THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

November 22, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: Drew Lewis

SUBJECT: Revised Transportation User Fee Program

The proposed 5 cent highway user fee would generate $5.5 billion per year in revenue for the Highway Trust Fund. Most of this amount would provide essential funding for the federal share of the investment needed to stop the deterioration of our highway and bridge system and to complete the interstate system.

Under the revisions to the plan you requested, Mr. President, a block grant program would also be established to make allocations to the 50 states with pro-rata distributions to larger cities. The block grants could be used for either mass transit capital expenditures or highway programs, depending on the needs of the recipient.

Highway Funding

The plan calls for 4 cents to be used to repair and improve our nation's highway infrastructure and to complete the Interstate System. The new money would not be used to repair or improve the secondary and urban roads, which are more appropriately the responsibility of the States.

New Block Grant Program

Under the plan, the one cent for mass transit would be used to establish a block grant program. $1.1 billion per year would be returned to the cities and states on the basis of formula allocations.

Revenues for the block grant program would be raised from each user group according to that group's percentage of miles traveled in urban areas. Since combination trucks account for only 2.6% of the miles travelled on urban roads they would be charged only for that portion.

Cities having populations greater than 200,000 would receive their own formula block grants. The formula would pass the remainder in a block grant to the states.

In those cases where recipients of block grants do not elect to spend money for mass transit capital needs, the funding could be used for highway and bridge programs.

It is significant to note that the manner in which we have charged the one cent urban block grant to urban highway users should be of significant benefit in eliminating at least one objection to funding of mass transit from the Highway Trust Fund, already expressed by operators of large trucks. It is also important to note that expenditures on mass transit, if they occurred, would be at the option of the state or local government. The proposal is consistent with your user charge philosophy. The users of urban roads would directly benefit from urban mass transit expenditures because traffic on the roads in most cases would be reduced by those who chose to travel on the mass transit system.

New Federalism

The New Federalism program will be developed in detail in 1983. Expenditures from the Highway Trust Fund for urban, secondary and related programs can then be returned to the states together with the funding to pay for them until the states can develop their own sources of revenue. The amount anticipated for this new federalism initiative would be $2.2 billion per year and was set forth in some detail in the attached Memorandum to the President responding to questions raised at the November 10th meeting of the Cabinet Council on Economic Affairs.

Approval

If this revised plan meets with your approval, the Department of Transportation is prepared to move forward expeditiously with legislation that would be considered in the lame duck session of Congress. If the program meets with the favorable reception that is anticipated, and we have a bill from Congress before the end of the session, it would be possible to contract for expenditures of $3 billion for highway construction and repair within 90 days from the time of signature. The collection of revenue from the user charge would begin by April, 1983 or could be delayed somewhat longer, if you deem that to be appropriate.

Approve ______ Disapprove ______

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

11/23 NOT FINAL (per JW) withheld by group

November 22, 1982

MEMORANDUM TO: RICHARD DARMAN

FROM: DAVID A. STOCKMAN

SUBJECT: Lewis Memo on Revised Transportation User Fee Program

Highway Funding

Lewis has allocated four cents of the 5-cent increased gas tax entirely to the Interstate, primary highways, and primary bridges, because the President does not wish to increase funding for non-Federal interest programs. Thus funding for primary bridges increases to $1.7 billion a year, an amount greatly in excess of any needs estimate. At the historic Federal share of primary bridge needs, $325-350 million would be required. The program is thus $1 billion/year over what is necessary for 100% Federal funding. Congress would surely allocate these funds to non-primary bridges.

New Block Grant Program

Lewis states that revenues for the block grant program would be generated by user charges assessed according to miles travelled on Federal aid highways (these include secondary roads and urban streets as well as interstates and primaries) in urban areas. Lewis intends, however, no change in the current system, which applies the tax at the refinery level and then assumes it was generated in accordance with vehicle miles travelled. There would be no special tax on urban travellers.

Highway revenues are allocated to the states by formulas that vary for each part of the program. These formulas include mileage in urban areas as well as non-urban areas, and Lewis does not plan to change this aspect of the allocation formulas.

Under the Lewis plan urban areas would benefit twice--the states would receive an allocation of four cents of the tax based on both urban and non-urban mileage, and urban areas would receive 100% of one cent of the tax, only a portion of which can be assumed to be generated in these areas. Thus the implication in the Lewis memo that the mass transit program is funded by user fees on urban drivers is misleading. It is a clear transfer of funds from non-urban taxpayers to urban taxpayers.

