they are recorded centrally and then allocated to grants. They provide that certain kinds of unnecessary costs—like entertainment, bad debts, fines, and penalties—will not be allowable under any circumstances. And they all provide that the costs under discussion here today—costs of capital equipment and depreciation of capital equipment—are allowable.

Since most Head Start grantees are either units of local government or nonprofit organizations, the two sets of cost principles that concern us here are Circular A-87 and Circular A-122. Here is what A-87 says about depreciation:

"11. *Depreciation and use allowance.*

"a. Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. Use allowances are the means of providing compensation in lieu of depreciation or other equivalent costs. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

"b. The computation of depreciation or use allowance will be based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The computation will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government through charges to Federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides. In addition, the computation will also exclude the cost of land. Depreciation or a use allowance on idle or excess facilities is not allowable, except when specifically authorized by the grantor Federal agency.

"c. Where the depreciation method is followed, adequate property records must be maintained, and any generally-accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected federally-sponsored programs

and must result in equitable charges considering the extent of the use of the assets for the benefit of such programs.

"d. In lieu of depreciation, a use allowance for buildings and improvements may be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment (excluding items properly capitalized as building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment

"e. No depreciation or use charge may be allowed on any assets that would be considered as fully depreciated, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated."

"Circular A-122 contains a very similar provision with regard to depreciation and use allowances. In both cases, no depreciation or use allowance is permitted for assets that were originally acquired with Federal funds. The basic tenet here is that the Government should not pay twice for the same asset—first as a capital contribution, and later through depreciation or use allowances. As a general principle, this longstanding rule has served the Government well over the years. If there are other views on the subject to be expressed here, or if there is some reason to consider a different rule for Head Start grantees, we would welcome the advice of this Committee, the Committees on Appropriation, or other interested Committees of the Congress on the matter.

DEPARTMENT OF HEALTH AND HUMAN SERVICES,
REGION IV,

Atlanta, Ga., October 2, 1980.

Hon. IKE ANDREWS,
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ANDREWS: Recently I participated in a Regional Community Action Association meeting during which the issue of better coordination of federally funded transportation services was discussed. Mr. Gordon Raley of your staff was there and we also discussed this issue, and at his suggestion, I have developed a package of material on the problems service providers face in trying to use Federal transportation resources more efficiently.

The attached package of material includes a brief discussion of the history and background of the problem, a listing and brief analysis of the major detailed analysis of the problems related to vehicle replacement through a depreciation or use allowance technique, and finally a section of recommendations on possible legislation to remove or reduce the barriers to effective transportation coordination. Also, we have attached copies of the major reference documents, some of which represent excellent research and analysis work.

We hope this material will give you and your staff the information you need in order to determine the desirability of introducing legislation. If we can be of further help, please let me know.

Sincerely,

L. BRYANT TUDOR,
Regional Administrator.

REGION IV TRANSPORTATION ANALYSIS AND PROPOSAL

History and background

It is widely recognized that transportation services are vital to the delivery of social services. In 1975 Region IV's Office of Health, Education, and Welfare concluded and published a 200 page Inventory of Federal Transportation Funded Programs which stated that "Mobility is perhaps the cornerstone of the ultimate success or failure of all human service delivery systems". However, it is somewhat less recognized that "coordination" of existing transportation services is in the best interest of human services agencies; the social services programs; the clients, and finally the taxpayer.

The earliest study to focus on coordination defines it in three phases: (1) cooperation; (2) coordination; and (3) consolidation; reasoning that there were three essential steps in a planning continuum. The ultimate result of cooperation and coordination would be consolidation of all transportation services in a community or geographic area into a single unified system. Efforts to coordinate transportation

services are receiving a great deal of attention. From such efforts, both positive and negative observations can be made

Demonstrations

In 1977, the Office of Human Development Services (HDS), within HEW, initiated a demonstration program with grants aimed at determining the feasibility of coordinating and/or consolidating existing transportation resources within several Office of Human Development Services Programs at the sub-State level. These programs addressed the transportation disadvantaged, with emphasis on the elderly, handicapped, developmentally disabled, Head Start eligibles and other children from low-income families, and Native Americans. Five areas were selected to test and evaluate different coordination techniques in rural and urban settings. The demonstration effort has yielded substantial information concerning the operation of coordinated transportation systems and hindrances to effective human service agency transportation. As a result of this effort, coordination is now seen as a less universal solution than had been imagined. However, it was concluded that it is only in very special circumstances that coordination costs less. Coordination can work extremely well in specific instances including the following kind of conditions: The consolidation of the transportation programs of some but not all of the social services agencies in an area; the existence of one lead agency with substantial cash or cash potential to handle problems such as vehicle maintenance and cash flow; adequate billing and accounting procedures; an outside authority able to fund the initial planning, start-up and technical assistance; and local expertise and commitment.

Major issue (accounting)

The accounting issue has been identified as one of the impediments "barriers" to effective services by the demonstration projects and by existing transportation providers. Transportation is a generic term that means different things to different people. However, in the context of coordinated or individual agency transportation where organizations purchase or provide transportation services, accounting issues can be divided into four components; (1) bookkeeping, (2) financial accountability, (3) billing, and (4) program accountability.

Problems that arise from the multiple pressures on the accounting system are compounded by the lack of expertise and confusion at all government levels. The lack of expertise became evident in the development of the five HDS transportation demonstrations which involved over 100 different local providers and purchaser organizations. Almost all agencies involved in the demonstration programs lacked the ability to develop and maintain an adequate, useful, and understandable billing and accounting program. Problems arose from the number of different demands made on the system (Federal, State and local) or conversely, from the lack of standardization in the billing and accounting area. Therefore, an underlying theme of billing and accounting research is to find simple, standard procedures that can be incorporated in each of the four components and that satisfy the demands of different organizations at all levels.

Purchaser, providers, and funding sources all make different demands on a billing system. The provider wants to recover his cost of operation, maintain adequate cash flow, minimize his potential for loss, and incorporate a process that does not require extensive record keeping.

The purchaser wants to be assured that he is not subsidizing the service provided to others and wants a system that is understandable and easy to administer. Funding sources are also concerned with cross-subsidization, and will want to monitor the cost effectiveness of transportation services.

A number of issues can be found in the billing area. The most obvious is what type of Cost-sharing (billing) structure should be used. Other issues equally important are: How to properly allocate cost and avoid cross subsidization; how to maintain adequate cash flow; and how to properly administer rate setting and billing procedures.

Major problem

Related to resolving these major issues in the billing and accounting procedures is an examination and discussion of "depreciation" of vehicles in a coordinated transportation system. In order to provide for replacement of vehicles and ease operational expense problems, the following areas must be addressed: Depreciation of vehicles as an allowable operation expense; establish the depreciation rate at a reasonable level; and apply the rate consistently among programs and agencies.

PERTINENT STUDIES ON COORDINATED TRANSPORTATION

In the last few years, several studies and reports were done around the issues relating to the coordination of human service transportation. These studies, al-

though done from a variety of perspectives, have documented and raised a number of significant issues related to human service transportation. Some of the more significant and relevant documents and their major themes and findings are listed below.

In January 1976, Region IV HEW updated and reissued a 1974 publication called "Transportation Authorities in Federal Human Services Programs."⁵ This study listed all the Region IV Federal agency programs funding human services transportation. It listed statutory, regulatory, and formal and informal policy constraints to cooperation, coordination and consolidation of human services transportation. Issues identified included federal laws and regulations on eligibility, match requirements, fiscal and program accountability requirements, policy issues, e.g. guidelines, judicial and legal opinions, required state and local plans, and informal policies and attitudes and general turf guarding tendencies.

In July 1978, the Office of Planning, Research and Evaluation of the Office of Human Development Services issued a status report on the OHDS Crosscutting Transportation Demonstration Program.⁴ One of the more important items documented in this report was the lack of specific data on the cost of human service transportation. Based on extrapolation of known costs, this report estimated that HEW was spending \$800,000,000 annually on transportation. This figure would be closer to \$1,000,000,000 per year with the required state and local match dollars. This estimate appears realistic based on a 1979 OHDS study of transportation expenditures in Region IV.⁶ Based on information from OHDS grant files and from the eight states, over \$61,000,000, annually was being spent on human service transportation from OHDS budgets alone. This is a sizable investment without national policy guidance or requirements for coordination, and with numerous hindrances to coordination.

Perhaps the most useful study on this issue was the October, 1977, GAO report which documented 114 federal programs that fund transportation programs.³ Although the report found few specific legal barriers to coordination, it did focus on a number of very significant hindrances. One of the findings of significance was highlighted on the front of the report. "The most significant hindrance appears to be confusion at all government levels about the extent of transportation coordination federally funded projects may engage in. The Congress should reduce this confusion by endorsing transportation coordination when feasible, providing there is appropriate cost-sharing and cost service accountability."

