THE WHITE HOUSE

WASHINGTON

November 6, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER

SUBJECT: Transportation User Fees

This memorandum briefly summarizes the principal arguments relating to an increase in transportation user fees. The Cabinet Council first considered this issue on December 22, 1981 and again on March 9 and May 18, 1982. At the May 18, 1982 meeting the President determined that we should reconsider the proposal as part of the FY 1984 budget.

Issue

Should the Administration support an increase in transportation user fees to finance highway and transit infrastructure programs as part of the FY 1984 budget?

Background

Major portions of our highway and transit systems are deteriorating rapidly. These systems are essential to efficiently move people and freight and to a healthy national economy. Investments by all levels of government are falling well short of the amount necessary to complete the Interstate System and to keep our nation's highway system, including its bridges, from continuing to deteriorate.

- Over 4,000 miles of the Interstate System, nearly 10 percent of the total, requires resurfacing or replacement now or in the very near future.
- Fifty percent of the primary highway system will reach the end of its design life during the 1980's.
- Forty percent of our nation's bridges are more than 40 years old, and the design life of most bridges is 50 years.
- Urban rail and bus transit capital investment needs could total almost $50 billion over the next decade to maintain our existing systems. These mass transit systems, which move hundreds of thousands of people daily, complement and are interdependent with our highways in efficiently and economically moving people and goods in urban areas.
- Deferring needed maintenance (resurfacing or rehabilitation) will eventually result in much higher costs for replacement

and reconstruction to avoid an infrastructure collapse.

Options

The Department of Transportation and the Office of Management and Budget have advanced two basic alternatives for the Cabinet Council's consideration.

Option 1: Increase highway user charges equivalent to five cents per gallon.

This user fee increase would generate about $5.5 billion in new revenues per year of which about $4.4 billion would be used for highways and $1.1 billion for capital improvements to public transit. The proposal would also allocate fees more equitably and ensure uniformity in size and weight for large trucks using the interstate system. Inflation has seriously eroded the real value of current highway user fees which were last increased in 1959.

Advantages

- Infrastructure Renovation. The proposal adequately funds the Federal share of the investment needed to halt the deterioration of our highway and transit infrastructure and to complete the Interstate System, as well as to provide funds for turnback to the states for implementing the New Federalism.

- Jobs. The proposal would create an estimated 320,000 jobs annually. This estimate includes 170,000 direct and indirect jobs in construction industries, and 150,000 more jobs "induced" by this construction in other sectors of the economy. This would positively counter any "make-work" jobs initiative House Democrats will offer in the lame duck session or the 98th Congress.

- Budget Deficit. The proposal would be funded from user fees and would have a positive budgetary impact during the first 2-3 budget years of several billion dollars.

- Federalism. The proposal for $27.5 billion in additional revenues over the next five years for spending on highway and transit programs includes $11.0 billion for turnback to the states under the New Federalism initiative. Without turning back funds, the states will not accept the program responsibilities, and without increased user fees, the Federal Government cannot turnback funds and still fulfill its interstate and primary highway program responsibilities. Such a transfer can serve as a model of the New Federalism.

- Political Feasibility. The proposal enjoys broad bipartisan support in the Congress, from State and local officials, as well as a broad coalition of user and interest groups.

Option 2: Maintain current highway user charges and revenue levels.

This alternative requires legislation before the Administration can make full year apportionments for fiscal year 1983. Under present law the user fees which provide revenue for the Highway Trust Fund are scheduled to lapse in fiscal year 1984.

Advantages

- Infrastructure Renovation. The Federal role in building and maintaining our highway infrastructure is a limited one with states paying approximately 80 percent of total costs. Current Federal revenues of about $8 billion a year are fully adequate to fund Interstate needs at the DOT level and provide considerable assistance for primary highways and bridges. Other needs — secondary roads, urban streets, and mass transit — should be the responsibility of the states.

