



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

→ *Kevin T. Ginter*
James
Center for Transportation
File

December 30, 1968

MEMORANDUM FOR MR. CALIFANO

As requested, enclosed is a summary of the Department's legislative proposal to provide long-term financing for the Urban Mass Transportation program.

Alan S. Boyd
Alan S. Boyd

Enclosure

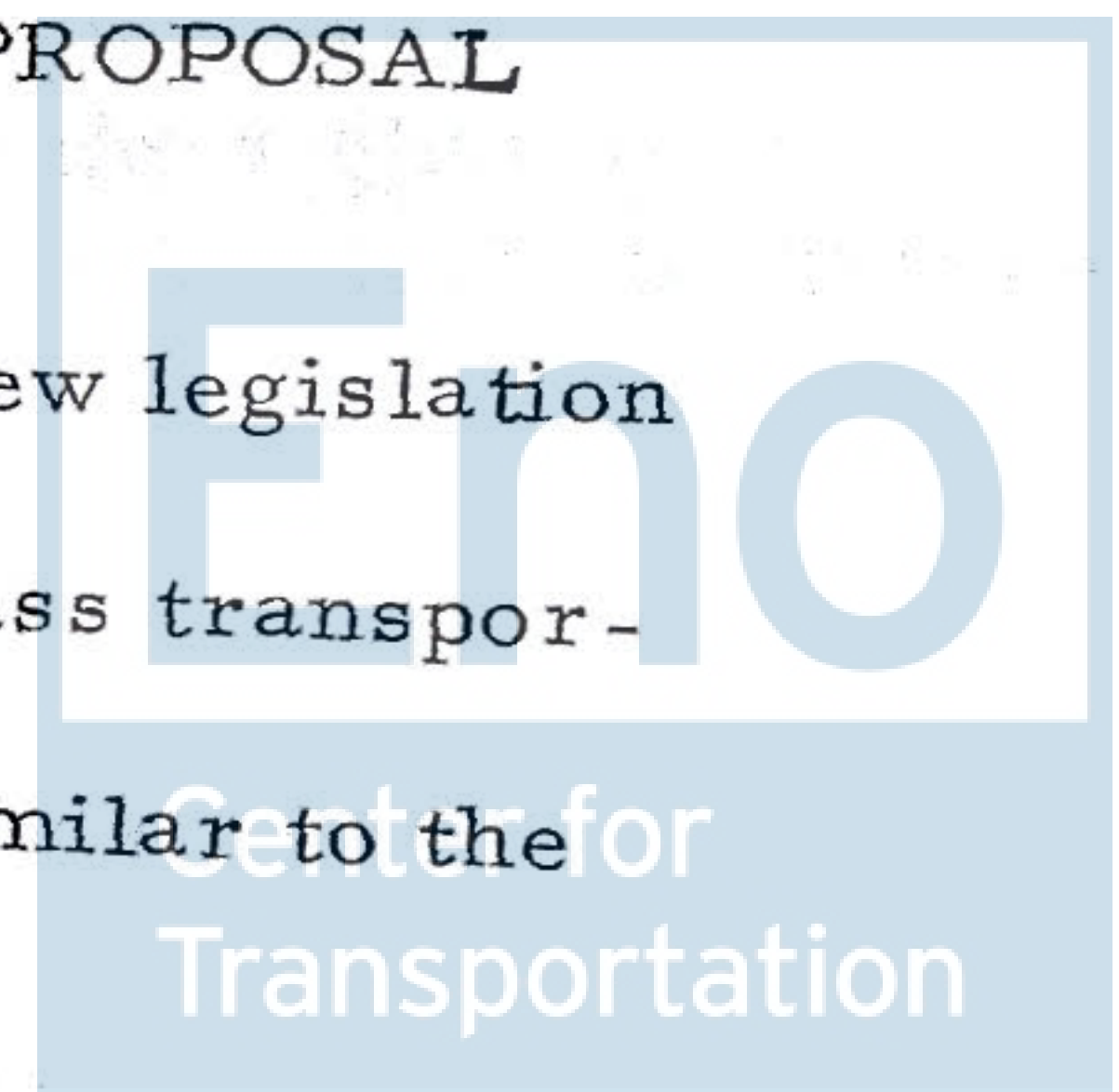
P.S. I reiterate my view that it would be a grave mistake to submit legislation during the current administration.

