

1976 Budget
Session With The
President
12/19/74



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12/19/74



MEETING WITH
ROY L. ASH

DEPARTMENT OF TRANSPORTATION
AND OTHER SMALLER AGENCIES

Thursday, December 19, 1974

2:00 P. M.

THE WHITE HOUSE
WASHINGTON

December 18, 1974

MEETING WITH ROY L. ASH
Thursday, December 19, 1974
2:00 P.M. (60 minutes)
Oval Office

From: Roy L. Ash



I. PURPOSE

To make final FY '76 budget decisions for the Department of Transportation and several smaller agencies.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

- A. Background: The FY'76 budget submissions of the Department of Transportation and several smaller agencies have been reviewed and the results have been transmitted to the affected agencies. This meeting will focus on the issues raised in the above reviews that require Presidential consideration and determinations.
- B. Participants: Roy L. Ash, Paul O'Neill, Dale McOmber and Walter Scott.
- C. Press Plan: David Kennerly photo

III. TALKING POINTS

- A. Wally Scott, what is the first issue we should consider for the Department of Transportation?
- B. Wally Scott, which of the smaller agencies to be discussed today should we begin with?



THE WHITE HOUSE

WASHINGTON

December 19, 1974

INFORMATION

Eno

Center for
Transportation

MEMORANDUM FOR

THE PRESIDENT

THROUGH:

KEN COLE

FROM:

MIKE DUVAL

SUBJECT:

TRANSPORTATION BUDGET REVIEW

Two of the items in the DOT budget you will be discussing today with Roy Ash involve basic political/policy decisions. In both cases, I believe you should defer any final decision until you have heard the direct views of Secretary Brinegar and key Congressional leaders. The two issues:

1. Highway Trust Fund. DOT and OMB have agreed on a broad strategy for the Highway Trust Fund which is essentially to continue it after its expiration date in October 1977 only for interstate purposes. While we concur in this recommendation, it is obviously very controversial and will meet with considerable opposition on the Hill, especially from the Public Works Committee. We recommend that before any final decisions are made, we solicit the views of Senators Randolph and Baker and Congressman Jones and Harsha.
2. Aviation Trust Fund. DOT supports a basic revamping of the Aviation Trust Fund with retention of a small discretionary program (\$40 million) and a planning grants program (\$10 million). OMB objects to both programs but is in agreement with DOT on total funding levels. We believe that a limited discretionary grant program which combines the airport and planning monies is absolutely essential on the merits, for the new program to be politically acceptable, and as a means of insuring orderly transition. This fund is essential if small to medium cities served by such airlines as Piedmont and North Central are to have any hope for financing new airports. Senator Pearson will be consulted today concerning his views on the aviation program for next year. As you know, he will be the ranking minority member of the Commerce Committee and a key leader on aviation matters. My guess is he is not going to like the DOT-OMB proposal at all, but as a rock bottom minimum, he will insist on the discretionary fund.



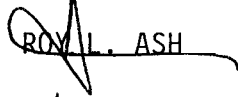


THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM:

 ROY L. ASH

SUBJECT: 1976 Budget decisions: Department of Transportation



The agency request and my recommendations with respect to 1976 budget amounts for the Department of Transportation are presented in the tabulation attached (Tab A). A summary of the principal budget decisions reflected in my recommendation is provided as background information (Tab B).

Two key legislative issues, five budget issues and one information issue have been identified for your consideration (detail at Tab C).

I. Aviation Trust Fund Strategy. DOT/OMB agree on submission of legislation to change the airport program from a Federal project approval grant program to basically a formula grant program. Legislation would also open aviation trust fund for operating expenses and establish general aviation landing fees while reducing domestic passenger ticket tax. DOT would include a discretionary grant program, separate planning grants and continuation of Federal grants to general aviation airports. OMB recommends all formula funding, no separate planning grants, and a gradual shift of general aviation airport grants to the states.

Decision: Approve DOT recommendation _____
Approve OMB recommendation _____
See me _____



II. Highway Legislation. DOT/OMB agree on submission of legislation to fund only the interstate highways from the trust fund and reduce the gas tax 1¢ in 1977 if the states raise their taxes. By legislation eliminate all deferred highway contract authorizations. DOT has accepted OMB interstate highway long range funding recommendation. DOT wants an increase in long range non-interstate highway program, but has agreed to further review of OMB recommendation to hold funding constant.

Decision: Approve DOT/OMB basic recommendation _____
See me _____

III. AMTRAK. DOT/OMB agree on submission of legislation to establish a specific annual operating deficit ceiling for AMTRAK. Change present legislation to permit AMTRAK to live within the deficit ceiling by eliminating points served, reduce service, raise fares. DOT wants \$49M in 1975 for Northeast Corridor improvements and OMB recommends \$15M

Decision: Approve DOT recommendation _____
 Approve OMB recommendation _____
 See me _____

IV. Tracked Levitated Vehicle Research. DOT recommends continuation of research on tracked levitated vehicles (e.g. 300 mph trains). OMB recommends the elimination of this program in 1975.

Decision: Approve DOT recommendation _____
 Approve OMB recommendation _____
 See me _____

V. Intermodal Terminals. Recent legislation authorizes the Federal Government to: (1) plan an intermodal Union Station in D.C., (2) plan and fund several other intermodal terminals, (3) fund the preservation of historical terminals, and (4) study high speed ground system for the West Coast. DOT recommends initial funds for each of the four new functions (\$7.0M). OMB recommends \$2M for planning of Union Station and intermodal terminal concept.

