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FISCAL YEAR 1982

Budget Revisions

Additional Details on Budget Savings

APRIL 1981

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12-045 O—83——1 (Pt 1) BLR

TO THE CONGRESS OF THE UNITED STATES

On March 10, 1981, I forwarded to the Congress a fully revised 1982 Budget with specific proposals for fiscal year 1981 and 1982 and clearly stated targets for 1983 through 1986. I have already submitted to the Congress the supplemental budget requests, rescissions and deferrals for 1981 and budget amendments for 1982 necessary for the Congress to act upon my proposals.

My Budget Reform plan, first presented February 18th and submitted in detail on March 10th, was one of four parts of my comprehensive program for the Nation's economic recovery. The Budget plan called for substantial budget savings and a redirection of Federal Government activities. It included more than 200 proposals for spending reductions, user charges and off-budget savings that are necessary to put the Federal Government on a path toward fiscal responsibility.

We have already provided extensive information on the proposed budget savings. However, I want to be sure that the Congress and the American people fully understand the reasons for the planned budget savings. Accordingly, I have directed the Office of Management and Budget to compile a document to make available additional details on the specific savings proposals.

I hope that this information will be useful to the various committees and subcommittees of the Congress as they consider my proposals.

Ronald Reagan

April 7, 1981
THE WHITE HOUSE

Introduction

The 1982 Budget Revisions submitted to the Congress by President Reagan on March 10, 1981, reaffirmed the Budget Reform Plan which he announced on February 18th as one of four parts of his program for the Nation's economic recovery. On February 18th, the President also announced his proposals for relief from excessive tax and regulatory burdens and a stable monetary policy.[1/]

Budget Targets

The 1982 Budget revisions placed before the Congress specific recommendations for actions needed now to reduce sharply the rate of government spending and to reduce and redirect the role of the federal government. The President's budget targets call for:

	Actual	Estimates					
	1980	1981	1982	1983	1984	1985	1986
• *Budget Totals*							
Receipts (with tax cuts)	520.0	600.3	650.3	709.1	770.7	849.9	940.2
Target Outlays ceiling	579.6	655.2	695.3	732.0	770.2	844.0	912.0
Target surplus or deficit (-)	-59.6	-54.9	-45.0	-22.9	0.5	5.9	28.2
• *Percent of GNP*							
Receipts	20.3	21.1	20.4	19.7	19.3	19.3	19.5
Target Outlays	22.6	23.0	21.8	20.3	19.3	19.2	19.0

Summary of Budget Savings

Achieving these targets requires substantial budget savings. The 1982 Budget Revisions provided details on budget savings for 83 major policy and program changes that had been announced on February 18th and savings from over 200 additional budget reductions affecting nearly every department and agency of the Federal Government.

[1/] See following publications: Fiscal Year 1982 Budget Revisions, March, 1981, Office of Management and Budget; and Americas' New Beginning, A Program for Economic Recovery, February 18, 1981, The White House

The table below summarizes the savings proposed in the 1982 Budget revisions:

	Estimates (fiscal year) inbillions					
	1981	1982	1983	1984	1985	1986
• *Outlays*						
– Savings listed on February 18th [a/]	4.8	34.8	50.1	61.4	70.2	77.3
–Additional savings planned on Feb. 18 for March revision (but not specified) [b/]	– –	6.7	8.4	12.4	16.4	18.5
Subtotal	4.8	41.4	58.5	73.7	86.6	95.8
– Further savings now proposed	1.6	7.1	8.8	7.5	6.2	6.9
Total Outlays Savings [c/]	6.4	48.6	67.2	81.2	92.8	102.7
• *Receipts*						
– Proposed user charges and other proposals [c/]	0.3	2.6	2.9	3.3	3.6	4.0
Total Budget Savings	6.6	51.2	70.2	84.5	96.4	106.8
• *Off-Budget*						
– Reductions now listed	0.6	4.7	6.9	8.4	9.8	11.6
Total Savings	7.2	55.9	77.0	92.9	106.2	118.4

[a/] Measured from the current policy base.

[b/] Measured from the January Carter Budget.

[c/] Includes savings also proposed in the Carter January Budget and, for that reason, not listed on the reductions table. These savings are:

	1981	1982	1983	1984	1985	1986
Budget Outlays	0.3	8.2	9.1	9.7	11.1	11.5
Budget Receipts	0.2	1.8	2.0	2.2	2.4	2.6

The combined reductions announced on February 18th and March 10 will slow the rate of growth in Federal spending in 1982 from 11.6% to 6.1%

Budget and Program Priorities and Criteria.

The President decided that achievement of his budget targets will require an end to the proliferation of new Federal programs and a reversal of the trend toward greater Federal roles in planning and controlling economic and social decisions.

He directed that all Federal programs be subjected to thorough scrutiny. However, in doing so he decided that:

- A margin of safety must be created by rebuilding the Nation's defense capabilities.
- The Social Safety Net of income security measures erected in the 1930's to protect the elderly (including cost of living protection for the elderly), unemployed, and poor, as well as veterans, must be maintained.

Eight basic criteria were used in evaluating and making decisions on programs

1 Entitlement Programs must be revised to eliminate unwarranted beneficiaries and payments.

2 Subsidies and benefits for middle and upper income levels must be reduced.

3 Allocable costs of government programs must be recovered from those benefiting from the services provided, such as airports and airways, inland waterways and Coast Guard services to yacht and boat owners.

4 Sound economic criteria must be applied to economic subsidy programs such as synthetic fuels, Export-Import Bank loans, and subsidized loans.

5 Capital investments in public sector programs—such as highways, waste treatment plants and water resource projects—must be stretched out and retargeted.

6 Fiscal restraint must be imposed on programs that are in the national interest but are lower in priority than the national defense and safety net programs. Examples include NASA, National Science Foundation, and the National Institutes of Health, which would be allowed to grow at lower rates than planned.

7 Large numbers of categorical grants must be consolidated into block grants permitting less Federal administrative overhead, greater flexibility for State and local governments, greater efficiency in management and reduced overall costs. The principal examples are elementary and secondary education, and health and social services.

8 Federal personnel and overhead costs, and program waste and inefficiency must be reduced.

Budget Outlays by Agency
(in billions of dollars)

Agency	Actual 1980	Revised Budget Estimates 1981	1982
Legislative Branch	1.2	1.5	1.4
The Judiciary	0.6	0.7	0.7
Executive Office of the President	0.1	0.1	0.1
Funds appropriated to the President	7.5	6.1	6.1
Agriculture	24.6	20.7	23.7
Commerce	3.8	2.9	2.5
Defense—Military	132.8	158.6	184.8
Defense—Civil	3.2	3.3	3.2
Education	13.1	14.3	12.4
Energy	6.5	10.5	11.1
Health and Human Services	194.7	227.6	250.7
Housing and Urban Development	12.6	13.5	14.3
Interior	4.4	4.4	3.3
Justice	2.6	2.6	2.5
Labor	29.7	35.5	26.7
State	1.9	2.2	2.4
Transportation	19.0	22.0	18.3
Treasury	76.7	87.7	92.6
Environmental Protection Agency	5.6	5.5	5.2
National Aeronautics and Space Administration	4.8	5.3	5.9
Veterans Administration	21.1	22.3	23.6
Office of Personnel Management	15.1	17.9	19.9
Other agencies	20.0	19.4	14.1
Allowances	--	--	1.8
Undistributed offsetting receipts	-21.9	-29.3	-32.0
Total revised budget outlays	579.6	655.2	695.3

Budget Authority by Agency
(in billions of dollars)

Agency	Actual 1980	Revised Budget Estimates 1981	1982
Legislative Branch	1.3	1.3	1.5
The Judiciary	0.6	0.7	0.7
Executive Office of the President	0.1	0.1	0.1
Funds appropriated to the President	12.5	14.0	9.8
Agriculture	24.9	26.3	25.9
Commerce	3.1	2.4	2.1
Defense—Military	142.6	177.1	221.8
Defense—Civil	3.3	3.1	3.1
Education	13.8	13.5	12.3
Energy	10.0	10.5	11.9
Health and Human Services	195.9	226.2	255.3
Housing and Urban Development	35.7	32.8	29.0
Interior	4.6	3.9	3.4
Justice	2.5	2.3	2.3
Labor	28.8	32.2	27.9
State	2.1	2.3	2.8
Transportation	18.2	23.4	19.2
Treasury	90.6	86.2	92.9
Environmental Protection Agency	4.7	3.0	1.4
National Aeronautics and Space Administration	5.2	5.5	6.1
Veterans Administration	21.2	22.9	24.2
Office of Personnel Management	24.9	28.5	30.4
Other agencies	34.3	21.1	17.9
Allowances	--	--	2.3
Undistributed offsetting receipts	-21.9	-29.3	-32.0
Total budget authority	658.8	710.1	772.4

Additional Details Now being Presented

When the budget was reviewed, a large amount of information about existing programs was assembled and used in making decisions on proposed revisions. To aid in understanding the savings proposals, principal details about the progams have been summarized in the pages that follow for more than 200 planned changes. Briefly, each description shows:

- Funding changes, compared to the Budget submitted to the Congress on January 15, 1981, by former President Carter. The funding information has been broken down to show changes due to reestimates and adjustments (e.g., for changes in economic assumptions or availability of later estimates) and to policy or program changes. (When savings proposals are included in both the Carter January Budget and the Reagan Budget, this is identified by a footnote.)
- Description of the program being changed.
- The proposed change.
- The rationale for the change.
- Key facts about the program.

