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UNITED TO

Claude S. Brinegar
Senior Vice President


November 28, 1980

Mr. Darrell Trent
Director, Office of Policy
Coordination
Office of the President-elect
1726 "M" Street, N.W.
Washington, D.C., 20270

Dear Darrell:

Attached is the report of the Transportation
Issues Task Force. I look forward to dis-
cussing it in detail with you and your associates.

Sincerely,


Claude S. Brinegar
Senior Vice President

CSB:kb
Attachments

CC: John Snow



Determined to be Administrative Marking

Date 1/11/06 By SMD

~~CONFIDENTIAL~~

November 1980

REPORT OF THE TRANSPORTATION ISSUES TASK FORCE

This report presents the recommendations of the Transportation Issues Task Force to the incoming administration of President-elect Reagan. Attachment A lists the members of the Task Force. The report is divided into four sections:

- I General comments and policy principles.
- II Issues of major importance before the Department of Transportation.
- III Possible budget reductions.
- IV Some comments on appointments.

We have not considered issues that may arise in, or be related to, the Maritime Administration, because it is part of the Department of Commerce.





I. GENERAL COMMENTS AND POLICY PRINCIPLES

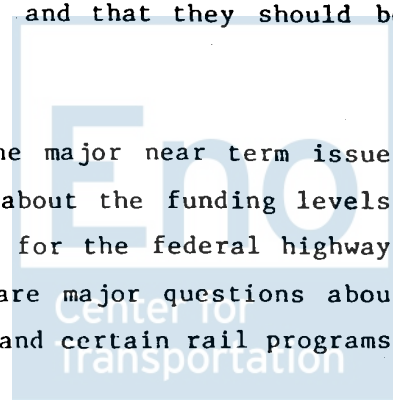
America's transportation system is, with a few notable exceptions, reasonably "fast, safe and efficient," a goal specified in the 1966 Department of Transportation Act. Our highway and aviation system is the world's best, and our rail system, after decades of neglect, is on its way to providing improved service and to earning better returns. There remain major deficiencies in our large urban transportation systems, but these are more a reflection of urban problems than of deficiencies in transportation policy. While there will always be an agenda of transportation issues before the Department, by and large, the system serves our nation, its economy, and the national security quite well.

The major issues currently before the Department of Transportation can be grouped into three categories of questions:

1. How much federal regulation should there be in the rail, motor carrier, and airline industries?
2. What transportation issues warrant federal financial programs? What principles should guide these programs?
3. What principles should guide the Department's programs on transportation safety, environmental protection, and efficient energy use?

During the past decade, questions of regulatory policy occupied much of the Department's time and energy. These questions have now been largely answered by the enactment of bills that have taken major steps toward deregulating the rail, motor carrier, and airline industries. The Task Force believes that these new statutes are positive steps forward, and that they should be implemented without interference.

The questions in categories 2 and 3 provide the major near term issues facing the new administration--especially questions about the funding levels, the allocation principles, and the sources of funds for the federal highway, aviation, and mass transit programs. Also, there are major questions about the level of future federal aid for Conrail, Amtrak, and certain rail programs.



In reaching its recommendations, the Task Force agreed to be guided by the following four major policy principles:

1. The nation's transportation system should, as much as possible, be provided through the competitive forces of the private sector, or, if the private sector is inappropriate, by state or local governments. Direct federal financing of transportation investments or operations should be limited to those few cases where there is a clear and widely accepted requirement for concerted action in an area of high national priority, and where the private sector or state and local governments are obviously incapable of adequately meeting this requirement.

2. When federal expenditures are used to finance transportation investments or operations, these expenditures should be recovered from the beneficiaries in a manner that is appropriate to the costs incurred on their behalf, unless widely accepted national policy directs otherwise.

3. Economic regulation of interstate transportation should be held to a minimum. A particular effort is needed to eliminate restrictions on intermodal ownership.

4. All federal transportation programs, including those designed to enhance safety, environmental protection and efficient energy use, should be subjected to benefit/cost tests to assure that they benefit the nation as a whole. These programs should also be examined to assure that they are positive contributors to the nation's productivity.

We strongly urge the Secretary to follow these principles in dealing both with existing issues and in formulating long-term transportation policy.