Decision: Approve DOT recommendation _____
 Approve OMB recommendation _____
 See me _____

VI. Railroad Safety. DOT recommends an additional \$500K for 52 railroad safety inspectors and clerks. OMB recommends denial of appeal, the allowance already includes an increase of 43 positions.

Decision: Approve DOT recommendation _____
 Approve OMB recommendation _____
 See me _____

VII. Coast Guard. DOT requests an additional 200 military personnel to man a new ice breaker and new facilities. OMB believes existing resources and personnel are sufficient.

Decision: Approve DOT recommendation _____
 Approve OMB recommendation _____
 See me _____

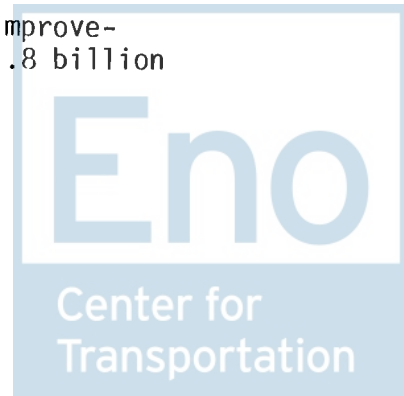


VIII. Regional Rail Restructuring. The U. S. Railway Association will submit a preliminary plan to Congress in February on how to restructure the North-east bankrupt railroad. Additional funds not included in your budget may be required for:

- Meeting the cash flow problem of Penn Central until Conrail becomes operational in January 1976.
- Loan guarantees beyond the \$1B presently authorized in order to pay off creditors and provide for rehabilitating the system.

- Initiation of Northeast Corridor passenger improvements program at a level of approximately \$1.8 billion over eight years.

Attachments



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Department of Transportation
1976 Budget

Summary Data

	(In millions)	
	<u>Budget Authority</u>	<u>Outlays</u>
1974 actual	17,635	8,111
1975 January budget	9,814	9,060
enacted	18,562	8,765
supplementals recommended ...	201	358
OMB recommends	18,763	9,123
OMB ceiling	18,691	9,045
1976 planning ceiling	10,660	9,750
agency request	11,677	10,248
OMB recommendation	6,576	9,958
agency recommendation	6,596	9,969
Transition period		
agency recommendation	1,676	2,630
OMB recommendation	1,676	2,630
1977 OMB estimate	9,159	10,755

Employment, end of period

<u>Full-time Permanent</u>	<u>Total</u>
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69,526	71,526
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71,300	73,300
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70,128	72,128
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74,702	76,702
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71,615	73,615
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71,673	73,673
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72,553	74,553
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71,615	73,615
--------	--------

73,969	75,969
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DEPARTMENT OF TRANSPORTATION
PROGRAM LEVEL
\$ in Millions

	1974 Actual	1975 Jan Budget	1975 Agency Request	1975 OMB Recom.	1976 Agency Request	1976 OMB Recom.	July 1 - Sept 30, 1976 DOT/Req. OMB Recom.	1977 Agency Request	1977 OMB Recom.
Coast Guard -----	815	903	974	974	1,125	1,072	281	1,230	1,096
Federal Aviation Administration--	1,907	2,120	2,144	2,144	2,349	2,301	585	2,360	2,360
Federal Highway Administration---	5,012	4,800	4,810	4,810	5,623	5,413	1,346	6,115	5,615
National Highway Safety Administration-----	139	220	169	168	185	168	40	175	160
Federal Railroad Administration--	94	111	184	168	180	139	43	180	180
AMTRAK Request-----	373	279	651	617	460	460	120	485	485
Urban Mass Transportation Administration-----	1,080	1,351	1,446	1,446	1,746	1,724	400	1,900	1,900
Office of the Secretary-----	58	92	72	72	82	74	18	73	73
St. Lawrence Seaway Development Corporation-----	5	6	6	6	6	6	2	7	7
National Transportation Safety Board-----	8	10	10	10	12	10	3	10	10
Total DOT	9,491	9,892	10,466	10,415	11,768	11,367	2,838	12,535	11,886



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Tab B

1976 Budget
Department of Transportation
Background Information

6

The OMB recommendations for the Department of Transportation (DOT) provides for approximately a \$1 billion increase in program level. This is a very significant increase and is primarily for interstate highways, mass transit assistance and aviation assistance. Congressional add-ons to the Administration's legislative initiatives in highways, aviation and AMTRAK plus additional Federal assistance for bankrupt railroads (see Issue 8) could substantially increase transportation programs in 1976.

A short summary by major mode follows:

United States Coast Guard: The recommendation of \$1,072M provides for the following major activities: search and rescue, maintenance of aids to navigation, enforcement of fishing laws and treaties, marine environmental protection, military readiness, supervision of port safety, and replacement and improvement of capital equipment. The allowance is an increase of \$98M over 1975. It is required for increased operating and maintenance costs for aircraft, ships and shore stations, and for continuing major programs. Major changes in 1976 will be operation of the two new polar icebreakers, the first since 1954; beginning replacement of the amphibious search and rescue aircraft which have reached the end of their useful life; construction of long-range navigation (LORAN-C) stations on the West Coast, including Alaska and the Gulf of Mexico, to provide more precise navigation to avoid pollution incidents; and the beginning of a replacement program for tugs used to break ice in the Great Lakes and in major harbors.

