Deputy Director March 11, 1960

Commerce and Finance (Reeve)

Administration position on proposed
Mass Transit Financing Corporation Act

Senator Bush has asked for advice on the Administration position on the legislation proposed by the American Municipal Association and the Presidents of Eastern railways to provide Federal loans to help improve local commuter service. Several identical versions of the AMA bill have already been introduced in the House (e.g. H.R. 10808, 10843, 10852, 10863, and 10885). This memorandum outlines the major features of this bill, identifies certain major issues which it raises and suggests possible approaches in advising Senator Bush. It is based entirely on Bureau staff discussions and has not been checked with interested agencies.

Conclusions and recommendations

The mass transportation problem in the major metropolitan areas is becoming increasingly acute. While important positive reasons exist for Federal action, the primary responsibility for leadership should remain local and regional, with Federal aid limited to measures which encourage and supplement local initiative and are consistent with existing Federal programs and recognize Federal responsibilities. The AMA bill does not adequately meet these standards and should not, therefore, be endorsed. It also has serious organizational and financial defects.

If Federal aid is believed necessary, it should be limited to metropolitan areas with well considered transportation plans which are coordinated with comprehensive land use plans and which are administered by public agencies with area-wide responsibilities for all types of transportation and with adequate local financial support; Federal aid for such plans can be obtained from the present HHFA urban planning grant program. The Federal government should avoid new subsidies, including loans with subsidized interest rates, but might provide more latitude in the use of existing urban highway grants as an aid to meeting mass transportation needs. Properly organized and supported local agencies can reasonably be expected to borrow the necessary funds privately, but, if necessary, modifications should be considered in the present ICC railroad loan guarantee program or in the public facility loan program of the HHFA.

General features

The bill would establish a new government corporation in the Department of Commerce. This corporation could purchase obligations of or make 50-year loans at low interest rates to State and local public agencies, including interstate agencies, to acquire, maintain or improve equipment or facilities for mass transit services (excluding highways). The corporation would be financed by selling $500 million in stock to the Treasury Department and by borrowing another $500 million, either privately or from the Treasury.

Definition of problem

The acute mass transportation problem facing metropolitan areas summarized in Section 2 of the AMA bill was covered more fully in the statements made by the delegation of mayors and railway presidents on February 16 and in the AMA survey of mass transportation in five major cities (New York, Chicago, Philadelphia, Boston and Cleveland). Highlights include:

A. Increasing urbanization. By 1980, 80% of the population will live in metropolitan areas.

B. Heavy reliance on private automobiles. This both directly adds to traffic congestion and, by intensifying the financial problems of mass transportation services, reduces the incentives and ability for their expansion and continuance.

C. Mounting municipal costs. These include both direct costs for more highway construction and maintenance, and indirect losses in tax revenues as older structures in central business districts are demolished to make automobile parks (Los Angeles has lost 40% of its central business district to the storage of automobiles).

D. Financial problems of mass transportation services. Indirect subsidies to private automobile users (estimated at $50 to $90 per year in three major cities) and the predominance of over-age commuter railway cars make it impossible for many mass transportation operators to provide efficient service on a competitive basis without incurring substantial losses and/or making large new capital investments.

E. Danger of losing existing commuter service. The trend toward abandonment of commuter service could force 25% or more of those riding mass transportation lines on to the highways; in these five cities alone this would require an estimated $4.4 billion to provide the additional highway capacity, plus substantial amounts for parking facilities, etc.

Without passing upon the validity of the specific AMA estimates, there is little doubt that the existing and prospective problems require drastic action, and that such action in most larger communities should include substantial improvement in mass transportation facilities.

Extent of Federal responsibility

The positive case advanced for Federal action consists primarily of the following arguments:

(a) The growing preponderance of the national population in metropolitan areas.

(b) "Since much of this traffic moves across city, county, and State lines", the cities cannot solve the problem alone.

(c) "Neither the cities nor the railways can finance such a program by themselves."

(d) Heavy Federal subsidies for highways and air transportation have created or aggravated the problem.

Despite these and other arguments for Federal action, the predominant local and regional interest in transportation within metropolitan areas is clear. If Federal aid is to be considered, therefore, the presumption is that it should be limited to measures which encourage and supplement local initiative and are otherwise reasonably consistent with existing Federal programs and responsibilities.

Need for comprehensive transportation plan

Whether or not Federal aid is needed, and regardless of the type of aid, each metropolitan area, in our judgment, should have a comprehensive transportation plan properly integrated with comprehensive land use planning to serve as a basis for all of its concrete steps. While this is recognized in general language in some AMA statements, the bill completely omits any such requirement. The HHFA, since 1954, has made available matching grants for regional and metropolitan plans, which can be used for preparation of general transportation plans as part of master plans for such broad areas. Few, if any, major metropolitan areas with acute mass transportation problems, however, have applied for such assistance, although some may have made such plans without Federal aid or by using highway funds. Any substantial use of HHFA planning grants for this purpose would, of course, require increased appropriations.

