2:15

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

July 15, 1977

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MEMORANDUM FOR THE PRESIDENT

THROUGH: Jack Watson

SUBJECT: Transportation and Energy

Conversations with the Governors last weekend confirmed what other State and local officials have already told representatives of this Department -- the transportation and energy problems cannot be pulled apart. Responsible sentiment is rising for a marriage of these two programs, and the argument is helped along by the realities of Congressional action.

Reality #1 - The Budgetary Situation

Even the most conservative estimate of our analysts suggests that existing DOT grant programs will reach an average level of at least $13 billion during the period FY 1978 through FY 1982. (See attached chart.) Existing trust fund revenues to meet this need add up to only $8.8 billion annually, leaving a gap of at least $4.2 billion each year which must be met from general revenues. A new revenue source will have to be found both to protect the investment which the nation has in its transportation system and to project transportation effectively into the national effort to conserve and produce energy. Development of such a revenue source leaves available the present general fund money for unrestricted use in other areas.

Other numbers, such as those presented by Governor Busbee, suggest a funding crisis of even greater proportions. However, I believe we can contain this potential budget problem if we begin by finding a stable source for current expenditures and some limited additional spending in priority areas.

Reality #2 - Modal Special Interests are Active

With the highway and mass transit programs due to expire next year, the traditional modal interests are once again lobbying for their own special programs. The recently passed Senate mass transit bill was a product of those efforts. The potential erosion of the gas tax has many State officials searching for substitute funding sources for the maintenance of their roads. The highway builders are already lining up opposition to any changes in the Highway Trust Fund. Some States are promoting still another single-focus grant program to prevent the abandonment of rail branch lines. These special interest pleas can be contained, but cannot be ignored for long. To ignore them could subject us to perhaps $4 billion in additional program costs.

Reality #3 -- Congress will act.

Few constituencies are stronger or better organized on Capitol Hill than the transportation community. The Public Works Committees of both Houses are strong and traditionally independent. Legislation now being developed by Committee staffs would continue in large part the current uncoordinated transportation program. Our failure to state our intentions in transportation funding could lead these Committees to respond by "going it alone," leaving you the option of accepting ill-conceived legislation or vetoing bills which carry such popular titles as mass transit, highway construction, and airport safety and development.

Recommended Solutions

Several revenue solutions to the transportation budgetary gap are being given wide circulation on Capitol Hill. Some have more realistic potential than others:

---Use of a portion of the Corporate Income Tax--

Representative Howard, Chairman of the House Surface Transportation Subcommittee, had recommended a plan whereby at least 2% of the 48% Corporate Income Tax would be placed in a mass transit trust fund. This idea has been widely criticized for failing to raise transportation revenues from those who use the services, and has been withdrawn by Chairman Howard.

---Imposition of a new gas tax--

Proposals range anywhere from 3¢-8¢, the former most recently subject of discussion by the Ad Hoc Energy Committee. The Public Works and Transportation Committee is looking at gas taxes as a source of highway and mass transit program financing. We are cooperating with DOE and the Ad-Hoc Committee in development of their proposal, yet you should know that our economic models indicate the tax would have to amount to at least 7¢ per gallon to have any impact on demand. There is little likelihood that a tax at this level could be passed this year, and even less likelihood of passage in 1978, an election year.

---Use of other energy-related taxes--

This idea has substantial and growing appeal since the use of energy taxes for transportation programs would be recognizable as a levy on users. In particular, there is a recognized need to help those states whose motor fuel receipts will be reduced through the efficiency and demand-reducing measures built into the energy program. Estimates presented by the Governors indicate that by 1985 state fuel tax revenues will decline, perhaps by as much as $1 billion a year from current levels, and this would occur simultaneously with dramatically escalating highway maintenance costs. Similarly, concern is raised over the current public transportation program level and its inability to meet needs in both urban and rural areas as we seek alternatives to the private automobile. As we focus on the transportation proposal, we need to be more comprehensive than just dealing with carpools and vanpools.