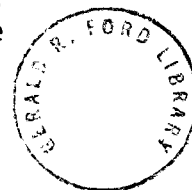


Federal Aviation Administration: Allowance provides \$2.3 billion for 1976, an increase of \$157 million from the 1975 estimate. Included is \$1.5 billion for operating expenses, primarily funding the agency's 56,000 employees. Almost 29,000 of this staff operate the air traffic control system, and another 14,000 are engaged in maintenance and logistic support of the traffic control and navigation systems. Increases of 900 air traffic control and 600 maintenance staff are provided in 1976 based on projected growth in air traffic and the staffing of new FAA facilities. The airway facilities capital program is continued at the \$250 million annual level and is extended until 1980. A more detailed discussion of legislative proposals to convert the airport grant program to a formula basis, adjust user fees, and broaden the uses of aviation trust funds is included in Issue #1. \$9 million is included for expansion of the passenger terminal and other facilities at Dulles Airport.

Federal Highway Administration: Allowance provides \$5.4 billion for 1976 compared with the 1975 program level of \$4.8 billion. Included is \$5.2 billion for Federal-aid highway obligations, an increase of \$600M over the 1975 program. The interstate highway program level would rise from \$2.5 billion in 1975 to \$3.0 billion in 1976; the urban/rural programs would remain level at \$1.55 billion; and safety improvements would increase \$50 million to \$300 million. This larger Federal-aid program is supportive of the Administration's highway legislation, described in Issue #2, which will focus major Federal efforts on the interstate system. These increases will not fully offset the impact of inflation on highway construction. It should be noted that some Congressional review of the \$10.8 billion highway deferral is anticipated at the start of the next Congress. A significant but reasonable program increase will be helpful in preventing release of additional deferred funds.

4.8
5.2

National Highway Traffic Safety Administration: Allowance of \$168 million provides for the following activities: development of safety standards for all classes of motor vehicles, provision of motor vehicle consumer information, and assistance to the States in the establishment and development of highway safety programs. The 1976 allowance is approximately the same as 1975 due primarily to the completion of five motor vehicle diagnostic inspection demonstration projects which require no further funding. These funds which are no longer needed (12.5M) have been shifted primarily to the state grant program for 1976.



Federal Railroad Administration: Allowance of \$138 million provides for rail safety enforcement, studies of conventional rail systems aimed at improving financial viability of the industry, advanced technology research, and restructuring of the bankrupt Midwest and Northeast rail system. Despite a new provision of \$45 million for rail branch line subsidies, the 1976 level is \$29 million lower than 1975. This is primarily due to decrease in cash assistance to bankrupt railroads, from \$82 million in 1975 to zero in 1976. The actual need for these funds may approach \$400 million, but this is not reflected in the budget (see Issue #8 for explanation.) The thrust of railroad studies continues to shift away from advanced hardware development, toward analysis and demonstration of operating improvements with near term, and less costly, applications. For example, all research on tracked levitated vehicles would be terminated by 1976 under the OMB recommendation (See Issue #4).

AMTRAK: Federal assistance to AMTRAK currently takes two forms: grants used to cover the annual operating deficit; and 100% federally guaranteed loans for capital improvements. AMTRAK operating losses have been rising rapidly and are now estimated at \$298M for this year, requiring an additional 1975 supplemental of \$78M. Operating deficits for 1976 are \$350M which assumes continued increases in costs. The \$350M will represent a ceiling within which AMTRAK must operate in 1976. To live within the ceiling will require management to raise fares, reduce service frequency, or eliminate service over some routes. \$100M has been allowed in 1976 for continuation of the passenger car replacement program, which will be proposed to be financed by Federal grants in lieu of loans to reflect true costs. \$10M has also been allowed for spot improvements on track outside the Northeast Corridor.

Urban Mass Transportation Administration: The agency requested \$1,746 million, an increase of \$300 million. Minor reductions of \$22 million were negotiated for a total program level of \$1,724 million. This amount is consistent with funding assumptions in the \$11.8 billion, six-year National Mass Transportation Assistance Act of 1974. Steps are currently being taken to implement the new formula grant program for transit capital and operating assistance in FY 1975 at the authorized level of \$300 million. The FY 1976 allowance will increase the formula grants to \$500 million and also provides \$1,100 million for the existing capital grant program - essentially this year's level. To better control the out-year pressures on the existing discretionary transit capital grant program, we have reached preliminary agreement with the Department to require Executive Office concurrence in approval and funding of major projects so that funding assumptions for such multi-hundred million dollar projects can be reflected in the Administration's budget planning.



Office of the Secretary of Transportation: Funding of \$74 million, including \$35 million for research and planning and \$2 million for pipeline safety grants to the states, is provided for the Secretarial offices. The staff of 2,030 includes about 700 for the department-wide Transportation Systems Center in Cambridge, Ma. and 400 for department-wide administrative support activities. Modest staffing increases for the expanding and sensitive Hazardous Materials and Pipeline Safety offices are planned. The research and planning program continues at the 1975 level but places increased emphasis on regulatory reform research and the energy problem in transportation.

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Tab C

Issue Paper
Department of Transportation
1976 Budget
Issue #1: Aviation Trust Fund Strategy

Statement of Issue

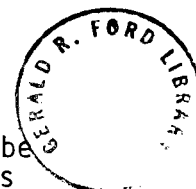
What strategy should be taken concerning continuation of the Airport and Airway Trust Fund and the related airport development program?