Need for effective local organization and financial support

By the same token, any program for effective mass transportation should be administered by public agencies which are broad enough in scope geographically and in responsibility for related transportation programs to assure unified action throughout most or all of the metropolitan area. The AMA bill makes no such requirement, but would permit aid to any local, State, or interstate agencies in standard metropolitan areas.

If Federal aid is provided, moreover, it appears essential also to require, as a prerequisite, an agreed upon basis for financial assistance for such a public agency from the constituent cities or other Federal and local governments, e.g., through pledge of their credit or possibly by providing independent taxing authority. Federal aid, whether by loans or grants, should not become unilateral, but should create incentives for effective leadership and substantial participation locally.

Loans and/or subsidies

The AMA bill limits the proposed Federal aid to long-term loans. Mayor Celebrezze referred to the RFC loan to help Cleveland finance its rapid transit system as the type of loan needed. New Haven President Alpert pointed out that the heavy Federal subsidies now being paid to competing transportation would justify subsidies to commuter railroads but the delegation did not request such subsidies. However, the joint statement of mayors and railway presidents adopted on November 30, 1959, requests that a study be made of possible Federal grants "modeled on the present urban renewal program"; Philadelphia, at least, is already talking about the need for Federal grants to match existing local subsidies to commuter railroads. Moreover, the interest formula on the loans in the AMA bill, i.e., the coupon rate (rather than the yield) on the total debt (rather than the long-term debt) plus ½%, would involve substantial interest subsidies, possibly equal to the full principal amount of the loan over the 50-year period.

One Federal subsidy hardly justifies another. If Federal grants for urban highways are continued, however, a case can be made for giving the local communities at least partial discretion to use them for improving mass transportation facilities whenever the regional authority believes it is a more efficient method of providing needed transportation services. The difficulty is that highway tax revenues have been earmarked in a separate trust fund and their use for non-highway purposes would have to be justified by the benefits which would result to highway users from diverting traffic to mass transit facilities. Whether or not such a discretionary use of highway grants is feasible, a more positive policy on encouraging the provision of median strips in urban highways for future rapid transit might well be adopted.

Alternative sources of loan financing

The AMA bill would not permit Federal loans unless such assistance "is not otherwise available on equally favorable terms and conditions". This is the college housing loan type of limitation, instead of the much preferable language "is not otherwise available on reasonable terms and conditions". The delegation insisted that long-term loans would not be available privately. This is probably true as long as subsidy interest rates are involved and terms up to 50 years. However, a properly-organized metropolitan area transit authority with appropriate backing by either the State or local governments involved and/or with pledges of future Federal highway grants can usually borrow money on a tax-exempt basis at least as cheaply as the Federal government. Once the subsidy element is removed from the loans, their only justification is toleration for the failure of the States and cities to back the obligations of the authority with their own credit and resources.

Authorization of a new Federal direct loan program, moreover, would conflict directly with the Administration's policy of encouraging private financing, if necessary, with Federal guarantees. If Federal credit assistance is deemed essential, first consideration should be given to using the new ICC railroad loan guarantee program, authorized in the Transportation Act of 1958, with necessary modifications, e.g. by providing for longer-term loans, by broadening the purpose of the loans to include aid to commuter services and by shifting organizational responsibility for it to the Department of Commerce. However, Treasury would probably object to providing explicit authority for guaranteed loans to public agencies, since these would, in effect, be tax exempt Federal obligations.

Another possibility would be to use the public facility loan authority of the Housing and Home Finance Agency, under which the Community Facilities Administration now makes loans, to provide essential public works or facilities. This would, however, considerably expand the customary scope of this program, which mainly helps to finance water, sewer, and gas facilities in small communities and is not now equipped to appraise the merits of transportation loans.

Organization and financing of proposed corporation

In addition to the basic questions raised by the AMA bill, the organizational and financing provisions are seriously defective, and should be considerably changed if serious consideration is given to such legislation. For example, the corporation should not be "created in the Department of Commerce", management should not be vested in an "in house" board of directors, provision should be made to include the corporation under the Government Corporation Control Act, etc. Rather, the corporation should be subject to supervision and direction by the President or the head of such agency as he should designate, and management should be vested in a single administrator. The necessity for creating a separate constituent agency in Commerce or elsewhere would have to be carefully reviewed.

The provision for capital stock is undesirable. All of the funds should be obtained from appropriations or from new obligational authority subject to review in appropriation acts rather than by back-door public debt financing. The interest charged by the Treasury should be on the basis of current long term yields, rather than the much lower average coupon rate. Similarly, the rate charged on the corporation's loans should not necessarily be limited to $\frac{1}{4}$ of 1% above the corporation's borrowing costs.