Most information is organized by department and agency. A detailed table of contents begins on page 11. Policy changes to achieve budget savings that affect many agencies begin on Page 387. A "key word" index begins on page 417. An index by budget reform criteria begins on page 425. And an index by functional code begins on page 433.

Department of Transportation

Airport Grant Program Reductions

Agency: Department of Transportation

Functional Code: 402

Budget Reform Criterion: 5

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	722	750	800	850	900	975
Outlays	524	535	725	901	908	878
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	-272	-300	-350	-400	-450	-525
Outlays	-49	- 50	-215	-381	-458	-363
REAGAN BUDGET:						
Budget Authority	450	450	450	450	450	450
Outlays	475	485	510	520	450	515

Program Description

The airport grant program, which expired at the end of 1980, provided funds to air carrier and general aviation airports. Funds were distributed on both an apportionment and a discretionary basis. In 1980, $569 million was authorized for air carrier airports, with a minimum of $15 million earmarked for commuter airports. General aviation airports were authorized to receive $98 million, with a minimum of $20 million for reliever airports, which were defined as general aviation airports that attract general aviation flights from large airports.

Grant funds could be used for:

- Construction and reconstruction of items such as runways, taxiways, aircraft aprons, and public-use portions of terminals;
- Land acquisition for airport development and noise abatement;
- Acquisition or installation of navigation aids used in landings and take-offs.

The Carter 1982 budget assumed enactment of reauthorizing legislation by July 1, 1981. Recommended funding levels increased from $722 to $975 million during 1981-1986.

Proposed Change

The Administration has proposed legislation to restructure the airport grant program and hold the annual funding level to $450 million during 1981-1986. Included in the legislation are proposals to:

- Defederalize the 41 largest primary airports (primary airports are commercial service airports that enplane at least .01% of total annual enplanements at all commercial service airports);
- Remove restrictions on imposition of a "head tax" at those 41 airports and others opting not to receive further Federal assistance;
- Use number of enplanements as the basis for apportioning entitlement funds to the remaining primary airports (approximately 255 airports which would be eligible after defederalization);
- Introduce the airport "block grant" to permit State involvement in allocating funds to general aviation and smaller commercial service airports;
- Increase funding significantly for reliever airports; and
- Continue the discretionary grant program.

Rationale

Reductions in the airport grant program are thoroughly consistent with the Administration's broad effort to retarget public sector capital improvement programs so that Federal assistance is not provided unless there is a clear need. In addition, the proposed framework for the grant program is consistent with a number of the Administration's goals for restructuring Federal programs, such as allowing more decisions to be made at the local level and reducing the number of strings attached to Federal grants.

Defederalization of the largest primary airports would enable the Federal Government to target funds to those airports with the clearest need for assistance. These large airports usually have a strong

financial base from landing fees and space rental charges. Many large airports earn a profit. Furthermore, Federal airport grants traditionally have provided only a small portion (approximately 10–15%) of the total revenues of these airports. Removing the statutory bar on "head taxes" would increase the possibility of local funding being available, if needed, in lieu of Federal financial aid. Some airports may opt to renegotiate landing fees instead of instituting head taxes.

The State block grant approach for grants to smaller eligible airports reflects the Administration's commitment to reduce Federal involvement in local decisions and the "red tape" burden placed on States and localities. The increased emphasis on funding for reliever airports reflects the important role of these airports in enhancing safety by ameliorating the often congested air traffic conditions at the nation's largest airports.

Key Facts About the Program

Defederalization of the 41 largest primary airports would be phased–in — 21 beginning in 1981 and an additional 20 beginning in 1983. A cap of 45% in 1981 and 1982 and 40% in 1983 and beyond would be placed on the amount of available grant funds allocated to primary airports through the entitlement program. This translates into a maximum of $202.5 million in 1981 and 1982 and $180 million in 1983 and beyond.

Grant funds for smaller eligible airports would be apportioned by States using a two–part formula taking into account population, land area and the number of non–primary commercial service airports in a State. State apportionments would be reduced proportionately to the reduction required to bring primary airports within the cap. States meeting certain criteria would be authorized to receive apportionments for smaller eligible airports on a block grant basis. Approximately $100 million annually would be apportioned among the States.

The FAA would continue to allocate discretionary funds according to priority needs. States participating in the block grant program for apportioned funds would be able to receive discretionary funds on a project–by–project basis in the form of a "block grant supplement."

A minimum of $45 million would be earmarked for reliever airports in 1981 and 1982 increasing up to $54 million in 1985.

Airport and Airway Trust Fund

Agency: Department of Transportation | Functional Code: 402 | Budget Reform Criterion: 3

Governmental Receipts into the Airport and Airway Trust Fund	($ in billions) 1981	1982	1983	1984	1985	1986
Current receipts	- 1/	1.4	1.5	1.7	1.9	2.1
Policy increase	.2 2/	0.6	0.8	1.1	1.3	1.6
Proposed receipts	.2	2.0	2.3	2.8	3.2	3.7

1/ Statutory authority permitting deposit of receipts into the Airport and Airway Trust Fund expired on September 30, 1980. Current user tax revenues are being deposited into the general fund and highway trust fund.

2/ Legislation authorizing the Administration's tax proposal and use of the Trust Fund is assumed to go into effect on July 1, 1981.

Program Description

Prior to the expiration of statutory authority at the end of 1980, revenues from the following aviation user taxes were being deposited into the Airport and Airway Trust Fund: 8% passenger ticket tax, 7 cents/gallon general aviation fuel tax, 5% freight waybill tax, $3.00 International departure tax and other miscellaneous taxes. The only aviation user taxes currently being levied — a 5% passenger ticket tax, 4 cents/gallon tax on general aviation gasoline and a tire and tube tax — are being deposited into the general fund (ticket tax) and highway trust fund, respectively. The Carter 1982 budget assumed passage of legislation authorizing continued use of the Airport and Airway Trust Fund and increased aviation user taxes starting July 1, 1981.

The Congress traditionally has restricted use of aviation tax revenue. In the past few years, the result has been that expenditures from aviation tax revenue covered only slightly over 40% of the total system costs. The general taxpayer has carried the rest of the burden.

Proposed Change

The Administration has proposed legislation that would eliminate general fund subsidy of the costs put on the system by the air carriers and general aviation. Air carrier and general aviation would be required to pay approximately 85% of system costs — i.e., all Federal Aviation Administration costs except those associated with military and government use of the system and Metropolitan Washington Airports.

The February 18th and March 10th budget proposals assumed a 9% passenger ticket tax, 20% general aviation fuel tax, 5% freight waybill tax, $3.00 International departure tax and other miscellaneous taxes. Tax revenues would be deposited into the Airport and Airway Trust Fund.

The tax levels included in the legislative proposal sent to Congress on March 19th — which were based on fuller consideration of allocable costs, program levels to be covered by the fund, and the allocation of costs between general and commercial aviation — were as follows:

	1981	1982	1983	1984	1985	1986
Passenger Ticket Tax	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
General Aviation Gasoline Tax (cents/gallon)	12	12	18	32	30	36
General Aviation Jet Fuel Tax (cents/gallon)	20	20	35	50	58	65

The revised tax proposal, coupled with the 85% cost recovery requirement, is predicted to result in a decrease of the Trust Fund balance from approximately $3.8 billion at the end of 1980 to about $2.7 billion at the end of 1984. (A trust fund balance of at least $1.0 billion is usually considered as prudent to cover unforeseen contingencies). Beyond 1984, the uncommitted balance will gradually begin to increase.

