

4/26/72

THE WHITE HOUSE

WASHINGTON

ACTION

MEMORANDUM FOR:

THE PRESIDENT

VIA:

KEN COLE

FROM: Transportation

EGIL KROGH *OK*

SUBJECT:

Rapid Transit Operating Subsidies

In the last Congress the Senate passed a mass transit operating subsidy proposal but the House did not go along. Recently the Senate inserted in the Housing and Urban Development Act which it sent to the House a two-year \$800 million program of operating subsidies for mass transit. A House Banking and Currency Subcommittee approved the item by a voice vote, and the full Committee is expected to consider the measure around the third week in May. Secretary Volpe's headcount shows that the Committee will, by a substantial majority, retain operating subsidies in the measure it reports to the House. He believes the House will follow the Senate in endorsing operating subsidies, thus placing you in the difficult position of deciding whether to veto a major housing bill thereby subjecting you to charges that you are against aid to the aging, handicapped and the poor.

The Department therefore has developed a counter proposal which incorporates the operating subsidy principle but possesses safeguards not found in the Senate bill. It contains a 3-point program which would provide \$350 million a year for four years. Part 1 contains a basic grant of \$300 million distributed by formula (75 percent ridership - 25 percent population); Part 2 offers incentives to cities which increase ridership by improving their share of the Part 1 monies by up to 20 percent; Part 3 provides \$50 million to encourage innovative service demonstration projects.

The Volpe proposal would require a local match of 30 percent, contains no built-in escalator (such as 5¢ per passenger), and

- 2 -

permits local discretion while requiring operation and policy improvement.

The Secretary favors Federal participation in mass transit operating subsidy on the grounds that --

1. The Federal Government helped create problems of deterioration of public transportation by making highway user taxes available for highway construction; the local choice was highways or nothing if Federal aid was desired.

2. It is in the national interest to have good public transportation in cities.

3. Federal urban programs now include housing, environmental protection, health care, education, etc. Transportation may be the best means of restructuring the nature of urban areas and assuring success of these essential programs.

4. Improved public transportation would be popular politically.

Arguments Against Volpe Proposal

1. Although the proposal contains safeguards and incentives not found in the Senate legislation, once the concept is approved it will be impossible to restrict the program to manageable size. The \$350 million figure will be swept away and the Federal Government will be called upon to fund everybody's rail system with the local match decreasing steadily.

2. Both revenue sharing and the Single Urban Fund proposal permit localities to determine their own transportation priorities (i. e., to decide whether to use the funds for highways, buses, rapid rail, etc.). This is as it should be, and we should continue to support that approach.

3. Studies show a Federal subsidy won't cure the basic ills of mass transit.

4. Transit decisions are made locally and the benefits accrue locally; where present local resources are insufficient, non-fare box sources should be sought if transit is a priority item.

5. A major source of transit deficit is strong union bargaining. Federal subsidy could further weaken local public body resolve to hold the wage line so that increased Federal funding might be used up primarily for increased wages.

6. The disadvantaged, elderly, etc. are not necessarily helped by subsidies. Fixed rail systems which account for 70-80 percent of the deficit serve mainly well-to-do suburbanites.

Where People Stand

Secretary Volpe and his staff presented the case for his proposal to representatives of the Domestic Council (Ehrlichman, Cole, Krogh and Clapp) and OMB (Shultz, Weinberger and Young) in Mr. Ehrlichman's office on April 10. Both the Domestic Council and OMB expressed strong opposition.

Recommendation

Inform Secretary Volpe that you are firmly against the operating subsidy principle and direct DOT and MacGregor's office to wage a strong battle against it in the full House Committee and on the House floor should it prevail in Committee, stressing that revenue sharing and the Single Urban Fund concept permit localities to make choices as between transportation modes. Thus, cities could use funds received from those programs to offset transit deficits if they desired.

_____ Approve _____ Disapprove _____ See Me