- Jobs. Assuming constant monetary policy, additional jobs created by new highway construction and related activities would simply replace jobs and economic activity in other sectors of the economy. Most of the added spending would occur well after the recovery is fully underway.

- Budget Deficit. The positive effect on the budget deficit in 1984 and 1985 is minor given the magnitude of the prospective deficits. The proposal would increase budget deficits by over $1 billion in the out-years because excise taxes reduce taxable income. The offset is about 25 percent.

- Federalism. The DOT proposal increases the size and influence of the Federal government by raising both taxes and program levels. OMB estimates that of the $77 billion 5-year DOT program, $30 billion would be for state and local responsibilities. The Federal tax increase would reduce the ability of the states to increase their taxes for highways or other purposes. OMB argues that increasing taxes and program levels and then attempting to turn both back to the states is likely to fail.

- Political Feasibility. The proposal enjoys support in part because it takes pressure off state governments to raise their own taxes. While cost allocation would be improved for highway users, using over $1 billion of taxes from highway users to subsidize mass transit dramatically violates the cost allocation principle.

Decision

Option 1 __________ Increase highway user charges equivalent to five cents per gallon.

Option 2 __________ Maintain current highway user charges and revenue levels.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

COUNSELOR TO THE SECRETARY

November 9, 1982

MEMORANDUM FOR DONALD T. REGAN

FROM: ROGER B. PORTER RBP

SUBJECT: One Hundred and Thirty-Ninth Meeting of the Cabinet Council on Economic Affairs - November 10, 1982

The Cabinet Council on Economic Affairs will hold its one hundred and thirty-ninth meeting on Wednesday, November 10, at 10:30 a.m. in the Cabinet Room. The President will chair the meeting. Attendance is limited to principals only.

The Council is scheduled to consider one agenda item — transportation user fees. A meeting of the Cabinet Council on Human Resources to consider health care cost containment measures will immediately follow. The two meetings are scheduled to last 90 minutes with 45 minutes discussion devoted to each subject.

Transportation User Fees

The Cabinet Council has considered the issue of transportation user fees on three previous occasions in December 1981 and in March and May this year. At the May 18 meeting with the President he decided that he wanted to defer making a decision until the FY 1984 budget.

Many of the arguments remain the same. In support of approving the Department of Transportation proposal for a 5¢ a gallon tax to fund a highway and transit infrastructure program the most compelling arguments are:

- Our current transportation infrastructure in the country is deteriorating and that deterioration is accelerating. This is widely acknowledged by those who have examined the problem closely across the political spectrum.
- This is an initiative that is self-financing in that the user fee covers the costs of the program with a positive cash flow in the early years and a negative cash flow in the later years.
- It is consistent, and even a model, of the New Federalism initiative.

- o In addition, there is a new argument, or at least one that has gained more force since the last discussion of this issue in May — its value as a counter to inevitable Democratic jobs (public works) proposals that will undoubtedly gain attention during the coming weeks.

Since May this proposal has gained increased support not only in the Congress, among state and local officials, and in the predictable interest groups, but also within the Administration. Ed Meese, who will not attend the meeting, told me this morning that he now supported the idea and would inform the President of his position before the meeting.

The arguments opposing the proposal are also well known:

- o The proposal goes beyond the primary Federal responsibility for the interstate and thereby violates our federalism principles.
- o It involves raising taxes by approximately $5.5 billion a year for the next five years.
- o It will not create anywhere near the number of net jobs that its proponents claim since many of the jobs created will simply replace jobs in other sectors of the economy given a constant monetary policy.

A short memorandum incorporating the DOT and OMB submissions was circulated to Council members on Monday. I tried to tone down the most excessive rhetoric in what they submitted while retaining the thrust of their arguments. I believe they are both reasonably pleased with the paper.

I suggest that Secretary Lewis make the presentation followed by David Stockman.

