Mr. James E. Bennett  
President and Chief Executive Officer  
Metropolitan Washington Airports Authority  
1 Aviation Circle  
Washington, D.C. 20001-6000

RE: Request for Advancement to Final Design: Dulles Corridor Metrorail Project—Extension to Wiehle Avenue

Dear Mr. Bennett:

I am pleased to inform you that based on a thorough analysis of all the information submitted to us, the Federal Transit Administration (FTA) is approving the Metropolitan Washington Airports Authority’s (MWAA) request to advance the Dulles Corridor Metrorail Project—Extension to Wiehle Avenue into Final Design under the New Starts Program. Nevertheless, I must stress that while the Dulles Project has now met the threshold for entry into Final Design, we believe that the Project continues to face significant risks and uncertainties. Numerous issues must still be resolved before FTA can consider a Full Funding Grant Agreement (FFGA) for the Project.

As you know, MWAA initially submitted information on the Dulles Project in September 2007—with a request that we complete our review by January 2008 in order to accommodate MWAA’s contractual arrangements with Dulles Transit Partners, the design-build contractor for the Project. Based on that information, FTA found that the Project did not achieve an acceptable rating under the New Starts evaluation criteria to advance into Final Design. My letter of January 24, 2008 to Governor Timothy M. Kaine of Virginia outlined FTA’s concerns about advancing the Project further in the New Starts Program. The letter noted that, even if the Project’s New Starts rating were to improve, the significant risks and uncertainties associated with the Project could adversely affect budget and schedule, bringing into question whether the Project could reasonably be assumed to continue to meet the New Starts evaluation criteria in the future.

Beginning in late January 2008, MWAA and the Washington Metropolitan Area Transit Authority (WMATA) provided extensive supplemental materials and met with FTA officials to address our concerns about the Project. Based on our review of the additional information received, FTA has concluded that MWAA has addressed—or has the potential to address—the concerns we had identified earlier.

Following is a summary of FTA’s analysis of the current status of the Dulles Project, the reasons that the Project is now eligible to enter Final Design, and the conditions for the Project to advance to an FFGA.
New Starts Rating

The January 24th letter explained that, on the basis of the September 2007 data and information then available to FTA, the Dulles Project’s Overall Rating would be “Medium-Low,” which would preclude the Project from advancing into Final Design. The September materials indicated that a slippage in ratings for Cost Effectiveness and the Capital Financial Plan had occurred compared to earlier ratings for these items. These declines, in turn, lowered the ratings to “Medium-Low” for Project Justification and Local Financial Commitment, and ultimately a “Medium-Low” for the Project’s Overall Rating. On the basis of the supplemental information received from MWAA in early 2008, FTA has re-evaluated the Project. Based on this re-evaluation, the Dulles Project now receives ratings of “Medium” for Project Justification and Local Financial Commitment, which result in an Overall Rating of “Medium.”

Cost Effectiveness. The materials that MWAA had submitted to FTA in September 2007 failed to provide the necessary documentation to confirm approximately $250 million in proposed cost reductions that were assumed in MWAA’s budget. Consequently, FTA was unable to take these cost reductions into consideration in estimating the Project’s budget and Cost Effectiveness Index. The result was a Cost Effectiveness rating of “Low.” This “Low” Cost Effectiveness rating, combined with a “Medium” Land Use Rating, resulted in a Project Justification rating of “Medium-Low.” MWAA subsequently provided FTA with information confirming many of the proposed cost reductions.

After receipt of the necessary confirmation of several of the proposed cost reductions, as discussed above, FTA worked with MWAA to reach an acceptable Project budget and basis for estimating the Project’s Cost Effectiveness. FTA accepted most of the remaining proposed reductions, with two significant exceptions. FTA did not agree to eliminate the cost of the Wiehle Avenue Garage from the calculation of the Cost Effectiveness Index, as the travel benefits associated with that facility are integral to the Project. FTA also did not accept the proposed elimination of the portion of non-recurring rolling stock cost allocation and phasing that MWAA wanted to attribute to the future budget for MWAA’s planned extension of the Dulles Project to Dulles International Airport and Loudoun County. FTA views the cost of engineering and design of the rail vehicles that will be used for the Dulles Project as work that must be completed to implement the current Project, with or without a future extension. (See Enclosure 1.)