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Rationale

This proposal will assist the President in achieving his goal of providing relief for the general taxpayer by recovering more equitably the full costs attributable to the air carrier and general aviation users of the system. In 1978, general aviation users were paying a small percentage of the system costs attributable to them. Under the tax proposal sent to the Congress on March 19th, the portion of allocable costs paid by general aviation will increase gradually, but significantly, through 1986. Air carriers have been and will continue to pay at least their full share of costs attributable to them.

Subsidizing users leads to economic inefficiencies, encourages higher use of the aviation system, and thus results in continual pressure to expand the system's capacity. To help break this cycle, air carrier and general aviation should be held responsible for their fair share of the cost of *operating* as well as maintaining and improving the airways system. In the past, only small amounts of user tax revenues have been applied toward operating costs.

The higher tax levels on general aviation jet fuel reflect the fact that these aircraft, generally speaking, place greater demands on the national airspace system than do less sophisticated planes utilizing aviation gasoline.

Key Facts About the Program

Assumptions about cost allocation are a major determinant in establishing fair and equitable user taxes. Generally speaking, two differing approaches to cost allocation have emerged. One would hold users responsible for the costs that FAA actually incurs in providing service. The other would hold users responsible only for the cost of the minimum service they require. In a joint use system, this means that users operating less sophisticated aircraft (i.e., primarily general aviation) would not be required to pay the cost FAA actually incurs in providing service to them. The unallocated costs would be attributed to public policy regarding aviation safety, reliability and joint use. The general taxpayer would be responsible for these costs.

The cost allocation underlying the Administration's proposal is consistent with the first approach requiring users to pay for costs actually incurred on their behalf. In 1982, FAA's total costs can be allocated approximately 58% to air carrier, 27% to general aviation, 14% to military and government and 1% to Metropolitan Washington Airports.

The general aviation community has continually supported the minimum service required approach to allocate system costs. This approach, however, is inconsistent with cost allocation assumptions used by this Administration for other modes of transportation. For example, under an Administration proposal, inland waterway users would be responsible for the costs associated with their use of the system. The general taxpayer would not be paying for the "public benefit" associated with a joint use system. Similarly, in the highway program, the general taxpayer traditionally has not been required to pay for the "public benefit" associated with having a highway system that accommodates various categories of highway users. The cost allocation assumptions underlying the Administration's tax proposal are generally accepted. The Congressional Budget Office, for example, attributes approximately 25% of FAA costs to general aviation, which is very close to the Administration's proposal.

Amtrak Fare Subsidy Reduction

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 5

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	906	993	1,082	1,171	1,257	1,337
Outlays	769	943	1,112	1,201	1,284	1,387
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:1/						
Budget Authority	−25	−380	−550	−700	−900	−987
Outlays	−25	−304	−497	−689	−858	1,037
REAGAN BUDGET:						
Budget Authority	881	613	532	471	357	350
Outlays	744	639	615	512	426	350
1/ The Carter budget already included savings for this proposal. Total savings expected are as follows:						
Budget Authority	−25	−431	−606	−760	−964	−1,056
Outlays	−25	−355	−485	−688	−874	−1,050

Program Description

Amtrak is a private corporation, subsidized by the Federal Government, which has operated virtually all intercity passenger trains since 1971. About 22 million riders are expected in 1981, over half on routes in the northeast. Over two dozen trains operate daily along the Northeast Corridor (NEC), round-trip trains are operated up to seven times daily on 21 other corridors, and other trains operate approximately daily on 16 long haul routes. Amtrak does not operate freight trains.

Proposed Change

- Amtrak will price its services, beginning in 1982, so that revenues, including contributions from State and local governments, cover at least 50 percent of the Corporation's total costs, excluding capital costs.
- To comply with the above requirement, Amtrak will have to raise fares, cut expenses, and eliminate its least patronized and most unprofitable routes. Trains will be eliminated in order, by ratio of revenues to fully allocated cost, from poorest to best. The Secretary of Transportation shall develop cost allocation principles to be used consistently in order to rank trains from poorest to best.
- Amtrak will maintain a specific fare policy for each route, with the goal of minimizing the Federal grants necessary to support the operation of its routes.
- The share of State funding will increase for those trains jointly funded by States and Amtrak. Currently the States provide 20% of related operating costs in the first year of service, 35% in the second year, and 50% in the third year. The States' share will be 50% of fully allocated operating costs and 100% of associated capital costs.
- Amtrak will operate commuter rail service only if a State, local, or regional transportation agency reimburses the corporation for the fully allocated cost of the service.

Rationale

- Passengers pay only 40% of Amtrak operating costs. On many routes the average ticket subsidy is $60–70 per person. Subsidy reaches as much as $192 per ticket on the Sunset Limited (New Orleans to Los Angeles) in 1980. It would be cheaper for the government to *give* someone a round trip airline ticket from Washington, D.C. to Cincinnati than to subsidize a one-way ticket on the Shenandoah.
- Train travel represents less than nine-tenths of one percent of intercity travel. In areas other than the NEC and possibly a few other short distance routes, Amtrak service is not essential to the nation's passenger travel market. Even if every Amtrak train were full all the time (and Amtrak's trains normally average about half-full) the corporation would still be able to

handle less than 2 percent of all passenger travel in the U.S, even though it provides almost 100 percent of non-commuter passenger train travel. Yet government subsidy exceeded $800M last year. The administration's proposal shifts the financial burden for Amtrak from taxpayers to passengers.

- Improvements in intercity highways and widespread availability of air travel since 1960 have diminished the need for and utility of passenger trains. A reduction in Amtrak will result in virtually no negative effect on personal travel in the U.S. because Amtrak trains provide such a small percentage of U.S. intercity transportation.
- We estimate that a limited national rail system can be funded with a $613 million budget.
- To the extent Americans demand long distance trains, not maintained in the Amtrak system, a private sector excursion or vacation market for such travel could emerge in the same way that entrepreneurs now operate ships such as the Delta Queen.

Key Facts About the Program

- Federal subsidy in 1978 was about 11 cents per bus passenger, 75 cents per commercial aviation passenger, and 37 dollars per Amtrak passenger.
- Between 1972 and 1980 Amtrak's annual operating deficit increased from $153 million to $657 million. Costs rose by 357 percent, 25 percent faster than revenues.
- Between 1972 and 1974 Amtrak's fares covered over 50% of its costs. Since then costs have increased faster than revenues.
- Amtrak provides 48 passenger-miles per gallon of fuel across the nation. Intercity buses provide 135 passenger-miles per gallon. An automobile carrying over two people can be more fuel efficient than the average Amtrak train.
- If Amtrak were able to achieve 100 percent load factors and in doing so take all its additional passengers from automobiles, the gasoline savings would be only two tenths of one percent of the current consumption of gasoline by automobiles.
- Amtrak revenues cover 33 percent of its total costs including capital costs. The passenger rail system in the United Kingdom covers approximately 70 percent, Denmark 50 percent, and the Netherlands 50 percent.

These are various areas where Amtrak can reduce its deficit:

Fares

In the past, Amtrak has had what is called a uniform fare policy. It has generally raised fares by the same percentage across the entire Amtrak system. There are likely to be inefficiencies in this method. Demand and demand elasticities vary across the country. Some routes can bear no fare increase because of competition from other transportation modes. Those routes which cannot support a fare increase and have low revenue/cost ratios will have to be eliminated. As certain fares are increased, and some lines eliminated, revenues will rise as costs fall.

The Administration proposal requires system-wide coverage of 50 percent of costs in 1982. Thus, cross subsidization is possible. This allows more routes to continue that cannot meet a 50 percent test, but maintains the pressure to eliminate poor routes.

Labor Costs

Amtrak is currently involved in labor negotiations with its 21,000 direct employees. It has the opportunity now to reduce labor costs related to these employees.

The operating crews on Amtrak trains are not, however, Amtrak employees. Amtrak is not a party to the national negotiations between railroad labor and management, and Amtrak must accept the labor conditions agreed to by the railroads which directly employ the train crews, e.g., Conrail, Burlington Northern. For this reason upcoming Conrail negotiations are also important to Amtrak.

