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THE WHITE HOUSE

WASHINGTON

November 25, 1975

MEMORANDUM FOR: JIM CANNON

FROM: STEVE McCONAHEY SDM

SUBJECT: President's Review of DOT Budget

This memo outlines my reactions to the DOT Budget to be reviewed by the President.

Let me begin by stating generally that I believe OMB has done an excellent job in outlining the key issues and stating fairly the implications of their recommendations. The budget for DOT is extremely tight, perhaps unrealistically so in many cases. A decision on several of the recommendations must take into account the fact that major legislation is currently before the Congress recommending restructuring or refinancing of railroad, air and highway legislation. In several cases, recommendations of OMB will clearly jeopardize the possibility of compromise with the Congress on certain pieces of legislation. In addition to these legislative concerns, several of the recommendations have clear political implications for the Administration. For example, the recommendations to eliminate "new starts" from the Mass Transit budget will raise severe political responses from cities such as Denver, Miami, and Detroit, which are currently completing their multi-year planning process and anticipating a positive response from the Federal Government. In addition, OMB's recommended cuts on highway funding may be viewed as undermining economic recovery.

The remainder of this paper provides brief comments regarding each of the issues outlined in the OMB book.

Highway Funding

A. Gas Tax Redemption:

Even though Congressional approval of this proposal is unlikely, I believe we should not abandon it at this time. Its presence gives us credibility in attempting to return decision making back to the States.

B. Program Funding Level:

Substantively, I have no objection to reducing the highway program as OMB recommends. However, the reduction

1. is not replaced with a greater emphasis on transit incentives (see next issue),

2. could have adverse economic/employment effects, and

3. will be politically unacceptable with the Congress and eliminate any chance of restructuring the highway program this year.

C. "Place-Named" Highway Programs:

Transition ok but Look over list & get back

I agree with OMB's recommendation to rescind contract authorization and request no new authorization for these types of highway programs. However, you should be aware of our negotiations with Congressman Waggoner to allow flexibility in the priority primary system, thereby allowing additional funds to be directed toward the Louisiana Tollroad.

Mass Transit

With regard to funding levels, the issues of Mass Transit funds and Interstate transfer funds are interrelated. The OMB recommendation to "cap" both these sources of funding

A. undermines the Interstate transfer as a flexible funding mechanism available to localities to make trade-offs between highway and transit decisions,

B. provides no clear encouragement of transit in light of the highway funding reduction,

C. translates into "no new-starts" for several key cities (including Detroit) at a time when these cities are completing years of planning at the Federal Government's request, O.K.

D. assumes legislation restricting the use of apportioned funds for operating assistance and this is unlikely, and

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E. may accelerate Congressional action to create a transit trust fund or force a veto of a popular increase in transit funds during an election year.

I simply do not feel we should (or can afford to) cap both the UMTA discretionary capital and the Interstate transfer mechanisms. If the UMTA funding request is reduced by $300 million, I recommend no cap on Interstate transfers.

With regard to legislative changes, I believe we should support the elimination of "Beame Shuffle" which allows capital funds to be in essence mortgaged to cover operating costs. However, I personally do not support limiting operating assistance to 50% of the apportioned program.

With regard to UMTA/FHWA field consolidation, I feel it would result in a management nightmare unless consolidation of the highway and transit programs occurs at the headquarters level.

Amtrak

On strictly economic grounds, long-haul service by Amtrak cannot be justified, and I support OMB's recommendations. However, the political implications are enormous and the President must accept an enormous political confrontation if he proceeds with the OMB recommendation. As a back-up, we could support Option 3 (i.e. cut back 5-6 long-haul routes instead of 11-12 in Option 4) to at least establish the precedent of "cutting" rather than expanding long-haul service.

Airports

Major issue is whether to trade-off the possibility of establishing the precedent of opening the trust fund to cover maintenance costs for a reduction in outlays. To proceed with OMB's recommendation will preclude the opening of the fund. I recommend we give a little on the money side if we can establish maintenance costs as knowledgeable trust fund expense.

OK.

Therefore, I would recommend Option 2, i.e. $350 million for 76 and 77 which would increase outlays over OMB's recommendation by only $53 million - but, give us the possibility of setting the maintenance precedent.

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Employment Levels in FAA

Safety is a sensitive issue; however, I support OMB's recommendation since it meets the air traffic controller requirements and forces readjustments within existing levels of FAA employment.

Miscellaneous Issues of Particular Interest

A. Ohio Test Center:

OMB recommends delaying the construction of the Compliance Test Facility in Ohio. This facility would provide NHTSA with ability to improve its testing prodedures. Governor Rhodes has referred to this facility several times in his correspondence to the President. It should be determined to what extent the President has made a commitment to the Governor before making a final decision.

B. Coast Guard:

Secretary Coleman identified the Coast Guard capital replacement as one of his priorities given the current condition of equipment and the expanding responsibility of the Coast Guard over coastal and inland waterways. The President has always been interested in the Coast Guard (particularly in its Great Lakes activities). OMB is recommending a $100 million reduction to maintain the current level of operation and capability. I suggest that the President be alerted to this issue even though it is not outlined in him OMB booklet.

C. Waterway User Charges:

I support OMB's recommendation that we establish the precedent of charges for users of our inland waterways. However, OMB's recommendation to recover 100% of operations maintenance costs may be unrealistic as we attempt to establish the precedent.

Small Agencies

I basically concur in OMB's recommendations for the small agencies included in this book with two specific comments:

A. <u>Council on Wage and Price Stability</u>

I feel we should support the request for three more people in that this group is an effective "watch dog" and can be used to show <u>existing</u> consumer sensitivity.

B. <u>USRA</u>

While these funds are largely for legal action, it should be emphasized that this organization has served its purpose and should not be perpetuated to muddy the waters in managing ConRail.

Transportation

1977 Presidential Review
Department of Transportation
Table of Contents

Issue	Effect of issue on outlay request (dollars in millions)	
	1977	1978
1. Highway Funding	-150	-500
2. Mass Transit Level and Content	-30	-125
3. METRO	-90	-220
4. AMTRAK	-170	-315
5. Airport Grants	-98	-200
6. 1977 Employment Level of Federal Aviation Administration	-30	- 60

TAB A

Department of Transportation
1977 Budget
Summary Data

	(In millions)		Employment, end-of-year	
	Budget Authority	Outlays	Full-time Permanent	Total
1975 actual	19,217	9,225	107,579 1/	109,809
1976 February budget	4,378	9,991	110,723	112,723
enacted	6,513	10,782		
supplementals recommended	502	1,802		
agency request	8,978	12,761	111,124	113,318
OMB recommendation	7,015	12,584	111,027 1/	113,227
OMB employment ceiling	xx	xx	111,027	113,227
TQ February budget	995	2,642	xx	xx
enacted	999	2,414	xx	xx
supplementals recommended	4	736	xx	xx
agency request	1,038	3,645	xx	xx
OMB recommendation	1,003	3,150		
1977 July planning target	xx	12,950		
October planning target	xx	12,450		
agency's initial request	10,130	13,663		
agency's reduced request	11,326	12,650	116,409	118,735
OMB recommendation	9,822	12,450	111,069 1/	113,269
1978 OMB estimate	11,676	12,950	113,500	115,700