While a block grant for mass transit may be a good idea, it should include all mass transit funds, not just incremental funds from a tax increase. Under the Lewis approach we would have a tax increase, a block grant, and the current Federal categorical program, to which Congress has been considering revisions.

New Federalism

Lewis proposes a block grant for about $2.2 billion a year in non-Federal interest programs. The Administration proposed not funding these programs in April 1981, but the Congress did not agree. Lewis is proposing to fund these programs at the Federal level and then turn back the programs and the tax sources. Our experience with last year's Federalism initiative suggests that this turn-back proposal is unlikely to succeed unless states are held harmless, which would cost the Federal government more than $2.2 billion. Furthermore, with a 5-cent tax increase, Congress is likely to increase funding for these programs and thus the amount of the tax we would have to turn back to get rid of them.

User Fees and Taxes

- User fees are taxes if the Federal government determines the program level and then taxes to finance it. A permanent increase in the motor fuels tax increases Federal taxes and Federal spending. It reduces the Federal government's ability to raise taxes to reduce the deficit, either now or in the future. It thus makes our fiscal problem worse rather than better.

Infrastructure Needs

- The deteriorating condition of the nation's infrastructure is probably exaggerated. Estimates of bridge "needs," for example, include widening all two-lane bridges on four-lane highways to four lanes whether or not traffic requires it. Furthermore, Federal policy has encouraged new construction rather than repair and maintenance.

The Federal Responsibility

- Only since 1978 has the Federal government provided funds for Interstate repair and maintenance; that was originally intended to be a state responsibility. The Federal government has, however, assisted the states with their primary system through most of this century; the historic Federal share is about 43 percent. Only in the 1970s did the bridge program--which under current law provides funding for all bridges--increase rapidly.

Alternatives

1. If the objective is a rapid buildup in highway expenditures, the Administration can increase its obligation limitations for expenditures without increasing the gas tax at all. The states have contract authority of almost $6 billion that we are not permitting them to spend. This amount has already been charged against the Highway Trust fund.

2. If the objective is more Federal spending on the Interstate, primary roads, and primary bridges:

a. A larger program than we planned in the 1983 budget could be undertaken without increasing the gas tax. This would provide funds for the Interstate equal to the Lewis program and fund the primary system and primary bridges at the historic Federal share (43%) of a reasonable needs level. Non-Federal interest programs would not be funded.

b. The Federal tax could be increased one cent or two cents. The entire DOT Federal-interest program could be funded with the $11B from a two cent increase. Even a one-cent increase would increase Federal assistance for the primary system and primary bridges considerably above the historic Federal role given needs estimates.

Each of these options (as well as a combination of 1 and 2a or 2b) is preferable to taxing automobile drivers to pay for an increase in Federal mass transit funding of $1.1 billion a year (one cent of the proposed five cent increase) and increasing the tax (two cents of the five cents) to fund programs that are not a Federal responsibility on the grounds that we will later return the programs and the funding source to the states. Finally, a crash effort to pass the Lewis proposal during the lame duck session would preclude desirable program reforms, such as changes in cost allocation for the entire time of the authorizing legislation.

Alternatives for the President

1. Increase in 1983 obligation limitation; no tax increase.

2a. Increase Federal-interest program level without gas tax increase.

2b. Increase Federal-interest program; fund by

-- 1-cent tax increase

-- 2-cent tax increase

3. DOT program.

HIGHWAY/MASS TRANSIT FUNDING, 1984-88
($ in millions)

	DOT Proposal	Maximum Program No Tax Increase	One Cent Tax Increase	Two Cent Tax Increase
Federal Interest				
Interstate	37050	37050	37050	37050
Interstate Transfers	3250	2750	2750	3250
Primary	13000	7250	10250	13000
Primary Bridges	5700	1750	3750	5700
Other	1500	750	1250	1500
	60500	49550	55050	60500
State and Local Interest				
Secondary	2000	0	0	0
Urban	4000	0	0	0
Safety	1950	0	0	0
Local Bridges	2550	0	0	0
Other	1370	0	0	0
Mass Transit	5500	0	0	0
	77870	49550	55050	60500

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-received prior to Cabinet but not distributed
CF

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

NOV 23 1982

MEMORANDUM TO: Richard G. Darman
Assistant to the President
Deputy to the Chief of Staff

FROM: Drew Lewis

SUBJECT: Stockman Memo on DOT's Revised Transportation User Charge Program

This is to comment upon statements made by Dave Stockman in his November 22 memo to you on our revised user charge program:

(1) Stockman Statement - At the historic Federal share of primary bridge needs, $325-350 million would be required. The program is thus $1 billion/year over what is necessary for 100% Federal funding.