11. ISSUES OF MAJOR IMPORTANCE BEFORE THE DEPARTMENT OF TRANSPORTATION

The issues discussed next are organized alphabetically by transportation mode. We have not attempted to deal exhaustively with each issue; rather, we have identified the issues, highlighted any special problems that we are aware of, and made recommendations that are consistent with the policy principles.

Aviation

1. An immediate issue will be congressional consideration of a new Airport Development Assistance Program (ADAP), to replace the one that has lapsed. The past programs, financed principally through a passenger ticket tax, have generated trust funds that were supposed to be used mainly to increase capacity and to reduce congestion at the nation's airports. Because of legislative and other restraints, it has been difficult to find effective investments for these funds. Balances in the trust fund have grown steadily. The Task Force recommends that this program's effectiveness be examined critically. Any future program should be recast and probably reduced in scope. Possible revisions include:


- a. Shift funds away from hub airports, which can raise adequate funds locally, and into more funding of FAA operations and of the en-route navigation systems. The Senate bill proposed that the 72 largest airports be dropped from ADAP. This "defederalization" is a good start.
- b. Recognize that general aviation, especially its jet and turbojet aircraft, is putting an increasing burden on the airport and airways system without paying its share of the costs. Perhaps additional funds can be raised from general aviation and some funds may be used to upgrade "reliever" airports, thus adding to capacity at the congested hub airports.
- c. Reduce the tax rate on airline tickets from 8%, to the level which, together with general aviation's share, is needed to support a more modest program.



2. Questions are being raised about the reliability and future capabilities of, as well as the future needs for, the FAA's national enroute navigation system. The Secretary should promptly appoint an independent, highly-qualified "Blue Ribbon Commission" to thoroughly examine this issue.

3. There is a serious threat of a nationwide strike or slowdown by the air controllers ("PATCO") in March 1981. This requires immediate attention by the Secretary and the FAA Administrator, including possible standby emergency legislation. This strike threat also touches on the larger issues of public employee unions and their activities.

4. Airline deregulation has raised some collateral issues with which the administration must deal. The three major ones are:

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- a. CAB "Sunset." The scheduled 1985 CAB "sunset" should be moved up to, say, January 1982 to avoid a drift back toward regulation. Most residual functions are already scheduled to be transferred to other government entities. Decisions must be made regarding the remaining functions, which may also be discontinued rather than transferred. Congress and the airlines probably would favor a step-up in the sunset schedule.
 - b. The deregulation act included a "labor protection" section to cover employees who lost their jobs as a result of the statute. Under President Carter, the Labor Department has been considering the use of a "national hiring hall," an approach that the Task Force believes is inappropriate. The new administration should see that this approach is quickly headed off.
 - c. Peak-hour congestion at a half dozen of the nation's major airports has created a serious problem of how to allocate take-off and landing "slots," especially to new carriers. This problem is the most serious at Washington's National Airport, which is owned and operated by the federal government. A good solution there could set the pattern elsewhere. The past allocation method (by an industry scheduling committee, with antitrust immunity) is inconsistent with anti-trust policy applicable to unregulated

industries. The Task Force agrees that the proper allocating method is one that uses market principles, perhaps along these lines: Announce an 18-month program to phase-in an auction system. Initially, the airlines and other users would be assigned slots equal to, say, 75% of prior usage, with the remaining 25% sold at auction. Six months later the auction would cover 50%, then 75%, and then 100% at the end of the phase-in period. Special set-aside categories for such groups as general aviation and commuter airlines could be provided within the auction system. And auctioned as well as allocated slots could also be bought and sold by their owners.



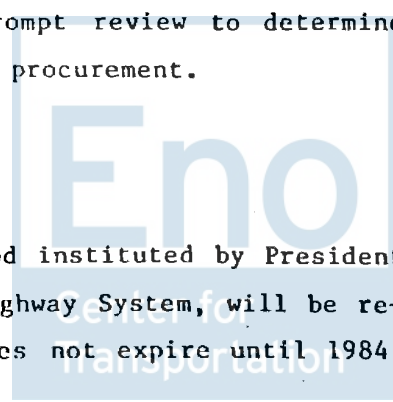
5. A better process is needed for negotiating international air agreements. A major problem has been that non-aviation issues, often of a diplomatic nature, unrelated to the general concept of open-market competition have become entangled in the negotiations. As a result, U.S. airlines' and travelers' interests have not been adequately represented. The Secretary of Transportation should have more authority, the Secretary of State less, and the CAB's role should be phased out. As early as possible, the Secretary of Transportation should prepare a new statement of international air principles to be issued by the President. This statement is needed promptly, because negotiations are scheduled with Japan in early 1981.