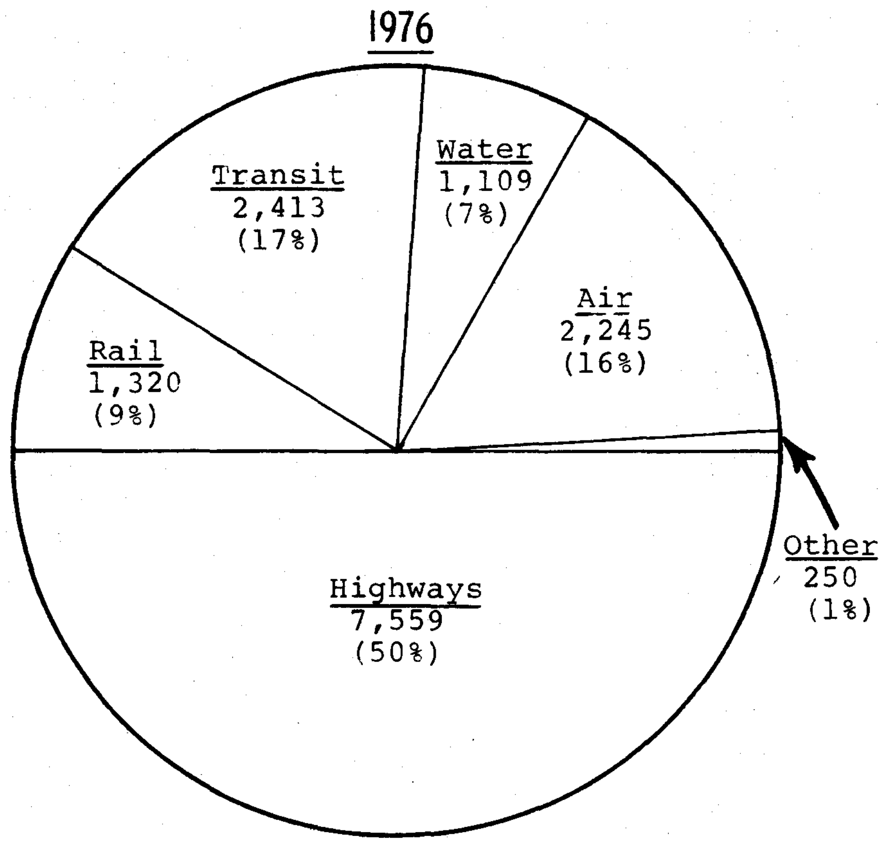
1/ EOY full-time permanent employment includes Coast Guard military: 1975 - 36,788; 1976 - 37,883; 1977 - 37,816; 1978 - 37,816.

Note: Full-time permanent employment includes employees exempt by statute of 446 in 1975, 1,508 in 1976, and 750 in 1977. In addition, 100 in 1976 and 232 in 1977 are included for FAA/Iran Joint Commission.

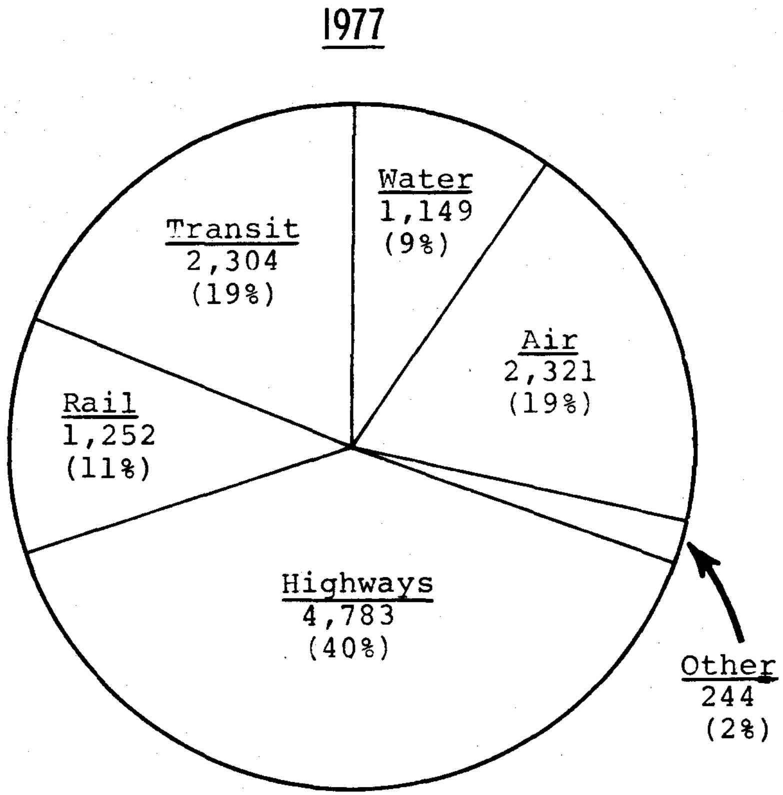
TRANSPORTATION* PROGRAM COSTS: 1976 vs. 1977

OMB Recommended Program Level

($ in millions)



Total: $14, 896



Total: $12, 053

*Includes U.S. Railway Association and
Civil Aeronautics Board

TAB B

1977 Budget
DEPARTMENT OF TRANSPORTATION
Summary and Background Information

	$ in Billions Program Level	Outlays
1976 DOT Request	15.2	12.8
1976 OMB Recommendation	14.4	12.6
1977 Initial DOT Request	14.3	13.7
1977 Revised DOT Request	13.6	12.6
1977 OMB Recommendation	11.4	12.4

OMB proposes rejection of the following DOT proposed outlay "reductions":	1977 Outlays ($ in millions)
- Reductions in the outlays provided for obligations that will be made under the $9.0B congressional obligation limitation in 1976 are unrealistic	225
- Reestimate outlays without commensurate program reductions	224
- Shift outlays from 1977 to transition quarter	150
Subtotal, OMB rejected	599

At the same time, DOT has proposed significant outlay reductions with which OMB agrees:

	1977 Outlays ($ in millions)
- Limitation on the use of UMTA assistance to 50% for operating subsidies of formula grant program (no reduction in program level but will require legislative changes in eligible uses)	280
- Reduce highway program by $1B in 1977 to $5.6B	150
- Increased aviation administrative user charges	43
Subtotal, OMB accepted	473
Total DOT proposed reduction	1,072

OMB Recommendation. In addition to the larger reductions discussed in more detail in this section and Part C, the following significant reductions have been proposed:

	1977 Outlay Savings ($ in millions)
- Reduce capital improvements for passenger service in the Northeast Corridor by denying a supplemental for $30 million in 1976, $30M in the TQ and a $54 million reduction to $100 million in 1977	40
- Disallow 1976 supplemental of $56 million for railroad branch line assistance and $20 million reduction in 1977	35
- Reduce Coast Guard capital replacement request of $270 million by over $100 million to a level consistent with maintenance of existing capability	34
- Disallow Coast Guard request for additional staff of almost 1,900. Reallocate base by 150 to permit staffing of ships and facilities coming on line in 1977	18

	1977 Outlay Savings ($ in millions)
- Postpone initiation of a rural public transport program until completion of demonstration in 1978	10
- Reduce Office of the Secretary discretionary funds (planning and research) by $10 million from request for 1977	5
- Deny Office of the Secretary staff increase of 140 in 1977 and reduce base by 65 in 1976 and 1977 to permit shifting of 65 positions to UMTA	3
- Defer ($14 million) initiation of direct construction of a Highway Safety Compliance Test Facility in East Liberty, Ohio	2
- Reduce Federal positions devoted to rail safety inspection by 51, 14% below 1976 because of grant assistance to states for this function, and use of automated track inspection cars	1

DOT has also requested 101 additional positions for UMTA field offices. This is an increase of 160% over current UMTA on-board field staffing. OMB recommends that 95 positions be made available from FHWA to meet ligitimate UMTA needs. OMB further recommends that UMTA and FHWA staffs be consolidated to provide for more effective and efficient administration of both programs.

1977 Budget
Department of Transportation
Summary of Recommended Program Reductions
($ in millions)

	1976			TQ	1977			1978	
	Program Level	Out-lays	FTP Employ.	Out-lays	Program Level	Out-lays	FTP Employ.	Out-lays	FTP Employ.
Current services - revised	15,083	12,683	111,118	3,222	15,170	13,840	112,754	15,585	113,500
Recommended level	14,419	12,584	111,027	3,150	11,437	12,450	111,069	12,950	113,500
Reduction	664	99	91	72	3,733	1,390	1,685	2,635	0
Program reductions:									
Issues									
Federal-Aid Highways	300	30	xxx	45	3,050	721	xxx	1,500	xxx
Mass transit level	xxx	xx	xxxx	xx	xxx	30	xxx	120	xxx
METRO	200	15	xxx	10	125	90	xxx	225	xxx
AMTRAK	14	14	xxx	5	130	90	xxx	165	xxx
Airport grants	100	25	xxx	5	200	98	xxx	175	xxx
FAA employment level	xxx	xxx	xxx	xxx	8	13	900	30	xxx
Outlay Reductions									
Mass transit formula grants	xxx	xxx	xxx	xxx	xxx	280	xxx	275	xxx
Place-named highways	50	15	xxx	7	200	50	xxx	110	xxx
Waterway user receipts	xxx	xxx	xxx	xxx	xxx	(80)	xxx	(80)	xxx
Other, primarily employment	xxx	xxx	91	xxx	20	18	785	35	xxx
Coast Guard							(625)		
FHWA							(95)		
Office of the Secretary							(65)		
Total Reductions	664	99	91	72	3,733	1,390	1,685	2,635	xxx

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1977 Outlay Reductions
Department of Transportation (DOT)
Urban Mass Transportation Administration (UMTA)
Formula Grants
(dollars in millions)

	1976		TQ	1977			1978	
	O	FTP Employment	O	PL	O	FTP Employment	O	FTP Employment
Amount:								
Current base	600	30	110	650	625	40	750	40
Recommended level	600	30	110	650	345	40	475	40
Reduction	0	0	0	0	280	0	275	0

Background

- Until 1974 previous Administrations had opposed Federal operating subsidies for transit with the rationale that: (a) such subsidies were a local responsibility; (b) subsidies alone would not address fundamental problems and simply postpone needed management, marketing and fare structure improvements; (c) Federal funds diminish local incentives to scrutinize costs; and (d) such subsidies would become a bottomless pit.

- In February 1974 the Nixon Administration proposed a $9.3B unified highway-transit bill of mostly formula grants in which transit operating subsidies would be an eligible use.

- Congress had sought a $20B bill, but you finally obtained a compromise $11.8B, six-year bill in November 1974, which included a $4B formula grant program. Capital and operating subsidies were both eligible uses.

(program level in millions)

	1975	1976	TQ	1977	1978	1979	1980
Planned	300	500	0	650	775	850	900
Revised	152	648	125	650	775	775	850

- The funds are distributed to the 278 urbanized areas over 50,000 population. The Administration had hoped that the trade-offs between capital and operating expenses would reduce pressure on the UMTA discretionary grant program.

- Initial experience is that all but a few areas are using all of their formula funds for operating subsidies. Over 94 percent of the funds are so used.

- UMTA continues to have a large discretionary grant program.

- Practically all requests for smaller capital grants from this fund are approved. Thus no incentive exists to use the formula funds for capital and no trade-offs are made. The second reason is that virtually all transit systems operate at a deficit and cities are obliged to cover the deficit, reduce service, or increase fares. Federal operating subsidies are the most painless way to solve the problem.

- The 50% cap will reduce Federal operating subsidies by $325M in 1977 ($450M by 1980) and direct a like amount of funds into capital grants, substantially reducing pressures on expansion of the limited discretionary grant program. Outlays in the short term would also be reduced (because operating subsidies outlay faster).

Actions required:

- Obtain legislative ceiling imposing 50 percent limit on amount of formula grant funds eligible for transit operating subsidies.

- Eliminate discretionary grant program provision which allows a grantee to divert temporarily half of its capital grant funds to operating subsidies (Beame shuffle).

Program impact:

OMB/DOT recommendation will:

- Increase 1977 Federal transit capital investment resources about $275M which reduces burden on discretionary grant program.

- Decrease 1977 Federal operating subsidy obligations and outlays by $225M.

- Have greatest programmatic impact on the 10 largest U.S. cities (which receive 50 percent of all transit formula grant funds).

- Will require recipients to take a combination of actions: increase local operating subsidies, increase fares, reduce costs and constrain service.

- Will decrease allocation problems on smaller projects (e.g., bus procurement).

- Elimination of "Beame shuffle" is sound fiscal policy and is recommended by DOT. Use of capital investment funds for operating subsidies, even with two-year payback requirement, is unorthodox. Analogy is use of local capital bond issue proceeds for operating expenses without making provision for replacement of funds so utilized so that the capital project schedule is unaffected. Use of long-term debt for current operating expenses is exactly the type of financing device which has hurt New York City.

DOT recommended this action as a means to reach its revised 1977 outlay ceiling. Congressional approval will be difficult to obtain. Resistance from cities will be substantial, particularly New York City (largest recipient), which is slated to receive $92.5M in 1977. Proposal would require New York City to cover and/or decrease transit operating costs by $46M.

1977 OUTLAY REDUCTIONS
DEPARTMENT OF TRANSPORTATION
"Place-Named" Highway Programs
(dollars in millions)

Amount: Outlays/Program Level	1976 O	TQ O	1977 PL	1977 O	1978 O
Current base	40	15	214	90	120
Recommended level	25	8	14	40	10
Reduction	15	7	200	50	110

No significant Federal employment impact.

