OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

ASSISTANT SECRETARY

May 1, 1969

MEMORANDUM FOR THE SECRETARY

SUBJECT: Revision of UMTA Legislation

Attached is a revised mass transit draft bill, which represents a revision of the bill presented to you on Friday, April 25 per our understanding of the decisions you reached with respect to the earlier package.

Also attached is a brief discussion paper on one item in the revised bill which we recommend you reconsider.

We can have a complete package to you for signature within two days, consisting of transmittal letters, the bill, a section-by-section analysis, and justification if you approve the attached bill or our alternative recommendations with respect to the two issues set forth in the discussion papers.

The major features of the attached bill are as follows:

1. The bill will be termed the "Urban Public Transportation Assistance Act of 1969", and it will change UMTA's name to the Urban Public Transportation Administration.

2. The bill would authorize program levels of $300 million in FY 1971, $400 million in FY 1972, $600 million in FY 1973, $800 million in FY 1974, and $1 billion a year in FY 1975-1982 (total FY 1971-1982: $10.1 billion).

3. Funds could be obligated at the authorized level, with subsequent liquidating appropriations (Contract Authorization).

4. The funds would come from the General Funds of the Treasury for the first two years. For succeeding years, from such sources as the Congress may direct (See Item 12 below).

5. Authority is provided to extend capital grant assistance directly to private transit companies on their application.

6. Private transit companies receiving such grants would be required to establish and fully fund depreciation accounts to cover the total assets acquired with the aid of the grant.

7. A loan program (interest free for up to ten years) would be authorized for advance acquisition of rights-of-way and for excess acquisition of additional lands adjacent to rights-of-way.

8. The bill would authorize relocation assistance provisions paralleling those of the highway program.

9. Public hearings would be required as a prerequisite to action on certain grant and loan applications.

10. The current statutory ceiling on the percentage of grant funds available for each State would be eased.

11. Applicants for capital grants would be required to send copies of their applications to their respective State governments, and the States would be invited to comment within 30 days to DOT (this provision was added per suggestions this week from Governor Nils Boe).

12. The bill would require a study of alternative revenue sources and long-range program requirements, to be completed within one year. The results would be delivered to Congress in the form of a proposed legislative amendment specifying sources of revenue and means of financing in the third and subsequent years.

The features set forth above have been changed from the bill presented to you last week as follows:

1. The term "Public Transportation" is used in the title and throughout the bill in lieu of "Mass Transportation", and UMTA's name is similarly changed.

2. The program is funded out of the General Funds of the Treasury in the first two years, rather than from a trust fund financed by the auto excise tax. Funding for subsequent years would depend on the recommendations of the one-year study.

3. A requirement was added relating to the private grantee's funding of depreciation accounts.

4. The opportunity for State government comments on applications was added.

5. The study called for in the bill would be submitted within one year, rather than three years.

The item which we suggest you reconsider and which is discussed in the attached paper is:

Total funding versus Debt Service Funding

An alternative way of achieving the Department's objectives which might have a somewhat better chance of favorable Congressional action because of its smaller short-term budgetary impact would be a debt service financing approach.

Paul Cherington
Assistant Secretary for Policy
and International Affairs

Attachments

cc: The Under Secretary
The Deputy Under Secretary
Mr. Villarreal
Mr. Braman

Discussion Paper

DEBT SERVICE GRANT ALTERNATIVE

Under the current UMTA grant program (and as proposed in the draft bill), UMTA cannot approve a grant application unless the Budget Authority for the full amount of the grant has already been provided by the Congress. Moreover, the Federal budgetary Outlays generally occur in full within a year or two after the grant is approved (although it would be spread over as much as ten years if a grant were made for a total new rail rapid transit system).

Under a debt service approach, on the other hand, the Federal budgetary impact--both in terms of required Budget Authority and in terms of budget Outlays--would be spread over a much longer period of time (approximately 12 years in the case of buses and approximately 40 years in the case of rail rapid transit systems). Thus, to provide $10.1 billion of effective assistance to mass transportation in the FY 1971-82 period as the draft bill would do, might require Budgetary Authority in that period of only $5.2 billion under the debt service approach. This relatively small short-term budgetary impact of this approach is, of course, its key advantage. (The long-term budgetary impact of the debt service approach is somewhat higher than under the current one-shot grnat approach, because the bonds to finance the debt service approach would require a higher interest rate than Treasury bonds).

The way this approach would work is that the Federal Government would contract with the grant recipient (e.g., a municipality or transit authority) to pay the amortization and interest cost of local bonds necessary to finance two-thirds of the "net project cost" of the eligible facility (i.e., the Federal Government's "share" of the net cost). These local bonds would not be tax-exempt since the Treasury Department has adamantly opposed any new programs with Federal guarantee of tax-exempt bonds.

The Budgetary Authority required under this approach, <u>for the same level of effective assistance as in the draft bill</u>, would be as in the following table (which assumes that the local bonds, Federally guaranteed and non-tax-exempt, would bear an interest rate of 6%).

DEBT SERVICE FINANCING

(Dollars in Millions)

FISCAL YEAR	EFFECTIVE PROGRAM LEVEL — ASSUMED COMPONENTS: Capital Grants (Long-Term Bonds)	EFFECTIVE PROGRAM LEVEL — ASSUMED COMPONENTS: Research, etc. (One-Shot Grants)	EFFECTIVE PROGRAM LEVEL: TOTAL	BUDGET AUTHORITY — COMPONENTS: Capital Grant Debt Service 1/	BUDGET AUTHORITY — COMPONENTS: Research, etc. Grants	BUDGET AUTHORITY: TOTAL 1/
1971	225	75	300	18	75	93
1972	300	100	400	40	100	140
1973	475	125	600	74	125	199
1974	650	150	800	121	150	271
1975	825	175	1,000	179	175	354
1976	825	175	1,000	238	175	413
1977	825	175	1,000	296	175	471
1978	825	175	1,000	355	175	530
1979	825	175	1,000	413	175	588
1980	825	175	1,000	471	175	646
1981	825	175	1,000	530	175	705
1982	825	175	1,000	588	175	763
1982-2022						*

* Budget Authority requirements to finance the 1971-82 program would gradually decrease to zero during the 1982-2022 period.

1/ Necessary to service debt issued in year and in prior years of the program.

Because of the relatively low short-term budgetary impact of the debt service approach, a $1 billion annual effective program level--which would not be reached until FY 1975 in the current draft--could be reached in the first year of the program with only a modest increase in the required Budget Authority. Specifically, a ten-year, $1 billion a year effective program level would require a budget authority of only $139 million in FY 1971 compared to $93 million in the above table.

In view of the lower short-term budgetary impact, we believe the debt service approach has greater likelihood of passage in the Congress than the one-shot grant approach incorporated in the current draft. The debt service approach or comparable approaches are utilized in several HUD programs, including some for which funds were authorized as recently as last year.

May 1, 1969