The last document of major significance is the report from the White House Interagency Working Group on Rural Transportation Coordination.⁷ This paper deal specifically with the question of vehicle depreciation as a major and critical element in coordinated transportation systems. It points out that, "The uncertainty of vehicle replacement and its effect upon coordination is a serious issue." It further states, "The real or perceived prohibition against the charging of depreciation as an allowable operating expense for vehicles purchased in part with federal financial assistance has been pointed out as a hindrance of effective transportation coordination." The following elaboration on the issue of depreciation will lay the foundation for possible legislative action by Congress.

DEPRECIATION AS AN ALLOWABLE OPERATIONAL EXPENSE

Title 44 of the CODE of Federal Regulations, Part 74, "Administration of Grants" applies to almost all Health and Human Services (HHS) grants. The regulation deals with many questions such as how allowable costs are determined. In addition to this regulation, HEW grants are subject to Federal statutes, other regulations, including HEW program regulations, individual award documents, and sometimes other documents as well.

Definition

The real or perceived prohibition against the charging of depreciation as an allowable operating expense for vehicles purchased in part with Federal financial assistance has been pointed out as a hindrance to effective transportation coordination.⁷ The hindrance is embodied in the wording or interpretation of OMB circular 74-4 and the HEW Grants Administration Manual. This manual defines depreciation "as a charge to current operations which distributes the cost of a tangible capital asset, less estimated residual value, over estimated useful life of an asset in a systematic and logical manner. It does not involve a process of valuation. Useful life has reference to the prospective period of economic usefulness in the particular institution's operation as distinguished from physical life.

A more helpful definition of depreciation indicated (Reference: The Institute for Public Administration) depreciation is the value of a capital resource, such as a transportation vehicle, which declines over time as a result of wear-and-tear on the

equipment, due to use and age. If depreciation were allowed on transportation vehicles, the transportation component could: Become more self-sustaining; eliminate the continuous need to request special federal or state funding; and encourage the development of coordinated systems.

Problems

Some problems have been raised by auditors in regards to allowing depreciation:

1. auditors claim it gives the appearance of double payment by the government for the vehicle (we disagree). For example a Head Start program could purchase a van from year end program funds and set up an escrow fund for say a three-year period based on mileage or annual depreciation. Then at the end of the period the grantee would have enough money to purchase a new vehicle when the old one wears out; and
2. the use of depreciation in the manner proposed is not accepted by everyone as a workable solution to the problem of vehicle replacement in all situations; and
3. the financial systems set up by Federal, State and local human services agencies would have to be adjusted to handle the depreciation funds (this could be done very easily).

Establishing The Rate At A Reasonable Level

The lack of uniform cost determination and rate-setting procedures has forced providers to tailor their service to the level and speed of reimbursement that they can receive from the various funding sources. The various state agencies unknowingly may purchase equivalent levels of transportation services from the same provider, pay different rates, and cause unnecessary demands on the provider to isolate allowable costs attributable to the specific contracts.

Apply The Rate Consistently Among Programs And Agencies

It has been suggested that a standardized rate for depreciation of vehicles be set to apply to all government agency programs. However, consideration must be given to the variety in type and use of vehicles which reflect different life expectancies. Allowing a depreciation charge based on mileage might perhaps more truly reflect the cost of vehicle depreciation, or a depreciation limited to a certain percentage per year as is presently permitted, private business for equipment depreciation.

RECOMMENDATIONS FOR LEGISLATION CONTENT

Legislation drafted to deal with the issues should contain the following:

1. A clear statement of congressional legislation direction that cooperation, coordination and/or consolidation of Federally Funded human service transportation is to be promoted and encouraged when cost effective and supported by state and/or local funded agencies. This legislation should apply both to agencies providing transportation services to other agencies under contract as well as to efforts by an agency to pool transportation resources from several federal funding sources which are operated by the agency.
2. Legislation that depreciation funds may be set aside as a legitimate escrow for the purpose of vehicle replacement. Legislation should include safeguards such as reasonable time limits (3-4 years) on use of escrow funds, provisions for designating successor agencies if needed, and permission to use interest accrued on the escrow if the interest is applied to new vehicle acquisition as an offset to inflation.
3. Provision for any agency to keep fully depreciated vehicles which are in good order as back up vehicles, but providing that such vehicles cannot be used to expand funded services so as to create any additional federal commitment.
4. Provision that the federal legislation would take precedence over conflicting state laws and/or administrative practices, but with a provision that a state could request an adjustment or waiver if enforcement of a particular provision would create an undue hardship on clients or existing transportation systems.

BIBLIOGRAPHY

1. *Administration of Grants, Federal Regulations Title 45 Part 74*, HEW Office of Grants and Procurement, August 2, 1978, Washington, D.C.
2. *Coordinating Transportation for the Elderly and Handicapped*. The Institute of Public Administration, US DOT, November 1976, Washington, D.C.
3. *Hindrances to Coordinating Transportation of People Participating in Federally Funded Grant Programs, Vol. 1 and 2*, Comptroller General of the United States, October 17, 1977, Washington, D.C.
4. *Office of Human Development Services Crosscutting Transportation Demonstration Program*. Office of Human Development Services, Office of Planning, Research, and Evaluation, July 15, 1978, Washington, D.C.

- 5 *Transportation Authorities in Federal Human Services Programs, U.S. Department of Health, Education and Welfare, Region IV, March 1, 1976, Atlanta, Georgia.*
 6. *Transportation Study. Office of Human Development Services, Region IV, L. Bryant Tudor, April 9, 1979, Revised February 6, 1980, Atlanta, Georgia.*
 7. *White House Interagency Working Group on Rural Transportation Coordination, Action #5, Issue Paper, Anonymous, September, 1978.*

WHITE HOUSE INTERAGENCY WORKING GROUP ON RURAL TRANSPORTATION
COORDINATION

ACTION #5

Allow depreciation as an allowable operational expense, set the depreciation rate at a reasonable level, make the rate consistent among programs and agencies.

PURPOSE

To provide for replacement of vehicles and ease operational expense problems.

ISSUE PAPER—SEPTEMBER 1978

This paper examines issues of depreciation of vehicles in coordinated transportation systems. This paper is oriented toward the depreciation issue in the transportation component of HEW programs. Other Federal agencies should be encouraged to review the impacts of this issue on their own programs.

Introduction

The coordination of human service agency transportation services can result in a number of significant benefits to participating agencies including, among others, more client transportation service, reduced transportation costs, and increased reliability and opportunity for clients.

At the same time, coordination creates a wide spectrum of potential implementation and operational problems and issues that need to be resolved if such programs are to fully realize their potential. One such area, which is the subject of this review, is the problem of increased vehicle wear and vehicle replacement.

Human service agencies have no automatic replacement programs for their vehicles, but must instead rely upon the uncertainty of their regular program funds and/or other special funding sources. Therefore, the commitment to a coordinated program, entailing the cooperative use of each participant's vehicles, puts additional wear upon each vehicle with no assurances that replacement vehicles will be available. As a result, an agency thinking of entering into a joint venture must weigh the initial transportation benefits against the uncertainty of future vehicle replacement.

There are three potential sources for replacement funds. First, money might be forthcoming from regular agency program funds. However, the amount and availability of these funds vary from year to year, which makes this an uncertain source. The use of these funds is sometimes perceived as a diversion of program money from the primary program functions. Second, a consolidated program can look towards UMTA Section 3 replacement funds; however, there is no guarantee that they would be available, nor does the Department of Transportation generally make them available to restricted agency programs. UMTA Section 16b(2) funds are a far more likely source for coordinated/consolidated programs, but these funds are highly competitive and also offer no guarantee of continuous support.

The uncertainty of vehicle replacement and its effect upon coordination is a serious issue. This paper examines an alternative source of replacement funding through the potential use of depreciation and escrowed replacement funds as an effective means to resolve this problem to more effective transportation coordination.

In order to understand the importance of these issues, the following background material on the definition and use of depreciation is helpful.

Depreciation is the value of a capital resource, such as a transportation vehicle, which declines over time as a result of wear-and-tear on the equipment, due to use and age. Because it is recognized that depreciation is a very real cost of doing business, most accounting systems include a method whereby this cost is systematically allocated to the accounting period which benefits from the services of the capital equipment. Private businesses often depreciate equipment at accelerated rates in early years of ownership, on the assumption that material value declines faster for new equipment than for older objects. This practice of "accelerated depreciation" qualifies private business for large income tax deductions on the high cost of depreciation in early years of ownership.