Actions required:

Rescission of contract authorizations and request of no new contract authorizations or appropriations.

Program impact:

Alaska Highway--Delays construction and forces Alaska to fund Canadian segments of this project.

Darien Gap Highway--Stops construction in Panama and permits no construction in Colombia through 1977.

Overseas Highway--Delays reconstruction of Florida Keys Bridges and forces Florida to fund project.

Rail-Highway Grade Separations--Provides no funding for actual construction for most Congressionally designated projects outside the Northeast, forces States and localities to complete program with regular Federal-Aid formula assistances, and provides no new funds for Northeast passenger grade separations.

Access Highways to Recreation Areas at Certain Lakes--Provides no funding for most of the Congressionally designated projects.

Urban High Density Demonstrations--Forces few States to complete relatively high cost projects with regular Federal-Aid formula grants.

Other considerations:

Total Federal cost to complete these designated projects is over $2B. Administration has opposed most "place-named" funding indicating that States should use regular Federal-Aid formula assistance for these projects. Most of these are high visibility projects which have strong support from key Congressional leaders. The Darien Gap Highway has no significant Congressional support, but Panama and Colombia will be annoyed with the funding halt.

DOT has requested new 1977 funds for the Darien Gap Highway ($42M) and the Alaska Highway ($15M), and has indicated that additional funds may be sought for the Overseas Highway after the completion of further DOT studies. DOT concurs in OMB recommendation for no additional funding of other projects. OMB is recommending no new funding for any of these projects.

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1977 Outlay Reductions

DEPARTMENT OF TRANSPORTATION
Waterway User Charges
(dollars in millions)

	1976	TQ	1977	1978	1979
Estimated new receipts	0	0	80	80	160

Actions required:

Submission of proposed legislation to institute user charges on inland waterways.

Program impact:

Inland waterway carriers, primarily barge operators, have never paid for any of the Federal cost of operating and maintaining the inland waterway system (currently about $160M per year). Since other freight modes pay close to full Federal cost, a subsidy to waterway users is discriminatory, and in the case of railroads (their closest competitors), a serious threat to financial viability.

The proposed action would recover 100% of operations and maintenance cost through a segment and lockage toll. A two-year phase-in is recommended (50% in 1977, 100% in 1979 pending impact assessment.

Other considerations:

Within the next month, the Water Resources Council is expected to submit a proposal for waterway user charges (as well as charges for other Water resources projects) for Presidential approval. Their tentative recommendation features a substantially lower cost recovery rate than recommended above, but this may be subject to change. Late last fall, you submitted legislation to recover 100% of waterway operations and maintenance cost, through a segment tax (collected by Treasury) and lockage fee (collected by the Corps of Engineers). No phase-in process was provided for.

This legislation encountered major opposition from barge operators, and was not introduced. However, last July Congressman Skubitz independently introduced this same bill.

TAB C

Outlay Impact
DOT vs. OMB
1977: $150M
1978: $500M

DEPARTMENT OF TRANSPORTATION
1977 BUDGET
Issue #1: Highway Funding

Issue: Should the Administration abandon its proposal for state preemption of 1¢ of Federal gas tax in 1977? (DOT and OMB concur on withdrawal: $1B increase in receipts). Given the decision on preemption, what funding level should be proposed for the Federal-Aid Highways program in 1977? (DOT: $5.6B; OMB: $4.6B).

Background

- Last February, the Administration proposed a major restructuring of the highway funding and program structures. For 1977, a $3.25B Interstate Program from the Highway Trust Fund, a $2.4B Non-Interstate Program from General Funds, plus an additional $1B in revenues to the States by preemption of 1¢ of the Federal gas tax were proposed (total funds of $6.6B).

- Congressional committee prints, being marked up in both Houses, either reject or defer decisions on most of the Administration's proposals. Modest program restructuring and some 1976 authorization reductions may survive. Bills under consideration would provide $6.9 in new contract authorizations in 1977 in addition to the $5-8B of unobligated contract authorizations that would be carried over into 1977. It is doubtful that acceptable legislation will be enacted in this session.

- In 1975, as a result of the release of $2B of additional contract authorizations to stimulate employment and Senate Resolution 69 which overturned the Administration's deferral, over $7.7B of highway funds were obligated.

- For 1976, after substantial negotiation, the Congress has agreed to establish for the first time a $7.2B obligation limitation or cap on highway obligations (with exceptions, limitation is actually $7.8B although actual obligations under the formula distribution system proposed by OMB and DOT would probably not exceed $7.4B).

Gas Tax Preemption

- In 1977, the gas tax preemption provision of the Administration's proposal would result in the loss of $1B in revenues. Although this would not impact on outlays (or the $395B target), it would increase the deficit by $1B.

- Given the small chance of favorable Congressional action on this proposal and its significant impact on the deficit, both DOT and OMB have recommended that this proposal be abandoned.

Program Level Alternatives

1. DOT Original Request: $6.6B program level for Federal-Aid Highways with no state preemption--consistent with 1975 Congressional authorizations and the total program and revenue preemption levels proposed in the Administration's legislation.

7.4- 7.5 76

2. DOT Revised Request: $5.6B program level with no state preemption--consistent with program level in Administration's legislative proposal (no additional program to offset loss of preempted revenues).

3. OMB Recommendation: $4.6B program level with no state tax preemption--consistent with revised 1977 planning ceiling for DOT.

Analysis

Program Level/Outlays ($ in Billions)	1975 PL	1975 O	1976 PL	1976 O	July - Sep.76 PL	July - Sep.76 O	1977 PL	1977 O	1978 PL	1978 O	1979 PL	1979 O	1980 PL	1980 O	1981 PL	1981 O
1. (DOT Original Request)	7.7	4.7	7.4	6.9	1.8	1.8	6.6	7.0	6.6	7.4	6.6	6.8	6.6	6.6	6.6	6.6
2. (DOT Revised Request)	7.7	4.7	7.4	6.9	1.8	1.8	5.6	6.8	5.8	6.6	6.0	6.1	6.1	6.1	6.1	6.1
3. (OMB recommendation)	7.7	4.7	7.4	6.9	1.8	1.8	4.6	6.7	5.8	6.1	6.0	5.9	6.1	6.0	6.1	6.1

Difference from Alternative #1:	1977 Outlay	1978 Outlay
Alternative #2 DOT Revised Request	-0.15	-0.70
Alternative #3 OMB Recommendation	-0.30	-1.20

(See Exhibit 1 for historical comparison)

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NOTE: Outlay and 1976 obligation estimates for all alternatives are OMB estimates. DOT appears to have substantially overestimated 1976 outlays and substantially underestimated 1977 outlays which they are currently reviewing and revising at OMB request. There is no disagreement between OMB and DOT about the relative outlay differences among these three alternatives. (Only 10-15% of 1977 outlays result from 1977 obligations.)