Taking the modifications described above into account, FTA re-estimated the Project’s Baseline Cost Estimate to be $2,581.31 million (Year of Expenditure dollars), not including finance costs. At this budget level, FTA estimates the Project’s Cost Effectiveness Index to be approximately $29.25. (See Enclosure 1.) This is within the “Medium-Low” Cost Effectiveness range. The Project’s final Cost Effectiveness for entry into Final Design will be calculated when MWAA updates the Standard Cost Category and New Starts Criteria worksheets, but FTA anticipates that it will remain in the “Medium-Low” range. A “Medium-Low” Cost Effectiveness brings the overall Project Justification rating back to “Medium.”

Capital Financial Plan. In January 2008, FTA rated the Dulles Project’s Local Financial Commitment as “Medium-Low” because the Project’s Capital Financial Plan was rated “Medium-Low.” On the basis of the Capital Financial Plan that MWAA had submitted in September 2007,
FTA had found that the assumptions on the anticipated number of transactions on the Dulles Toll Road and the frequency of toll increases were significantly different than historical experience. The costs for capital rehabilitation and replacements for the WMATA system would require a near doubling of local and Federal funding, which would also be inconsistent with past experience. FTA further found significant backloading of debt.

MWAA submitted a revised Capital Financial Plan to FTA on February 1, 2008. Under this new financial plan, the rating for the “Current Capital Condition” subfactor remains the same as before, at “Medium-Low.” For the subfactor, “Reasonableness of the capital cost estimate, planning assumptions and financial capacity,” MWAA presents more conservative assumptions about the number of toll road transactions, less aggressive toll increases (although still greater than historical experience), and less backloading of debt. Additional information from WMATA for this subfactor, about anticipated funding sources for the system’s recapitalization needs, indicates that Virginia, Maryland and the District of Columbia have taken some actions toward meeting WMATA’s needs, but that these actions are dependent on additional proceedings like enactment of Federal legislation or future state actions. In light of the limitations still existing for this second subfactor, FTA continues to rate it as “Medium-Low.”

On the other hand, MWAA’s latest Capital Financial Plan shows a lower Transportation Infrastructure Finance and Innovation Act (TIFIA) loan amount and a greater share of “committed” funds -- now raised to 75% of the budget. This change improves the Project’s rating for this third subfactor, “Commitment of Capital Funds,” from “Medium” to “Medium-High.” This, in turn, elevates the rating for the Capital Financial Plan from “Medium-Low” to “Medium” and the Local Financial Commitment rating from “Medium-Low” to “Medium.”

Overall Rating. The Dulles Project now receives ratings of “Medium” for Project Justification and “Medium” for Local Financial Commitment, resulting in an Overall rating of “Medium.” This rating qualifies the Project for FTA consideration to advance the Project into Final Design.

While the Project now is rated as “Medium” overall, FTA remains particularly concerned about the inadequacy of funding to maintain a state of good repair for the entire WMATA Metro system. This situation contributed to the “Medium-Low” rating for the subfactor, “Reasonableness of the capital cost estimate, planning assumptions and financial capacity,” described above. In her April 30, 2008 letter to Virginia Governor Timothy M. Kaine, U.S. Department of Transportation Secretary Mary E. Peters asked that the Governor, WMATA and the WMATA Compact Jurisdictions work collaboratively to address the recapitalization needs of the WMATA system to enter into and maintain a state of good repair. (See Enclosure 2.)

Project Risks and Uncertainties

While the Dulles Project’s New Starts rating has now met the threshold for entry into Final Design, FTA must also find that there is a “reasonable likelihood” that the Project will continue to meet the New Starts criteria in the future. The January 24th letter stated that FTA had determined that potential Project budget increases and schedule delays are likely to occur because of MWAA’s inexperience with heavy rail construction and large design-build contracts and because of the nature of the management arrangements under which the Project would be implemented, particularly the lack of coordination between MWAA and WMATA, the ultimate owner and operator of the Project.
The Dulles Project has experienced significant budget increases during its development. As evidenced by the Project’s “Medium-Low” Cost Effectiveness rating, the Project offers relatively limited transportation benefits compared to its costs. In light of these two considerations, FTA has expended particular effort to define accurately the proper Project budget and to identify measures to mitigate potential cost increases due to technical or managerial/organizational risks associated with the Project.