Private non-profit enterprises, such as special transportation projects for the elderly and handicapped, or government transportation projects which do not pay taxes, usually depreciate capital equipment at a constant annual rate with a small residual value for scrap material or trade-in value at the end of the anticipated useful life of equipment. This practice of "straight line depreciation" is easy to calculate and simple to estimate based on the acquisition cost of the object and its projected useful life.

In either case of private business, non-profit enterprise or public project, capital depreciation is a real cost of resources which must be reimbursed by consumers or other sponsors in order to recover the full cost of operation. (Ref: The Institute for Public Administration)

Issues regarding the depreciation of vehicles purchased with Federal assistance

The real or perceived prohibition against the charging of depreciation as an allowable operating expense for vehicles purchased in part with Federal financial assistance has been pointed out as a hindrance to effective transportation coordination. The hindrance is embodied in the wording or interpretation of OMB Circular 74-4 and the HEW Grants Administration Manual. The problem is most serious for those human service agencies which operate transportation programs for their clients, or wish to coordinate service delivery with such provider agencies. In many rural areas, this is the most viable or only form of public transportation available.

In reference to transportation coordination and the subject of depreciation as a hindrance to effective coordination, HEW's Region IV identified the following issues:

(1) If a vehicle is used in a coordinated system, the extra vehicle use incurred increases the rate at which the vehicle wears out. Due to Federal regulations, the agency operating the vehicle cannot charge purchaser agencies a depreciation charge for this additional vehicle usage.

(2) If depreciation were an allowable expense in federal grants, even when the vehicle was purchased with Federal financial participation, a fund could be established for vehicle replacement.

(3) If such a fund were allowed, the depreciation rate should be realistically set. An interpretation of present regulations assumes the limit on depreciation to be 6% percent annually which is unrealistically low for the type of vehicles generally used in coordinated social service transportation.

HEW Region IV presents a hypothetical situation which focuses clearly upon the issue of depreciation as a hindrance to coordinated transportation.

Grantee A received Federal funds to purchase a mini-bus to transport its own eligible clients and uses the bus from 7-9 a.m. and from 3-5 p.m. daily. Agency B (Federally funded) has need of transporting its clients to a service or services between 10 a.m. and 2 p.m. but has no vehicle to do so. Agency B desires to contract with Grantee A for the transportation service when the vehicle is not in use by Grantee A. Grantee A refuses to contract for service because the additional use of the vehicle will accelerate the depreciation of the vehicle and shorten its useful life, and charging Agency B for that accelerated depreciation is not permissible. Grantee A is unsure as to how they will be able to fund the purchase of a new vehicle when the existing vehicle wears out and is afraid that additional use will cause their funding agency to be reluctant in funding the purchase of a replacement vehicle.

If Grantee A could charge a reasonable depreciation rate for their use of the vehicle, and set up an account for these funds, the combination of the normal depreciation rate charge, plus the depreciation charged Grantee B as part of the user charge, would create enough funds to purchase a replacement vehicle when Agency A's vehicle wears out. Thus, Agency A has eliminated the need to request a special grant for a replacement vehicle and achieved a corresponding reduction in the local, State and Federal paperwork processing.

Although the example cited above is a simple presentation of coordination and the depreciation hindrance, it nevertheless, accurately illustrates the problem as confronted by both coordinated and consolidated systems.

At this point, it is important to understand that coordination is a cooperative arrangement among human service agencies, public transit, et. al, aimed at realizing increased transportation benefits through vehicle time-sharing, client ride-sharing, and/or joint operation of one or more transportation functions, (e.g., maintenance, information and referral, dispatching, etc.). Coordination is, therefore, a cooperatively structured interagency process and does not require vehicle transfer, and centralized management/operations functions under a single non-profit or public agency—a system generally referred to as consolidated. Both coordinated and consolidated transport services, however, require a purchase-of-service agency relationship for the cost of shared client/vehicle transportation services. For this

reason, and due to the subject matter of this paper, the distinction between coordinated and consolidated transportation systems need not be sharply drawn except in relation to the volume of purchased services (generally greater under a consolidated system) and the corresponding impact upon depreciation cost component volumes.

If depreciation were allowed on transportation vehicles, it could accomplish the following for human service transportation systems.

The transportation component could become more self sustaining, therefore developing it as a fixed component of the agencies budget, which is the current practice for overhead costs.

Depreciation could eliminate the continuous need to request special Federal or State funding or to use the agencies' program budgets when purchasing replacements of existing vehicles. (HDS, and DOT "147" demonstration projects are currently contending with the problem of obtaining replacement funding for the continuation of the projects beyond the demonstration phase and this has been recognized as a serious problem for non-categorical based transportation providers).

It would encourage the development of coordinated systems as more permanent solutions due to the greater guarantee of vehicle replacement funds. The major discernable disadvantages of allowing depreciation are:

Depreciation gives the appearance of double payment by the government for the vehicle.

Depreciation decentralizes control of vehicle purchase to grantee agencies who are escrowing funds for vehicle replacement and therefore isolates the transportation component from the shifting priorities of the funding source, (State and local agencies may view this as an advantage).

Depreciation would not provide a source of funds for fleet expansion to provide additional service. Therefore, additional front-end funding sources would be needed as such requirements arise.

The use of depreciation in the manner proposed has not been proven as a workable solution to the problem of continuing funding for vehicles.

The financial system set up by the human service agencies would have to be adjusted to account for the depreciation expense.

The depreciation funds, being Federal funds, could not be used as matching for any other funding source for vehicle purchase.

For purposes of this paper, the above issues are primarily rooted in two documents: Federal Management Circular 74-4, issued by OMB; and the HEW Grants Administration Manual OMB Circular 74-4 provides guidelines on the proper management of all Federal funds, which then must be followed by each government agency in their individual grant programs. Thus, the most important Federal prohibition to the use of depreciation is recognized as Section 11 of this circular, entitled "Depreciation and Use Allowance," since it in turn restricts the use of depreciation and use allowances by each individual government agency. These restrictions are reflected by HEW in its Grants Administration Manual. The following material provides a summary of the key parts in these two documents, regarding depreciation, and interpretations regarding their use.

OMB Circular 74-4, section 11

As stated, OMB Circular 74-4, Section 11, is the most significant barrier to the use of depreciation by coordinated transportation systems. Section 11-b, entitled "Depreciation and Use Allowance," states,

The computation (of depreciation) will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal government through charges to federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides.

In the issues raised by Region IV, this section of Circular 74-4 was interpreted to prohibit any charge for depreciation on federally purchased vehicles. While it is clear that this section prohibits charges for depreciation made by Federal grantee against their Federal grant, OMB informally points out that this circular is silent on the issue of depreciation as a component of a user charge by one Federal grantee for use of a vehicle by another grantee. This appears to be OMB's approach to implementation of Circular 74-4 and it is not known to have been tested by administrative rulings or court decisions. This confirms a similar interpretation of OMB Circular 74-4 by the Institute for Public Administration in their report on depreciation of transportation equipment for the Administration on Aging. Therefore, while OMB Circular 74-4 does prohibit direct charges by grantees to Federal grants for depreciation of vehicles purchased with Federal funds, thus prohibiting accumulation of funds for total vehicle replacement, it does not directly prohibit one grantee agency from charging another grantee the full user charge of a vehicle, including the cost of accelerated depreciation. It does appear, however, that there is

still a perceived prohibition, even though a real prohibition does not exist, which is a hindrance to the development of coordinated transportation systems. There is an apparent need for establishing accounting principles which can assure purchasing agencies that they are only paying for the percentage of depreciation in relation to their use.

Section 11-d of OMB Circular 74-4 states that:

The use allowance for equipment (excluding items properly capitalized as building costs) will be computed at an annual rate not exceeding 6% percent of acquisition cost of usable equipment.

It has been pointed out that this percentage is much too low for vehicles used in coordinated systems. The average life of the vans or minibuses often used in a coordinated human service transportation system is only three to five years, thus requiring a depreciation rate as high as 20 percent to 33 percent in order to fully depreciate a vehicle over its expected life. In discussions with OMB, however, it was learned that this section only applies when a direct use allowance is charged by a Federal grantee against the Federal grantor "in lieu of depreciation" and is used where no records are kept to verify depreciation totals. If records are kept, a reasonable depreciation can be charged. Therefore, if a component of the user charge were set for depreciation it could be set at a reasonable rate and not restricted by the 6% percent user charge. Guidelines for the calculation of reasonable rates for depreciation would have to be developed in order for agencies to establish depreciation as a component of their costs.