- The level of highway construction necessary to assure an adequate highway infrastructure is not known. There is no compelling evidence that the service level of the highway system has changed significantly over the past five years. This suggests that historical funding levels have been adequate to maintain existing levels of service.

- In terms of real construction financed by Federal highway aid (adjusting for historical inflation and assuming 6% annual inflation in 1976 and 1977), the 1977 alternatives would represent a decline in real construction from the 1965-69 and 1970-74 average program of:

	1965-1969 Average Program	1970-1974 Average Program
Alternative #1	-30%	-10%
Alternative #2	-40%	-25%
Alternative #3	-50%	-40%

- It is doubtful that the States would increase their locally funded construction programs to offset a decrease in Federal-Aid. State highway programs are largely funded from dedicated state highway and vehicle taxes which have been almost level over the past three years, largely as a result of the energy situation. There has also been a significant reduction in revenues from state highway bond issues. Highway maintenance costs ($6.4B in CY 1974) have increased substantially in the interim and according to state highway officials are eating into capital expenditures budgets ($12.9B in CY 1974). Several states have announced large personnel lay-offs and construction moratoriums because of tight financing. Some reductions in the level of state/local construction funding in 1976 and 1977 are probably inevitable regardless of Federal action.

- Assuming no state substitution, OMB estimates that each $1B reduction in program level will ultimately result in the loss of about 50,000 man years of on-and off-site employment plus about 25,000 man years of induced employment. Because of the normal delay between the time of obligation and peak construction activity, the employment impact would be small in 1977 with the large impact on direct employment (about half) experienced in 1978.

- Of course, the tax reductions which would be possible because of the overall Federal program reductions would also stimulate employment. Some economists have argued that business tax reductions at this time would in fact result in even greater employment stimulus than the same level of alternative Federal expenditures. More traditional analysis would suggest that the positive employment impact of a tax reduction would be about one third less than that of direct Federal expenditures.

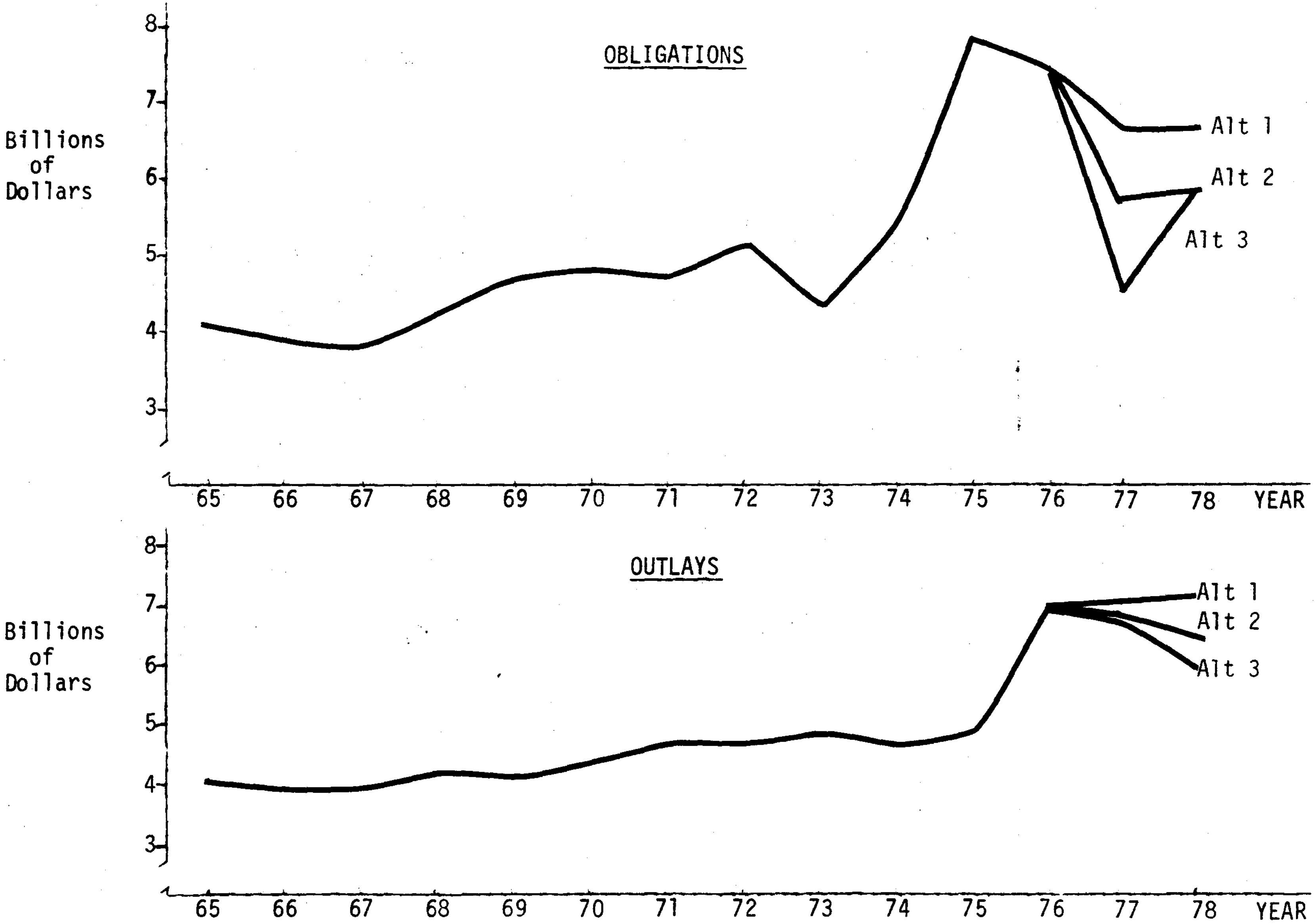
- OMB recommends significant 1977 reductions in highway funding to reach the revised ceiling because these reductions will not cause significant disruptions in the national transportation system. DOT concurs in this OMB assessment, but has requested that the agency be given an additional $150M above their revised outlay ceiling to support an additional $1B in 1977 program.

Agency Request: Alternative #2. DOT notes that this is $1 billion lower (on a net deficit basis) than the Administration's 1977 legislative proposal (although the $1B increase in receipts because of the elimination of the state preemption provision does not affect outlays--i.e., help to reach $395B). DOT believes that this is the lowest level that Congress would seriously consider and that funding proposals even at this level will seriously jeopardize efforts to negotiate with the Congress substantial highway legislative reforms.

OMB Recommendation: Alternative #3. Reductions will delay construction, but have minimal long term disruptive effects on highway construction. It is necessary to reach the DOT outlay target and consistent with objective to reduce lower priority areas. OMB believes that it is very doubtful that the Congress will accept this alternative. The substantive committees in current negotiations on contract authorizations will probably not accept a level much below $7B in 1977, but overall reduction pressures should help in attaining more reasonable authorizations and program levels in the next session (assumes that an acceptable bill will not be enacted in this session).