Congressional Strategy

I see three ways to dedicate necessary funds to transportation:

(1) "The well-head transfer" -- This notion would have us dedicate approximately 40% of the so-called well-head revenues (that amount used for transportation) to a fund which, alter final Congressional approval, would finance a national transportation program. This would produce a budgetary wash. An amount of money in general revenues equal to the amount drawn from the well-head taxes would be freed for immediate expenditure, and thus would not in any way interfere with your macroeconomic program. By placing these funds in escrow, we would attract support for the President's energy and transportation programs and would be able to leverage that money into votes in the Congress.

(2) "Delayed well-head program" -- As you know, the House Ways and Means Committee has approved a per capita rebate of only a single year. We could recommend next year the dedication of revenues as described in (1) above with the disadvantage that we would lose political leverage, but with the advantage that we would not further complicate, this year, your energy program.

(3) "Permanent gas tax" -- If this is the only option, I am prepared under your direction to fight this battle on Capitol Hill. I believe the passage of such a tax this year or next year to be possible, if the amount is reasonable. However, if we approve a minimal tax of 2¢ or 3¢ this year, we could lull the Congress and the public into the erroneous impression that the funding need has been responsibly met. If it becomes dedicated to uncoordinated uses, the transportation financing problem will become more difficult.

The Ultimate Goal

Flexibility and stability are the twin "musts" of transportation finance because transportation problems are expensive and long-term. We must provide the financing engine, but we must allow local and state officials to pilot their own systems and to make the hard choices among competing modes.

The funding framework I will recommend for implementing this plan is the attached National Transportation Account (NTA). That Account, and the programs to be funded out of it would:

-- generate a secure funding mechanism broad enough to support not merely the narrow interest of any single mode, but the competing interests of all transportation modes;

-- jointly evolve an approach whereby major programs could be reviewed systematically, allowing broad considerations of trade-offs, relative needs and basic program merits to be assessed, rather than looking at highways one year, UMTA another, and railroads still another;

-- give state and local agencies flexibility to deal with problems at their levels without being impaired by narrow categories, varying funding ratios, and other procedural requirements;

-- establish a coordinated process for developing state and local plans for transportation;

-- finance the transportation system almost totally out of the pockets of users so that individual programs would no longer require subsidization by the general taxpayer; and

-- promote stability of a traditional trust fund, allowing long term continuity to be made, without a corresponding loss of flexibility.