Coast Guard

The Coast Guard has proposed to purchase several 270-foot cutters at a cost of over \$500 million from a firm that was not the low-cost bidder. The solicitation may have been unclear and the low bidder may have been excluded on technical grounds. There is a possibility of lawsuit and of congressional investigation. The Secretary should undertake a prompt review to determine if new bids are needed to clear up this controversial procurement.

Highways

1. The Highway Trust Fund, the financing method instituted by President Eisenhower to ensure completion of the Interstate Highway System, will be re-examined by Congress in 1981. Although the Fund does not expire until 1984,



its current rate of expenditures exceeds its collections. The Task Force endorses the continued use of a Trust Fund as the proper method to support the federal aid highway system; it recommends that the tax structure, currently four cents a gallon, be modified appropriately so that the Fund remains solvent and each class of beneficiaries pays the share of costs incurred on its behalf. It may be necessary to shift to some form of tax "indexing."

2. A method should be developed to bring the Interstate Highway Program to completion in the next few years. The system now is nearly 95% complete. Most of the remaining 5% should not be completed. Some of the yet-to-be built portions would be extremely expensive; and some of the short sections in urban areas are too expensive and too disruptive to be worth building.

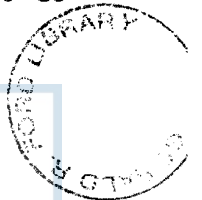
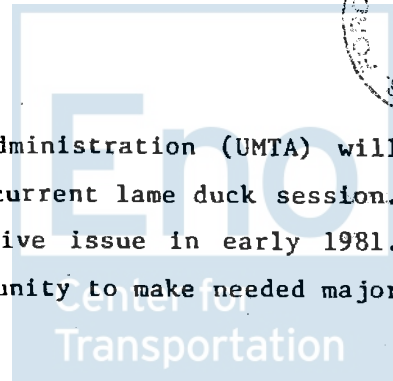
3. Maintenance of the Interstate System is lagging, and portions of the system, some now 20 years old, should be upgraded to modern standards. The Task Force agrees that there is a federal responsibility to see that the Interstate System is properly maintained. This will require a new program and new direct funding (replacing some current "back door" financing of maintenance).

4. The current federal aid program, apart from the interstate and primary systems, has too many categories and should be simplified. The need for federal support of the various categories (there are over 20) should be studied. Some should probably be dropped, with a trade-off made to the states in return for assuming federal responsibility for interstate maintenance.

5. To facilitate the use of the interstate system in an economically efficient way, uniform truck size and weight limits should apply throughout the system. States wishing to allow larger trucks should be permitted to do so provided they pay for the added capital and maintenance costs.

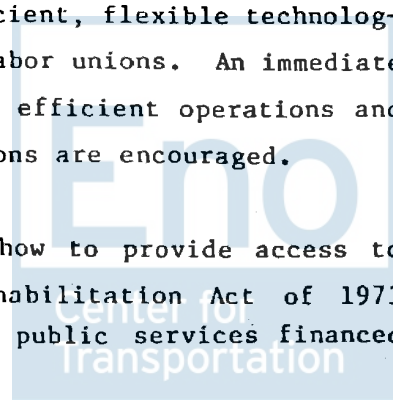
Mass Transit

The grant program of the Urban Mass Transit Administration (UMTA) will probably not be reauthorized by Congress during the current lame duck session. Consequently, this will be a high-priority legislative issue in early 1981. This gives the new administration an excellent opportunity to make needed major



revisions in the program. The Task Force offers the following guidance for next year's legislation:

