Report of the Subcommittee on Transportation

COUNCIL FOR URBAN AFFAIRS

July 11, 1969

UPTA

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Introduction

The President has listed a new urban public transportation program among the "top ten" of his current legislative objectives. The Secretary of Transportation has repeatedly described urban transportation as his number one problem.

A. The Subcommittee on Urban Transportation and its supporting staff have spent long hours addressing this problem. Protracted discussions have already taken place in the Executive Branch.

B. What follows is the Subcommittee's report and recommendation(s). It is to be hoped that a decision can be reached at Friday's meeting of the Urban Affairs Council on the general shape of the new program and that a draft bill can then be promptly finalized by DOT and submitted to the Congress in accordance with the Administration's legislative schedule.

This memorandum summarizes the basic facts supporting the need for a large new Federal program to assist urban public transportation. It describes two major financing alternatives with the recommendations of the various interested parties. Key issues are identified. Accordingly, this memorandum should serve as a basis for decision making.

I. Reasons for the Program

A. Urban public transportation is a sick industry.

-- Traffic and revenue have declined persistently for the last twenty-five years and deficit operations are typical.

-- Average fares have tripled in twenty years, but have been more than offset by declining traffic and increasing costs; local political pressures, regulatory practices, social objectives, and competition from the auto preclude major relief via increased fares, particularly in the large cities where the needs are greatest.

-- Equipment is typically old and unattractive; replacement and modernization have been minimal; research and innovation have been negligible.

-- Success of highway-auto oriented transportation has been fostered by large public expenditures for highways.

B. The decline in mass transit has:

-- Increased difficulties for the poor, the aged, the very young, the handicapped and the socially isolated who cannot afford or readily use private automobile transportation; in short, the most underpriviliged elements of our society;

-- Aggravated auto congestion;

-- Generated need for still greater expenditures for highway construction.

C. Need for more and better urban public transportation continues to increase rapidly:

-- Urban population of 74 million in 1945 had increased to 125 million in 1965 and will be 225 million by the year 2000.

-- 140 million people will live in metropolitan areas of over one million population.

-- Growth will equal 100 new cities of one million population each.

D. Without Federal assistance, States and cities cannot provide the needs unmet by private enterprise:

-- State and local revenue, including debt financing, increased from $35 billion in 1955 to $85 billion in 1966.

-- While Federal debt increased by less than one-fifth, State and local debt increased nearly 2-1/2 times.

-- State and local public capital outlays exceeding $300 billion will be required between now and 1975.

-- State and local borrowing power is severely limited by statutory and constitutional provisions.

-- Attempts to circumvent legal restrictions by State and local government have already resulted in higher interest costs and administrative complexities which increase the cost of capital improvements.

Thus, it seems clear that Federal assistance is urgently needed. Further, it is apparent that this assistance must be both substantial and provided over a long term. It must be virtually guaranteed so that the States and localities can prepare plans, gain local consensus, and arrange financing with confidence that Federal financial assistance will be available on a timely basis.

II. The Planned Application of Resources[1/]

A. The program described in Part III contemplates the expenditure of $10 billion over 12 years starting in 1971. The application of these funds will be to:

-- Improve and expand existing major transit systems;
  -- Estimated at $2.5 billion

-- Build new major systems;
  -- Estimated at $5.5 billion

-- Retain, improve and expand systems in medium and smaller cities;
  -- Estimated at $1.5 billion

-- Support expanded research, development, demonstrations and technical studies;
  -- Estimated at $0.5 billion

B. The Subcommittee is in agreement on the need. It endorses the application of resources as here described, and presents it for the consideration of the Council.

III. The Program Structure and Substance

The Program would extend for twelve years with overall funding of $10 billion. Contract Authority[2/] for the first five years

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1/ The estimates as described reflect views expressed at the Subcommittee meeting on 7 July 1969. The applications include Rapid Transit, Rail and Bus.

2/ Views on Contract Authority as opposed to simply advance appropriations are discussed in Part IV.

would facilitate long term commitments of Federal support to local public agencies, an approach utilized successfully in the Highway Trust Fund.

In addition, specific provisos include:

-- Direct application for capital grants by private carriers;

-- Advance acquisition of right-of-way, financed by interest bearing Federal loans for a fixed term (as suggested by reviewing agencies);

-- Relocation assistance following the provisions of S. 1 would be added by amendment if S. 1 fails of enactment;

-- Relaxed limitation on grants allocable to any one State;

-- Opportunity for State governments to review and comment on local applications for Federal aid;

-- Requirement of local public hearings on capital investment programs.

Acquisition of reasonable amounts of excess land financed by interest bearing Federal loans for fixed terms (as suggested by reviewing agencies) has been discussed. The Subcommittee as a group has not endorsed this proviso, which has also been questioned by various members of the Executive Branch.