ASB

RECEIVED

URBAN MASS TRANSPORTATION LEGISLATIVE PROPOSAL

The Department of Transportation has proposed new legislation to increase the level of Federal assistance for urban mass transportation and to put this assistance on a long-term basis similar to the highway program.



The DOT proposal would create an Urban Mass Transportation Trust Fund with revenues to be derived from a portion of the automotive excise tax. The fund would provide financing for a program of \$300 million in FY 1971, \$400 million in FY 1972, \$500 million in FY 1973, and \$600 million in FY 1974 (the 1970 program is expected to be \$200 million, of which \$175 million has already been appropriated).

These authorizations would become available automatically each year to fund the program. Present mass transit programs include grants and loans for capital improvements, technical studies, managerial training, university research, and research, development and demonstrations. The legislation also proposes new authority for:

- relocation assistance and payments equal to the recently liberalized requirements of the highway program;
- loans for advance acquisition of right-of-way to give communities a positive tool to influence urban development by reserving land for future transit (as they already can for highways); and

-- loans for acquisition of excess land adjacent to the right-of-way which can be expected to increase in value because of the transit development.

The requested authority to make loans for excess acquisition of land represents a step toward recoupment by the general public of increased land values that result from public investment. Such a step, while controversial, offers the potential for developing a major new source of revenue for financing local public improvements. Both the community and the Trust Fund would share in profits on such land.

The Trust Fund would operate similarly to the Highway Trust Fund including:

- Earmarking of specific tax revenues to a separate Treasury Fund.
- Exclusion of the urban mass transportation program from general fund financing.
- Multi-year financing of programs but with annual funding held to revenue levels available from earmarked tax sources.
- Contract authority which allows effective program commitments to be made without awaiting availability of appropriations.



The program differs from the highway program in that there is no statutory allocation formula for distribution of the funds among the States. A limitation on grants to any single State would be, however, retained. Loan repayments and recoupment of profits on excess acquisition would be repaid to the Fund and become available for reuse. Obligations would be limited to future Trust Fund revenues by language similar to the "Byrd amendment" limitation on the Highway Trust Fund.

Advantages

The Department's proposal has the advantage of:

-- putting the mass transportation program on the same kind of long-term footing as the highway program;

-- helping to redress the imbalance created by the massive availability and ease with which highway construction funds become available; and

-- relieving local uncertainties about the future availability of Federal assistance.

It will enable communities to meaningfully consider mass transit as they establish local development objectives, identify transportation options, and plan their desired transportation systems and service levels. And it will give communities the time and assurance they need