On balance, this strikes me as one of the better new, fresh initiatives available to the Administration. We cannot leave the field to the Democrats and with 10.4 percent unemployment the jobs issue will not go away. While it is true that the number of net new jobs created by this proposal is much less than its proponents claim, it does meet a genuine need (rebuilding our infrastructure), it is self financing (although entailing a tax increase/user fee), and it does enjoy broad bipartisan support in the Congress.

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Memorandum

☐ ACTION ☐ BRIEFING ☒ INFORMATION

FOR: SECRETARY REGAN

DATE: November 9, 1982

FROM: Bruce Thompson, Deputy Assistant Secretary (L)

SUBJECT: Transportation User Fees

Although in the past Congress has overwhelmingly rejected proposals to increase the gasoline excise tax, there is a considerable amount of support in Congress for such a proposal.

As you may recall, the Republicans on the Senate Finance Committee voted in caucus last year to approve a 5 cents a gallon gasoline tax as part of the tax bill. The Administration opposed the gas tax last spring, primarily because we were in the midst of the budget and tax negotiations at that time. It took a number of phone calls from you and the President to Senators Dole and Symms to reverse the committee's decision.

However, there is still substantial support in Congress.

-- There is substantial support among Republicans on the Senate Finance Committee, particularly if it is linked to "jobs-creating" infrastructure programs.

-- In a speech November 9, Ways and Means Chairman Rostenkowski said he believes his committee will approve a 5 cents gasoline tax, but only if all the revenues go into the trust fund.

-- In a letter to you last year, Barber Conable said there was "substantial interest" among Republicans on the committee for a 5 cents gasoline tax, but only if the revenues were "appropriately dedicated."

Despite this support, some opposition to a gasoline tax can be expected.

-- Some opposition can be expected from conservative Republicans who are opposed to all tax increases. Many of them believe any tax increase proposal will open the door to further increases.

INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER
/	/	/	/	/

LETE OS F 10-01.2 WHICH MAY BE USED UNTIL STOCK IS DEPLETED

*U.S. GOVERNMENT PRINTING OFF

-- Some members may oppose -- as they have done in the past -- a gasoline tax on the grounds that is a regressive tax which will hit hardest at the poor.

-- Many members, particularly those from the South and West, will oppose the dedication of 1 cent per gallon of the tax to mass transit.

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THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

November 10, 1982

10:30 a.m.

Cabinet Room

AGENDA

1. Transportation User Fees (CM#326)

- Mexico has signed an agreement with IMF
- Argentina has signed with IMF

- Lewis made presentation
- Stockman made comments opposed
- Lewis responded
- Carlson discussed California experience
- discussion /

CABINET COUNCIL ON ECONOMIC AFFAIRS

November 10, 1982

PARTICIPANTS

The President

Secretary Regan
~~Secretary Shultz~~ Undersecretary Allen Wallis.
Secretary Watt
~~Secretary Baldrige~~ Deputy Secretary Fiske.
Secretary Donovan
Secretary Schweiker
Secretary Lewis
Secretary Hodel.
Director Stockman
Ambassador Brock
James A. Baker III
Chairman Feldstein Bell

Deputy Attorney General Schmults
(Representing Attorney General Smith)
Deputy Secretary Lyng.
(Representing Secretary Block)
Under Secretary Hovde.
(Representing Secretary Pierce)