In conclusion, OMB "allows" depreciation as a component of user charges to purchasing agencies, but does not allow an agency general depreciation of the vehicle against its Federal grant. Thus, if an agency is in a coordinated system, it can charge a reasonable depreciation rate as part of the user charge to agencies purchasing service and escrowing these funds in a special account for vehicle replacement. But, when the vehicle wears out, they will have only the depreciation funds from the added use of the vehicle and not funds reflecting the total cost of the vehicle. Therefore, they must obtain the balance through a special grant or agency operating budget to purchase the replacement vehicle.

HEW Grants Administration Manual

The HEW regulations regarding depreciation are by necessity patterned after OMB Circular 74-4, and are contained in its Grants Administration Manual (45 CFR 74). Appendix C (relating to grants and contracts with State governments) and Appendix F (relating to grants and contracts with non-profit organizations) of the HEW Grants Administration Manual both have sections which prohibit charging depreciation against grants where the equipment was purchased with Federal participation. Appendix C states:

The computation (of depreciation) will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal government through charges to Federal Grant programs or otherwise, irrespective of where title was originally vested or where it presently resides.

The wording is exactly the same, as the wording in OMB Circular 74-4 and is basically the incorporation of the OMB Circular into HEW regulations. Therefore, it should be interpreted the same as the OMB Circular with respect to allowing depreciation as a component of charges for use between grantees. Appendix C of the Manual also has a section regarding a use allowance, in lieu of depreciation similar to OMB 74-4, which sets a rate of 6% percent. Here, too, this is the incorporation of OMB Circular 74-4 into HEW regulations and it should be interpreted in the same manner.

Because many coordinated and social service agency transportation systems are run by private non-profit organizations, it is important to consider the regulations affecting grants to non-profit organizations. With regard to depreciation, this appendix states:

Computation of the use allowance and/or depreciation will exclude both the cost or any portion of the cost of grounds, buildings, and equipment borne by or donated by the Federal government, irrespective of where the title was originally vested or where it presently resides.

This has the same effect on non-profit agency grants as Appendix C has on grants and contracts with State and local governments. Therefore, it is a reasonable assumption that the interpretation of the section of Appendix F which applies to depreciation would be similar to the interpretation of the corresponding sections of Appendix C. Appendix F also has a section limiting a use allowance to 6% percent per year when used in lieu of depreciation. Here too the interpretation should be similar to the corresponding sections of Appendix C and OMB Circular 74-4, even though these are internal HEW regulations not governed by OMB Circular 74-4.

If depreciation charges were allowable when vehicles have been purchased with Federal funds, it has been perceived that the HEW Grants Administration Manual would prohibit the escrowing of funds, basically considered as a form of program income, except for uses which would be considered the primary purpose of the grant. Therefore, it has been concluded that program income of any type could not be used for transportation costs such as the purchase of a vehicle since transportation is only a support service for most HEW grants and not a primary service.

The current HEW Grant Administration Manual (revised August 12, 1978) states that program income can be used

for costs which are in addition to the allowable costs of the project or program but which nevertheless further the objectives of the Federal statute under which the grant was made. Provided that the costs borne by the income further the broad objectives of that statute, they need not be of a kind that would be permissible as charges to Federal funds (45 CFR Section 74.42(e)). The key phrase in this regulation is "further the objectives of the Federal statute." In closer review of this section and in conversations with the HDS Grant Policies and Procedures Section, the repetition of this key phrase with the addition of the word "broad" in the second sentence of the quotation above is interpreted to mean that a broad interpretation of the phrase was intended, and therefore the aid of a vital support service such as transportation would be a valid purpose.

Assuming depreciation were to be allowed and an escrow account was set up for the purchase of replacement vehicles, the remaining issue is the rate at which depreciation should be set. It has been suggested that a standardized rate for depreciation of vehicles be set to apply to all government agency programs. While this would eliminate confusion and ease coordination, it could also create some problems. To accommodate the variety of service needs that agencies have, there may be a corresponding variety in the type and use of vehicles in coordinated transportation systems, which in turn would be reflected in a variety of vehicle life expectancies. One solution which accounts for these variations would be to assign depreciation rates by vehicle type and equipment (e.g., van, mini-bus, wheel-chair lifts, etc.). It has also been suggested that the IRS allowable depreciation rates for similar vehicles owned by private corporations be applied. With respect to vehicle use, the depreciation rate could be set by average usage, and additional usage due to coordination could be accounted for by charging depreciation as a component of the user charge. But this method would not take into consideration the great variations in use of the same vehicle type owned by different types of grantee agencies. Thus, allowing a depreciation charge based on mileage might perhaps more truly reflect the cost of vehicle depreciation.

Summary

To summarize, it appears that:

Under current regulations grantee agencies can charge depreciation to other grantee agencies in coordinated transportation systems, even where the vehicle was purchased with Federal funds, although the general perception is that this is not allowed.

Grantees may not charge on their grant for depreciation of a vehicle purchased in whole or in part with Federal funds.

Where depreciation is allowed, a fund could be set to pay for a replacement vehicle at the time the initial vehicle is fully depreciated.

The depreciation rate may be set at a reasonable level.

The existing problems that remain are—

The perceived inability to recover additional vehicle depreciation in coordinated systems; and

The inability to recover the total depreciation but only extra depreciation due to coordination, and therefore the inability to replace a vehicle when it wears out without seeking special funding or dipping into program budgets.¹

These problems all seem to be a direct result of OMB Circular 74-4, and therefore, any approaches to allowing depreciation and the escrowing of funds for vehicle replacement must address it.

Potential solutions to the depreciation issue

Regardless of whether either course of action recommended below is implemented, it is advised that the informal interpretations of OMB officials regarding Circular 74-4 be verified through a formal, written clarification of OMB's position on the

¹ It is important to note here that total depreciation is possible under those consolidated transport systems where vehicle control resides in one transportation service provider and all services are provided through a purchasing mechanism.

issues of allowable depreciation charges, escrowing of depreciation funds, and allowable rates of depreciation.

Such a clarification would solve the perceived problems set forth above, but would not solve the actual prohibition on recovering the full cost of depreciation by Federal grantees operating coordinated and consolidated transportation systems. Therefore, two approaches can be considered for solving the existing real problems.

Direct changes to OMB Circular 74-4, amending Federal policy regarding these issues. Such a direct course, once enacted, would subsequently be reflected, in each government agency affected, by similar modifications to their individual program regulations. For HEW, this would result in corresponding modifications to the Grants Administration Manual.

Changes to the legislation of programs providing transportation funds so that either a charge for depreciation would not be prohibited by OMB Circular 74-4, or the problem of replacement vehicles is directly addressed.

Direct changes to OMB Circular 74-4

Two options are available to change OMB Circular 74-4:

1. Vehicles used in coordinated/consolidated agency transportation systems could be exempted from the prohibition against charging depreciation on vehicles purchased with Federal funds.

2. A special component of OMB Circular 74-4 could be developed to deal with vehicles used in coordinated/consolidated agency systems.

In either case, the allowance of depreciation, restricted to vehicles in coordinated/consolidated systems, may provide an incentive to coordinate. Of concern is that this might be perceived as unfair to grantee agencies which for one reason or another were unable to coordinate their transportation system with others, and unequal treatment by Federal grantors may be charged.

The first option, (#1, above) an exemption from the current issues, seems the easiest to develop and would achieve the desired results, but may set a dangerous precedent for the future exemption of other items and a gradual item by item change in Circular 74-4. *The second option*, to develop a special section on coordinated agency transportation, highlights the transportation components of various programs for special and similar treatment. This may uncover other difficult issues such as the relation between the programs of DOT and the transportation components of programs of other Federal agencies with respect to what Federal agencies should and can deal most effectively with transportation problems. This is a large and complicated policy issue which goes beyond depreciation and perhaps should not be dealt with in that context. Following any change in OMB Circular 74-4, similar changes could then be promulgated in the implementing regulations of the various Federal agencies.

Legislative changes to program funding

As an alternative to direct changes in OMB Circular 74-4, OMB seems to prefer the second approach. Rather than changing the cost principles of OMB Circular 74-4, it was suggested that the statutes authorizing various programs with transportation components be changed through legislation to directly deal with the problems of replacing worn out vehicles. This could be accomplished by either changing individual statutes for all programs with transportation components, or by one piece of legislation allowing depreciation to be charged for the purpose of establishing funds for vehicle replacement. OMB's problem with direct changes to OMB Circular 74-4 appears to be that such charges would seem to allow a double payment for vehicles; first, through Federal financial participation in the payment, and second, through depreciation. Instead, new legislation could be presented which indicates that the initial capital purchase of vehicles with Federal participation would be a one-time start-up cost, and that replacement would be handled through accumulation of depreciation charges. Basically, this approach could be presented as a program to get the Federal government out of the position of purchasing vehicles. This approach has the advantage of developing a legislative mandate to solve recognized problems, and openly deals with these problems, but would most likely take a longer period of time. Further, if dealt with by a series of statutory changes, it could cause much confusion for coordinated systems using multiple funding sources due to the variety of changes in the regulations of different funding programs which will occur.