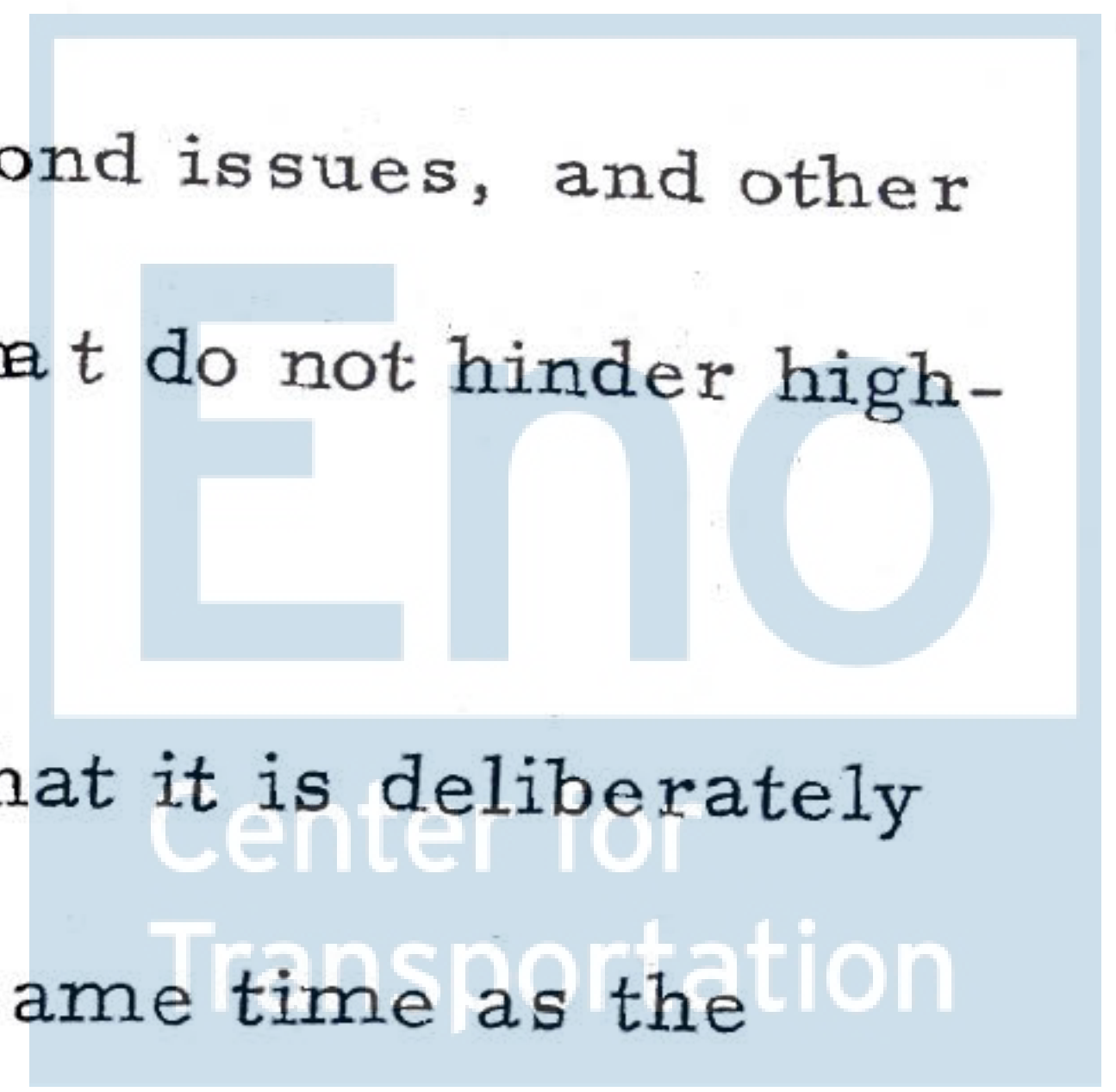
to undertake arrangements for local referenda, bond issues, and other financing details -- time-consuming intricacies that do not hinder highway planning or construction.

Another advantage of the DOT program is that it is deliberately limited to four years so that it will expire at the same time as the Highway Trust Fund. It is designed as an interim measure that will not prejudice the Department's comprehensive analysis of future urban transportation needs or the evaluation of alternative Federal assistance programs in response to those needs. These studies will need to be reflected in the "Highway Needs Reports" due to the Congress in 1970 and 1972.

Problems

Experience with the trust fund approach in the highway program reveals certain problems inherent in this financing approach:

- Trust funds reduce the flexibility needed in the future to respond to changing urban needs and priorities and can inhibit desired changes in the allocation of Federal resources. But these dangers are minimal over the four-year period of this proposal.



-- The earmarking of a portion of the auto excise taxes (the rate is presently 7% but is slated to step down to 1% in 1972 and to be eliminated in 1973) will require Ways and Means Committee action to extend the tax and will be opposed by the automotive industry who have fought for its elimination. But the proposal does not require any immediate tax increase, does not bite into present highway "user charges," and a good case can be made that auto users will be major beneficiaries of improved transit service.

Despite these potential problems, the trust fund approach does appear preferable, even though a trust fund is not technically necessary to achieve the objective of putting mass transit on a long-term footing more nearly equal to the highway program. A logical and straightforward alternative to a trust fund would be to provide simple contract authority for four years out of general fund revenues. But since the Congress has traditionally been reluctant to provide guaranteed financing without a mechanism to ensure the collection of needed revenues and control of program obligations, we believe that, practically speaking, the only way to achieve the objective of long-term financing for mass transit is to establish an Urban Mass Transportation Trust Fund.