Background

- ...The Airport and Airway Trust Fund finances Airport Construction and Planning Grants (\$325 M "minimum"), Airway Facilities (\$250 M "minimum"), and FAA Research and Development (about \$80 M).
- ...Trust fund receipts are primarily generated by an 8% tax on domestic airline passenger tickets, a \$3 international passenger tax, a 5% tax on air freight way-bills, and a 7¢ per gallon general aviation fuel tax.
- ...Since passage of legislation in 1971 restricting trust funding to capital development programs (excluded operating expenses), tax receipts have exceeded program expenditures. Trust fund balance at end of 1975 will be \$2 B.
- ...Air carriers, through the passenger taxes, pay their share of Federal aviation operating and capital expenditures. General aviation (non-air carrier) pays less than 20% of the estimated \$500 M annual cost of providing them services.
- ...As part of 1975 Budget Restraints, legislation was proposed to establish new general aviation landing fees at airports with FAA traffic control towers and to open the Airport and Airway Trust Fund to finance the \$1.5 B FAA operating expenses. This proposal would eliminate the large trust fund surplus, which fuels desires for more development projects, and reduce the general taxpayer subsidy to general aviation. This legislation will not be acted on by this Congress.
- ...Legislation is also required in 1976 to continue the airport grant and airway facilities programs. Although continued Federal development of the airway system is necessary, there are substantial concerns about the role of the Federal Government in financing local airport construction.

Analysis

- ...DOT/OMB have agreed in principle on an aviation legislative proposal. Key objectives of this proposal are to:
 - Eliminate aviation trust fund "surplus" and unobligated contract authority.
 - Reduce Federal involvement in local airport development.
 - Establish principle of user responsibility for financing some part of traffic control system operating costs.
 - Allocate user fees more equitably among aviation system users.
- ...To accomplish these objectives, the legislative proposal would:
 - Provide a \$350 M airport development grant program, most of which would be allocated to the states and local airports by formula (present program is \$325 M of grants awarded for specific projects).
 - Broaden the grants to permit funding of critical passenger handling construction (currently restricted to runways, lighting, etc.) and increase funds provided to larger airports with more significant national system impact.
 - Reduce domestic passenger ticket tax from 8% to 7% (\$110 M annual revenue loss) while increasing international enplanement fees from \$3 to \$5 (\$30 M revenue increase) and instituting general aviation departure fees of \$5 and \$10 (\$80 M revenue increase) to distribute system cost more equitably among users.



- Fund maintenance costs of air traffic control system from trust fund (would balance receipts into and expenditures from the fund).
- Allow \$194 M in existing unobligated contract authority to lapse on June 30, 1975 (about \$130 M of this amount has been allocated to airports--this will generate substantial opposition, but is consistent with highway rescission).
- ...DOT/OMB have differences regarding some aspects of the legislative proposal. Key differences concern the desirability of a discretionary fund, long-term Federal assistance for general aviation airports, and the necessity for a planning grant program. There is agreement on the total annual program level of \$350 M, but not on the structure of the program.

Discretionary Fund (\$40 M)

- ...DOT recommends that approximately \$40 M be included as part of the \$300 M air carrier airport program as a discretionary fund for grants to small air carrier and reliever airports. DOT believes this would correct inadvertent inequities in the formula distribution and permit funding of occasional large projects at these airports.
- ...OMB recommends that the entire \$300 M be distributed by formula. If discretionary funding is allowed, airports will seek matching Federal discretionary funds for all projects in which local funds are used (since there are no local matching requirements for the formula allocations). This would generate a large demand for discretionary projects which would quickly force up the unrealistically small \$40 M discretionary program and the total \$300 M air carrier program. In addition, T proposals concentrate Federal project approval at small airports with smallest national system impact and perpetuate an ineffective Federal bureaucracy.

General Aviation Grants (\$40 M)

- ...DOT recommends that funds be allocated to states on a formula basis with gradual delegation to the states of administrative responsibilities for grant programs. DOT believes Congress and general aviation users will not accept shift to local funding.
- ...OMB recommends that funds be allocated to states from Federal taxes for two years, at which time Federal gas tax would be reduced in those states which instituted local general aviation fuel taxes. States would then be responsible for funding this essentially local development program. Anticipate some Congressional opposition, but believe general aviation users would not strongly resist lower Federal involvement.

Planning Grant Program (\$10 M)

- ...DOT recommends a \$10 M planning grant program for state, regional, and metropolitan area-wide plans. DOT believes a separate categorical grant is necessary to assure adequate planning.
- ...OMB recommends adding these funds to state and airport grants and permitting grantees to use a portion of their formula allocation for planning. Since use of Federal construction funds is contingent on development of acceptable plans, there is no need to force planning through categorical grants. Present categorical planning grant program, opposed by most users, has been used to fuel extensive justifications for questionable capital development.



Statement of Issue

What should be the focus of the Administration's proposals for providing Federal-aid for highway construction for the next five years?

Background

- ...Major highway legislation is needed in 1976 to extend the highway trust fund and provide additional contract authorizations for highway programs.
- ...Trust fund revenues in recent years have been substantially greater than the level of resources that were allocated to highway programs by the Executive Branch. Congress, using "trust fund philosophy," has tended to match authorizations fairly closely to receipts.
- ...\$10.7 billion of Federal-aid highway funds is currently deferred (i.e. impounded). Congressional review of Administration's deferral action anticipated early in next Congress with uncertain outcome.
- ...Imbalance between highway program expenditures and trust fund revenues will continue unless Federal-aid is substantially expanded or present revenue/program structure is modified.
- ...In addition, the present aid program is hampered by a multitude of categorical grant programs and excessive red tape. Need to focus Federal effort on interstate system while providing more state flexibility for other local highway programs.
- ...Major legislative objectives:
 - A. Break long term revenue/program cycle that forces excessive highway funding
 - B. Eliminate short term possibility of unprogrammed release of massive amounts of deferred funds.
 - C. Increase efficiency and effectiveness of Federal-aid program.
- ...DOT/OMB have reached agreement on the major objectives and concepts of the legislative proposal as well as the 1976 program level. Funding levels for 1977-80 are not yet resolved. Specific legislative proposals are now being developed.