Some Amtrak employees are eligible for severance pay at 100 percent of current pay until they are 65 and others are eligible for six years.

Operating crews earn a day's pay for 8 hours worked or 150 miles travelled. This rule dates from the days of steam engines when a train stopped every 100 miles to refuel. As train speeds have increased, the rule has not changed. As a result, on the NEC, which carries half of Amtrak's passengers,

engineers need only work for eight round trips between New York and Washington to earn a full month's pay. This is only about 80 hours.

Eliminate Routes and Reduce Train Frequencies

As routes causing the biggest drain on the system are eliminated, Amtrak costs will fall, but revenues will be affected to a lesser degree.

By eliminating the eight routes with the lowest revenue cost ratio, Amtrak can save $53M (i.e., forego $90M in avoidable costs and $37M in revenue). Further savings will result as fixed facilities are reduced to match the smaller, more efficient system.

In addition, Amtrak can reduce costs by dropping frequencies on routes with the least demand.

Operating Inefficiencies

Amtrak's on-board food service is an example of possible operating inefficiencies. Amtrak's Feburary 1981 budget estimates $122M in costs for this service in 1982, their third largest cost category for 1982. Yet their revenues cover less than 60% of this cost. Amtrak loses over $50M annually on food service alone.

Boat and Yacht User Fees (Coast Guard)

Agency: Department of Transportation

Functional Code: 403

Budget Reform Criterion: 3

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	--	-100	-200	-300	-400	-500
Outlays	--	-100	-200	-300	-400	-500
REAGAN BUDGET:						
Budget Authority	--	-100	-200	-300	-400	-500
Outlays	--	-100	-200	-300	-400	-500

Program Description

Coast Guard operating expenses will be about $1.4 billion in 1982. Virtually all the Coast Guard's services are provided without charge: issuance of licenses; inspection of facilities; certification of vessel construction; maintaining aids to navigation; providing rescue and assistance service, and other services.

Proposed Change

Legislation has been proposed that would authorize the Secretary of Transportation to phase in fees for Coast Guard services. Fees for direct services involving a transaction (e.g., licenses and inspections) would be set according to the cost of providing the service. Other services (e.g., maintaining navigation aids and providing search and rescue services) would be financed by an annual fee or tonnage duty, depending upon the type of vessel involved.

Fees will initially cover less than 10% of Coast Guard operating costs, and will rise to cover about 33% of such costs by 1986.

As now envisioned, some fees will be collected directly by the Coast Guard. Annual fees may be payable by purchasing a decal at a Post Office in the same way that migratory bird stamps are now sold.

Rationale

Boat owners and the maritime community are well defined groups benefitting directly from the services offered by the Coast Guard. They rather than the general taxpayer ought to pay for the services they receive.

There are about 8.5 million recreational boats in the U.S. These boats account for about 80% of all Coast Guard rescue and assistance calls. Coast Guard's total search and rescue capability will cost almost $370 million in 1982. Relatively modest Federal boat fees - lower in most cases than the annual fees paid by automobile owners - would begin to cover a share of these costs and the costs of navigation aids in our rivers, bays and harbors.

Recreational boaters and the maritime industry should easily be able to afford to pay for the costs of the services of the Coast Guard.

Key Facts About the Program

- The Administration's bill would not set specific fees. The Coast Guard would issue fee schedules for public comment in accordance with normal rulemaking practice.
- To avoid "double taxation" of boat owners on inland waterways, Coast Guard costs will not be included in the base of costs used to calculate inland waterway user fees proposed to be collected by the Corps of Engineers.
- The annual fees will apply only to boats operated on navigable waters of the U.S.

- Most recreational and fishing boat fees will start in the $10 range for the first year and will be graduated upward by vessel size and other factors.
- Large commercial vessels—foreign and domestic—would be charged a small fee based on tonnage every time they enter a port.
- About 36,000 merchant marine officers' licenses and 30,000 seamen's documents were processed in 1980. Lengthy oral and written exams were involved. These exams have been free, but a reasonable fee will be charged for them under the proposal.

Conrail

Agency: United States Railway Administration

Functional Code: 401

Budget Reform Criterion: 4

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	535[1/]	50	--	--	--	--
Outlays	535	50	--	--	--	--
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:[2/]						
Budget Authority	-25	--	--	--	--	--
Outlays	-125	100	--	--	--	--
REAGAN BUDGET:						
Budget Authority	510[1/]	50	--	--	--	--
Outlays	410	150	--	--	--	--

1/ Does not include $129 million of Conrail employee protection costs.

2/ The Carter budget already included savings for this proposal. Total savings expected are as follows (savings shown as minuses):

	1981	1982	1983	1984	1985	1986
Budget Authority	350	-400	-550	-300	-150	-100
Outlays	250	-300	-550	-300	-150	-100

Program Description

Conrail provides freight and commuter rail service over 17,000 route miles in the Northeastern quadrant of the U.S. Since 1976, the Government has spent over $5.7 billion on Conrail as follows:

- United States Railway Association (USRA) has received $3.3 billion in appropriations for investment in Conrail to offset operating losses and undertake capital improvements. The final increment of these appropriations is being exhausted now.
- DOT and the Railroad Retirement Board have received $0.3 billion in appropriations to make labor protection payments to downgraded or furloughed Conrail employees who were employed by Conrail's bankrupt predecessor railroads (pre-1976 employees).
- DOT has paid $2.1 billion to the Penn Central to compensate it for the properties transferred to Conrail in 1976.

With 1981 supplemental funding requested in the Reagan Budget ($325 million), total Federal investment in Conrail will exceed $6 billion, compared with an estimated total cost of $2.3 billion in 1976 when Conrail was formed. Despite this huge over-run in projected costs, recent analyses suggest that a "status quo" Conrail would require well over $2 billion in additional Federal subsidies over the next five years, exclusive of hundreds of millions of dollars in payments for labor protection.

Proposed Change

The Administration's proposal includes the following elements:

- Abolish Conrail as a corporate entity and sell/transfer its properties to other railroads for continued rail service in the Northeast.
- Repeal Conrail's employee protection entitlements. A new employee protection package will be proposed of much more limited scope.
- Prepare to phase-out all funding for Conrail by the end of 1982. Conrail would be kept essentially intact until Congress authorizes sales and transfers.
- Delay expenditure of $100 million of a requested $300 million 1981 supplemental request until 1982, contingent upon assurances that solutions to the Northeast rail problem can be worked out.

Rationale

Weaning Conrail from Federal subsidies is part of a general effort to reduce the public tax burden and allow market principles to apply. The Federal cost of supporting Conrail has already exceeded original estimates by 50%. These run-away subsidies should be brought under control quickly.

Given the unlikelihood of Conrail becoming self-sufficient in the foreseeable future, it is preferable to have Conrail's properties acquired by other railroads operating in the private sector. Most of Conrail's lines have traffic that can be profitably handled by other railroads. This will also allow Conrail's shippers to participate in the growing movement of railroad mergers, rather than being isolated in a regional railroad cocoon.

The 1981 supplemental will keep Conrail intact this year and allow Congress sufficient time to enact legislation to sell or transfer Conrail lines to other railroads.

Existing statutory lifetime employee protection is extremely expensive and provides Federally funded benefits to rail workers not provided to workers in other industries.

Lacking changes, costs associated with this program could total $250–500 million annually in liabilities whether Conrail is retained as a corporate entity or its lines are sold to acquiring railroads.

Key Facts About the Program

When Conrail was formed in 1976, it was the Government that assumed almost all the risks of the enterprise: (a) the bankrupt railroads from which Conrail was formed were guaranteed payment for the value of the properties transferred to Conrail; (b) States and localities were provided Federal rail branchline subsidies to shield them from the impact of proposed line abandonments; (3) shippers were protected by strict rate regulation by the ICC; and (4) organized labor was protected by ensuring lifetime salary protection for all employees who worked for the predecessor railroads for five years or more. In that context, it is not surprising that Conrail has failed to live up to its expectation of becoming financially self-sufficient by 1979.