1. The overall level of the program can be reduced significantly.
2. Past federal support of new fixed rail systems has been largely a wasted effort. New rail starts should be discouraged.
3. Operating subsidies for rail systems discourage local efforts at good management. Where possible, they should be eliminated.
4. UMTA's capital support to upgrade established rail systems is generally worthwhile, and should be continued at a modest level.
5. UMTA's program for the purchase of transit buses is a good one and should be encouraged. The program should be expanded to include some bus maintenance in order to avoid the growing practice of deferring maintenance and simply applying for new capital funds.
6. Demonstration grants have largely been politically motivated and they have been failures. The program should be greatly reduced in scope.
7. More of the formula funds, as apart from direct grants, should be allocated on the basis of transit ridership. This change was in the 1980 proposed legislation.
8. Section 13(c) of the basic UMTA legislation imposes extremely restrictive labor provisions on all recipients of UMTA funds. This causes two serious problems: (a) it adds significantly to the operating costs of the existing system; and (b) it hinders the introduction of more efficient, flexible technologies--such as jitneys--that are not bound to present labor unions. An immediate effort should be made to change this section so that efficient operations and technological innovations that improve system operations are encouraged.
9. A most difficult problem is the issue of how to provide access to public transportation for the handicapped. The Rehabilitation Act of 1973 made it unlawful to exclude handicapped persons from public services financed



by the federal government. To conform with this law, DOT issued regulations in 1979 requiring that all subway stations, even existing ones, be equipped with elevators, that rail cars be rebuilt to accommodate wheelchairs, and that transit buses be supplied with lifts. According to a recent study by the Congressional Budget Office, these regulations have a net public cost of some \$38 per trip by the handicapped. This is generally recognized as excessive, and has led to congressional efforts to provide lower cost alternatives. Most proposals include options for local provision of specialized alternative transportation. Some spokespersons for the handicapped seem to oppose this approach. A compromise permitting local options is needed and should be incorporated in the new legislation.

National Highway and Traffic Safety Administration

1. The National Highway and Traffic Safety Administration (NHTSA) has effectively exhausted its ability to increase automobile safety at reasonable social costs, although there may remain opportunities to improve the competence of drivers. While there is no loud clamor from the auto industry to undo NHTSA's past regulatory actions, neither does it appear that NHTSA's likely new actions would have a favorable benefit/cost ratio. All future actions should be examined carefully.

Three of NHTSA's current actions warrant early, careful study:

- a. The rule on "occupant restraints" (airbags and other passive restraints) is effective in 1983. Its efficacy and public purpose should be considered carefully in order to avoid unjustifiable expenses by manufacturers and, in turn, consumers.
- b. Automobile recalls have expanded many-fold in the past four years. The frequency and magnitude of recalls may have passed way beyond a reasonable cost effective limit. The criteria for recalls should be examined promptly.
- c. Possibly more stringent automobile fuel-efficiency standards beyond 1985 are currently under study. With the pre-1985 standards being overtaken by market forces, it does not appear that tighter

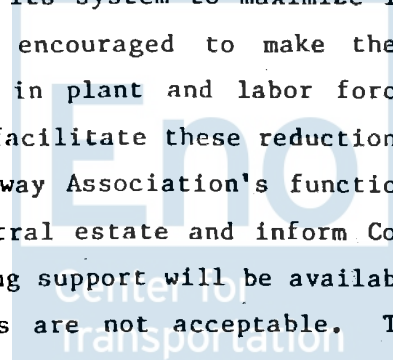
post-1985 regulatory standards--with their rigidities and inefficiencies--are now needed.

2. The issue of a federally imposed national speed limit (55 mph) has good arguments on both sides. The motor carrier industry now largely favors it, as do the safety associations. On the other hand, the emergency situation (the 1973 oil shortage) that brought it about no longer exists and the speed limit is impossible to enforce by federal means because the threat of withholding federal highway funds is recognized as "hollow." Most motorists ignore it to a degree. Data relating the existence of the speed limit to reduced fatalities are unclear because of changes in driving patterns and other variables. On balance, the Task Force favors returning authority to set limits to the states.