However, if dealt with by one piece of legislation, it may, as with the development of a special section of OMB Circular 74-4 for transportation, raise issues concerning the relationship between DOT's transportation programs and the transportation component of other Federal agencies, since it will highlight the transportation components of other programs which when viewed together, becomes a sizeable program.

Conclusions

From the above discussion, it appears as if the approach that could be implemented in the shortest time period and most effective in encouraging efficient coordinated use of current transportation resources, would be the alteration of OMB Circular 74-4 and corresponding agency regulations to exempt coordinated agency transportation services from the prohibition against charging depreciation on vehicles purchased with Federal financial participation, provided charges for depreciation are accumulated for vehicle replacement. Paired with this could be an exemption for agencies who for one reason or another cannot coordinate transportation service; the grantor or another review level (e.g., coordinated provider, State, regional office), would have to evaluate these agencies' ability to coordinate transportation services when deciding upon exemptions. This program could be presented not as a double payment but as an incentive to the development and continuation of coordinated/consolidated transportation systems.

DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION ON AGING,
Washington, D.C. January 6, 1981.

Hon. IKE F. ANDREWS,
Chairman, Subcommittee on Human Resources,
House of Representatives, Washington, D.C.

DEAR MR. ANDREWS: I respectfully submit to you a report on revising Federal transportation programs for older individuals in compliance with Section 411(b)(2) of the Older Americans Act of 1965, as amended (P.L. 89-73). This provision under Title IV, Part B Research and Development was enacted as part of the Comprehensive Older Americans Act Amendments of 1978 (P.L. 95-478). It requires that the Commissioner on Aging award a grant or contract for the purpose of conducting a study to improve existing Federal transportation programs for older individuals to (a) provide more coordinated and comprehensive services to such individuals; (b) eliminate unnecessary duplication among such programs; (c) eliminate disparities in eligibility requirements among Federal transportation programs for older individuals; and (d) study the possibility of transferring to a single administration all Federal transportation programs for older individuals. The Commissioner was required to transmit the results of this study to Congress within two years of the enactment of the 1978 Amendments.

The Administration on Aging has supported a project responsive to this provision. The project, funded in September 1978, was a sample survey of the actual process of coordination in 30 Planning and Service Areas (PSA's). The project was conducted by the Urban Institute. It studied the broad range of barriers and obstacles to coordination attempts including those barriers to greater mobility identified by the elderly. Further, the Institute reviewed the barriers and obstacles to coordination observed among the sample of sites, with particular stress on the extent to which these can be traced to Federal level policies or procedures. The results of this study are described in a report entitled "Coordinating Transportation Services for the Elderly." A copy of this report is enclosed.

At this time, I have no specific recommendations concerning the coordination of transportation services for the elderly. However, I do wish to suggest that we take seriously the Urban Institute findings that we consider the costs as well as the benefits associated with increased coordination.

The grantee was encouraged to make recommendations based upon the results of the study. Although the recommendations contained in the report do not necessarily reflect the judgment of the Department of Health and Human Services or the Administration on Aging, they will be seriously considered as AoA formulates policies to improve transportation services for older individuals.

Sincerely yours,

CHARLOTTE FRANK
(for Robert Benedict, Commissioner on Aging).

Enclosure.

COORDINATING TRANSPORTATION SERVICES FOR THE ELDERLY—FINAL REPORT 1402-1, SEPTEMBER 1980

(By Ulrich F. W. Ernst, Sandra Rosenbloom, Carol T. Everett, Michael A. Kemp)

This research was funded by the Administration on Aging of the U.S. Department of Health and Human Services. Opinions expressed in the paper are those of the

authors and do not necessarily reflect the views of The Urban Institute or the research sponsor.

CHAPTER IX—FINDINGS AND RECOMMENDATIONS

General conclusions

We noted in the opening chapter of this report that there is a widespread belief that increased coordination of human service transportation has the potential for improving both its efficiency and its effectiveness. We noted also that the available empirical evidence about the extent to which these potential benefits are realized in practice is somewhat mixed.

Our own general conclusions, on the basis of this study, support the view that net social benefits can accrue from coordination efforts, but that such benefits are not an automatic or universal outcome. Our findings on coordination can be summarized by the following propositions:

Coordination is not a single, homogeneous concept. There exists a spectrum of different potential coordination actions, and the applicability, implementation procedures, and outcomes are likely to vary both with the nature of the action and with the setting in which it is attempted.

Fragmentation and duplication of services are not pervasive problems. The study found them to occur less frequently than is often alleged.

Special transportation services for the elderly appear to be serving those people most in need of them.

On the basis of the evidence generated by this study or reported in the literature, it is not yet possible to compile general guidelines concerning the likely outcomes of particular coordination actions in particular settings. In other words, it is difficult to predict what policies will work in specific places.

While the potential benefits of increased coordination have received much public recognition, the potential disbenefits of particular coordination approaches are not well appreciated. In developing plans and in evaluating existing coordination efforts it is important that the costs and possible negative impacts should be appraised.

State-level actions designed to foster greater coordination can be particularly effective.

While legislative and administrative actions at the federal level certainly can influence both the willingness of local agencies to attempt coordination projects and the outcomes of those projects, it is difficult to infer cause and effect with regard to the federal policies.

It appears that, insofar as federal actions may be able to encourage successful coordination projects at the local level, no major changes in the existing federal legislation appear to be necessary to achieve that goal. Rather, our specific policy recommendations could in large part be put into effect by administrative actions taken within the purview of the current legislation.

Coordination is not a single, homogeneous concept

Local planners and human service agencies have developed a wide variety of different approaches to coordinate their transportation services in one way or another. This study has identified four basic categories of coordination actions:

Demand management—restructuring demand to allow for the optimal use of existing capacity, by pooling demand for like trips, and smoothing out peaks and valleys in the time profile of demand;

Supply management—restructuring supply to eliminate fragmentation and duplication, and to introduce incentives for efficiency;

Service allocation—the determination of what kinds of services should be provided, and how they should be distributed among the eligible population; and

Service function coordination—performing certain functions, such as dispatching or vehicle maintenance, jointly for more than one provider.

The variety of approaches to coordination is dictated by the wide divergence in the institutional, economic, and social settings in which the transportation services are provided. These varying environments create different opportunities for, and constraints upon, the coordination of transportation services. The outcomes of coordination projects vary considerably depending on the nature of the effort planned and the setting in which it is attempted.

On the basis of this general finding, we suspect that the diversity of coordination possibilities has not been fully appreciated in much of the previous discussions of, and advocacy for, increased coordination. In our view, it is often rather meaningless to talk about coordination in the abstract, given the spectrum of possible actions and outcomes.

Fragmentation and duplication of services are not pervasive problems

Overall, we found few cases in which there were serious problems of fragmentation or duplication of services. Duplication—several providers serving the same kinds of trips at roughly the same time, all operating with excess capacity—appears to occur less frequently than is often popularly supposed.

Special transportation services for the elderly are properly targeted

Our survey indicated that those elderly people most in need—the very old, the handicapped, the poor, the carless, and ones living alone—are more likely to use special transportation services than other elderly groups. Older Americans who do not use these services frequently have better options, particularly their own automobiles.

The effects of the alternative policies are uncertain

Neither the information presented so far in the literature nor the evidence assembled by this present study allows one to derive general guidelines as to what types of coordination efforts are likely to work best in particular settings. It is likely that it will be possible to develop such guidelines in the future, based on more detailed evaluations of specific projects than have yet been carried out. A major barrier to reaching generalizable conclusions, however, is the lack of good operating and accounting data among many private human service agencies. By and large, evaluations will need to be based on the close external monitoring of new projects, rather than on the analysis of data assembled in the course of existing projects.

Given the current lack of understanding about what policies are most likely to work well in specific settings, we believe that the public interest is better served by focusing attention on the *objectives* of greater coordination rather than on any preconceived notions about *methods*. For instance, some states presently appear to be promoting a service consolidation model of coordination—that is, the consolidation of human service transportation in the hands of a single designated provider. It is, as yet, far from clear that this approach is a good method (even less, the best method) of achieving greater efficiency or effectiveness. Under the current circumstances, it appears wiser for higher tiers of government to focus their policies more on *creating an environment in which local officials and human service agencies are encouraged to consider a wide range of possible coordination actions and to experiment with them*. The promotion of one particular coordination model seems likely to detract from a consideration of the spectrum of options.