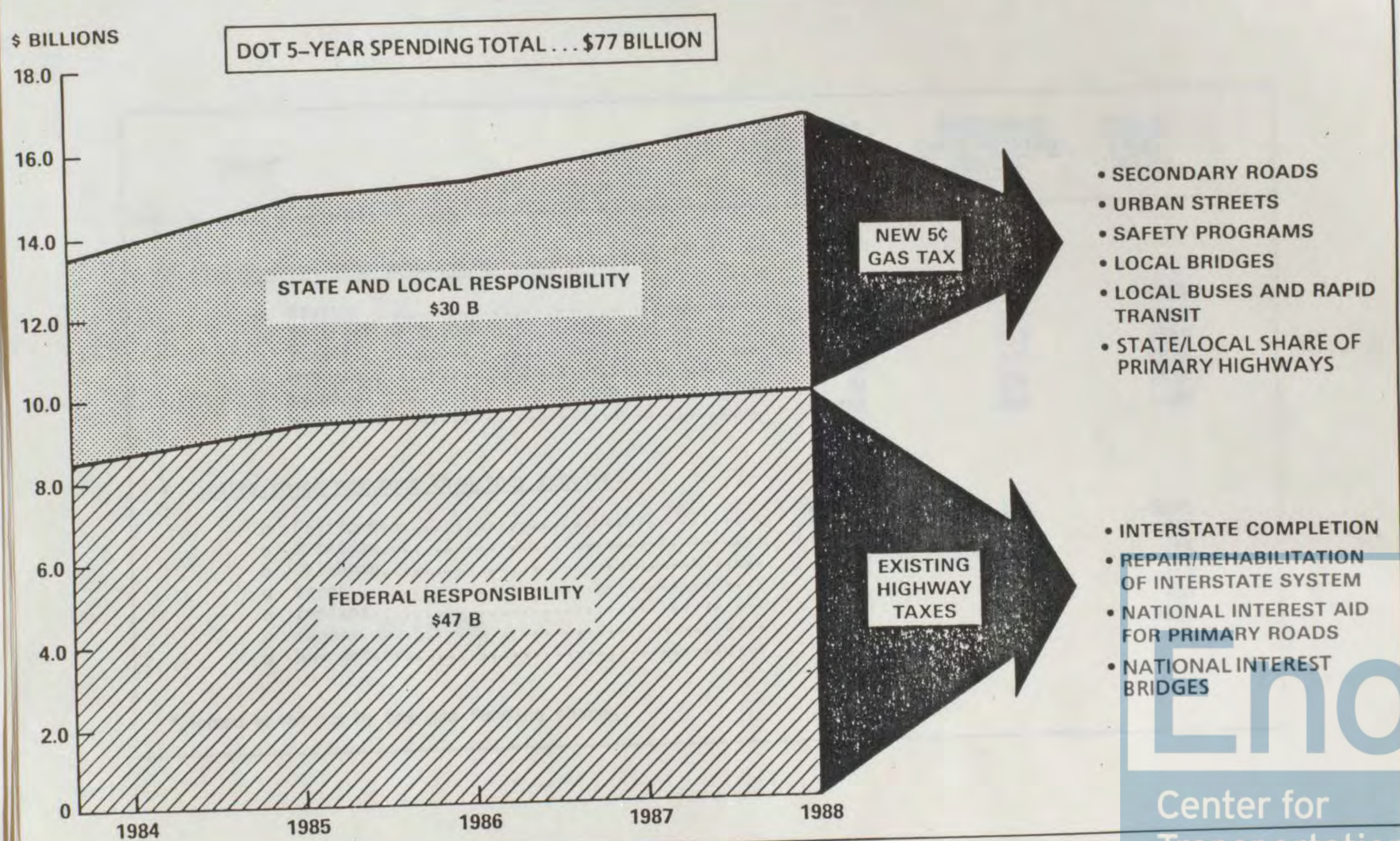
Kenneth Duberstein, Assistant to the President for Legislative Affairs
Richard Darman, Assistant to the President and Deputy to the Chief of Staff
Elizabeth Dole, Assistant to the President for Public Liaison
Craig Fuller, Assistant to the President for Cabinet Affairs
Richard Williamson, Assistant to the President for Intergovernmental Affairs
Dave Gergen.
Larry Speakes.
Roger Porter, Executive Secretary
Becky Norton Dunlop, Director, Office of Cabinet Affairs

For Presentation:

Darrell Trent, Deputy Secretary of Transportation
John Fowler, General Counsel, Department of Transportation

Additional Attendees:
Lee Atwater, Deputy Assistant to the President for Political Affairs
T. Kenneth Cribb, Jr., Assistant Counsellor to the President
Fred Bush, Deputy Chief of Staff, Office of the Vice President
Annelise Anderson, Associate Director of OMB for Economics and Government
Jim Cicconi.
Jim Jenkins.
David Swoap } HHS
Robert Rubin }
Velma Montoya.
Les Lenend.
Henry Nau.
~~Allen Wallis~~
Danny Boggs.
Bob Carleson.