Technical Capacity. FTA’s Project Oversight Management Contractor (PMOC) identified 21 areas of necessary improvement in its assessment of MWAA’s technical capacity. In February, MWAA met with FTA and described specific processes, practices or changes that had been made to address these technical capacity issues. MWAA followed up with written explanations following that meeting. In light of this new information, FTA believes progress has been made to address the 21 action items contained in the PMOC’s Technical Capacity Report. FTA had expressed particular concern about MWAA filling four, new, key staff positions. To date, MWAA has filled at least one key position and is in the process of selecting staff for the remaining key vacancies. MWAA is currently performing these functions with contract support staff, but it is critical that hiring of agency staff, along with PMOC interviews of those new hires, occur as soon as possible.

Mode and Delivery Method Risks. FTA’s extensive experience with a variety of major transit investments indicates that an agency unfamiliar with the mode and delivery method of its proposed project may face additional cost risk, beyond the proposed budget, and that such risk can be quantified. MWAA has demonstrated to FTA that it has taken some steps to reduce these risks by its efforts to hire staff with expertise in the relevant key areas, as well as by implementing other risk mitigation measures. Significant managerial risks inherently remain, however, given the Project’s characteristics and fundamental contractual commitments. In consideration of this, FTA estimates an additional cost risk of approximately $100 million, beyond the Project’s baseline cost estimate. This $100 million cost risk must be part of a Capital Reserve Account (CAPRA) to address these remaining managerial concerns, as discussed further below.

Organizational Risks. FTA has found that successful projects that involve multiple organizations in project development and construction typically exhibit a highly integrated decision-making structure, which helps ensure adequate control of the budget and schedule. Based on experience with grantees, FTA estimates a potential additional cost risk in those instances when a project’s multi-organization management structure lacks sufficient coordination and integration. After recent discussions with MWAA and review of follow-up material, FTA finds that MWAA has demonstrated improvements in the Dulles Project’s management integration and co-location arrangements compared to information on these matters available to FTA in late 2007. These improvements need to be reinforced and maximized by integration into the Project’s standard operating practices, as well as into its Project Management Plan. FTA continues to remain concerned, however, about the reporting relationships between MWAA and WMATA. Consequently, FTA estimates that this risk carries some cost, quantifiable at approximately $100 million. This additional $100 million cost risk must be part of a CAPRA to address this remaining concern, as discussed further below.
Certificate of Compliance

It is my understanding that, in conjunction with FTA’s approval of advancing the Dulles Project into Final Design, and pursuant to your request, the U.S. Secretary of Transportation plans to issue a certificate of compliance, in accordance with Article 32 of the Agreement and Deed of Lease between the United States and MWAA, that addresses the consistency with the lease of MWAA’s undertaking this Project.

Conditions for Consideration of an FFGA

By this letter, FTA approves the Dulles Corridor Metrorail Project—Extension to Wiehle Avenue into Final Design. MWAA, however, must meet the following conditions, along with all other necessary Federal requirements, before FTA can consider an FFGA for the Project:

Capital Reserve Account (CAPRA): To ensure that sufficient funds would be available to cover the risks in the Dulles Project, as described above, FTA requires MWAA and/or its funding partners to identify funding sources for a total CAPRA of $200 million, to be available in the event that the Project cost exceeds allocated and unallocated contingency levels. Half of this amount is attributable to risks associated with the Project’s mode and delivery method, while the other half is attributable to risks associated with the Project’s multi-organizational arrangement. Details on the CAPRA will be negotiated between FTA and MWAA, but funding arrangements for the CAPRA must be committed to the Project before execution of an FFGA.