A. Long Term Revenue/Funding Strategy

Alternatives

1. Continue present tax and program structure
2. Substantially reduce trust fund revenues and trust funded programs.
(DOT/OMB recommendation)
 - Fund Interstate from Trust Fund; other programs from general fund.
 - Shift 2¢ of gas tax receipts to general fund.
 - Rescind 1¢ of motor fuel tax in FY 1978 if states increase their taxes.
3. Eliminate trust fund. All revenue/programs through the general fund.



Analysis

- ...No outlay/receipt impacts on unified Federal Budget through FY 1977. Receipts would be reduced in 1978 and subsequent years by about \$1.2 billion annually under Alternative 2.
- ...Continuation of present tax and program structure would exacerbate impoundment problem--probably forcing Congress to release some deferred funds.
- ...Reduction in trust fund revenues would decrease the "push" that "dedicated" revenues have on program levels.
- ...Shift of 1¢ of motor fuel tax to states would give states more flexibility and decrease Federal role in local highway funding.
- ...Restricting trust fund program to interstate would help focus resources and Federal attention on this "special" Federal commitment.
- ...Other highway assistance for local road construction would be forced to compete with other general fund programs in future.
- ...Elimination of trust fund altogether is not necessary to redirect focus and is probably not politically viable.

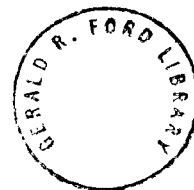
Short-Term Deferral Strategy

Alternatives

1. Continue increasing amount of deferrals.
2. Eliminate deferred amounts by rescinding all unobligated balances at the beginning of FY 1977 (DOT/OMB rec.).

Analysis

- ...Action has no direct outlay/receipt impact.
 - ...Rescission has a high political cost--Congress and states will strongly resist efforts to "take away" highway funds.
 - ...Very difficult to justify continually increasing deferred amounts. Probable that Congress would not permit continued deferrals (Congress can force release of all or part of deferred funds).
 - ...No politically attractive way to rescind funds, but better to request rescission as an overall strategy to "rationalize" highway program than be forced to have it considered independently. This also bypasses Budget Control Act procedures which would require Congressional action within 45 days of request.
- Alternative 2 includes "hold harmless provisions" to insure that no state would receive lower obligational limitations in FY 1976-1977 because of the rescission.



Alternatives

1. Continue present categorical programs.
2. Provide four broad funding categories (interstate, urbanized, rural and safety) with provisions to permit use of non-interstate funds off the Federal-aid system and prioritize interstate system funding (DOT/OMB rec.).

Analysis

- ...Presently, categorical funding categories limit local flexibility in use of Federal highway grants. Many restrictions needlessly interject Federal Government in local affairs.
- ...On the other hand, national priorities, which may differ from local objectives, should be considered in determining what critical segments of the interstate system should be initially completed.
- ...Alternative 2 would greatly expand local flexibility in use of non-interstate funds while emphasizing the national system aspects of the interstate system.
- ...States and user groups will support broader funding categories although there will be some Congressional reluctance to relax these constraints.
- ...Prioritization is a delicate political call because local officials have traditionally prioritized interstate projects within their state. DOT is currently reviewing alternative mechanisms for encouraging completion of critical interstate links with minimal Federal involvement in local resource allocation decisions.

D. Funding LevelAlternatives

1. Provide annual increases for all Federal-aid highway programs through 1980 (DOT initial request).
2. Provide annual interstate trust fund increases through 1980, but hold constant non-interstate program (OMB rec.).

AnalysisBillions of Dollars (Program Level)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Alternative 1 - Total	4.6	5.2	5.9	6.1	6.3	6.6
Interstate	(2.5)	(3.0)	(3.4)	(3.5)	(3.6)	(3.7)
Non-Interstate	(2.1)	(2.2)	(2.5)	(2.6)	(2.7)	(2.9)
Alternative 2 - Total	4.6	5.2	5.4	5.5	5.8	5.9
Interstate	(2.5)	(3.0)	(3.2)	(3.4)	(3.6)	(3.7)
Non-Interstate	(2.1)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)

- ...Increasing interstate contract authority is consistent with new Federal focus on interstate.
- ...Larger non-interstate program would increase political support, but it is inconsistent with new policy to deemphasize non-interstate program.
- ...In 1978 and beyond, it is anticipated that states would be collecting an additional \$1.2 B of previously Federal motor fuel taxes, which is available to augment local highway programs. There should be less dependence on Federal-aid funds for non-interstate program.
- ...DOT has agreed with OMB recommendations for the interstate program, but is still reviewing non-interstate funding for 1977-1980. DOT agrees in principle with the OMB non-interstate funding levels, but believes that these program levels, which are substantially below current non-interstate authorizations, may not be politically viable.

Issue Paper
Department of Transportation/AMTRAK
1976 Budget
Issue #3: AMTRAK

Statement of Issue

What should be the Administration's proposal for continuation of the AMTRAK program?

	1974	1975		1976			1977		
	Actual	DOT Req.	OMB Rec.	DOT Req.	Allow	Appeal	OMB Rec.	DOT Req.	OMB Rec.
Deficit Grant	198	298	298	240	260	+90	+90	385	385
Equipment & Facilities	135	304	304	100	100	+10	+10	100	100
Northeast Corridor	-	49	15	-	-	-	-	-	-
Total Pro- gram level	333	651	617	340	360	+100	+100	485	485

Background

- 1. Extending authorization legislation will be required for AMTRAK in 1975.
- . The AMTRAK program represents a large and rising drain on the budget. Federally-assumed operating losses have soared from \$143M in 1973 to over \$300M this year (an additional \$78M supplemental will be required), with over \$600M in Federal loan guarantees committed for capital improvements.
- . Control over AMTRAK has been shifting away from the Executive Branch and towards Congress, AMTRAK management and the ICC because of DOT/OMB attempts to cut uneconomic service and prevent congressional add-ons. AMTRAK cannot discontinue service without ICC approval, and recent legislation has mandated many ICC service performance standards (e.g. reservation system requirements, number of baggage attendants).
- . Some key operating characteristics include the facts that Federal subsidies exceed passenger revenues, that long-haul trains account for over 1/2 of AMTRAK's losses, and that only a few corridor routes have any long-run breakeven potential.
- . From a social benefit and energy savings viewpoint, the long-haul and congressionally-required "experimental" services do not merit Federal support.