SPLIT OF DOT FUNDING PROPOSAL BETWEEN FEDERAL AND STATE/LOCAL RESPONSIBILITY



CONSEQUENCE OF NATIONALIZING TAXING AND SPENDING FOR LOCAL TRANSPORTATION: BIG WINNERS AND LOSERS

State*	Additional Taxes Paid 1984-88	Additional Funds Received, 1984-88	Gain or Loss, 1984-88
	(millions)		
o States which gain substantial windfalls:			
o Alaska	$39	$355	+$316
o District of Columbia	66	312	+246
o Hawaii	69	213	+144
o Montana	138	377	+239
o Wyoming	91	228	+137
o West Virginia	231	569	+338
o States which pay more than they receive:			
o California	$2,755	$2,160	-$295
o Michigan	1,194	987	-207
o Oklahoma	420	342	-78
o Texas	1,977	1,501	-476
o Indiana	784	634	-50
o ~~Alaska~~ FLORIDA	1,001	818	-183
o New Jersey	839	704	-135

* Based on historic tax and funding shares.

WINDFALL TO EIGHT BIG CITY TRANSIT SYSTEMS PAID FOR BY NON-METROPOLITAN AND RURAL HIGHWAY USERS

City*	Additional Taxes Paid 1984-88	Additional Funds Received, 1984-88	Gain or Loss, 1984-88
		(millions)	
o New York City	$238	$1,336	+$1,098
o Boston	57	352	+295
o Philadelphia	68	341	+273
o Chicago	129	539	+410
o Detroit	88	104	+16
o Baltimore	26	55	+29
o Pittsburg	36	88	+52
o St. Louis	39	60	+21
	$681	$2,875	+$2,194

* Based on DOT formulas in proposed Administration transit legislation.

82-17789

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 10, 1982
10:30 a.m.
Cabinet Room

Attendees: The President, Messrs. Regan, Watt, Donovan, Schweiker, Lewis, Hodel, Bell, Stockman, Brock, Baker, Feldstein, Darman, Fuller, Duberstein, Gergen, Porter, Jenkins, Williamson, Lyng, Schmults, Hovde, Fiske, Wallis, Trent, Speakes, Atwater, Cribb, Cicconi, Carleson, Boggs, Nau, and Denend, Ms. Dole, Ms. Anderson, Ms. Montoya, and Ms. Dunlop.

1. Latin American Debt Situation

Secretary Regan provided the Council an update on the latest developments in the Latin American debt situation. He reported that Mexico has signed an agreement with the IMF. Also, Argentina has just signed an agreement with the IMF. Importantly, these agreements call for stringent economic policies in both countries giving each the ability to earn foreign exchange to service outstanding debt. The signed agreements should also give commercial banks the confidence to begin lending again. Only Brazil of the major debt problem countries remains to complete an agreement with the IMF.

2. Transportation User Fees

The Council reviewed an issue paper outlining the arguments for and against an increase in federal transportation user fees.

Secretary Lewis presented the case for increasing current transportation user fees by 5 cents per gallon. He noted that the U.S. transportation system is characterized by deteriorating primary and secondary highways, obsolete transit systems, and deficient on and off system bridges. The current 4 cents per gallon tax has been seriously eroded by inflation, making it impossible to accomplish essential maintenance. An additional 5 cents per gallon user fee allocated to federal (2 cents), state (2 cents), and mass transit (1 cent) priorities would permit necessary maintenance to be completed, arresting further deterioration of the system.