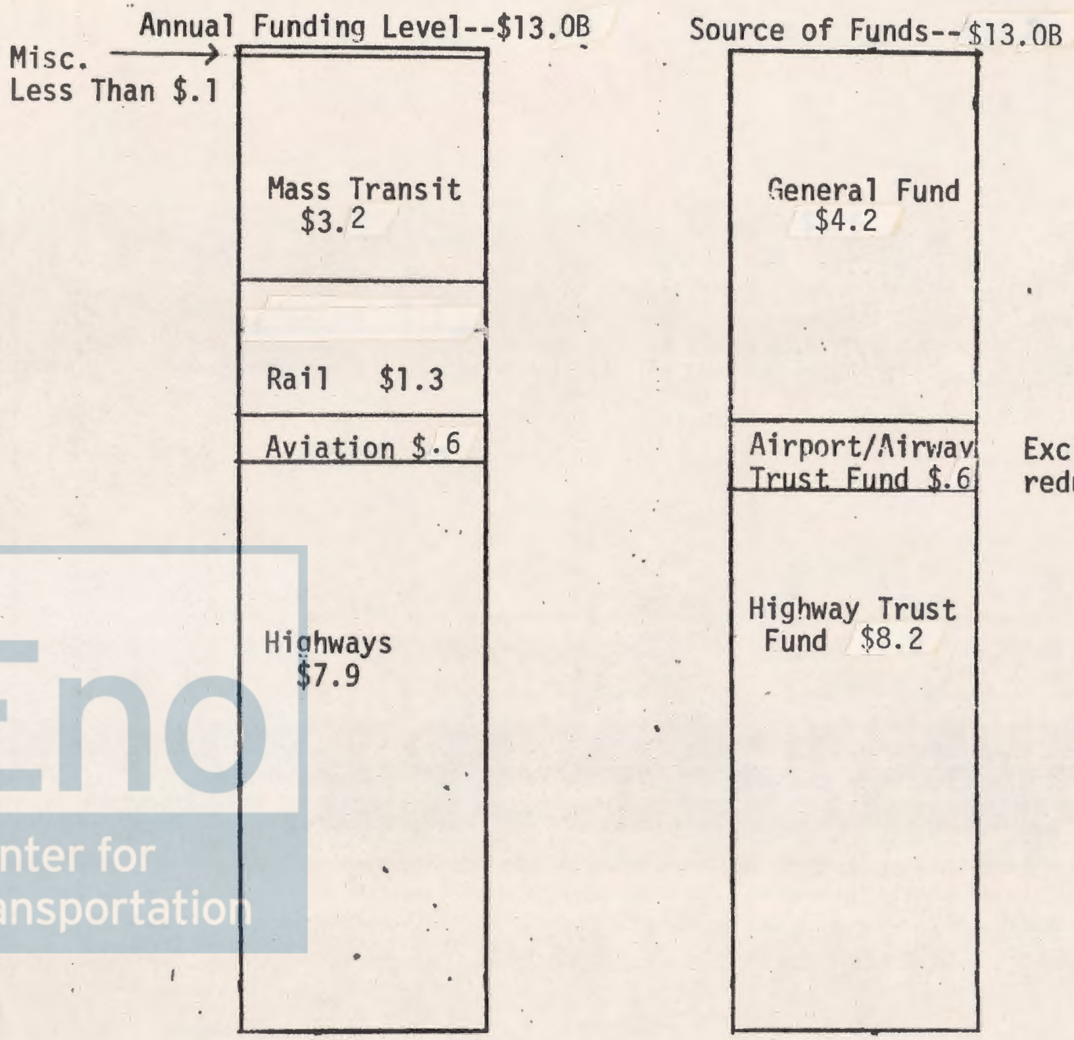
Once again, Senate passage of a mass transit bill, and our knowledge that both Houses are prepared to move on other transportation legislation, requires Administration action at this time -- at the very least a credible indication of future intent. It would take advantage of this opportunity to reshape transportation policy away from the era of massive construction towards a more conservative approach involving better use and maintenance of existing systems. One side benefit is that the dedication of an energy-related revenue source for transportation would provide the added support of the transportation constituency, particularly the governors and mayors, to the efforts of the Administration to enact a strong energy legislation.

Brock Adams

Brock Adams

Attachment

NATIONAL TRANSPORTATION ACCOUNT
AVERAGE ANNUAL FUNDING LEVEL FOR DOT GRANT PROGRAMS (1978-1982)
WITH CURRENT SOURCES OF FUNDS
FEDERAL GRANT PROGRAMS
(BILLIONS $)



Excludes an average $300M each year for noise reduction financing as included in H.R. 4539.

2:15 p.m.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO: THE PRESIDENT

FROM: Jack Watson Jack   July 18, 1977

RE: Your Drop-By at Meeting with Secretary of Transportation, Brock Adams, et al Re Transportation and Energy

When: Tuesday, July 19, 1977, 1:30 to 2:30 p.m. Your drop-in scheduled at 2:15 p.m. for 15 minutes

Where: Cabinet Room

Purpose: To discuss Secretary Adams' memorandum to you dated July 15, 1977, regarding transportation and energy

Participants:
Secretary Brock Adams
Secretary Mike Blumenthal
Mr. Bert Lance
Dr. Jim Schlesinger
Mr. Charles Schultze
Mr. Stuart Eizenstat
Mr. Jack Watson
Ms. Jane Frank

THE WHITE HOUSE
WASHINGTON

Mr. President:

Schlesinger and Stu observe that the attached Adams memo on the long-term financing of energy is a restatement of a proposal Adams has been advocating since early April, with which you are already familiar.

Comments from Schlesinger, Eizenstat and Blumenthal are attached.