Conrail has sustained yearly net income losses every year since 1976. Probably the single most significant factor in Conrail's inability to achieve its plan has been its failure to retain its traffic base. While the plan creating Conrail anticipated annual traffic growth of about 2%, Conrail tonnage has dropped by 17% from 1976 to 1980. Coal transportation is holding steady, but all other tonnage has dropped precipitously (–23%). Among the reasons for the traffic decline are: (a) stagnant manufacturing output in Conrail's service area; (b) continuing modal shift from railroads to trucks; and (c) inability of Conrail to position itself for growth in coal traffic.

Conrail compares favorably to other Eastern railroads in its ability to generate revenue from its traffic base. Its revenue per ton mile, for example, outstrips other major carriers. However, its operating expense per ton mile exceeds that of comparable carriers, and its total operating expense as a percent of revenue is the highest of all major carriers.

Conrail's labor force is now shrinking. The employee totals declined from 94,000 in July 1978 to 80,000 in July 1980 (–15%). However, this employment decline has been matched by Conrail's traffic decline, thereby largely canceling the cost savings. Additionally, the employment decline has increased the Government's labor protection liabilities insofar as more of Conrail's employees have been downgraded or furloughed. This cost would soar if Conrail's workforce is further reduced, as most parties suggest is necessary.

Governmental funding as a percentage of Conrail annual expenditures has ranged from 10–18%. For all years aggregated, the uses of Federal funds have been as follows: 44% for track rehabilitation, 35% for operating subsidies, 14% for capital improvements, and 7% for equipment purchase and rehabilitation.

Conrail has projected that by 1984 it will need a positive cash flow of about $800 million to meet all its track, capital improvements, equipment, and debt maturity needs. This means $1.0 billion of annual cash flow improvement. It is difficult to see how this level of improvement can be achieved.

Cooperative Automotive Research Program

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 5

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	12	17	34	50	50	50
Outlays	6	12	17	25	35	45
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:[1/]						
Budget Authority	-12	-17	-34	-50	-50	-50
Outlays	-6	-12	-17	-25	-35	-45
REAGAN BUDGET:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--

[1/] The Carter budget already included savings for this proposal. Total savings expected are as follows:

	1981	1982	1983	1984	1985	1986
Budget Authority	--	-34	-50	-50	-50	-50
Outlays	--	-17	-25	-35	-45	-50

Program Description

The Cooperative Automotive Research Program (CARP) was designed in cooperation with the U.S. automotive industry to reduce the nation's dependence on foreign oil by financing a basic research program aimed at accelerating the development of more fuel–efficient and technologically advanced automobiles. Funding was originally intended to be on a matching basis, with the Federal Government providing half the resources. The matching arrangement was waived in fiscal year 1981 because of industry economic conditions. As a result, the 1981 program was to be wholly financed by the Federal Government.

Proposed Change

The Administration has decided not to initiate CARP. The Reagan Budget proposes to rescind uncommitted 1981 appropriations and to eliminate funding for 1982 and subsequent years.

Rationale

- Federal financing of long–term research to benefit a particular industry is inappropriate.
- The automotive companies, rather than the Federal Government, are in the best position to decide what kind of research to undertake and when to do so.
- The President's decision to decontrol the price of oil and the emergence of market incentives for greater fuel efficiency, greatly reduced the need for CARP.

Great River Road

Agency: Department of Transportation | Functional Code: 401 | Budget Reform Criterion: 5

Funding ($ in millions)						
CARTER BUDGET:						
Budget Authority	25	--	--	--	--	--
Outlays	36	38	35	25	16	3
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:[1/]						
Budget Authority	--	--	--	--	--	--
Outlays	-6	-15	-20	-19	-10	- 2
REAGAN BUDGET:						
Budget Authority	25	--	--	--	--	--
Outlays	30	23	15	9	6	1

[1/] The Carter Budget already included savings for this proposal. Total savings expected are as follows:

	1981	1982	1983	1984	1985	1986
Budget Authority	--	-25	-25	-25	-25	-25
Outlays	-6	-19	-46	-51	-43	-35

Program Description

The Federal Highway Act of 1973 authorized the construction or reconstruction of the Great River Road by the ten States bordering the Mississippi River. A single continuous route has been designated which will run from Lake Itasca in Minnesota to Venice, Louisiana.

The Carter Budget proposed consolidating this program within the Federal-aid highway program beginning in 1982.

Proposed Change

The Administration will defer previously authorized and available contract authority in 1981 (i.e., $17.7 million). The Administration's highway bill includes a provision that will lapse all remaining Great River Road funding. All future work on the road will be performed with the States' regular Federal-aid highway monies.

Rationale

To stretch out and retarget public sector capital improvement programs.

All segments of the Great River Road other than access spurs have been designated as being on the Federal-aid system and may be improved using regular Federal-aid funds. The discrete Great River Road program is duplicative and unnecessary.

The estimated cost to complete this highway is $1.4 billion (1979 dollars).

Key Facts About the Program

The program was established in the 1973 Highway Act. The 1978 Highway Act provided $25 million/year in new contract authority for 1979 through 1982. In addition, $10 million per year of general fund authorizations were provided for off-system segments. Since there are no such segments, these funds are not needed. The annual obligation of contract authority is controlled by an obligation limitation included in the DOT Appropriation Acts. The annual limitation has been $37.5 million in the last several years.

States Affected

Minnesota	Kentucky
Wisconsin	Tennessee
Iowa	Arkansas
Illinois	Mississippi
Missouri	Louisiana

Highway Construction Program

Agency: Department of Transportation

Functional Code: 151,401

Budget Reform Criterion: 5

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	9,207	10,536	11,396	11,722	11,953	12,383
Outlays	8,762	8,507	10,143	11,048	11,465	12,311
REESTIMATES & ADJUSTMENTS:*						
Budget Authority	--	215	234	250	270	289
Outlays	--	32	76	163	224	246
PROGRAM CHANGES:						
Budget Authority	--	-2,009	-2,308	-2,273	-2,394	-2,212
Outlays	-7	-429	-1,534	-1,955	-2,019	-2,148
REAGAN BUDGET:						
Budget Authority	9,207	8,742	9,322	9,699	98,830	10,460
Outlays	8,755	8,110	8,686	9,256	9,670	10,409

*Transfer of the Appalachian Highway Program to the Department of Transportation beginning in 1982.

Program Description

The Federal highway program provides grants to the States for construction or reconstruction of certain designated highway systems: Interstate, primary, secondary, and urban. Funds are also provided for rehabilitation or replacement of highway bridges, highway safety projects, and numerous small special categorical programs.

The Carter budget provided for major growth in the Interstate rehabilitation program from $1.4 billion in 1982 to $2.4B in 1986. The rural and urban programs were level funded at $.7 billion and $.9 billion respectively.

Proposed Change

The Administration will focus the Federal highway program on the high Federal interest Interstate and primary systems.

- Interstate construction funding will be maintained basically at the currently authorized level, but project eligibility will be narrowed to move toward final "completion" of the Interstate system.
- Interstate rehabilitation (4R) funds will be increased in 1982 by $525 million above the existing authorized level.
- Lower priority highway programs designed to address State and local problems will be eliminated. The larger rural and urban programs will be phased out to allow States to adjust their programs to meet their greater responsibility.

Outlay savings of $430 million in 1982 and $8.0 billion for 1982–1986 will be attained.

Rationale

To stretch out and retarget public sector capital improvement programs.

These changes are needed because:

- The Federal interest is primarily supporting and providing for interstate commerce and the national defense. This interest is best served by the Federal Interstate and primary highway programs. In the present economic situation, and for the foreseeaable future, Federal emphasis must be concentrated on these interests (and systems).
- Highway programs designed to meet basically State or local concerns (e.g., secondary and urban) are properly the responsibility of these governmental entities. It is at these governmental levels that the real need, priority, and appropriate funding for projects designed to address particular State or local problems can be determined.

- The goal of completing the Interstate highway system cannot be reached without a major restructuring of this program. The growing cost of completion (i.e., $54 billion in 1979 prices) makes it mandatory that the Federal Government focus this program on completing unbuilt gaps in the system and upgrading only those segments which are necessary to ensure a minimum level of service.