Financial Plan Update: MWAA must update the Project’s financial plan to include the results of the updated toll revenue and traffic study, reflect any revised funding strategies developed with regard to WMATA’s state of good repair needs, and demonstrate the commitment of all non-Federal funds, including the CAPRA. The updated Project financial plan will continue to include $900 million in Section 5309 funding for the Project. It is my understanding that an updated financial plan will not include use of a TIFIA loan, but will include, instead, a commitment of other State and/or local resources. The revised final financial plan will be evaluated and rated by FTA prior to issuance of an FFGA.

Technical Capacity: MWAA must complete action on the remaining items necessary to ensure technical capacity, including filling certain vacant positions in a timely manner and making improvements to the Project Management Plan. It is also my understanding that MWAA and WMATA will concur on the selection of an Executive Project Director, who will be in place prior to award of an FFGA. MWAA, WMATA and FTA will develop a plan for regular executive level oversight of the Project.

Interagency Coordination: MWAA must work with WMATA to ensure that agreements on coordination and integration with MWAA staff are adopted in operating practices, institutionalized in the Project Management Plan, and carried out through Project execution.

Overall Project Rating of “Medium”: Per the requirements of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), the
project must maintain at least a “Medium” overall rating to receive an FFGA. The Project’s “Medium” overall rating is based, in part, upon FTA’s acceptance of certain capital cost reductions. The updated financial plan, as well as any further change in the Project’s cost, will require FTA to re-evaluate and re-rate the project for Project Justification and Local Financial Commitment.

**Consistency with NEPA Finding:** MWAA must continue to advance the project design and construction deliverables in a manner consistent with the environmental mitigation measures contained in the Final Environmental Impact Statement and Record of Decision. MWAA must submit quarterly reports to FTA regarding the status of action items included in the Record of Decision.

**Project Readiness:** MWAA must continue to develop all necessary documentation and other “project readiness” activities required to support future construction activities. In particular, MWAA must work closely with FTA and the PMOC to develop a Project Execution Strategy that will manage the use of contingency funds and that will schedule the implementation of the developed risk mitigation strategies in the updated management planning documents. MWAA must update the Project Management Plan and each sub-plan as applicable to support such management actions.

**Before and After Study:** Consistent with FTA’s June 2007 Guidance on New Starts Policies and Procedures, MWAA must submit to FTA all information – including methodologies, assumptions, and results – if not previously submitted, pertaining to the development of 1) project scope; 2) transit service levels; 3) capital costs; 4) operating and maintenance costs; and 5) ridership patterns and revenues, within 60 days of this approval. This information will subsequently help inform a Before and After Study, as required by SAFETEA-LU, should the Dulles Project receive an FFGA. FTA will work with MWAA to identify further the requisite documentation and other information for submission.

**Pre-Award Authority**

With this approval, MWAA has pre-award authority to use non-Federal funds to incur project costs for Final Design activities prior to grant approval and to retain eligibility for future FTA grant assistance. This pre-award authority does not constitute any FTA commitment that future Federal funds will be approved for this project.

This pre-award authority is limited to Final Design, utility relocation activities, and related costs. It includes the maintenance of traffic activities and other accommodations necessary for coordination between the Project and non-Project related activities, such as the locally-funded Route 7 and I-495 High-Occupancy/Toll (HOT) lane improvements. It does not constitute approval to start any physical construction activity, including, but not limited to, site preparation and/or demolition, or procurement of long lead items. If such activities are required during Final Design to maintain the Project schedule, MWAA must request FTA approval of any necessary Letters of No Prejudice.

MWAA has automatic pre-award authority for the acquisition of real property or real property rights as more fully described in FTA’s Federal Register Notice of January 28, 2008.
Obligation of Funds

FTA will obligate the remaining $159.0 million (approximate) in Section 5309 New Starts funds already appropriated for the Project for the following Final Design activities:

- Reimbursement of third-party Preliminary Engineering costs already incurred and eligible under pre-award authority provided at Preliminary Engineering approval
- Utility Relocation
- Right of Way Acquisition
- Third-Party Final Design
- Agency Project Administration
- Third-Party Project Management
- Engineering and Design Costs of Rail Cars

Enhanced FTA Oversight

Given the risks associated with this Project, as discussed above, FTA will continue to apply an enhanced level of oversight to the Project. Specific details will be discussed with MWAA.

