



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

16 NOV 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: James T. McIntyre, Jr. *Jim*
SUBJECT: Washington, D. C. Metro

cc: Brock &
*Jim - I f
you have problems
with this, &
can't resolve them,
see me
J*

Some significant Metro-related policy differences have emerged over the last two months among the Department of Transportation, OMB and the Domestic Policy Staff. Because critical meetings with key local political leaders are scheduled for later this month and on December 15, 1978, this memo seeks clarification of the Administration's position.

While we are in agreement on several important points regarding Metro, key differences have emerged concerning: (a) whether the Administration should actually be endorsing construction of the full 101 miles and the implication of such a statement; (b) the 1981-1986 budget implications of whatever course of action we follow; and (c) how assertive the Federal Government should be regarding the design and cost of Metro construction.

System Scope

Regarding the "101 miles", Secretary Adams wants to say that the Administration agrees with the local goal of building the whole system over the next several years. Once Interstate transfer funds are exhausted, the Secretary would use UMTA discretionary grants in 1982 and beyond to fund Metro. There are several major drawbacks to such a position:

- endorsement will be perceived as a "build it no matter what it costs" commitment, thus sharply reducing incentives for design and cost control;
- it apparently commits the Federal Government to building segments in future years that we might otherwise prefer not to build;
- the post-1980 budget implications are potentially very large, as discussed below;
- DOT and OMB assessments show that certain suburban portions of the 40 miles not yet under construction would be among the least cost-effective and most overdesigned rail transit segments ever funded by the Federal Government; and

- unqualified endorsement of recent local analyses and unbuilt segments of Metro seriously weaken DOT's efforts to foster objective analysis and cost-effective projects elsewhere in the country.

Budget implications

The budget implications of Metro construction alone are serious (i.e. excluding Metro's \$1 billion of federally guaranteed bonds and the prospect of half billion dollar annual operating deficits by the 1990's).

- About \$4 billion (\$2.4 billion Federal) is being spent on the first 60 miles.
- The 40 miles not yet under construction would cost an additional \$2.5 to \$3.0 billion, only about \$1 billion of which can be covered by Washington area Interstate transfer funds.
- The \$1.5 to \$2.0 billion "unfunded" balance could put a \$1.2 to \$1.6 billion (80% matching) burden on the UMTA budget in 1982-1985.
- Metro wants at least \$400 million (their "stretched out" Plan II) of Federal funding annually through 1985 to build the 101 miles. Their first preference (Plan I) is even higher.
- The differences between Metro's desire and available Federal funds increase beyond 1980 as shown in the following table:

(\$ in millions, Federal and local combined)

	<u>Thru</u> <u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Metro Plan I	4,000	344	918	1,199	291	37	12
Metro Plan II	4,000	344	477	534	501	500	500
Current Federal Planning /	<u>4,000</u>	<u>344</u>	<u>344</u>	<u>344</u>	<u>250</u>	<u>160</u>	<u>160</u>
Plan II costs not Budgeted (Federal 80%)	-	-	133 (106)	190 (153)	251 (201)	340 (272)	340 (272)

/ Ties to DOT FY 1980/1981 request, and OMB's estimate of DOT's post-1981 budget flexibility. Interstate transfers will be exhausted in 1981 or 1982. UMTA funds are assumed after Interstate transfers.

The proposition that Metro funding beyond 1981 be met from UMTA's discretionary transit grant program presents several problems. Under current long range budget projections it is doubtful that Metro could reasonably be allocated more than \$125 million a year in the 1980's without totally dominating the national transit construction program. Other potentially more meritorious rail transit construction demands already exist in UMTA's pipeline (i.e. additions to the ten other rail systems such as New York and Atlanta, and possible new starts--subject to hard analysis--in Los Angeles, Honolulu, San Diego and elsewhere).

The Administration may be misleading Metro if it implies that as much as \$400 million a year in Federal funds will be forthcoming through 1985. Conversely, the Administration is misleading itself by endorsing a system with a scope of construction far beyond the budget's currently planned funding capacity, notwithstanding that parts of Metro would probably not be competitive with other transit opportunities.

Unfortunately, the Secretary's August 15 memo to you left OMB and DOT without any clear guidance on what real course of action to follow in implementing the decision. The real choices seem to be: (a) fund Metro at the expense of more meritorious projects; (b) stretch Metro construction out until 1990 or beyond; (c) assume both stretch out and eventual indefinite deferral of some parts of the Metro plan; or (d) increase either the UMTA budget or support a separate appropriation just for Metro. No matter what choice we settle on, the Administration has not objectively reviewed the implications of that choice either within the Administration or with Metro.

Cost and Design Control

Regarding cost and design control, Metro has generally followed expensive solutions imposed by local politicians, Metro's engineers, the Fine Arts Commission and, Metro argues, by President Johnson. Portions of the system are underground where at-grade or elevated solutions could have been achieved, and there has been generous use of granite and excessive structural designs. Given an open-ended, cost-to-complete Federal commitment, Metro will resist Federal efforts to encourage economical design features on the remaining mileage in areas such as station design, elevated track versus subway choices, and substitution of materials (concrete for granite, steel for bronze, etc.). Unmistakable guidance from you regarding Metro cost and design could go a long way in helping DOT convince Metro to use more economical design and construction.