IV. Financing the Program

The Subcommittee has not reached unanimity on the best method of financing this program. In addition, Executive Branch principals, including Messrs. Burns, Mayo, McCracken and Volcker, have raised questions about several of the approaches considered. What follows is a description of the two principal approaches now being considered, supplemented by the views and positions of principals concerned.

A. Financing from the General Fund.

At the recent Subcommittee meeting, Secretaries Romney and Stans endorsed this approach. This approach has also been broadly endorsed by Messrs. Burns, Mayo, McCracken and Volcker, with only such exception(s) as are specifically noted below.

. A twelve-year program with ultimate funding of $10 billion would be announced in the preamble to the bill.

. Specific authorization for funding covering the first five years of the program, at the following levels, would be included:

FY 1971	$300 million
1972	400
1973	600
1974	800
1975	1,000

. Subsequent authorizations of $1 billion per annum would be sought so as to maintain a five-year advance authorization.

. Secretaries Romney and Stans endorsed the addition of Contract Authority by year in the amounts indicated for each of the five years noted above. Messrs. Burns, Mayo, McCracken and Volcker in discussions with Secretary Volpe indicated a preference for two year advance appropriations. Subcommittee Chairman Volpe although advocating alternative B below, endorses inclusion of Contract Authority in either alternative.

--- B. Financing through a designated account.

The Designated Account also would propose a twelve-year program with ultimate financing of $10 billion.

Specific authorization of contract authority covering the first five years of the program, at the following levels, would be proposed:

FY 1971	$300 million
1972	400
1973	600
1974	800
1975	1,000

Earmarked revenues would be paid into the account. As originally proposed by the Department of Transportation, the sources would be an (additional) one-cent-per-package cigarette tax ($259 million annually), an (additional) fifty-cents-per-gallon tax on distilled spirits ($158 million annually), and an extended auto excise tax of one percentage point ($270 million annually).1/ There are other possible revenue sources. The possible use of an annual urban auto registration fee will be discussed by Subcommittee Chairman Volpe at the Council meeting.

In direct discussions with Secretary Volpe, Messrs. Burns, Mayo, McCracken and Volcker have indicated reservations about the designated account approach. The Subcommittee itself has dealt with the subject broadly. On balance, Secretaries Romney and Stans indicated a preference for and endorsement of Alternative A above.

1/ If sole reliance were to be placed on the auto excise tax, approximately 3-1/2 percentage points would be required to support the program and the tax would have to be extended beyond its present expiration date.

Secretary Stans did indicate that inclusion of the program in the Highway Trust Fund might be desirable. Chairman Volpe will discuss this possibility at the Council meeting.

Subcommittee Chairman Volpe, on balance, favors this designated account approach to funding. Thus, at this reporting the Subcommittee does not have a unanimity of position on financing method. In addition to description of the alternative approaches (above) the apparent pros and cons are presented below.

V. Pros and Cons

The principal arguments raised against a designated account are the following:

-- Commitment of an auto excise tax and/or sumptuary taxes for urban public transportation will be strenuously resisted by the automobile manufacturers, other highway interests, and other affected parties.

-- While a case can be made for the auto excise tax as a revenue source, it is difficult to maintain that it is a "user charge". Arguments thus far have not been persuasive to some members of the Executive Branch.

-- Excise taxes on cigarettes and distilled spirits cannot possibly be identified as user charges and will be resisted by the respective industries.

--- The Ways and Means Committees will also resist the commitment of the auto excise tax or the imposition of additional sumptuary taxes. (An urban auto registration fee might be more sustainable and invoke less opposition.)

-- The Appropriations Committees will resent and resist according Contract Authority which reduces their control over expenditures.

-- And paradoxically, notwithstanding the provision of Contract Authority, the Appropriations Committees can and have placed restrictions on contract commitments.

The arguments for a designated account are:

--- Representatives of the cities and other local public agencies, the operators of both bus and rail systems, and the manufacturers of transit equipment have indicated clearly and emphatically that a trust fund with earmarked revenues is essential, that they will not support any Administration proposal which does not include these ingredients and that instead they will support one of the trust fund proposals already introduced into the Congress by the Democrats.

-- A designated account with earmarked revenues and Contract Authority provides, to an extent that no other proposal will, the assurance of long-term Federal support.

-- The new revenues (proposed) will balance the cost of the program so that the program will not constitute a drain on the budget.

The designated account alternative may fail of enactment. However, the Administration will achieve the greatest possible advantage by supporting it. The approach has the enthusiastic support of urban interests, implements the recommendations of the 1968 Republican Platform which promised "to explore a trust fund approach to transportation . . . and perhaps in this way speed the development of modern mass transportation systems . . ." and of the President's Transportation Task Force which urged "creation of a Public Transportation Trust Fund . . . [which] . . . "provides the only assured means for orderly planning, financing, and execution of the long-range capital improvement programs which are required to bring about the needed balance in urban transportation". It is entirely consistent with statements the President and the Secretary have made publicly. The designated account approach here described is superior to bills of this type already introduced into the Congress by the Democrats.