Mr. Stockman offered the case against a transportation user fee. He acknowledged that there is a problem of deteriorating roads and bridges. The issue is who is responsible and how this should be corrected. Imposing a federal tax to fund local responsibilities when local jurisdictions have the taxing authority to raise the necessary revenue runs counter to the Administration's federalism principles. Implicit in the proposed user fee plan is a reallocation of revenues determined by the federal government. Some jurisdictions will receive more than they contribute in user fees and others obviously less. There is a serious question as to whether the Administration wants to encourage this federal role in yet another government program. Instead, the government should maintain the current tax and concentrate on federal transportation system responsibilities.

Secretary Lewis clarified certain aspects of the 5 cents per gallon user fee proposal. He noted that the revenues would be returned to the states and local jurisdictions as block grants in accordance with the Administration's federalism principles. The increased user fee could be terminated in the future if desired, allowing state and local governments to raise the revenue to continue the program. He claimed that the proposal would create 170,000 jobs in construction and induce approximately 150,000 jobs throughout the rest of the economy. Moreover, the program could be implemented quickly, committing nearly $3 billion within 90 days. It has the support of state and local officials and the Republican leadership in the Congress, and it is viewed positively by the public.

The Council discussed the job potential of the proposal. Although in the near term it would have a positive impact on employment, the user fee proposal is not a jobs bill. The program would be self-financing, and the employment created would accomplish necessary transportation system maintenance.

The Council reviewed the specific components of the user fee proposal. To the extent that the federal government raises revenue from the users of the federal transportation system to repair and maintain the system, the revenue is raised through a true user fee. Raising revenue which is then allocated to local jurisdictions in amounts different from their contributions departs from the pure user fee revenue form. Raising revenue for mass transit through a transportation system user fee is a more serious departure form the user fee concept.

Several members stressed the importance of the national transportation system. For agricultural users, off system roads and bridges are very important, and an increased user fee would be supported. Productivity in commercial activities has also eroded because of the deterioration of the transportation system.

The President took the issue under advisement.

82-17137

Information

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

COUNSELOR TO THE SECRETARY

November 12, 1982

MEMORANDUM FOR DONALD T. REGAN

FROM: ROGER B. PORTER RBP

SUBJECT: Highway User Fees

In the wake of the Cabinet Council meeting with the President on transportation user fees, Secretary Lewis sent the President the attached one page memorandum to clarify the way in which the new user fee would be distributed under his proposal.

The memorandum only refers to the distribution of the $4.4 billion to the Highway Trust Fund. Another $1.1 billion would be dedicated to urban mass transit under his proposal, which would raise an estimated $5.5 billion annually.

Attachment

DONALD T. REGAN

TREASURY

MEMORANDA

Porter, Roger B.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

NOV 10 1982

MEMORANDUM TO THE PRESIDENT

FROM: Drew Lewis

SUBJECT: Highway User Fees

The proposed 5 cent increase in highway user charges would add $4.4 billion to the $8.8 billion 1983 Highway Trust Fund budget. The current $8.8 billion is divided: $6.6 billion for federal highways (interstate highways and primary roads such as U.S. 101 in California) and $2.2 billion for state programs (urban and rural).

FEDERAL BUDGET

	FY 83	New User Fee
Federal		
Interstate Highway Systems	3.23	.78
Interstate Repairs & Maintenance	.80	1.75
Interstate Transfers	.52	.13
U.S. Primary System (i.e. U.S. 101)	1.50	.60
Primary Bridges	.49	1.12
Emergency Relief	.10	--
Roads on Federal Lands	.05	.05
	6.59	4.43
States		
Secondary	.40	--
Urban	.80	--
Safety Construction	.39	--
Non-Primary Bridges	.51	--
State & Community Grants	.10	--
	2.20	No Add'l Funding

It was proposed under the New Federalism Program that state and local roads be funded by state and local governments. The program calls for returning responsibility for the state and local system to the states together with sources for funding them. This New Federalism State Program would be $2.2 billion, as stated in the chart above.

The additional 5 cent user fee would be allocated only to federal programs which desperately need financial support, especially for reconstruction and maintenance.