Key Facts About the Program

The Administration's highway legislation is as follows:

- Authorizations ($ in billions):

	Actual	Carter	Proposed				
	1981	1982	1982	1983	1984	1985	1986
Federal-Aid Highways (Contact Authority):							
Interstate Const.	3.625	3.5	3.3	3.625	3.625	3.625	3.625
Interstate 4R	.275	1.4	.8	1.3	2.0	2.1	2.7
Primary	1.8	1.8	1.5	1.7	1.8	1.8	1.8
Secondary	.6	.7	.7	.3	- -	- -	- -
Urban	.8	.9	.9	.5	- -	- -	- -
Safety	.405	.5	- -	- -	- -	- -	- -
Bridge	1.3	1.2	.9	1.2	1.4	1.4	1.4
ER	.15	.15	.15	.15	.15	.15	.15
Other	.143	.05	.05	.05	.05	.05	.05
Total	9.098	10.2	8.3	8.825	9.025	9.125	9.725
Obligation limitation	(8.75)	(10.05)	(8.15)	(8.675)	(8.875)	(8.975)	(9.575)
Interstate Substitution (highways):	- -	.3	.2	.225	.375	.375	.375
Appalachian highways:	*	*	.215	.234	.250	.270	.289

***$215 million included in Appalachian Regional Commission budget.**

Major program changes.

- Interstate Completion

  Under the existing definition of completion of the Interstate the cost-to-complete estimate is $53.8 billion ($48.6 billion Federal share). With inflation, the system as defined can never be completed.

  The Administration has established the policy that the Interstate highway system will be completed within existing authorizations and by the statutory 1990 deadline, and has proposed to redefine system completion.

  Beginning October 1, 1981, Interstate construction funds will be available only to construct Interstate segments to a minimum level of acceptable service consisting of (1) full-access control, (2) a pavement designed to accommodate traffic anticipated for the next 20 years, and (3) a design of not less nor more than four lanes in rural areas and all urban areas and urbanized areas under 400,000 population, and up to six lanes in urbanized areas over 400,000 population. Future Interstate Cost Estimates would include only costs for the projects eligible under these criteria.

  To ensure cost effective use of Interstate funds, the Secretary of Transportation would examine all Interstate System segments on which physical construction has not started to identify possible segments which are not essential to the unified and connected Interstate System, are not cost effective or are environmentally disruptive. The Secretary would be authorized to remove undesirable, nonessential segments from the Interstate System, which would then create authority for Interstate Transfer grants for those segments otherwise eligible.

- Interstate Rehabilitation (4R)

  An expanded program of Interstate resurfacing, restoration, rehabilitation and reconstruction (4R) will be undertaken. Funding will increase by almost 300% in 1982 over 1981. Similar to the Interstate completion program, the Federal Government will pay 90% of the cost for 4R projects.

  Projects made ineligible for Interstate completion funding by the redefinition of Interstate completion will become eligible for I-4R funds.

- Primary and Bridge

  The primary and bridge programs will be retained and funded at the authorized levels of $1.5 billion and $.9 billion in 1982.

- Secondary and Urban Systems

  State and local governments have a greater interest than the Federal Government in highway systems below the Interstate and primary systems. To return responsibility for these highways to the appropriate level of government, phase out of Federal responsibility for, and involvement in, the secondary and urban system programs is proposed. To facilitate the transistion, the Administration proposes authorizations for these programs for fiscal years 1982 and 1983. These transition authorizations should provide the States time to make budget adjustments to assume full funding responsibility for these programs.

- Safety

  Highway safety projects should be an integral part of all highway construction. To increase State and local flexibility in meeting highway safety needs, elimination of separate safety categorical programs administered by the Federal Highway Administration is proposed. Funding that would otherwise be authorized for safety projects is incorporated into the larger highway system catgories, as safety projects are eligible for these funds.

- Other

  The Administration proposes elimination of a number of existing categorical highway programs and the existing separate 1982 funding authorizations associated with them. States will be able to make their own determinations as to the priority of these programs, most of which will be eligible for Federal funds under the regular primary, secondary or urban programs. The Appalachian Development Highway System program would be transferred from the Appalachian Regional Commisssion and would be financed from the Highway Trust Fund.

- Funding

  The Administration proposes a simple extension of the existing highway user taxes and the Highway Trust Fund. The taxes will be extended to 1989 and the trust fund to 1990.

Highway Safety (402) Grants

Agency: Department of Transportation | Functional Code: 401 | Budget Reform Criterion: 6

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority[1/]	264	244	202	215	239	255
Outlays	200	241	218	229	237	244
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	--	-167	-125	-138	-162	-178
Outlays	--	-47	-112	-138	-150	-163
REAGAN BUDGET:						
Budget Authority	264	77	77	77	77	77
Outlays	200	194	106	91	87	81

[1/] **In 1981 and 1982 budget authority represents contract authority and does not accurately reflect a lower obligation limitation of $189 million in 1981 and $177 million in 1982. Budget authority and obligations are the same in the outyear. The table listed below under proposed change provides a better assessment of obligation savings.**

Program Description

Federal grants are provided to States and localities for:

- Establishing or supplementing highway safety programs in such areas as traffic enforcement, driver licensing and education, alcohol abuse and pedestrian safety.
- Increasing police patrols, equipment, and public information activities relating to 55 mph speed limit enforcement.

Proposed Change

The Administration has proposed legislation to restrict eligibility to programs that have been successful in promoting highway safety and are an appropriate Federal function. This proposal should produce outlay savings of $45–160 million per year beginning in 1982 and extending to 1986. The following is a summary of savings by obligation authority:

	($ in millions)					
	1981	1982	1983	1984	1985	1986
Basic grants	--	58	71	84	98	114
55 MPH	--	40	50	50	60	60
Innovative grants	--	2	4	4	4	4
Total obligations saved	--	100	125	138	162	178

Rationale

- The Federal contribution to total highway safety funding is so small (2 to 3 percent) that the Federal Government has had little impact on what State and local governments actually do.
- A General Accounting Office (GAO) study of the Highway Safety Grants Program concluded that there is no evidence of the effectiveness of many of the categories of grants in reducing highway fatalities and that many potentially effective projects were not implemented by the States.
- Enforcement of maximum highway speed limits (i.e., 55 MPH) should be a discretionary responsibility of the States.

Key Facts About the Program

- The Highway Safety bill authorizes financial assistance to carry out State safety programs, but fails to establish any goals to be achieved.
- The following are programs of proven success in promoting highway safety: police traffic services, alcohol safety, emergency medical services, traffic records.

Highway Safety Program
(Research, Development, Regulations)

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 5

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	87	112	119	132	137	146
Outlays	85	100	107	119	124	136
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	--	-19	-23	-25	-25	-26
Outlays	--	-5	-13	-21	-24	-24
REAGAN BUDGET:						
Budget Authority	87	93	96	107	112	120
Outlays	85	95	94	98	100	112

Program Description

The operations and research budget of the National Highway Traffic Safety Administration includes the following major program areas:

- Rulemaking program — promulgation of Federal vehicle safety and fuel economy standards.
- Enforcement programs — enforcement of vehicle safety standards and to do compliance testing and defects investigation.
- Highway safety programs — provides Federal staff support and demonstration programs to assist the States in the conduct of highway safety programs.
- Research and analysis — provides research and development in support of all NHTSA programs, including the collection and analysis of data. Provision is also made to furnish the scientific and technical basis for motor vehicle standards.

Proposed Change

Reduce budget authority in 1982 by $19.2 million to reflect reduced emphasis on Federal regulations.

Rationale

- Excessive regulation is a significant factor in our current economic difficulties.
- The emergence of market incentives for greater fuel efficiency, greatly reduces the need to develop fuel economy standards beyond 1985.

Key Facts About the Program

The following is a list of the specific program reductions ($ in millions):

1982 Carter budget	112.3
• Fuel Conservation Eliminate Carter energy initiative to publicize fuel conservation techniques, such as not "peeling away" from STOP signs.	-4.7
• Economic and Technology Assessment Eliminate unnecessary analysis and support of post-1985 fuel economy standards.	-6.0
• Integrated Vehicle Systems Postpone development of a new 1800 pound vehicle prototype. Eventual cost of this project could reach $20 million over the next 3-5 years.	-2.5

• Rulemaking Eliminate rulemaking for post–1985 fuel economy standards and eliminate expansion in rulemaking.	–1.0
• Data collection Reduce the number of data collection sites from 75 to 60.	–4.0
• Highway safety Eliminate the National Driver Register.	–1.0
Total reduction	(19.2)
1982 Reagan budget	93.1

Northeast Corridor Improvement Project Reduction

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 4

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	350	488	172	20	15	--
Outlays	373	465	534	316	152	--
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	--	-288	13	-20	-15	--
Outlays	-25	-155	-114	-1	-15	--
REAGAN BUDGET:						
Budget Authority	350	200	185	—	—	--
Outlays	348	310	420	315	137	--

Program Description

The Northeast Corridor Improvement Project (NECIP) is intended to improve passenger service between Washington, D.C. and Boston, Massachusetts. It is to facilitate safe, dependable, and high speed rail passenger service on that Corridor. The project includes track improvement, bridge repair, elimination of grade crossings, station improvement, and electrification, as well as installation of signalling and communication systems and railway maintenance facilities.