Exhibit 1

Federal Highway Assistance
Annual Obligations and Outlays 1965-1978



DOT vs. OMB
Outlay impact:
1977: $30M
1978: $125M

DEPARTMENT OF TRANSPORTATION
1977 Budget
Issue #2: Mass Transit Level and Content

Issue: What should be the level and content of the mass transit discretionary capital grant program for 1977:

Background

- 1974 transit legislation (National Mass Transportation Assistance Act - NMTA) established 6-year, $11.8B transit program - exclusive of funds under Interstate transfer authority. This assumed that some marginal projects would not be funded. Of the $11.8B about $7.1B is discretionary.

- UMTA funds participate in purchase of over 95 percent of all new transit buses, 100 percent of all new cars for subways and commuter railroads, rehabilitation and expansion of subway and commuter rail systems, and construction of new rapid transit systems (Atlanta and Baltimore are the only ones presently funded).

- There has been a more than two year hiatus in major "new start" decisions, except for some $100-300M projects in New York and Philadelphia.

- During 1974 and 1975 UMTA has developed and adopted a policy requiring applicants to conduct detailed analysis of alternatives, has given high priority to cost-effectiveness, and places a "cap" on funding commitments to major projects.

- Due to the hiatus and the simultaneous maturing of UMTA-funded planning efforts, about 8-10 cities will be in a position in 1976-1977 to start construction of "useable segments" of new rapid transit systems, subject to approval and funding by UMTA. These cities (with already constrained cost estimates) are:

		(Federal share, dollars in millions)				
1976 New Start	1975	1976	1977	1978	1979	1980
Miami (Phase I only)	-	30	80	180	180	100
San Juan	-	30	80	150	150	125
Honolulu	-	20	60	100	125	125
Los Angeles	-	30	70	150	175	200
Denver	-	30	70	100	125	100
Buffalo	-	30	60	90	75	75
PATH (New Jersey)	-	30	80	150	100	25
1977 New Start						
Chicago (Loop)	5	-	40	100	175	200
Chicago (O'Hare)	-	-	30	80	40	20
Detroit	-	-	30	80	130	150
1978 New Start						
Atlanta N-S Line	-	-	-	60	120	160
Balto. Extension	-	-	-	40	90	100
Phil-N.J.	-	-	-	30	90	120
Subtotal, 76-78 New Starts	5	200	600	1310	1575	1520

Discussion

- Major rapid rail transit proposals today appear to be of somewhat better quality than those contemplated two or three years ago - due principally to fiscal pressure on and by UMTA. In relative terms they are smaller in scope and higher in productivity. UMTA is also better equipped to differentiate between "good" and "bad" projects. Nevertheless, the all will operate at a deficit.

- While the UMTA budget request assumes that $100M in 1976 and $200M in 1977 should be devoted to major new starts, they have not stated the out-year cost implications of their intentions. Since major work currently underway will consume available funds through 1978, UMTA contemplates major program growth above the six-year plan.

- Other pressure on UMTA's discretionary grant program comes from rehabilitation projects and rolling stock purchases in the heavily transit dependent cities of Boston, New York, Philadelphia and Chicago. These systems are 60-80 years old and have safety and efficiency problems. New subway cars cost $400-600,000 each.

- UMTA contemplates major expansion of bus purchases in 1977, although changed eligibility requirements proposed in the formula grant program for 1977 reduce the need for discretionary funds for this purpose.

- The 1974 DOT National Transportation Report estimated U.S. capital requirements for transit through 1990 at $60B in 1974 dollars. However, even realization of these plans would not significantly change the percentage of trips made by public transit compared to today.

Alternatives

1. Provide $1425M in 1977. Assume program will grow to $2B by 1980. (DOT request)

2. Provide $1125M in 1977. Implies and requires rejection of several major project applications. Assume minimal total program growth by 1980. (OMB recommendation).

- The following OMB scenario for the discretionary transit capital grant program is consistent with the six-year funding levels in the 1974 legislation. DOT believes these levels are inadequate when measured against the demand. While they have not formally proposed an alternative funding scenario, the following table reflects OMB's best estimate (but probably understated) of their desires based principally on the implications of DOT's 1977 request and knowledge of their program.

		1975	1976	1977	1978	1979	1980	Total
Bus purchases	DOT	441	275	340	370	410	450	
	OMB	441	315	225	150	125	125	
System Rehabilitation	DOT	516	400	485	520	570	630	
	OMB	516	450	440	400	370	370	
On-going projects	DOT	215	285	360	310	170	0	
	OMB	215	285	360	310	170	0	
New starts	DOT	0	100	200	400	600	800	
	OMB	0	50	100	265	485	655	
Rural buses	DOT	25	40	40	125	135	135	500
	OMB	25	0	0	0	0	0	25
Totals	DOT	1197	1100	1425	1725	1885	2015	9600
	OMB	1197	1100	1125	1125	1150	1150	7100

- Major differences between OMB and DOT are:

  a. OMB assumes changing formula grant eligibility will allow the formula program to extensively fund bus purchases and rehabilitation projects;

  b. OMB assumes the need for rural buses is overstated and overfunded, that no formal program should exist, and requests should be covered by regular bus funds; and

  c. OMB assumes fewer new rapid rail transit systems will be started in the 1976-80 time frame and that DOT and the cities must spread out their desires over a much longer time horizon.

Recommendations

DOT Recommendation: Alternative 1. The Administration's planned funding levels are inadequate to the task and DOT believes transit is a high-priority program. DOT is reluctant to justify a deferral or non-approval principally on budgetary grounds given that most proposals have been nurtured for years by UMTA-funded planning grants.

OMB Recommendation

Alternative 2. The funding plan adopted last year assumed some projects would be cancelled and deferred, not just on budgetary grounds, but on cost-benefit and cost-effectiveness grounds. Given availability of formula grants and Interstate transfer funds, UMTA should be advised to exercise program stewardship with a $1.1B annual level in their discretionary program through 1980.

As passback strategy, we propose to initially deny any new starts on grounds that an out-year financing plan for new starts is required before they can be initiated. We expect the agency's appeal can satisfy this requirement.

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Outlay Impact
DOT vs. OMB
1977: $90M
1978: $220M

DEPARTMENT OF TRANSPORTATION

1977 Budget
Issue #3: METRO

Issue: Should the Administration reconsider its posture regarding financing of METRO in 1977 and beyond?

Background

- Since METRO broke ground in 1969, cost estimates in escalated dollars have risen from $2.5B in 1969 to $5.1B today (including $0.5B of contingency).

- The 1972 $3B estimate was to have been financed with $1.1B in federally-guaranteed local revenue bonds (debt service was to have been fully covered by the farebox), and the balance split 2:1, $1.2B of Federal grants and $0.7B of local contributions.

- To cover new cost overruns, in December 1974 METRO sought Administration support for application retroactively to July 1973 of the Federal 80% share which exists in the UMTA program, and increased special Federal funding.

- In June 1975 you decided that: (a) retroactive changes were inappropriate; (b) transfer of Interstate highway resources should be the Federal source of overrun costs; (c) as much of system should be built as possible (DOT believes this means approval of the full 98 miles); and (d) the Secretary of Transportation should develop a Federal financing plan.