DOT Comment - The DOT proposal would provide between $1.0 and $1.2 billion per year to primary and high cost bridges, not the $1.7 billion OMB suggests. At historic federal shares for these bridges, $1.3 billion per year in federal funds would be required each year to amortize the needs by 1990, and that would not cover further deterioration occurring over the period. $510 million in federal funds each year would be available to the states to meet needs on non-primary, non-high cost bridges.

(2) Stockman Statement - Lewis intends no change in the current system, which applies the tax at the refinery level and then assumes it was generated in accordance with vehicle miles travelled. There would be no special tax on urban travellers.

DOT Comment - That statement is correct. There is no realistic method of imposing a "special tax" on urban travellers. Assessing each user group for its portion of the one cent according to its share of travel in urban areas is as close as one can come in this case to properly implementing the user charge principle.

(3) Stockman Statement - Under the Lewis plan urban areas would benefit twice -- the states would receive an allocation of four cents of the tax based on both urban and non-urban mileage, and urban areas would receive 100% of one cent of the tax, only a portion of which can be assumed to be generated in these areas...It is a clear transfer of funds from non-urban taxpayers to urban taxpayers.

DOT Comment - Those statements are incorrect. While it is true that there are non-urban automobile, pick-up and van drivers who will contribute to the transit block grant program, it is equally true that there are urban drivers who will contribute (and have been contributing for years) to the non-urban highway programs. In fact, urban drivers contribute an estimated 55 percent of the revenues to the Highway Trust Fund and without the proposed transit block grant program only 44 percent of the spending would occur in urban areas (1985 projections). With the proposed program that amount would increase to 48 percent. Thus, rather than creating an inequitable user charge situation, our proposal would partially rectify one.

(4) Stockman Statement - While a block grant for mass transit may be a good idea, it should include all mass transit funds, not just incremental funds from a tax increase. Under the Lewis approach we would have a tax increase, a block grant, and the current Federal categorical program, to which Congress has been considering revisions.

DOT Comment - This comment is inaccurate. It ignores the fact that we have formally proposed to the Congress (and have argued for) a block grant approach to virtually all of our mass transit programs. This principle has been largely accepted in the relevant committees in both Houses. In fact, part of the reason for making this new program a block grant is to make it consistent with our overall approach.

(5) Stockman Statement - Our experience with last year's Federalism initiative suggests that this turn-back proposal is unlikely to succeed unless states are held harmless.

DOT Comment - The statement that a Federalism program will not succeed unless the states are held harmless is clearly correct. We have carefully defined the program responsibilities and the revenues to be turned back so that they are equivalent, and the states will be "held harmless". It is interesting to note that in the table attached to the Stockman memo he apparently envisions turning the programs back to the states without any funding.

(6) Stockman Statement - Only in the 1970s did the bridge program -- which under current law provides funding for all bridges -- increase rapidly.

DOT Comment - The Federal role in interstate repair and maintenance and in bridge replacement and rehabilitation did undergo expansion in the 1970s in recognition of a serious national problem that was not being adequately addressed by the states. The Federal role on the primary system is larger than OMB indicates: the estimate of a 43 percent federal share is based on data more than ten years old. Data collected from the states for 1980 and 1981 indicated a federal share of about 54 percent.

(7) Stockman Statement - Finally, a crash effort to pass the Lewis proposal during the lame duck session would preclude desirable program reforms, such as changes in cost allocation for the entire time of the authorizing legislation.

DOT Comment - This statement is inaccurate in two respects. First, the leverage for achieving cost reallocation (involving charging large trucks a greater share of the cost responsibility) is to legislate greater uniformity in national size and weight standards. We have served notice on all constituencies that one will not occur without the other. Even were we to move only a user charge increase in the lame duck session, we could still subsequently use size and weight to obtain cost reallocation. Second, we have talked to the leadership in both Houses, and we have a good chance of achieving all three -- the increase, the cost reallocation and the size and weight changes. In fact, given the momentum building on the Hill, this may be the best time to gain all three.