In accordance with the Regional Rail Reorganization Act of 1974, DOT and AMTRAK are preparing plans for upgrading the Boston-Washington (NEC) rail passenger lines. Although these plans have not been finalized a \$49M program is proposed for this year to remedy certain deferred maintenance (\$15M) and to slightly improve normal running times (\$34M)

as a prelude to the major improvements. Estimates of total improvement project costs exceed \$1.5B over the next eight years.

- Requests for the AMTRAK program are made by both DOT and AMTRAK. The table given above accurately reflects both the DOT and AMTRAK requests in the "DOT request" columns, however, the appeal entry is DOT's only. AMTRAK has not been informed of the OMB allowance by DOT as yet.

Alternatives

#1. AMTRAK request--Continue existing AMTRAK posture of making good all deficits incurred. Undertake immediate Boston-Washington corridor upgrading (both DOT and AMTRAK favor this).

#2. OMB Recommendation--seek to contain AMTRAK by establishing specific pre-determined deficit ceilings for AMTRAK service and requiring operations to be confined within that level. (DOT agrees to this strategy). Approve NEC track improvements only to permit continuation of present speeds and await total upgrading project plans (DOT favors Alternative #1 for the NEC).

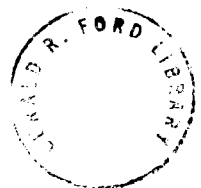
AMTRAK Recommendation--Three major portions are: (1) Operating deficits--Continuation of the status quo, whereby substantial cost overruns which are reestimated as the year progresses are covered by supplemental grants, (2) NEC track improvements (DOT proposal)--Initiation of track improvements in the NEC would begin with a \$49M effort in 1975, which assumes \$34M in rail and tie procurement and roadbed improvements. This would lower running times and begin the NEC improvement project and recognize the long lead times on materials deliveries and heavy congressional interest in immediate action, (3) AMTRAK also proposes all 1976 and future capital expenditures be made with grants, rather than loan guarantees, to reduce interest payments.

OMB Recommendation--(1) Operating Deficits: Seek legislation to establish fixed deficit ceilings for AMTRAK and removal of ICC restrictions on service discontinuances and performance standards regulations. Once established these ceilings would represent the maximum Federal funding which the Administration would seek for AMTRAK in a given year, with supplemental requests unavailable. AMTRAK management would be required to operate within the ceilings or take whatever action required (e.g., fare increases, service frequency reductions, service discontinuances) to live within the limit. In 1976 the AMTRAK deficits are funded at \$350M, which is \$52M in excess of the 1975 level to allow for expected added costs and inflation. This position attempts to apply pressure on AMTRAK management to reduce and control costs. It also provides a means for preventing the current open-ended assumption of cost overruns while avoiding the pitfalls of previous Administration attempts to reduce costs by naming specific routes to be dropped. (DOT agrees with this strategy). (2) NEC Upgrading: Provide only sufficient funds to correct deferred maintenance on these Penn Central lines. Deny approval of the remaining \$34M since this represents the initiation of a \$1.5B project for which we have no plans. \$22M of this \$34M upgrading funds were to be utilized exclusively for the New York-Boston segment of the NEC, which carries only 15% of NEC riders. This underscores the need for considering the \$34M simultaneously with the entire NEC plan, since we would propose emphasis on the more economically viable and heavily-patronized Washington-New York segment first. Denial of the \$34M at



his time would not preclude improvements beyond the deferred maintenance this year, since \$30M in already-authorized AMTRAK loan guarantee funds can be utilized without requiring further congressional action. (3) Agree on conversion of capital improvements from loan guarantees to grants, since loans have no chance of repayment and grant funding will reflect true program costs. DOT agrees with this.

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Issue Paper
 Department of Transportation
 1976 Budget
 Issue #4: Tracked Levitated Vehicle Research

(Dollars in millions.)

	1974	1975		1976		1977		
	Actual	DOT Request	OMB Rec.	DOT Request	Allow	DOT Appeal	OMB Rec.	DOT Request
PL	8.6	5.9	4.2	10.6	0.1	+10.5	-	11.0
O	5.2	4.0	2.3	4.5	0.1	+ 4.4	-	8.0
								0.1

Statement of Issue

Should we continue to fund Track Levitated Vehicle (TLV) Research)?

Background

- . During the 1975 budget review, a decision was made to terminate TLV. The Secretary appealed, and funding of TLV was approved pending the completion of a study of economic and social effects of implementing such a system.

. Findings of Study:

- Economic viability within 20 years is low.
- Advantages relative to other modes are not demonstrated.
- Nevertheless, study called for continued program in promising levitation technology.

Alternatives

- #1. Continue the TLV research program. (DOT request)
- #2. Terminate TLV in 1975. \$100K per year to monitor TLV efforts in other countries. (OMB recommendation)

DOT request: Program consists of research on two kinds of TLV systems: "Air Cushion" and "Maglev" (magnetically levitated). Both operate on special guideways.