Conclusions

Having said the above, we believe that you need to define more precisely your decision on Secretary Adams' memo of August (Attachment A). OMB and Domestic Policy Staff concerns at that time were hurriedly expressed in our August 16 memo to the Secretary (Attachment B).

You should be aware that the Secretary and the UMTA Administrator feel that the political compact that forms the Washington Metropolitan Area Transit Authority might break apart if the Federal Government mandated a truncation of the local plan. While OMB believes that in the long run less than 101 miles is more sensible, we agree with DOT that it would cause needless controversy for the Federal Government to mandate a cutback in plans at this time. Conversely, to go 180 degrees in the other direction and endorse the 101 miles plan is equally undesirable from a Federal budgetary and programmatic standpoint. We would prefer to keep the fiscal heat on the local jurisdictions and let local rather than Federal finances determine the scope and pace of Metro construction. Thus, a middle ground approach seems best.

OMB recommends that the Administration position simply be that we understand the local goal of 101 miles, but that parts of that system may not be cost effective and we cannot make any commitment to fund everything the localities want to build. We also believe that given the vast amount of Federal aid already provided to Metro that no special increase should be incorporated in UMTA's long range budget, and that a strong signal be given to DOT to encourage cost savings in Metro design.

We are not asking for specific budget decisions in this memo, only that Federal policy on how to deal with Metro be clarified. DOT and OMB will have to respond to Metro in the next few weeks on Metro's long range financial plan for construction, bond service and retirement, and operating costs. Your action on this memo is necessary so that DOT and OMB have a common understanding of your position as we deal with Metro.

Decision on 101 mile scope

Agree with local goal to complete 101 miles. Advise Metro to live with funding constraint decision. (See below.)

Simply state that we understand the local goal. Do not commit to the 101 miles. Advise Metro of cost-effectiveness need and funding constraint. (See below.)

See me.

Strategy on post-Interstate transfer funding:

- Fund Metro at their Plan II requested level. I understand this would require \$250-300 million per year above the transit levels in the pending highway-transit legislation (Metro's recommendation).
- Fund Metro at or near their requested level, but within overall transit totals in pending highway-transit legislation. I understand that this would probably require deferring construction starts on any additional U.S. rapid transit proposals until at least 1985. (Implicit in DOT's approach).
- Stretch Metro construction out so that it can be funded within budget planning forecasts and without major disruption to overall transit program. Fund only cost effective segments of Metro. (OMB recommendation).
- See me.

Decision on cost and design assumptions

- Tilt in favor of local choice.
- Exert Federal review to achieve greatest cost savings possible consistent with reasonable local acceptability and state-of-the-art technical feasibility.
- See me.

Attachments

Eno

Center for
Transportation



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

August 15, 1978

Brock
I assume 1st
80 miles from
interstate X for
J

ATTACHMENT A

MEMORANDUM FOR THE PRESIDENT

ATTENTION: Rick Hutcheson, Staff Secretary
FROM: Brock Adams
SUBJECT: Washington Metro Transportation System

Brock Adams

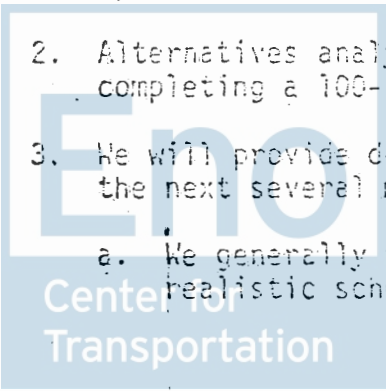
I am aware of your concern about the planning, costs, and implementation of the Washington Metro transportation system.

Stu Eizenstat, Jim McIntyre and other representatives of OMB, and myself and other representatives of the Department of Transportation, have been meeting on this matter for the last several weeks, since the Administration has imposed on Metro an August 31 deadline to submit a financial and construction plan, as well as an analysis of alternatives to the original construction for the project.

On Wednesday, August 16, the Metro Board will brief the press on their proposed plan. On Thursday, August 17, at 9:30 a.m., the plan will be presented to the Metro Board and the press will be authorized to release the contents.

At the last meeting of the OMB/Domestic Council/DOT group, we reached agreement on the following points which, if you approve, I would give to the press as the Administration's response to the Metro plan:

1. We are pleased with your serious effort. It provides a basis for local, state, and Federal agencies to comment and develop specific financing programs.
2. Alternatives analysis is over, and we agree with the goal of completing a 100-mile system over the next several years.
3. We will provide detailed comments on the financial plan over the next several months. Today, it is clear that:
 - a. We generally favor Plan II, not Plan I, as a more realistic schedule for funds and construction.