Rail

With the passage of the deregulation bill, near-term rail issues confronting the Department of Transportation are limited largely to questions of how much federal money various existing rail programs should receive. The Task Force recommends the following:

1. Conrail. This federally sponsored effort to develop a self-supporting private-sector rail system from the Penn Central and other bankrupt Eastern systems has been beset with difficulties. Thus far, it has required over \$3 billion in federal support, and a recent settlement of the owners' claims will require another \$2 billion. However, the future now looks a little better, and it is possible that Conrail will generate operating profits by 1983. Conrail has received adequate authorizations to take it through 1981, but an appropriation is required. The rail deregulation act, coupled with favorable ICC policies, should enable Conrail to reconfigure its system to maximize its market potential. Its new management should be encouraged to make these changes promptly, including the needed reductions in plant and labor force. DOT should review the need for new legislation to facilitate these reductions. The Department should also take over the U.S. Railway Association's functions that remain after the settlement with the Penn Central estate and inform Conrail that no capital funds and only minimal operating support will be available beyond 1981, and that long-term federal operations are not acceptable. The



best long-term solution, and the one with the best chance of recovering the taxpayers' \$5 billion in investments, may be through an eventual sale of the system's viable parts to established profitable railroads.

2. Amtrak. The losses of this federally financed rail passenger system continue to escalate despite, or because of, increasing patronage. The present loss level is some \$800 million a year, and losses in excess of \$1 billion are likely within two years. By any standard, these losses are exorbitant in relation to the national purpose served by Amtrak. Many of the routes have been forced into the system by political pressures from Congress. Quick action to reduce this taxpayer subsidy sharply is strongly recommended and is possible because Congress must complete action on the next authorizations by May 15, 1981.

Most of the losses take place on sparsely used long-distance routes. It is possible to establish financial criteria, such as a maximum acceptable loss per passenger mile, that would enable the system to be rationalized quickly. Once established, these criteria should be rigidly followed. This will require congressional action, including revision of labor protection provisions now in the Amtrak statutes. If Amtrak has a long-term role, it is in densely populated corridors, such as Washington to New York and Boston, and possibly Los Angeles to San Diego. It may be possible to continue some money-losing routes if states and local areas are willing to cover the losses. Amtrak should not be permitted to use its subsidized status to engage in "price wars" or other unfair rate competition with private-sector carriers, especially the intercity bus lines. Attachment B is a good analysis of the Amtrak problem by Dr. James Miller, III, a member of the Task Force.

3. The Federal Rail Administration (FRA) is administering two programs that should be examined critically. The Northeast Corridor Program (to permit high-speed passenger service), originally funded at \$1.7 billion, is now funded at \$2.5 billion, and this amount is probably inadequate. The program should be examined for its overall benefits relative to its costs, and for its management structure. The second program is FRA's rail assistance program, which has some \$1.5 billion available for assistance to weak (but not dying) railroads. A freeze should be put on these funds, with the entire program put

through a careful benefit/cost analysis. It is possible that it should be dropped.

4. Though not of large significance, the Alaska railroad should be sold. There is no justification for federal operation of this facility, and it appears that the State of Alaska is interested in buying it.

5. Disposition (and repair?) of Washington's Union Station will be a problem requiring more time than it warrants. The Secretary should develop a joint position with the Secretary of Interior and handle the issue quickly.

Waterways

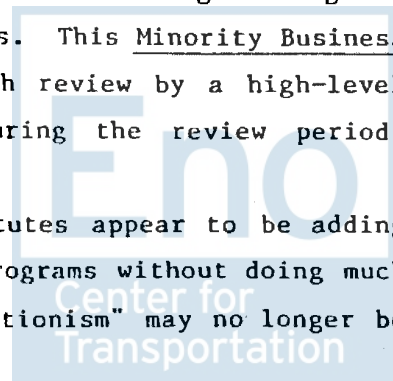
The barge operators that use the inland waterways system have not been paying their share of the costs of providing them with navigable waterways. A small start was made in 1980 (a diesel fuel tax), and a DOT study is underway. Future charges should probably be a combination of fuel tax and river-lock fees which properly align costs imposed by users with fees paid by them. Investments in new river facilities should be subjected to a revenue test before they are undertaken.

General Issues

1. Coal slurry pipelines should not be barred by regulatory barriers erected to protect other modes, especially railroads. But neither should these pipelines receive exemptions from reasonable safety and environmental rules. There must also be a reasonable solution to the issues raised by the pipelines' water requirements and the final disposition of the water.

2. Last March DOT issued complex and controversial rules governing the use of minority businesses by recipients of its grants. This Minority Business Enterprise (MBE) program needs a prompt and thorough review by a high-level group. Parts of it may have to be suspended during the review period.