DOT considers vehicle levitation to be a promising technology, offering potential payoff in high and low speed applications. Expected to reduce maintenance cost because of minimum friction.

Would allow DOT to take advantage of large sunk cost (over \$40 million since 1966). Should keep pace with TLV work in other countries, in case the technology proves useful.



Omb Recommendation

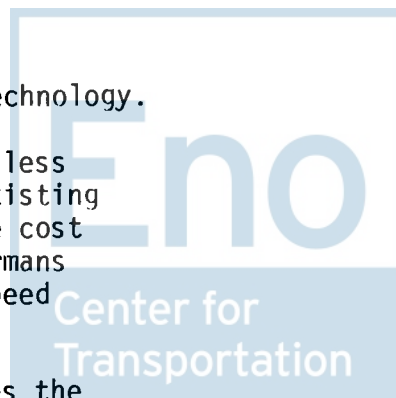
TLV does not offer significant advantage over existing technology.

- In low speed range (0-150 mph) conventional rail is less costly, more energy-efficient, and can operate on existing rights of way. Possibility of lower TLV maintenance cost is more than offset by high initial investment. Germans reportedly are discontinuing TLV research in this speed range.
- In higher speed range (150-300 mph) aviation provides the most viable alternative. Infrastructure is already in place. Wide bodied jets and other improvements expected to provide sufficient capacity for this market in the foreseeable future. Technical problems in the higher speed range are substantial. For instance, entering a tunnel at high speed would lead to sudden deceleration, due to compression of air.
- The only case in which DOT cites potential economic viability for TLV is in the Northeast Corridor, and then under such questionable assumptions as 1) complete replacement of air travel by TLV and 2) saturation of high speed rail line (currently being planned).

TLV investment would be very costly to the Federal Government, both in short and long term:

- \$50M development cost through 1980.
- Pressures for Federal implementation in long term. At least \$3 billion for Northeast Corridor alone (1971 dollars).

Pueblo test center 1976 budget is decreased from \$13 million (DOT request) to \$11 million, to reflect overall effect of TLV termination on the mission of the center.



Issue Paper
 Department of Transportation/Federal Railroad Administration
 1976 Budget
 Issue #5: Intermodal Terminals

(Dollars in Millions)

	1974	1975		DOT Appeal	1976		DOT Appeal	OMB Recom.	1977	
		DOT Req.	OMB Recom.		DOT Req.	Allow			DOT Req.	OMB Recom.
Program Level	-	7.2	-	-	19.0	2.0	+ 5.0	-	12.0	-

Background

- The 1975 AMTRAK authorization enacted last October 8 contained \$38M in authorizations for DOT to: 1) preserve historic rail stations, 2) design and coordinate a new intermodal terminal at Union Station in Washington (\$5M), 3) construction of not less than 3 intermodal station demonstration projects (\$15M) and grants for state and local planning of such stations (\$5M), 4) conduct West Coast high speed railroad ground study (\$8M). These authorizations were supported by Sen. Magnuson.
- On December 9 DOT submitted the following request:

Project	1975 Supplemental Request	1976 Request
Historic Terminal Preservation	\$ 1M	\$ 1M
Union Station Design	5M	--
Intermodal Demonstrations	--	15M
Intermodal Planning Grants	1M	1M
West Coast Study	.2M	2M
	<u>\$ 7.2M</u>	<u>\$19M</u>

- The OMB allowance provided no 1975 funds and \$2M in 1976, \$1.5M to be used for the Union Station intermodal terminal design and \$500K for a DOT study on the merits of the intermodal terminal concept.

DOT Recommendation: DOT accepts the refusal of 1975 funds and the \$1.5M 1976 allowance for a Washington intermodal station design. They request an additional \$5M in 1976 for application towards intermodal station demonstrations (\$3M), the West Coast study (\$1M) and historic terminal preservation (\$1M). DOT believes this is a minimal level of effort which is required to pursue Congressional desires as contained in the legislation. Also, certain second-level DOT officials have made promises of an intermodal terminal for Seattle.

OMB Recommendation: Deny the DOT appeal. All of these projects have the potential to be long lasting, expensive programs. The \$500K provided to DOT for studying the merits of the intermodal terminal concept should be sufficient to determine if rail/bus or rail/mass transit connections are sound. At present DOT has made no analysis which supports the concept. The \$1M requested for historic station preservation is not of sufficient scale to preserve more than a few small terminals and will only build a demand for expanded funding. Moreover, approval would mean Federal participation in a presently strictly local activity. The West Coast study should not be performed, given the discontinuation of tracked levitated vehicle research (see Issue #4).

Issue Paper
 Department of Transportation
 1976 Budget
 Issue #6: Rail Safety Enforcement

(Dollars in millions)

		1975		1976				1977	
	1974	DOT	OMB	DOT		DOT	OMB	DOT	OMB
	Actual	Request	Recom.	Request	Allow.	Appeal	Recom.	Request	Recom.
PL	8.0	9.8	11.7	16.5	15.8	+ 2.4	-	20.8	16.0
O	6.8	9.8	11.7	15.1	14.0	+ 2.4	-	19.8	16.0
EOY (Inspectors and clerks) ..	282	282	282	364	325	+52	-	438	325

Statement of Issue

What additional increase, if any, should be allowed for staffing and funding of the Federal Railroad Administration's safety enforcement program in 1976?

