

THE WHITE HOUSE  
WASHINGTON

May 4, 1961

Eno

Center for  
Transportation

MEMORANDUM FOR

Mr. Gordon Murray  
Bureau of the Budget

Re Revised Williams Bill

Basically this is a poorly drafted bill. It is in the form of amendments to the Housing Acts of 1954 and 1959 and the Housing Amendments of 1955. Yet it styles itself as the Emergency Mass Transportation Act of 1961.

It provides money for three purposes: (1) planning, (2) demonstration projects, and (3) purchases and loans. The amounts provided are different from those heretofore deemed desirable. The variation in these amounts does not seem to be too important inasmuch as no such grants, purchases or loans can be made in any quantity prior to the time of the rendition of the Department of Commerce sponsored mass transportation report scheduled for October 1, 1961, which report should set forth the principles and conditions under which financial aid for mass transportation should be made available.

The basic difficulty in the bill is that it does not define the basic conditions under which grants or loans should be made for planning and any other activity. There should be two: (1) the existence of a governmental entity with authority to deal with metropolitan mass transit in the affected area, and (2) the restriction of grants and loans to such an authority rather than to individual private transit operators as appears to be possible under Section 5(e) of the bill. This general restriction should be written into the bill inasmuch as the purpose should be to evoke the existence of these governmental entities competent to deal with the mass transit problem. Unless this is done, there will be a grave danger that federal money will be spent on projects that deal with the problem in a purely fragmentary fashion.

It is recommended that (1) Senator Williams be requested to permit the bill to be rewritten to achieve the above objective, (2) that the

Senator refrain from attempting to make this bill an amendment to any presently proposed legislation, (3) that the bill in this form be reported out of his committee as an independent piece of legislation, (4) that the sums available for the various purposes be negotiated out with the Senator to the satisfaction of the Administration, and (5) that there be an understanding that the principles under which any monies, other than planning moneys, be made available should generally follow the principles set forth in the October Report, assuming that these principles are acceptable.



James M. Landis

Analysis of draft bill "Emergency Mass Transportation Act of 1961"

Senator Williams describes this bill as "prepared to meet the problems" previously raised in connection with S. 345, the "Urban Mass Transportation Act of 1961" and he emphasizes that it is a "temporary emergency program to be operated on a demonstration basis".

The draft bill, in spite of the declaratory emphasis on temporary and emergency assistance, is essentially the same as S. 345. In terms of the orderly long-range development of urban transportation facilities, it has the same major defects, which may be summarized as follows:

1. Large scale Federal loan and grant programs would be provided not only to "help preserve" but also to "improve" mass transportation services. Loans would be for 40 years; grants are not restricted to assure their use for temporary and emergency purposes.

2. Nothing in the draft bill would prevent the use of demonstration grants to subsidize current operations of private mass transit services, including railroad commuter services. On the basis of experience with maritime and aviation subsidies, the Federal government would find it extremely difficult to discontinue this kind of assistance. There is, moreover, no assurance that the subsidies would contribute to the basic reorganization of urban transportation services that appear to be necessary.

3. While the draft bill finds that effective mass transportation systems must be based on adequate comprehensive area-wide planning and organization, neither grants nor loans are firmly conditioned upon adequate local planning and organization. At the previous White House meeting on the urban transportation problem, these requirements were made the cornerstone of any Federal assistance program. The requirement in the bill that "there is being actively developed . . . a positive program . . . for the development of a comprehensive and coordinated mass transportation system" affords less protection than the 3-year grace period in S. 345, which was rejected at the White House meeting. It would be difficult to impose restrictive requirements after communities have had such assistance without them. This has been the history of the workable program requirement in the urban renewal program.



4. The draft bill contains a number of ambiguities which might have serious consequences. The amendment of Section 202(a) of the Housing Amendments of 1955 (community facilities loans), for example, providing for the use of loans to finance the acquisition, construction and improvement of facilities, also speaks of their use for "coordinating highway, bus, surface-rail, underground parking and other transportation facilities in such areas". This may be construed as providing Federal funds for the operation of a regulatory program which, in many instances, would be interstate in nature and raise difficult jurisdictional problems with ICC as well as with existing State regulatory agencies. The proposed new subsection 202(d) (contained in Section 5(e) of the draft bill) would appear to apply to private transit operators as "applicant" for loans, as well as to public agencies.

5. Purposes for which loans could be used include many facilities, such as automobile parking, which have been financed at reasonable rates in the private money market and with respect to which there is no reason to believe that private funds will not continue to be forthcoming.

6. Major use of loans provided under the bill would presumably be the purchase of new equipment and rehabilitation of facilities of commuter railroads. Federal guaranty of private loans for this purpose is already available directly to the railroads under the provisions of the Transportation Act of 1958 as recently extended.

7. It is doubtful that local governments, with a few exceptions, have necessary authority or are adequately organized to operate programs involving large scale purchases of railroad equipment, the leasing of this equipment to the railroads and the supervision of the operations for which the equipment would be purchased and leased.

8. The draft bill provides the same \$50 million for demonstration grants as is provided by S. 345. No additional information has been provided to support the need for a program of this magnitude. A demonstration grant program of \$10 million was agreed upon at the White House meeting.

9. The draft bill would amend section 202(a) of the Housing Amendments of 1955 in such a way as to provide a lower interest rate on direct Federal loans to State and localities for the purchase or development of transportation equipment and facilities than the law now provides on loans to finance other community facilities under the Act. The interest rate on transportation loans would clearly be a subsidized rate in view of rates currently paid by the Treasury on long-term borrowings. No reasons are advanced why transportation loans should be accorded more favorable interest treatment than loans for other community facilities.

10. It appears probable that the States, especially if they utilize their general credit, could obtain funds at least as favorably as the Federal Treasury. In any event, local borrowing at 4% would increase financing costs, as compared to Federal loans at  $3\frac{1}{2}\%$ , by only 7.3%. If the rate charged for the proposed loans were equal to the going Federal rates on borrowings with comparable maturities, the difference would be negligible.

Conclusion

For these reasons, and because the Administration has initiated a study of urban transportation problems designed to provide a basis for recommendations for a long-term Federal program, it would appear unwise to enact a loan program at this time, or to provide more than a modest amount for demonstration grants as was agreed upon at the White House meeting.