File-Airports

Memorandum Evaluating Consistency of the Proposed Airport Development Act of 1968 With Report of the Committee on Federal Credit Programs as Required by BOB Circular No. A-70

The Federal Airport Act of 1968 would (1) provide airport systems planning grants to State and local planning agencies; (2) provide grants-in-aid for airport construction at airports served by subsidized air carriers; (3) provide Federal guarantees of private loans for airport construction; and (4) provide Federal loans for airport construction at airports where private financing was not available.

The answers to the specific questions raised in Circular A-70 with respect to this credit program follow:

1. Choice of Credit Aids

The Federal Government presently conducts an airport grant-in-aid program. The Department is convinced that, except at airports where development is required to meet the needs of subsidized air carriers, the users of airports should be able to generate revenues sufficient to amortize private development loans. Certainly, this is true at the larger airports and many of the medium-size airports. There are airports, however, which are potentially viable but whose situation is such that private financing would not be available on a timely basis or on reasonable terms, except with a Government guarantee.

We appreciate the argument against Government guarantees of tax-exempt securities but are confronted with a situation which argues strongly for an exception to Treasury policy. The program being proposed is an attempt to alter a Federal-local relationship bottomed on a 20-year grant-in-aid program which has become increasingly less rational from an economic standpoint. The pressures are such that if the Administration does not propose a reasonably comprehensive assistance program, including guarantees of tax-exempts, it is very likely that the Congress will move toward a greatly expanded grant program, which will assuredly place the Federal Government in the airport construction business on a very large scale, and in perpetuity.

On the other hand, if we offer a sufficiently comprehensive and attractive program now, the growth promised in air transportation is such that within the next five years there is an excellent prospect that neither Federal guarantees nor Federal loans will be necessary. But we must break the grant-in-aid pattern now! We think this consideration overrides what we recognize to be a legitimate objection from the point of view of the Treasury Department.

2. Participation of Private Lenders

The program would anticipate very substantial participation by private lenders. Government assistance, except with respect to airport development attributable to subsidized carriers, would be forthcoming only upon a clear showing that private capital was not available on reasonable terms. Estimates of airport development needed over the next five to ten years are in excess of $7 billion. The program assumes that most of this money will be forthcoming from private lenders.

3. Insured and Guaranteed Loans

(a) It is our thought at this time that the guarantee fee would be a graduated one, depending upon the extent to which the lender shares the risk.

(b) The proposal neither prohibits nor precludes guarantee of tax-exempt obligations. To the contrary, it assumes that such obligations will be guaranteed.

(c) The proposal would not give the Department the authority to limit maximum interest rates charged. The interest rate prescribed would be the going Federal rate as determined by the Secretary of Treasury.

4. Secondary Market Operations

The proposal would authorize the Department to establish trusts under the Participation Sales Act of 1966, thus using the facilities of FNMA to resell obligations acquired under the lending program. No other secondary market operation is provided for.

5. Direct Loans

The direct loan program will be self-supporting and the interest rate will be the Treasury rate. There would be no interest subsidy.

6. Financing of Credit Programs

(a) A fee structure has not been determined but the assumption is that fees would cover probable losses and some portion of administrative expenses, depending upon precisely what is meant by the term "administrative expenses". For example, fees would not cover salaries and expenses of employees of the Department.

(b) We have not yet determined the amount of new obligational authority necessary to provide adequate reserves.

(c) N.A.

(d) Yes, the program will use the revolving fund method of financing. All revenues and expenses will be included in the fund except salaries and expenses of Departmental employees managing the airport program.

(e) The proposed program provides complete flexibility on prices and terms of loans. It is contemplated that guarantees would be limited to guarantees against defaults.

7. Budgetary Treatment and Control

(a) Yes, the budget of the program will be subject to disclosure and review by the Executive and Legislative Branches.

(b) The authority, standards, and plans for allocating credit when demand exceeds the supply of funds has not yet been determined.

8. Promotion of Economic Stabilization and Growth

Express authority is not provided in the proposed bill to permit action for the purpose of promoting economic stabilization, but neither is it prohibited. Presumably, the program could be so managed if circumstances required.

9. Organization and Coordination

The Department of Transportation is presently responsible for the airport assistance program and will continue to be under the proposed bill.