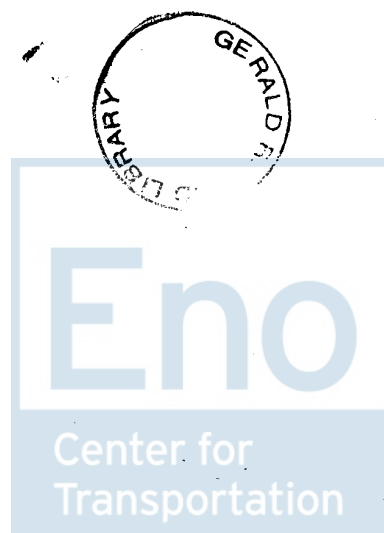
3. The Buy America provisions in existing statutes appear to be adding to the costs of the highway, airport, and transit programs without doing much to help the American economy. This level of "protectionism" may no longer be warranted.



III. POSSIBLE BUDGET REDUCTIONS

Attachment C itemizes the approved DOT budget for Fiscal '81. The Task Force believes that major reductions are possible and recommends the following areas as good candidates:

1. Amtrak
2. UMTA (rail funds, operating subsidies)
3. Federal aid highways (other than Interstate and Primary)
4. Northeast Corridor Program
5. USRA
6. Rail Loan Guarantee Program
7. Staff reductions in Office of the Secretary and Assistant Secretaries
8. Research and Development Programs. Though not discussed in this report, it may be that these programs are much larger than is appropriate for the federal government.



IV. APPOINTMENTS

The Task Force urges that particular attention be given to the selection of the following appointments:

1. FAA Administrator.--Because of the issues before the FAA this appointment is probably second in importance to the Secretary. The FAA Administrator must be a technically trained person, capable of managing a large organization (over 50,000 persons). He will face extremely difficult personnel and financial problems from day one on.

2. ICC Chairman.--The Chairman, as well as a majority of the commission, must be dedicated to the principles embodied in the rail and truck deregulation acts. (See Attachment D for a discussion of this issue by Dr. John Snow, a member of the Task Force.)

3. Secretary's Staff.--The Deputy Secretary, the General Counsel and Assistant Secretary for Policy should be persons of the highest possible competence and reputation. These three offices provide the major transportation policy support for the Secretary and the White House.

4. NHSTA Administrator.--This person needs many of the same skills as the FAA Administrator. The appointee must be strong enough to "manage" a large technical staff, and must be dedicated to the guidelines outlined in this report.



TASK FORCE ON TRANSPORTATION ISSUES

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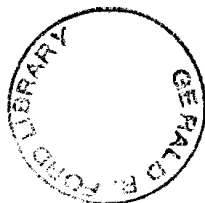


U. S. DEPARTMENT OF TRANSPORTATION

FISCAL YEAR 1981 BUDGET

(\$ in Millions)

	<u>Program Levels</u>	<u>Outlays</u>
Office of the Secretary	\$ 48	\$ 50
U. S. Coast Guard	1,867	1,839
Federal Aviation Administration	3,824	3,236
Federal Highway Administration	9,127	8,717
National Highway Traffic Safety Administration	279	267
Federal Railroad Administration	2,462	1,752
Urban Mass Transportation Administration	4,615	4,006
St. Lawrence Seaway Development Corporation	9	-3
Research and Special Programs Administration	44	34
Office of the Inspector General	15	15
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Subtotal	\$22,290	\$19,913
Proprietary Receipts	---	-50
Total	\$22,290	\$19,863



DEPARTMENT OF TRANSPORTATION
FULL-TIME PERMANENT DIRECT POSITIONS

<u>Administration</u>	<u>1980</u>	<u>1981</u>
Office of the Secretary	1,171	1,188
U.S. Coast Guard		
Civilian	6,815	6,823
Military	39,473	39,487
Federal Aviation Administration	57,491	57,379
Federal Highway Administration	4,061	4,061
National Highway Traffic Safety Administration	874	874
Federal Railroad Administration	1,754	1,768
Urban Mass Transportation Administration	563	623
St. Lawrence Seaway Development Corporation	194	194
Research and Special Programs Administration	918	954
Office of the Inspector General	516	516
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Total - Civilian	74,357	74,380
Military	39,473	39,487
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	113,830	113,867