The costs should be counted as well as the benefits

Another barrier to learning what types of action work best in what types of setting is a certain lack of appreciation of the possible disbenefits of coordination efforts in the professional and lay discussion of the issue. The potential benefits have often been stressed. They include gains in the efficiency and effectiveness of the delivery of transportation services to the elderly; and, depending on the type of coordination effort, possibly a reduction in the number of agencies and people with whom government officials need to interact, and a clearer accountability for the use of public funds.

On the negative side; other studies have already highlighted the fact that the costs of coordination activities may be higher than is popularly supposed, and that the necessary investment of time and effort may be substantial. Moreover, not all line items may exhibit economies of scale: there may, for instance, be a resulting *increase* in total administrative costs, particularly in the short run. In some cases where the individual agencies may have had access to some unpriced and below-cost priced services, the price of that input may increase under coordination.

One of the commonest forms of low-priced services is the use of volunteers. Our study found that coordination efforts frequently run the risk of damaging the existing networks of volunteer and informal efforts on which many of the elderly appear to rely. As a labor force for a human service agency, volunteer workers are, of course, a mixed blessing. They can be unreliable and capricious, and in many ways programs can be more easily and efficiently managed with paid staff. However, on the whole they do represent a tremendous capable, cheap resource, which it would be prodigal to ignore. We observed in our site visits that moves towards centralized or consolidated systems frequently were accompanied by reductions in the role of volunteers. In a less formal way, friends, neighbors, and relatives currently provide assistance in accommodating the transportation needs of the elderly, and we believe that more recognition needs to be made of such arrangements, temporary and informal though they may be, and care be taken lest consolidation efforts damage them. Indeed, the fostering of such arrangements (perhaps by allowing helpers to be reimbursed some of their out-of-pocket costs) might prove to

be a more cost-effective method of improving transportation for the elderly than other coordination efforts.

The highly centralized forms of coordination may also lead to a degradation of services quality for some existing clients (although at the same time other clients may gain and the number of people served may be enlarged). Typically, highly centralized services tend to concentrate on the most easily identifiable demands. The people who, because of frailty or other problems, require a more personalized form of service, perhaps with an escort, or those living slightly beyond an inflexible service area boundary, may not be adequately catered for.

These types of outcomes are no more certain to occur than the benefits referred to earlier. It is important, however, that the possibility of such disbenefits should be acknowledged when coordination plans are being developed or evaluated. Care must also be taken to distinguish between transitional (or short run) effects of those outcomes which will be sustained when the project is well established.

The state plays a key role

The legislative structure and administrative practices for many of the relevant federal programs place much of the responsibility for program design with state-level agencies. The major exceptions are Sections 3 and 5 of the Urban Mass Transportation Act, which usually link the federal and local levels directly. However, the recent introduction of the Section 18 program has given the states the responsibility of improving the organization and management of special transportation services in small urban and rural areas. While these initiatives may be somewhat limited in their geographic coverage, they have often taken a comprehensive view of public transportation, with special emphasis on the needs of the elderly and handicapped.

The study distinguished six forms of state-level activity that contribute to the coordination of transportation programs for human service target-groups:

Establishing effective *state-level coordination* among the various agencies involved, to improve understanding of the implications of different decisions, and to move toward greater coherence of state policies.

Improving the information base for local coordination efforts through *search, development, and demonstration*, and related information dissemination.

Providing specific *support services*, such as technical assistance or brokerage services to local organizations engaged in coordination efforts.

Encouraging greater participation in coordination projects through *financial incentives* to local agencies, including the stipulation of certain steps as a condition to receiving continued funding.

Mandating or establishing a *single transportation provider* or a *single funding recipient* in each geographic area covered.

Changing regulatory, administrative, or legislative provisions to *lift real or perceived constraints* on coordination activities.

Looking at the range of different actions across various states, the study concluded that the state can be pivotal in affecting the extent to which coordination activities are attempted in local areas and the nature of the coordination projects which are attempted. It follows that the state units on aging should be regarded by AoA as particularly important agents in the development, dissemination, and execution of nationwide policies with respect to transportation service coordination. There is also potential for increasing the technical assistance role of the state units.

The impacts of federal policies are difficult to trace

The outcomes of federal policies likely to influence coordination activities are much harder to trace, for several reasons. Most importantly, while the impacts of policies at the state level can be inferred in part from the differences observed among the states, this is not possible, at least to the same extent, for federal-level policies. Secondly, inferring the consequences of federal policies by observing what happens at the local level over time is also difficult, since many other influencing factors were at work, to. We concluded that it is not possible to trace cause and effect between local coordination activities and federal policies promoting greater coordination.

No major changes are needed in federal legislation

Insofar as federal actions are able to encourage successful coordination projects at the local level, the study found that no major changes in the existing federal legislation appear to be necessary in order to achieve that goal. This conclusion was reached for several reasons:

The specific set of recommendations for federal actions developed in the study (and presented later in this chapter) would not require legislative changes if it were decided to implement them.

The study found no real barriers to improved coordination which could be traced unambiguously to federal legislation (or, indeed, to federal administrative regulations). Where such provisions were popularly viewed as barriers, the perceptions often involved misunderstandings.

One argument for making changes in the current programs—the contention that publicly-funded special transportation services are not benefitting those in most need of them—was *not* supported by the evidence from our surveys.

Given the uncertainty about the effectiveness of federal-level policies, it would seem wise to allow federal officials as much flexibility as possible in framing and implementing policies. This argues for specifying objectives and spending authorizations only in the legislation, allowing the details of specific programs to be developed in administrative fiats.

Our consideration of the pros and cons of one specific legislative option that is frequently suggested at the local level—the administrative consolidation of all of the relevant federal programs—concluded that the potential benefits would be limited, and outweighed by the substantial costs.

Recommendations from the study

While our study did not find justification for proposing any significant changes in federal legislation, the major and minor findings which emerged in the course of the study do have a number of implications for federal policies with regard to transportation services for the elderly:

1. In planning to meet the transportation needs of human service client groups, agencies at federal, state, and local levels should be encouraged to *treat informal networks (those involving assistance from friends, neighbors, relatives, and volunteers) as an integral and explicit component of the system.* Attention should be focused on public policies which would make more and better use of this type of resource, as a possible complement to or substitute for greater coordination among more formal services. Such policies might include, for instance, the creation of direct or indirect financial incentives to greater participation by people able to help, or the encouragement of carpooling programs among those traveling to congregate facilities.

2. Given the wide spectrum of possible coordination actions, *the Administration on Aging should issue clear guidance on the types of programs to which it is permissible to dedicate Older Americans Act funds.* We found a number of misconceptions about the federal regulations on aspects in which they are not (or no longer) ambiguous. But we also found relevant questions on which the regulations are not clear, the most important of which is whether Title III funds may be used in support of a user-side subsidy program.¹ It should not be difficult or expensive for the AoA to clarify the legal questions associated with the use of OAA funding (and OAA-funded vehicles) for a wide range of possible coordination actions, and to make these details widely known at the area agency level. Since there also appears to be some confusion at the local level about the use of vehicles purchased under the UMTA Section 16(b)(2) program in coordinated systems, a collaborative effort in conjunction with the Department of Transportation might be advisable.

3. *State units on aging should be encouraged to take a more active role in developing new and more efficient methods of providing transportation services to the elderly,* including coordination and service consolidation options. This role may require that the federal AoA provide for more technical assistance to the state units, and that the state units in turn provide more technical assistance to the local AAAs.

4. As a contribution to this increased technical assistance, *the U.S. Congress and the Administration on Aging should consider mounting a number of demonstrations of innovative transportation service coordination policies.* The principal objective of these demonstrations would not be to promote exemplary policies, although the program could be validly used in part to that end. Rather, the primary aim should be to *learn* more about the appropriateness and practicalities of different types of policies in different settings. We would recommend placing an especially high priority on experimenting with user-side subsidy schemes, particularly ones which could be used to reimburse volunteer and human service agency providers. This is one application which has not yet been tested in the user-side subsidy demonstrations sponsored by the Urban Mass Transportation Administration. Language authorizing demonstrations already exists in the Older Americans Act (at Section 421), although money has not been appropriated for this purpose.

5. The Administration on Aging should encourage more and better evaluations of current and future coordination efforts. Worthwhile evaluations would (i) focus on

¹ It is believed that in a few isolated cases this has been done, although at least one Regional Office of the AoA has made a ruling that this is not permissible.

specific coordination activities, rather than on the general concept; (ii) make strong efforts to assemble reliable and complete cost information; and (iii) attempt to trace observed outcomes to features of the plan and the environment in which it is attempted. There are several actions that the AoA could take to foster these evaluations, including the development of an evaluation handbook and the encouragement of state units to fund such activities. The AoA might itself become directly involved under the demonstration program mentioned above.