Background

- . Rail safety problem generally increasing. Comparing the first half of 1974 with the same period in 1973: Accidents up 9%; derailments up 19%; injuries up 13%; but fatalities down 13%.
- . Railroads: Hampered by lack of funds to maintain safe conditions; some reduction of train speeds has occurred.
- . Unions: Favor Federal involvement; strong pressure on Congress to increase Federal program.
- . Congress: Critical of DOT efforts to date; Rail Safety Improvement Act of 1974 (pending final floor approval) would authorize a total of 430 positions for inspectors and clerks. This is 53 more than DOT appeal and 105 more than OMB allowance.
- . DOT: Current safety program consists of regulation, enforcement by field inspectors, and research. Joint Federal/State inspection program just begun. DOT 1976 request for safety enforcement represents a funding increase of 230% and a 60% increase in positions since 1973, primarily as a response to Unions and Congress. Difficult to assess impact of DOT programs to date.

Alternatives

- #1. Additional increase of 52 EOY positions and \$500K, representing a substantial (but not complete) fulfillment of Congressional intent. \$1.9M included in appeal for two safety inspection cars, originally in 1975 request. (DOT request).
- #2. No further increase in positions. Wait for evaluation of current efforts before further increases. Fund safety inspection cars in 1975, using savings from TLV program (see Issue #4). (OMB recommendation).

Agreement Request: Represents "good faith" response to cope with safety problem. Considered the minimum increase acceptable to Congress, even though it falls short of the congressional authorization.

CMB Recommendation: 1976 allowance already includes an increase of 43 positions over 1975. These were allowed on a selective basis. For example, DOT signal inspectors were denied (only one signal-related accident in 1973). State inspection program and use of inspection cars should offset much of need for additional DOT safety personnel. The DOT safety program has grown rapidly over the past four years, and should be examined carefully before further expansion is allowed. The role of its new missions needs to be defined more clearly, and the potential impact on DOT staffing determined.

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Issue Paper
 Department of Transportation
 Issue #7: Additional Coast Guard Personnel

Statement of Issue

Should Coast Guard end-of-year military strength be increased by 200?

		1975	1976			1977		
	1974	Current Est.	DOT Req.	Allow.	DOT Appeal	OMB Recom.	DOT Req.	OMB Recom.
Program Level	815	974	1,125	1,072	+2	-	1,230	1,096
Military (End of Year)	37,600	37,486	38,351	37,774	+200	-	38,200	38,200

Alternatives

- #1. Increase the Coast Guard military end strength by 200 to 37,974 and operating expenses by \$2 M.
- #2. Require Coast Guard to stay within an end-of-year military strength of 37,774.

Analysis

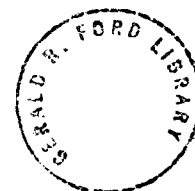
...DOT recommends an additional 200 positions to adequately carry out operational missions. Activities that would probably be decreased are: 61 to provide full staffing at Search and Rescue stations; reduction of 10 in surveillance of vessels from iron curtain countries; delay in manning second new icebreaker (96); and other minor activities.

...OMB believes Coast Guard's requirements can be met by:

- Reallocation of manpower from adjacent stations to man new Search and Rescue stations
- Awaiting the results of a comprehensive study of pollution enforcement before increasing staffing.
- Absorbing other requirements within the total.

Agency Recommendation: Alternative 1. The Coast Guard mission will be impeded if the appeal of 200 is denied.

OMB Recommendation: Alternative 2: Better allocation of workload should allow absorption of all priority items within the ceiling recommended.



Impending Issue

Department of Transportation
1976 Budget

Issue # 8: Regional Rail Restructuring

Summary

In order to implement the Regional Rail Reorganization Act of 1973, the Federal Government is required to provide various types of financial assistance. In certain cases, the form and amounts of assistance are still undefined, and represent a major potential outlay threat not currently specified in the 1976 Budget. The Act also required major up-grading of the Washington-Boston rail passenger lines to provide 5 1/2 hr. end to end running times. Estimates of the cost of this project exceed \$1.5B.

Background

- . Regional Rail Reorganization Act designed to restructure bankrupt Midwest and Northeast lines into streamlined, profitable, and private system.
- . Two phases:
 - Planning (January 1974 - January 1976); U.S. Railway Association (USRA) has lead role; Congressional approval of final plan.
 - Implementation (8-10 years following January 1976); Consolidated Rail Corporation (ConRail) new operating entity.
- . No direct opportunity for Presidential control in either phase of the restructuring process.
- . Federal Financing Presently Available:

- During Planning Phase	<u>(Millions)</u>
...Planning process	\$ 58 salaries and expenses
...Emergency cash assistance	85 grants
...Interim plant improvement	150 loan guarantees
- During Implementation Phase	
...Service continuation subsidies	90/yr. grants
...Labor protection	250 grants
...ConRail financing	1,000 loan guarantees
...General financial assistance for purchase and improvement of rail property	500 loan guarantees



Potential Additional Funding Requirements

. Emergency cash assistance

- Original authorization of \$85M to meet cash deficits of bankrupt lines during planning period will be exhausted by February, 1975, based on the current outlook.
- Will need to seek additional authorization, since planning will last at least through January 1976.
- DOT requests a nominal amount (\$20 million), to avoid "bailing out" bankrupt estates, and meanwhile seek other ways to meet the need.
- This need is estimated at \$200-\$400 million (assumes continued economic downturn which may be partially offset by rate increases).
- DOT strategy reflected in 1976 Budget submission, with understanding that creative alternatives will be generated by DOT, to insure that railroads have sufficient cash to maintain service. Contingency of \$400 million will be included in budget summary.

. ConRail financing

- Financing authorized for ConRail (\$1B in guaranteed loans) may not be adequate.
- Updated estimate of ConRail's financial needs will appear in USRA's Preliminary System Plan, February 26, 1975.