Proposed Change

The Administration proposes to reduce total authorizations for NECIP by $310 million, from $2.5 billion to $2.19 billion, and to change the focus of the Project. In the past, faster train speed has been a high priority criterion in the choice of construction improvements. In revising the project, emphasis will be placed on completing a reliable and serviceable rail system.

Rationale

- Several expensive components of NECIP — electrification north of New Haven, replacement of the signalling system, curve realignments — have been included in the project largely in order to reduce trip times. Even with these improvements, however, the trip times achieved in the early 1970's, before the project was started, would fall only 20 minutes between New York City and Washington, D.C. (They would fall 50 minutes between New York and Boston.)
- The purpose of increasing train speed has been to attract additional riders to the corridor. But fuel costs continue to increase demand for rail service in this section of the country, thereby largely accomplishing what NECIP planned to spend hundreds of millions to accomplish.
- High speed track is much more expensive to maintain than is medium speed track. It requires more frequent resurfacing and repair. It is unlikely that Amtrak will be able to fund this work in the future. If Amtrak cannot, the huge initial expense will thus be wasted as the track deteriorates.
- Three times as many commuter passengers use the Northeast Corridor as do intercity passengers. Yet NECIP, by focusing on increased speed, benefits the minority of users at great expense. Commuter trip times fall negligibly with high speed trains because distances are short and stops frequent.
- By redirecting the program now, only $30–40 million will be lost in contracts already let.

Key Facts About the Program

The $310 million reduction will be achieved mainly by repairing rather than replacing the signalling system and by eliminating electrification north of New Haven.

SIGNALLING SYSTEM

— The originally planned signalling system for NECIP was estimated in early 1981 to cost $393 million. With each estimate the cost has increased significantly; the initial cost estimate had been $50 million. A consulting firm hired by the Department of Transportation estimates that the total cost of the system would be closer to $600 million.

— The Department of Transportation's original plan was to replace the existing signal system with one of the most elaborate systems in existence. The reason for this was to make it possible to run high speed intercity, commuter, and freight trains on the same track. It was thought that the combination of high speed and low speed traffic on the corridor made it necessary for trains to be able to make extreme changes in speed over short distances.

— Almost without exception, the portions of the corridor which are heavily travelled have four tracks. High speed traffic can be consistently routed to the inside tracks, low speed traffic to the outside tracks. This eliminates the need for a signal system allowing extreme changes in speed over short distances.

— Commuter authorities have resisted replacement of the signalling system. They would not benefit from it, but would have to install new equipment in all their trains in order to use the new system, as would freight trains.

ELECTRIFICATION NORTH OF NEW HAVEN

— FRA had planned to electrify north of New Haven to save fuel and to eliminate a 10 minute delay as locomotives are switched.

— The estimated cost of this electrification is $190 million. Demand for rail service is low between New Haven and Boston when compared with demand elsewhere on the corridor.

Railroad Branchlines

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 4

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	80	80	87	94	101	108
Outlays	56	80	110	105	110	112
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	-80	-80	-87	-94	-101	-108
Outlays	-8	-32	-57	-75	-98	-106
REAGAN BUDGET:						
Budget Authority	--	--	--	--	--	--
Outlays	48	48	53	30	12	6

Program Description

This program provides formula grant assistance to States for rail planning and for support of rail service on low traffic branchlines. The funds have been used for temporary operating subsidies, track acquisition and rehabilitation, rail planning, construction of sidings, terminals and the like. The program was intended to cushion shippers from the effects of potential or actual rail abandonments.

Proposed Change

The Administration proposes program phase-out starting in 1981. This will be accomplished by legislatively reprogramming $80 million in 1981 appropriations for use for other railroad assistance programs for which supplemental 1981 appropriations otherwise would have been required.

Rationale

This action returns to States and localities a program whose benefits are primarily local. Additional reasons are as follows:

- Traffic on the supported lines is so light that interstate commerce will not be disrupted. The supported lines carry less than 0.5% of nationwide rail traffic.
- Over 25% of funds are allocated to States that have little or no branchline rail service problems.
- A soon-to-be released DOT Inspector General report criticizes the program because many rail lines being subsidized will subsequently be abandoned.

Key Facts About the Program

- The railroad branchline program was originally authorized in 1976. At that time, 21,000 miles of rail lines were eligible for assistance, and the program was supposed to expire in 1981.
- Since then, the program's authorizations have been increased and extended through 1982. Also, the total rail line miles eligible for assistance has exploded to about 100,000 miles.
- Whereas the program was originally intended to help States retain service on lines not included in Conrail when Conrail was formed in 1976, now the program is nationwide in scope.
- Most of the low traffic lines being subsidized carry less than 3 million gross tons per mile annually, although lines up to 5 million gross tons per mile can qualify.

- Biggest recipients are as follows (1981 allocations):

  — Iowa ($9.4 million)
  — Illinois ($5.0 million)
  — Wisconsin ($4.1 million)
  — Minnesota ($4.0 million)
  — South Dakota ($3.8 million)
  — Texas ($3.7 million)
  — Michigan ($3.4 million)
  — Oklahoma ($3.0 million)

- All States are guaranteed no less than 1% of funding allocations. That means that some States which have no railroad abandonment problem — such as Alaska, and Washington, D.C. — are nevertheless guaranteed $800 thousand under an $80 million program.

Railroad Restructuring Assistance

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 4

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	75[1/]	150	164	178	191	204
Outlays	105	136	202	210	220	188
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	--	-40	-54	-68	-81	-204
Outlays	--	-5	-30	-55	-70	-90
REAGAN BUDGET:						
Budget Authority	75[1/]	110	110	110	110	--
Outlays	105	131	172	155	150	98

[1/] With $76 million in 1980 unobligated balances, 1981 obligations will total $151 million.

Program Description

This program entails Federal purchase of railroad preferred stock to finance specific improvement projects, especially track rehabilitation. Funds are provided to railroads that cannot obtain funds elsewhere. The preference shares have a maximum term of 30 years, with deferral of repayments up to 11 years. The priority of payment in bankruptcy is below all creditors. Through 1980, 70% of funds have been provided to the Chicago and North Western and the Illinois Central Gulf.

Proposed Change

- The funding level is reduced by $40 million in 1982 held at $110 million for three additional years and terminated in 1986.
- The 1981–82 program will focus available funding on rail restructuring in the Midwest in the wake of the Rock Island and Milwaukee Railroad bankruptcies.
- The 1983–1985 program anticipates assistance to encourage other railroads to acquire Conrail lines, assuming that Conrail's lines will be sold to other railroads.

Rationale

Phase down of this program is part of a general effort to reduce the public tax burden and allow market principles to apply. Additional reasons are as follows:

- There are other forms of Federal assistance, such as loan guarantees, to assist troubled railroads maintain essential rail services.
- Compared with other forms of Federal railroad assistance, this program entails an extremely high subsidy rate. It carries an effective interest rate of only 2% (yield to maturity).
- There is a lessened need for railroad assistance now that a reasonably strong rail deregulation bill has been enacted (Staggers Rail Act of 1980).

Key Facts About the Program

- Results from the program are modest. In a 1980 report, GAO asserted that "Federal assistance solely to overcome deferred maintenance is not essential."
- Obligation rates have lagged funding availability. For example, in 1980 DOT obligated only half the funds available to it ($74 million obligated out of $146 million available).
- DOT has plentiful loan guarantees available for railroad restructuring purposes ($300 million in 1981; $320 million in 1982).

- Funding recipients to date include the following:

  — Illinois Central Gulf — $166 million
  — Chicago and North Western — $148 million
  — Milwaukee — $53 million
  — Southern Pacific — $49 million
  — Boston and Maine — $26 million
  — All other — $15 million

The first two railroads account for 70% of total obligations; the first four railroads account for 90%.