6. We recommend that AoA give greater consideration to the dissemination of information about the detailed practicalities of coordination efforts, based on the experiences gained at the state and local levels. This function could probably be most efficiently carried out in conjunction with other federal agencies concerned with human services transportation. In the course of our site visits, we encountered many issues in which some means of pooling and sharing experiences would be advantageous to human service agencies. These included such varied topics as maintenance practices for particular vehicle models; dispatching procedures; innovative insurance procedures, and the names of brokers prepared to work with agencies in identifying their best insurance options; and identifying consultants with relevant knowledge and experience.

7. Since the study found that accounting and reporting requirements can represent an additional administrative cost to consolidation efforts, we strongly support the current seven-state effort, sponsored by the Department of Health and Human Services, to develop uniform accounting frames. We recommend that *the Administration on Aging cooperate fully with this on-going effort, and give full consideration to implementing its applicable recommendations* when these are made.

DEPARTMENT OF HEALTH AND HUMAN SERVICES,
REGION IV,
Atlanta, Ga., March 10, 1981.

MR. GORDON RALEY,
Staff Director, Subcommittee for Human Resources,
Washington, D.C.

DEAR MR. RALEY: During the hearings on transportation for Head Start in Washington last week, you requested that I provide some additional information on the various regulations affecting efforts to coordinate transportation. The following specific regulations have surfaced as the key impediments to human service transportation coordination. Also I think it is important to look at these regulations in their entirety as well as individually in terms of their impact at the local service provider level.

Perhaps the most cited regulations affecting transportation coordination are those based on OMB Circular A-122 "Cost Principles for nonprofit organizations", published in Volume 45, Number 132 of the Federal Register on July 8, 1980. Paragraphs 9 a-g of Attachment B to A-122 provide the bases for depreciation and use allowance, Attachment 1. Although no formal definitions of the terms "depreciation" and "use allowance" are given, in practice, depreciation is commonly used in relation to physical facilities such as buildings which involved no public money in their acquisition. Use allowance in practice has been used to offset operating and maintenance costs of facilities built or purchased with public funds. In either case, however, the amount allowed is designed for a long term recovery of capital outlay (2 percent per year on depreciation and 6 percent on use allowance). Neither is adequate for recovery of replacement costs of a vehicle with a normal life expectancy of no more than four years.

Also paragraph 9C(2) of attachment B prohibits either depreciation or use allowance on equipment which was originally purchased with federal funds. This effectively prohibits human service agencies from entering coordinated systems with existing vehicles since there is no way to escrow replacement costs from current operating funds.

Paragraph 42 of Attachment B sets forth rental and lease regulations. Subparagraph 42d limits a lease to what the purchase price would have been on the date the lease is executed. In some localities, this can be a viable option, but it is not a cure all because leases for vehicles meeting this criteria are often not available, especially with the year to year funding uncertainties of federal programs.

These specific requirements of OMB Circular A-122 are related and reissued by the various federal agencies with a few minor changes and interpretations. However, the main problem remains in the fact that these guidelines and regulations were promulgated without specific relationship to the problems of establishing and maintaining coordinated transportation systems in the interest of both economies of operation and fuel conservation.

Attachment 2 is a letter from John Leatherwood referencing problems with CSA's regulations and 45 CFR Chapter X. His letter pertains to the exact problems mentioned regarding the lease of vehicles. As you can see from his letter, we have two conflicting lease policies, one for CSA and one for HDS. Because the problems are unresolved, I have been unable to sufficiently respond to his request.

Sincerely,

L. BRYANT TUDOR,
for Human Development Services.

Attachments.

ATTACHMENT 1

(From the Federal Register, Vol 45 No 132, Tuesday, July 8, 1980)

Attachment B

Selected Items of Cost

Paragraph 1 through 50 provide principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost is not intended to imply that it is unallowable; rather determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost.

1. Advertising costs.

a. Advertising costs mean the costs of media services and associated costs. Media advertising includes magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.

b. The only advertising costs allowable are those which are solely for (i) the recruitment of personnel when considered in conjunction with all other recruitment costs, as set forth in paragraph 40; (ii) the procurement of goods and services; (iii) the disposal of surplus materials acquired in the performance of the award except when organizations are reimbursed for disposals at a predetermined amount in accordance with Attachment N of OMB Circular A-110, or (iv) specific requirements of the award.

2. *Bad debts* Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, and unallowable.

3. Bid and proposal costs. [reserved]

4. Bonding costs.

a. Bonding costs arise when the Government requires assurance against financial loss to itself or others by reason of the act or default of the organization. They arise also in instances where the organization requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the organization in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

5. *Communication costs.* Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable.

6. Compensation for personal services.

a. *Definition.* Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award (except as otherwise provided in paragraph g. below). It includes, but is not limited to, salaries, wages, director's and executive committee member's fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost of living differentials.

b. *Allowability.* Except as otherwise specifically provided in this paragraph the costs of such compensation are allowable to the extent that:

(1) Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Government and non-Government activities; and

(2) Charges to awards whether treated as direct or indirect costs are determined and supported as required in this paragraph.

c. Reasonableness.

(1) When the organization is predominantly engaged in activities other than those sponsored by the Government, compensation for employees on Government-spon-

sored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities.

(2) When the organization is predominantly engaged in Government-sponsored activities and in cases where the kind of employees required for the Government activities are not found in the organization's other activities, compensation for employees on Government-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.

d *Special considerations in determining allowability.* Certain conditions require special considerations and possible limitations in determining costs under Federal awards where amounts or types of compensation appear unreasonable. Among such conditions are the following:

(1) Compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.

(2) Any change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation, particularly when it was concurrent with an increase in the ratio of Government awards to other activities of the organization or any change in the treatment of allowability of specific types of compensation due to changes in Government policy.

e *Unallowable costs.* Costs which are unallowable under other paragraphs of this Attachment shall not be allowable under this paragraph solely on the basis that they constitute personal compensation.

f *Fringe benefits.*

(1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.

(2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs (see paragraph g. below), and the like, are allowable provided such benefits are granted in accordance with established written organization policies. Such benefits, whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or groups of employees whose salaries and wages are chargeable to such awards and other activities.

(3)a) Provisions for a reserve under a self-insurance program for unemployment compensation or workmen's compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made shall not exceed the present value of the liability.

(b) Where an organization follows a consistent policy of expensing actual payments to, or on behalf of, employees or former employees for unemployment compensation or workmen's compensation, such payments are allowable in the year of payment with the prior approval of the awarding agency provided they are allocated to all activities of the organization.

(4) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance when the organization is named as beneficiary are unallowable.

g. *Pension plan costs.*

(1) Costs of the organization's pension plan which are incurred in accordance with the established policies of the organization are allowable, provided:

(a) Such policies meet the test of reasonableness;

(b) The methods of cost allocation are not discriminatory;

(c) The cost assigned to each fiscal year is determined in accordance with generally accepted accounting principles as prescribed in Accounting Principles Board Opinion No. 8 issued by the American Institute of Certified Public Accountants; and

(d) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are unallowable.

(2) Pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act of 1974 (Pub. L. 93-406) are allowable. Late payment charges on such premiums are unallowable.

(3) Excise taxes on accumulated funding deficiencies and other penalties imposed under the Employee Retirement Income Security Act are unallowable.

h. *Incentive compensation.* Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment.

i. *Overtime, extra pay shift, and multishift premiums.* See paragraph 27.

j. *Severance pay.* See paragraph 44.

k. *Training and education costs.* See paragraph 48.

l. *Support of salaries and wages.*

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports as prescribed in subparagraph (2) below, except when a substitute system has been approved in writing by the cognizant agency. (See paragraph E.2 of Attachment A)

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by nonprofit organizations to satisfy these requirements must meet the following standards:

(a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of all the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

(3) Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraphs (1) and (2) above, must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the Fair Labor Standards Act (29 CFR Part 516). For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee," under the Fair Labor Standards Act.

(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

7. *Contingency provisions.* Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening are unallowable. The term "contingency reserve" excludes self-insurance reserves (see paragraph 6.f.(3) and 18.a.(2)(d)), pension funds (see paragraph 6.(g)); and reserves for normal severance pay (see paragraph 44.(b)(1)).