Progress During Final Design

As an FTA grantee, MWAA is required to provide continuous administrative and management direction of project operations authorized by this letter. MWAA is also required to maintain a work schedule agreed to by FTA and MWAA that assures that scheduled milestones are met and performance goals are achieved. This includes the timely resolution of the technical and funding issues identified above. Failure to make substantial early progress toward their resolution may delay advancement of the project.

FTA looks forward to working with MWAA during the continued development of the Dulles Corridor Metrorail Project—Extension to Wiehle Avenue. If you have any questions, please contact me at (202) 366-4040, or Regional Administrator Letitia A. Thompson at (215) 656-7100.

Sincerely,

James S. Simpson

Enclosures
<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description</th>
<th>PMOC Evaluation of Cost Reductions Proposed by MiWA September 07 (SYOE Million)</th>
<th>Cost Reductions Accepted by FTA April 08 (SYOE Million)</th>
<th>Cost Effectiveness</th>
<th>Project Capital Cost (lesss finance charges)</th>
<th>Estimated Project Cost (Not Rated)</th>
<th>Cost Effectiveness</th>
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The Honorable Timothy Kaine  
Governor of Virginia  
Richmond, VA 23219

Dear Governor Kaine:

As you know, the Federal Transit Administration (FTA) today sent the required 10-day notification to Congress that it intends to advance the Dulles Corridor Metrorail Project — Extension to Wiehle Avenue into the Final Design stage under the FTA New Starts program.

In your February 1, 2008 letter to me, you indicated that you were willing to "make additional adjustments—large or small—to proceed forward into Final Design." Federal Transit Administrator Simpson and I greatly appreciate the cooperation and assistance we have received from you and your staff in making improvements to the Dulles Rail Project over the last 90 days. We also appreciate the extensive supplemental materials provided to FTA by the project's sponsor, the Metropolitan Washington Airports Authority (MWAA), and the Washington Metropolitan Area Transit Authority (WMATA), that have enabled us to conclude that progress has been made in addressing the concerns FTA raised earlier this year. Finally, we are thankful for the support of the Virginia Congressional delegation for their steadfast support of this Project and facilitating the negotiations that allowed the Project to reach the next step of the New Starts process.

As a result of the collaboration between Federal and State officials, the project sponsor and other project stakeholders, the financial stability and oversight of the Project has improved. Cost reductions have been verified and mechanisms have been established to enhance inter-organizational cooperation, technical capacity and project management.

But as you are aware, much work remains to be done to ensure full Federal support of this Project, and there is no guarantee at this time the Project will be eligible for a Full Funding Grant Agreement (FFGA). FTA will work with the project sponsors and monitor the progress of the Project's cost-effectiveness and implementation of project oversight to ensure it continues to meet all New Starts criteria in the future.

There are two additional specific issues that we have previously discussed that are important to note at this juncture as being essential to the Project's eligibility for an FFGA. As you seek to extend Metrorail through Tyson's Corner, I want to re-emphasize the importance of the upkeep and maintenance of the existing system. WMATA recently identified $489 million in urgent unfunded capital needs over the next 6 years, above and beyond its current capital funding plan.
WMATA’s ability to address this issue continues to be an area of concern, and I am asking your office, WMATA and members of the WMATA jurisdictions to commit to undertaking the required steps to guarantee the significant capital rehabilitation necessary for the overall system to enter into and maintain a state of good repair. These steps should include adopting unfunded capital needs into WMATA’s capital improvement plan and requires identifying and committing funding for the first year of those needs.

Additionally, with respect to the Project’s cost and schedule, we appreciate the ongoing efforts to mitigate the risks to the public sector associated with the management and delivery of the Project. But we believe that the Project still represents substantial risk to the taxpayers, and we urge you to continue efforts to reduce public exposure and transfer risk from the public to the private sector. As you know, keeping costs and schedules under control is crucial to the successful management and delivery of complex projects like this one, and maintaining current costs and avoiding escalations will be required for future Federal support.

Thank you again for your efforts. I look forward to working with you in the future.

Sincerely yours,

Mary E. Peters