Rick

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

19 July 1977

MEMORANDUM FOR JACK WATSON

FROM: Jim Schlesinger

SUBJECT: Sec Adams' Memorandum to the President on Transportation and Energy

Secretary Adams' memo to the President on long-term financing for energy is a restatement of the proposal he has been advocating since early April. He is proposing that the transportation programs currently funded from the general fund ($4.2 billion) all be funded from designated sources, i.e., from revenues collected under the energy program. I have the following comments on Secretary Adams' proposal:

- The wellhead tax provides substantial flexibility for overall tax reform after the first year. That flexibility should be retained by the Administration, not traded or given away, so that the ultimate tax package will be well balanced.

- I see no reason why transportation, unlike other functions of the government, must be funded from designated revenues. If all governmental programs were so funded, the President would have little budgetary flexibility. Transportation programs should go through the normal budgeting process.

- One of the elements of the National Energy Plan different from energy proposals in the past is its degree of fairness to all income groups. Under the crude oil equalization tax, per capita rebates were designed to assure that disposal income would not drop due to higher energy prices. Secretary Adams' proposal would greatly dilute the money available for rebates.

- I do not share Secretary Adams' view that making funds available for transportation enhances the political attractiveness of the wellhead tax. There was an attempt in the Ways and Means Committee to use funds from the wellhead tax for transportation purposes which was decisively beaten. The liberals were concerned about the regressive impacts of the wellhead tax without rebates and the conservatives did not want energy revenues used to fund large new Federal programs; and

- Chairman Ashley will push for a permanent gas tax which would provide around $12 billion for transportation over eight years. We should state "no objection". If, by chance this were successful, the gas tax would provide an additional increment of guaranteed funding for a portion of transportation purposes.

In summary, I do not believe Secretary Adams' proposal has substantive merit. Politically, it would be unwise for the Administration to propose an entirely new use for the wellhead tax at this time. In fact, I feel such a dramatic shift in position could jeopardize the entire wellhead tax.

THE WHITE HOUSE

WASHINGTON

July 19, 1977

MEMORANDUM FOR THE PRESIDENT

FROM STU EIZENSTAT
KITTY SCHIRMER

SUBJECT: Brock Adams Memo on Transportation & Energy

Although you have already read and commented upon Brock's memo on transportation and energy, there are three points which we recommend you make with him at your meeting today.

1. <u>The Well-head tax</u>

For both political and equity reasons, we believe that you should continue to support individual rebates of well-head tax revenues. There are already too many potential claims against that pot of money, and any Administration action which encourages looking to it for non-rebate purposes opens the door for additional claimants.

2. <u>The Gas tax</u>

Lud Ashley is going to push for a 3¢ to 5¢ gasoline tax. While he is enthusiastic about it, its chances of passage either in the Ad Hoc Committee or on the House floor are slim. We have discussed our recommended position on this issue with Jim Schlesinger, and we agree that the Administration's position on the tax should be "no objection", but no active support. If you agree with this position, we would recommend making it clear to Brock.

3. <u>Financing of Transportation Generally</u>

The earmarking of either well-head or gasoline taxes for transportation is inadvisable from a budget standpoint. Our experience with the Highway Trust Fund illustrates that such earmarking creates a <u>floor</u> rather than a ceiling on these public works investments. Financing transportation programs from general revenues permits better evaluation of and control over these expenditures.

Many of the benefits cited for earmarking are attributable to consolidated and assured financing. These benefits can be obtained from creation of a single long-term transportation account funded from general revenues rather than by earmarking. Decisions concerning long-term financing for transportation should be postponed until DOT has made a thorough analysis and presentation of all of the options.

We would stress that you do not need to make a decision on transportation financing generally at this time.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

July 19, 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Energy Taxes and Transportation Funding

Brock Adams' proposal to dedicate a large proportion of the revenues raised by the wellhead tax to a fund for a national transportation program seems to me premature. We still don't know how balanced an energy package will emerge from the Congress, and therefore how much will be available to divide up amongst the contenders--welfare reform, tax reform, transportation, or any other of the worthy claimants for funding.

Moreover, your program is committed to returning the revenues raised under the program to the public, not to any one segment or industry. There could be as much political fall-out from diverting funds to a specific use--no matter how worthy--as from the support it might generate from the transportation industry or from local governmental levels.

Mike

W. Michael Blumenthal