8. *Contributions.* Contributions and donations by the organization to others are unallowable:

9. *Depreciation and use allowances.*

A. Compensation for the use of buildings, other capital improvements, and equipment on hand may be made through use allowances or depreciation. However, except as provided in paragraph f. below a combination of the two methods may not

be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc).

b. The computation of use allowances or depreciation shall be based on the acquisition-cost of the assets involved. The acquisition cost of an asset donated to the organization by a third party shall be its fair market value at the time of the donation.

c. The computation of use allowances or depreciation *will exclude*,

(1) The cost of land;

(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government, irrespective of where title was originally vested or where it presently resides; and

(3) Any portion of the cost of buildings and equipment contributed by or for the organization in satisfaction of a statutory matching retirement.

d. Where the use allowance method is followed, the use allowance for buildings and improvement (including land improvements such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g. plumbing system, heating and air conditioning, etc.) cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached, or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the need for costly or extensive alterations or repairs to the building or the equipment. Equipment that meets these criteria will be subject to the six and two-thirds percent equipment use allowance limitation.

e. Where depreciation method is followed, the period of useful service (useful life) established in each case for useable capital assets must take into consideration such factors as type of construction, nature of the equipment used, technological developments in the particular program area, and the renewal and replacement policies followed for the individual items or classes of assets involved. The method of depreciation used to assign the cost of an asset (or group of assets) to accounting periods shall reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life than in the later portions, the straight-line method shall be presumed to be the appropriate method. Depreciation methods once used shall not be changed unless approved in advance by the cognizant Federal agency. When the depreciation method is introduced for application to assets previously subject to a use allowance, the combination of use allowances and depreciation applicable to such assets must not exceed the total acquisition cost of the assets. When the depreciation method is used for buildings, a building's shell may be segregated from each building component (e.g., plumbing system, heating, and air conditioning system, etc.) and each item depreciated over its estimated useful life; or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

f. When the depreciation method is used for a particular class of assets, no depreciation may be allowed on any such assets that, under paragraph e. above, would be viewed as fully depreciated. However, a reasonable use allowance may be negotiated for such assets if warranted after taking into consideration the amount of depreciation previously charged to the Government, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

g. Charges for use allowances or depreciation must be supported by adequate property records and physical inventories must be taken at least once every two years (a statistical sampling basis is acceptable) to ensure that assets exist and are usable and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period also be maintained.

42. Rental costs.

a. Subject to the limitations described in paragraphs b. through d. of this paragraph, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in

the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.

b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property.

c. Rental costs under less-than-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between (i) divisions of an organization; (ii) organizations under common control through common officers, directors, or members; and (iii) an organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

d. Rental costs under leases which create a material equity in the leased property are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed; e.g., depreciation or use allowances, maintenance, taxes, insurance but excluding interest expense and other unallowable costs. For this purpose, a material equity in the property exists if the lease is noncancelable or is cancelable only upon the occurrence of some remote contingency and has one or more of the following characteristics:

(1) The organization has the right to purchase the property for a price which at the beginning of the lease appears to be substantially less than the probable fair market value at the time it is permitted to purchase the property (commonly called a lease with a bargain purchase option);

(2) Title to the property passes to the organization at some time during or after the lease period;

(3) The term of the lease (initial term plus periods covered by bargain renewal options, if any) is equal to 75 per cent or more of the economic life of the leased property; i.e., the period the property is expected to be economically usable by one or more users.

ATTACHMENT 2

WESTERN CAROLINA COMMUNITY ACTION, INC.,
Hendersonville, N.C., July 18, 1980.

Mr. L. BRYANT TUDOR,
Regional Administrator, Department of HEW/HHS, Region IV
Atlanta, Ga.

DEAR BRYANT: As per our recent telephone conversation, I offer the following information on Head Start transportation.

The major problem has been that when we need to replace a vehicle in the Head Start Program (which is every 3 to 4 years per vehicle), we are faced with a serious budget problem. The problem arises from the fact that HEW/HHS will not allow a vehicle depreciation account to be established whereby we could set aside a certain amount per mile to replace the vehicle. This results in our either having to "find" the total cost of a vehicle in the budget during the particular year(s) that the vehicle must be replaced, or seek a "one time" grant for this purpose. Either way it is difficult and becoming almost impossible with inflation as it is.

Because of the red tape and the difficulty in planning, etc., I have for the past 5 to 6 years set aside non-federal local funds for the purpose of purchasing the necessary 15-passenger vans which could be leased back to the Head Start Program on a per mile cost basis. The reason for the purchase and lease-back by WCCA, Inc. versus commercial lease is the fact that WCCA operating on a cost reimbursement basis would be able to lease the same vehicle to the Head Start Program for approximately \$100 per month less than a commercial lease. I have attached the bid information used in a contract between WCCA and North Carolina Division of Community Employment (DOL) for a bus to be used in their program. This information will show how much could be saved through this approach. As you will note, the attached agreement at 35¢ per mile includes all costs with the exception of gasoline. I would suggest with Head Start a net vehicle replacement cost of 15¢ per mile. This would project approximately 3½ to 4 years to recover the necessary replacement cost.

Even though I am convinced this approach would give us safe transportation with the cost spread out evenly over each Head Start program year, I have run into problems with getting HHS to consider it. When I first conceived this approach, I was using CSA's regulation on lease versus purchase on equipment. This is set forth

in 45 CFR Chapter X, Section 1067.17-4, Part II, Sub-part (f). This reference can be found in 45 CFR Part 500-1199, page 408. This states in part "if 3-years leasing cost is more than the purchase price plus servicing cost, it is more economical to purchase the equipment." If WCCA purchased the van and depreciated it over a 3 to 4 year period at cost basis, we definitely would have a much less cost over a 3 year period to lease.

The real problem arose when I telephoned Ms. Willa Choper, our HHS Field Representative, and suggested this approach to transportation. She checked with the property people in Atlanta and called me back saying we could not do that. She gave me the reference given her by the property folks as CFR 45 Part 74, Appendix F, Sub-part 10, page 4 and 5. From this reference she stated that we could not charge an amount in excess of 10% per annum to Head Start for equipment leased to them. The only portion of this sub-part which reflects a 10% limit is Sub-part 10-(d)-(2)-(VIII). My interpretation of this is that this reference is for physical plant and equipment located therein. It would appear to me that Section 10-(a) would allow WCCA to establish either a depreciation account or a use allowance which would accomplish what we would like to do.

WCCA maintains detailed records on all vehicles owned or operated by us. From those records I have documented that once we surpass the 60,000 mile mark on a vehicle used for daily pick-up and delivery of clients, the maintenance costs increase by an average of 8¢ per mile. This would be in excess of 50% of the amount needed to set aside for vehicle replacement. Naturally as the mileage increases we are faced with both increased cost to maintain plus the danger of an unsafe vehicle. Our present Head Start vehicles have 67,000 miles, 77,000 miles, and 80,000 miles on them. Ms. Choper told me that there is not any "one time" money available to us for vehicle replacement at this time.

Even though WCCA does not have all the necessary funds to make the necessary purchase of 3 new vehicles (approximately \$27,000), we would be willing to finance them through the corporation non-federal account if HHS will allow us to recover this cost over the 3 to 4-year period.

Please advise me if there is any way to allow this proposed lease agreement between WCCA and Head Start. If you need additional information, please call me.

Sincerely,

JOHN LEATHERWOOD, JR.,
Executive Director.

Attachment

VEHICLE LEASE AGREEMENT

It is agreed by the Youthful Offender Program (Contract #0-3489-0733-01-B-5-0) and Western Carolina Community Action, Inc. (WCCA), that WCCA shall provide the following equipment to the Youthful Offender Program for the period beginning April 1st, 1980, and continuing to the 30th day of September, 1980:

1. 12-Passenger Van Equipped with: Full Length Floor Mat, Headliner Over Driver and Front Bucket Seat Only, 350 V-8 Engine, Automatic Transmission, Power Steering, Power Brakes, AM/FM Radio, Air Conditioning—front and rear units, Heater with auxiliary rear unit, Tinted Glass—all windows, 9" x 6.5" Exterior Mirrors.

The Youthful Offender Program shall reimburse Western Carolina Community Action, Inc. for use of the above described vehicle at the rate of \$35 per mile plus gasoline cost.

It is further agreed that Western Carolina Community Action, Inc. shall provide all insurance (100-300-100 limits), license plate, and full maintenance.

It is understood that the above described vehicle will be used solely for participant transportation and that all mileage recorded for that purpose will be submitted to the WCCA Business Office monthly on WCCA Form 22-A (attachment "A" to this agreement).

For purposes of comparison, WCCA has in its files, bids received from the following companies quoting their monthly lease rates: Dorato Dodge, Asheville, N.C., \$460/Mo.; Hunter Chevrolet, Hendersonville, N.C., \$490/Mo.; Bryan Easler Ford, Hendersonville, N.C., \$565/Mo.

The above quotes excluded insurance, license plate, gasoline and maintenance.

(Signed) _____,
Youthful Offender Program.

(Signed) _____,
Western Carolina Community Action, Inc.

Date: June 17, 1980.