- b. We can support a Tier I construction program provided it can be financed through the use of interstate transfer funds and provided the segments to be built are usable and contiguous. Available interstate transfer resources, together with local matching funds, will finance approximately \$1 billion in construction and represents our good faith commitment toward the 100-mile system goal.
 - c. Federal funds beyond the interstate transfer account, for fiscal years 1983 and beyond, can be provided under normal procedures from UMTA's Section 3 program on an 80-20 basis. You have already satisfied the alternatives analysis requirement for eligibility for Section 3 funds, and your ability to compete for Section 3 funds will be greatly enhanced if collectively the local and State governments can establish a regional tax or some source of dedicated revenue to provide local capital, operating and debt service funds.
 - d. We do not agree with your 80-20 assumption on debt service. We are willing to negotiate a new agreement and our staff will have some proposals later this Fall as part of our comments on the financial plan.
4. You have already taken giant strides. The next steps are for all affected State and local governments to review this plan with care. We are prepared to support a supplemental appropriation request of \$275 million for fiscal 1979 as the first commitment beyond the 60-mile system. By early 1979, we must have a new agreement sharing the debt service, and by next spring a new capital contributions agreement from the local and State governments. And the sooner there is established an adequate regional tax to cover capital, operating, and debt service costs, the easier it will be to qualify for additional Federal funds and proceed toward the goal we all share: a first rate, effective Metro rail system service all parts of this capital region.

Will you please indicate to me whether this meets with your approval, or if you wish me to pursue some other course of action.

Approve _____ ✓
 Disapprove _____
 Other _____

cc: Stu Eizenstat
 Jim McIntyre

C
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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 16 1978

ATTACHMENT B

MEMORANDUM FOR: SECRETARY OF TRANSPORTATION

FROM: JIM McINTYRE *Jim*
STU EIZENSTAT *Stu*

SUBJECT: Metro

As you know, the President has approved the general directions we have agreed to on the future funding of the Washington Metro transportation system. Within those general directions there are several points in your memorandum which we would like to clarify.

We agree that the local jurisdictions should be complimented for the work they have done in conducting the alternatives analysis and for presenting a financial plan. Further, we recognize that those jurisdictions have agreed to the construction of a 100+ mile system. We want it to be clear, however, that while we understand this local goal, we cannot make any commitment now that all the federal resources they wish to finance the system will be available.

With regard to the Tier I construction program we should make it clear that our preference for the use of construction funds is for those usable, contiguous segments with the highest expected ridership.

It should be made clear to the local jurisdictions that funding through UMTA's Section 3 program will be on a competitive basis along with the construction proposals of other areas around the country. Total Section 3 funding levels will be determined in the normal budget process.

Finally, the timing of a 1979 supplemental for Metro will depend on the Administration's final reaction to the financial plan and the conclusion of an agreement on the debt service.

Center for
Transportation

THE WHITE HOUSE

WASHINGTON

November 22, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
BILL JOHNSTON

SUBJECT: The Washington Metro

I share some of OMB's concerns with DOT's approach to further funding for the Washington Metro.

According to most experts some of the unbuilt segments of the Metro system compare very unfavorably with alternative projects in other cities. For example, some of the proposed new Metro lines will provide heavily-subsidized, high-cost transportation to relatively few, high-income suburban commuters.

For this reason I agree with OMB that we should adopt a very tough budgetary stance toward Metro. We should insist that further construction should be funded within planning forecasts, and we should not allow Metro to crowd out more worthwhile projects in other cities. Moreover, we should exert greater federal oversight to insure that the system is not overbuilt, and that only the most cost-effective segments are built first.

I disagree, however, with OMB's recommendation that our public position should be only that we "understand" the local goal. Secretary Adams has already stated that he "agrees with the local goal of a 101 mile system." The local press has interpreted this as a commitment to fund the entire system. Any revision now of this statement, such as "we understand the local goal" would be interpreted as a retreat signalling our intention to cut back the system.

As a political matter there is no need for us to explicitly state now that we intend to curtail the system. Approximately \$1 billion of interstate transfer money is available for the next phase of construction. Until this money is exhausted it would be premature for us to take a position that we favor curtailment of the system, since we, or future Administrations, may actually favor completing the entire system.

Moreover, the local governments are bound together in a tenuous political compact based on the belief that the whole system will eventually be built. Local matching shares have been contributed by some jurisdictions based solely on promises of future construction. If the system is not built, complex legal and political battles will certainly ensue.

For us to imply now that we may not be willing to support the entire system could destroy this local compact and prevent local agreement on any further financing of construction or operating deficits. We would then be blamed for halting construction. There could be sharp criticism both locally and nationally from urban supporters.

In summary, I recommend that you allow Adams to continue to state his agreement with the local goal of 101 miles (Issue 1), but that you agree with OMB's tough budgetary stance on the implementation of this goal (Issues 2 and 3).



THE WHITE HOUSE

WASHINGTON

November 22, 1978

MEMORANDUM FOR: RICK HUTCHESON
FROM: JACK WATSON *Jack*
BRUCE KIRSCHENBAUM
SUBJECT: McIntyre Memorandum Regarding
Washington, D.C. Metro

I agree with OMB's assessment of the situation,
but endorse Stu's recommendation on the politics
of the issue.

For the reasons outlined by Stu, there is no reason
for us to send signals about curtailment of the
system at this time. I recommend letting Brock's
statement stand.