- Most railroad stocks have done very well since enactment of rail deregulation legislation. Many of those railroads that the Government has supported may now raise funds by selling equities. For example, stock of the Chicago and North Western has tripled in the past year, thereby greatly enhancing that railroad's ability to raise funds without Federal aid.

Urban Mass Transit Capital Assistance

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 5

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	3,590	3,830	4,350	4,645	4,845	5,010
Outlays	2,768	2,850	3,270	3,615	3,920	4,153
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	242	11	-150	--	--	--
PROGRAM CHANGES:						
Budget Authority	-250	-1,340	-1,635	-1,795	-1,845	-1,860
Outlays	-54	-420	-805	-1,153	-1,535	-1,649
REAGAN BUDGET:						
Budget Authority	3,340	2,490	2,715	2,850	3,000	3,150
Outlays	2,956	2,441	2,315	2,462	2,385	2,516

Program Description

The mass transit capital grant program consists of the following:

- Section 3 Discretionary Capital Grants
- Section 5 Formula Bus Grants (Tier IV)
- UMTA Interstate Transfer Grants
- National Capital Transportation Act Grants

The Carter budget projected increasing funding levels by 50% by 1986 over the 1981 Congressionally enacted level.

Proposed Change

The revised budget reduces funding levels for mass transit capital grants. The budget savings are primarily achieved by reducing the amount of funds for constructing new rail transit systems and extending existing systems. The revised budget provides funds for improving transit services through grants to purchase buses and to update existing rail systems — particularly in large, concentrated urban areas. The construction of new rail transit systems and extensions of existing systems has not proved, however, to be as cost-effective as less capital intensive projects. Federal assistance for such rail construction projects will be postponed at least until the economic situation and the condition of the Federal budget improve.

Specifically, the revised budget emphasizes the following:

- The central focus of the Federal transit assistance program in the future will be on the maintenance and improvement of existing, proven transit systems.
- New rail transit systems and planning activities associated with such systems will no longer be federally financed.
- Transit systems for which the Federal Government has issued formal letters of intent and where construction is underway (including Washington Metro) will be financed to complete operable transit segments.
- Downtown People Mover and Urban Initiatives projects will be terminated immediately, but Urban Initiatives projects already under construction will be completed.

Rationale

Primary responsibility for mass transit should remain with State and local governments.

In the present economic situation, Federal emphasis should be concentrated on maintaining existing transit systems that have been proven effective and are an essential part of a large urban transportation network.

The availability of steadily increasing Federal transit funding and Federal regulatory requirements has sharply escalated new rail transit systems costs. Federally financed rail systems are often built with extravagant features; construction wages paid are sometimes excessively high due to Federal laws; and routes are added where they are not justified from an economic point of view. The five rail system construction projects now underway that receive Federal assistance (Washington, Miami, Buffalo, Baltimore, and Atlanta) require approximately $75 million a mile to construct and equip for operation. The same $75 million could be used to buy more than 500 buses. Also, in comparison, San Diego is building and equipping a trolley line, *without any Federal assistance,* costing less than $6 million a mile.

Transit system energy savings are nonexistent or small in the short run and too speculative in the long run to justify major Federal investments on energy efficiency grounds. It has been estimated that BART, the San Francisco Bay Area rapid rail system, required so much energy during its construction that this initial energy investment may never be repaid. Traffic for new rail systems is primarily generated from ex-transit bus users. No real energy, pollution, or congestion benefits are achieved from switching riders between transit modes.

Key Facts About the Program

The *obligations* assumed for capital assistance are:

	($ in millions) 1981	1982
Section 3[1/]	1980	1725
Section 5, Tier IV	350	375
Interstate Transfer[2/]	800	600
Total	3130	2700

1/ Includes $210 million deferred from 1981 to 1982 in the Section 3 program.

2/ Includes $182 million in grants for highway substitute projects in 1981. In 1982 all grants for such highway projects will be funded in the FHWA budget.

Urban Mass Transit Operating Assistance

Agency: Department of Transportation

Functional Code: 401

Budget Reform Criterion: 4

Funding

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	1,105	1,105	1,105	1,105	1,105	1,105
Outlays	750	780	1,005	1,080	1,100	1,130
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	150	142	--	--	--	--
PROGRAM CHANGES[1/]:						
Budget Authority	--	--	-370	-740	-1,105	-1,105
Outlays	--	--	-208	-512	-899	-1,088
REAGAN BUDGET:						
Budget Authority	1,105	1,105	735	365	--	--
Outlays	900	922	797	568	201	42

Program Description

This program is comprised of the first three "tiers" of Section 5 formula grants. Historically, 90% to 95% of the funds distributed through the formulas of the first three tiers have been used for operating expenses. The Federal share of the national total of transit operating expenses has been in the 15% range over the last few years. The Carter budget would have continued funding for these three operating tiers at the current 1981 levels through 1986.

Proposed Change

Beginning in 1983, funds provided in the first three tiers would be phased out by 1985. In order to cushion the difficulties caused by this phase-out of Federal assistance, the reductions in 1983 and 1984 would be taken in the "base" tier — leaving untouched during the transition years the remaining funds in Tiers II and III which are targeted more at the cities in immediate need.

Rationale

The costs of operating local mass transit systems should be the responsibility of the users and local taxpayers.

Federal subsidies for operating costs are at least partially absorbed by lower productivity and reduced fares.

Conventional transit systems on the average have to subsidize slightly more than 50% of the cost of each ride through the local, state and Federal taxpayer. Furthermore, this national transit deficit is escalating rapidly; cost increases from 1973 to 1978 average 13.2% a year while the average annual fare increased only 3.5% over the same period.

Federal funds in some areas help to support marginally effective conventional transit services. Often transportation needs could be better served by more cost effective and innovative alternatives such as carpools, vanpools, subscription bus and jitney services.

Federal subsidies and the Federal "strings" attached to those subsidies tend to drive up operating costs.

The undesirable side effects of Federal subsidies — lower productivity and unrealistically low fare levels — could only be dealt with by an inappropriate level of Federal involvement in local decisions about fares, wage rates, service levels and management practices. These decisions are better left for local decision-makers.

Fares have generally not kept pace with inflation since the 1973 oil embargo, even though the cost of the main alternative means of transportation — the private vehicle — has increased dramatically even more than the rate of inflation. It is probable that the cost of owning and operating one's car will continue to increase faster than the inflation rate; thus, transit fare could be raised considerably to cover the loss of Federal subsidies without losing many patrons.

Transit operating subsidies for *everyone* — rich and poor alike — are a terribly inefficient way to assist particular disadvantaged groups such as the elderly, the poor, minorities, and youth. One analysis estimated that only 23.5% of transit operating subsidies in 1975 went to low income households.

A gradual phase out of Federal subsidies over the next four years provides time for cities and States to adjust to the absence of Federal assistance. The phase out will not begin until 1983. By concentrating the remaining funds in Tiers II and III, the cities with the most difficult problems will generally have the longest time to adjust.

Key Facts About the Program

The following budget authority levels will be recommended:

	1981	1982	1983	1984	1985	1986
Tier I	850	850	480	110	0	0
Tier II	165	165	165	165	0	0
Tier III	90	90	90	90	0	0
Total	1105	1105	735	365	0	0

Aggregate transit operating expenses have been increasing more rapidly than aggregate transit revenues. About 1965 the national aggregate of transit operating expenses first exceeded revenues. From 1965 to 1978 the ratio of total revenues to expenses fell from 99.2 to 48.0%. From 1973 to 1978 operating expenses rose $2.18 Billion, yet revenues have risen only a fifth of that amount ($464 Million).

An analysis of the cost increase demonstrates that, even considering expansion, transit cost increases have far exceeded the general inflation rate. From 1973 to 1977, the GNP Implicit Price Deflator rose 33.7%. Transit operating costs rose 69.7%. The increase in operating costs over the general inflation rate cannot be entirely attributed to service expansion or increased ridership. Operating costs per revenue vehicle mile rose 16.8% in constant dollar terms from 1973 to 1978. Operating costs per passenger trip rose 15.6%. Average wage and fringe benefits have risen faster than the inflation rate. In *constant* dollars, transit workers received 13.5% more in 1978 than 1973. Meanwhile, productivity declined from 1973 to 1978 as labor costs per vehicle mile rose 20.7% from 1973 to 1978.