- Executive Office discussions at that time were forced by 1976 funding problems for METRO and did not focus on the significant long term local operating deficit and debt service problems. The capital obligation/outlay implications of Interstate transfer were identified only as major "new Federal spending in 1977-79." DOT agreed the spending rate should be controlled.

- Federal and local decisions on what to do about METRO should involve interrelated decisions on total dollar ceiling, rate of funding availability, extent and sequencing of construction short of 98 miles, operating cost/revenue implications, debt service treatment on outstanding bonds, possible METRO financing/auto disincentive devices such as parking taxes, and relationship of such decisions to transit investments elsewhere in the nation.

- The first METRO grant using $286M of former Interstate funds was made in October 1975. These funds will be fully committed by January 1976 at which time METRO will seek another Interstate transfer grant of about $315M.

- Approximately $1.6 to 1.8B of Interstate transfer funds are potentially available to fund METRO, 85% from D.C. highways.

Programmatic Considerations

- About 50 miles are under construction. As more mileage is added marginal operating costs will increase faster than marginal revenue.

- METRO has established its own financial and construction timetables and is building the system in a sequence to satisfy construction convenience and to reach suburbs as quickly as possible. This produces some segments that remain partially built for long periods of time with some built first in areas of comparatively low ridership.

- Principaplly as an outgrowth of lessons learned from San Francisco's BART, current UMTA funding policy now implemented in Baltimore and Atlanta requires construction of "useable segments" to assure early availability of a discrete useable transit line in a high ridership corridor within fixed Federal capital cost estimates. This also affords the community an opportunity to examine follow-on investments based on operating experience. As part of the Secretary's analysis, DOT is examining the effects of such an approach on METRO which is currently entering the peak period of its construction program.

- Since the METRO was designed in the mid-1960's there has been no serious re-examination of its cost related to benefits, objectives or alternatives. For example, the Shirley Highway Busway did not exist then and probably provides faster and more cost-effective service from

Springfield now than METRO could in the future. Other cities are now required to conduct extensive analyses of alternatives before being considered for UMTA funding.

- Even at METRO's advanced stage of design and construction serious analyses could determine whether almost equal service in some corridors can be provided by lower capital and operating cost alternatives, and to reschedule construction to build high patronage transit lines before low patronage lines.

Considerations - Local

- Local support for METRO has been extensive despite higher costs and delays. Heavy voter pluralities favoring METRO (60-70%) were experienced in the 1960's. Whether this support is eroding with the doubling of capital costs and the introduction of heavy, unanticipated operating deficits cannot be determined, although Arlington voters just rejected a $25M supplemental METRO bond issue intended to provide their committed capital share.

- Local financing is a house of cards, each jurisdiction expecting METRO to be constructed as advertised in the 1960's. No local government has yet proposed curtailing any construction.

- Nevertheless, the local fiscal burden for METRO gets heavier by the day. Whereas the bond debt service was once planned to come from the farebox after operating costs were covered, the local governments are now faced with an annual rail and bus operating deficit of $80-120M by 1980 and the bond debt service ($80M annual peak in 1980's).

Considerations - National

- The assumptions in DOT's impending recommendation that the Federal Government voluntarily pick up 80 percent of the almost $3B in METRO bond debt service has little precedent, and would be a multi-billion dollar bail-out. This needs careful analysis and should be considered in light of a total capital and operating cost perspective.

- Under the UMTA program about 8-10 cities will be in a position in 1976-77 to start final engineering/construction of "useable segments" of rapid transit systems. While not all are worth approving, some are. Fiscal constraints on the UMTA program imposed by last year's $11.8B, six-year transit legislation preclude approving more than two or three such projects in 1976-77. It would be difficult to justify rejection of projects with higher benefit-cost ratios while funding costly, lower benefit-cost elements of METRO. DOT is not making trade-offs between METRO and other new rail rapid transit being proposed for funding by UMTA capital grants and Interstates transfers.

- METRO has reached the point of an inequitable geographic and programmatic investment of Federal resources. The Administration recognized a similar turning point in its rationale to limit Federal investment to $1.2B for the intercity rail passenger project in the Northeast Corridor.

- While there has always been a double standard between METRO and other transit projects, the magnitude of this disparity is increasing.

Outlay Considerations

- In June 1975 the OMB 1977 outlay assumptions for DOT were increased by $400M to allow for accelerated Interstate transfer outlays in 1977 - principally for METRO. METRO's outlay rate from grant obligations is extremely high: 28% in first 12 months and 54% in second 12 months. Hence, 1976 grants bear heavily on 1977-79 outlays.

- Despite the high priority given to METRO by DOT within their outlay target we believe METRO should share in the outlay reduction process since its outlays are so large, and occur so quickly. However, the rate at which the funds are made available are key to how much of METRO is built.

Conclusions:

The DOT 1977 budget request and Secretary Coleman's impending special recommendations make the following assumptions with regard to METRO: (a) should be accorded special priority in DOT budget and special treatment apart from Federal transit policies governing the regular UMTA capital grant program; (b) should receive special Federal aid to assist in payment of 80 percent of the service on federally guaranteed bond; but (c) should be assigned a dollar "cap" on the total Federal commitment to the system.

OMB believes: (a) METRO has become an inequitable investment of Federal resources; (b) is sure to impose a major, unanticipated operating deficit and debt service burden which could have negative repercussions for future nationwide transit legislation; (c) that the debt service solution proposed by DOT is an unprecedented bail-out; and (d) that the assumptions supporting the outlay solution for DOT have so much upside pressure that the Administration must look to METRO for outlay relief. OMB recommends stretch-out at a much lower rate of investment to bring METRO somewhat more in line with other new rapid transit projects. Truncation of the system short of 98-miles would reduce operating cost requirements while not seriously impacting total anticipated ridership and revenues.

Alternatives

Alt 1 Allow METRO to be funded at a rate adequate enough to avoid any schedule delays within a funding "cap".

- Even the $4.5B cap which DOT contemplates would still probably eliminate 5-10 miles of route extremities given the poor cost/schedule forecasts to date.

- DOT would adapt its useable segment policy to maximize use of funds. Puts METRO outlay allowance far above availability to other cities.

Alt 2 Allow $600M in 1976 funding but drop to stretch-out of $225M in 1977.

- Would probably eliminate 10-20 miles of marginal lines.

- Higher 1977 ($90M) and 1978 ($120M) outlays than alternative 3.

Alt 3 Constrain 1976 Interstate transfer grants for METRO to $400M and subsequent annual grants to about $225M.

- Impose UMTA's "useable segment" policy effective with next grant and require capital and operating cost-effectiveness trade-off analysis of remaining plans.

- Develop a funding ceiling with cash flow constraints.

- Would stretch-out schedule and probably eliminate 15-25 miles of marginal lines.

Obligations/ Outlays (in millions of dollars)	1976 PL	1976 O	1977 PL	1977 O	1978 PL	1978 O	1979 PL	1979 O	1980 PL	1980 O
Alt 1 (DOT position)	600	80	350	350	450	500	400	425	0	305
Alt 2	600	80	225	350	225	360	225	235	225	225
Alt 3 (OMB recommendation)	400	65	225	260	225	280	225	235	225	225
(Non-Interstate transfer funding)1/	(68)	(150)	(90)	(150)	(42)	(150)	0	(150)	(0)	(24)

1/ Federal METRO capital financing under the National Capital Transportation Act of 1969, as amended. This financing is largely unaffected by Interstate transfer funding.

DOT Recommendation: Alternative 1. METRO is an exception to funding restraints because of present and prior involvement apart from UMTA program.

OMB Recommendation: Alternative 3. Administration must face up to fact that commitments made in 1960's are no longer fiscally prudent, and that lessons learned from BART and Atlanta must be applied in Washington. This view should be communicated to Secretary Coleman as soon as possible so that his financial planning for METRO can be adjusted accordingly.

1977 Outlay Impact
AMTRAK vs DOT/OMB $170M

Issue Paper
DEPARTMENT OF TRANSPORTATION
1977 BUDGET
Issue #4: AMTRAK

Statement of Issue: Should AMTRAK continue long haul service?

Background:

. Since its inception in 1971 AMTRAK has experienced sharply rising losses which have climbed faster than their ridership gains as shown below:

	1972	1973	1974	1975	1976 est.
Deficits	$153M	$141M	$198M	$276M	$355M
Ridership	11.4M	14.1M	18M	17.3M	19.6M

AMTRAK continues to feel the impact of inflation and faces fare-cutting competition. To retain the present system of 34 routes would require an additional $99M in 1977 operating subsidies over OMB recommendation for 1976.

. Congress has steadily added to AMTRAK's system and reacted very negatively to Administration efforts to drop several high cost routes in 1973. There are some recent signs of concern over the rising deficit situation, however, and this year's legislation permits route eliminations and additions in 1977 according to criteria developed by AMTRAK. Congress must take positive action by March to reject the criteria which is now before it.

. 58% of AMTRAK's losses are in the 14 long haul routes. These routes are also of the lowest social benefit value (e.g. congestion relief contribution is negligible), although they are appreciably better than short haul service on a revenue/cost basis.

Analysis: ($ in millions)

	1975		1976		TQ	1977		1978		1979	
	PL	O	PL	O	O	PL	O	PL	O	PL	O
Option #1	580	276	460	360	123	755	600	800	765	825	790
Option #2	580	276	460	360	123	580	520	650	615	700	650
Option #3	580	276	446	346	118	500	480	505	505	525	450
Option #4	580	276	446	346	118	450	430	450	450	450	450

Option #1, the AMTRAK request, provides $460M in operating grants to cover higher costs due to inflation, increase some service frequencies ($25M). $295M in capital grants would allow substantial old car replacement, station repairs and maintenance facility control assumption.

...Would permit 12-13% ridership growth and more efficient service from capital investments.
...Continues deficit spiral and some very costly service.

Option #2, would provide $435M to continue present route structure and train frequencies, and $145M for cost-effective car replacement, station repairs and maintenance facility takeovers.

...Permits realization of 10% rail ridership growth within existing system.
...No discipline is imposed to force streamlining of the system.

Option #3 would provide $400M for operating grants and $100M for capital. It would force about 5-6 long haul discontinuances.

...Would permit "pruning" of worst routes according to new criteria (see Table 1 attached), require minimal labor protection payments.

...Is a defensible level before Congress since it is consistent with inflation-sharing formula proposed in Administration bill last March and because a partial national system would remain.

...AMTRAK subsidies would be slowed but not halted, with further subsidy increases implied.

Option #4, would keep subsidies at about 1976 levels ($350M for operating deficits, $100M for capital). It would require elimination of almost all (11-12) long haul routes.

...Halts escalating subsidies and results in a more desirable level of AMTRAK service.

...Total revenues would decline about 60%, labor protection payments of some $30M/year required.

...Terminate routes as shown on following page.

Recommendation:

AMTRAK recommends option #1. Both DOT and OMB recommend Option #4.

Long Haul Route	1977 Fully Allocated loss ($ in M)	Estimation of the routes dropped under Option #4 (Drop routes on total loss basis)	Estimation of the routes dropped under Option #3 (drop poorest revenue/cost performers)
New York - Florida	54.6	X	-
Seattle - Chicago	30.6	X	-
Florida - Chicago	23.0	X	X
New York - Chicago	20.5	X	-
New York - Denver	20.0	X	X
Chicago - Los Angeles	17.7	X	-
San Francisco - Chicago	17.1	X	-
Seattle - Los Angeles	13.5	X	-
Norfolk - Chicago	9.4	X	X
Houston - Chicago	9.1	X	-
New Orleans - Los Angeles	7.9	X	-
Boston - Chicago	7.8	-	X
New Orleans - Chicago	6.3	-	X
St. Louis - Laredo	4.1	-	X
	$241.6M		
Number of States left without AMTRAK service		25	6

NOT Included in Option 4

There are several unfortunate consequences resulting from many long haul service cuts such as:

...The obvious political repercussions from ending all AMTRAK service in up to 25 states.
...Four year labor protection payments to AMTRAK and railroad employees.
...Loss of connecting revenues for short hauls.
...Some long haul costs now being jointly borne with short hauls would not be saved but simply shifted to short haul expenses.
...Intermediate service is eliminated, e.g. if the Chicago-Seattle route is eliminated, service ceases on in between points such as Milwaukee-Minneapolis.

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DOT vs. OMB
Outlay Impact 1977: $98M
Employment Impact 1977: 100

DEPARTMENT OF TRANSPORTATION
1977 BUDGET
Issue #5: Airport Grants

Statement of Issue: What should be the funding level for airport development grants?

Background:

- In response to serious air traffic congestion in 1969-70 the airport grant program was increased from $70M to $280M/year in 1971. Funding further rose to $345M last year (see attached chart).

- We have many reasons for believing this program to be of low priority: 1) The serious airport congestion of 1969-70 was short lived--congestion has declined to less than 1/4 of 1970 levels and is essentially weather related. 2) Environmental concerns and lower traffic growth forecasts have dashed earlier visions of airport grants being used to build several new regional airports. 3) The large airports, which handle 75% of the air passengers, generate substantial revenue surpluses so that Federal assistance is not essential. 4) Existing airport capacity is not used efficiently. Landing fees and airline fares do not usually vary so as to discourage general aviation use of large airports at peak times and distribute air carrier traffic patterns more evenly. 5) Since many States often put up 1/2 of the 25% matching requirement, many airport sponsors get in effect 87.5% grants which often go to marginal projects or are used to supplant routine maintenance.

- In March the Administration proposed a 5 year extension of this program which provided $350M/year and proposed several program improvements (e.g. State assumption of general aviation grant, streamling of grant delivery and project approval process). Also proposed was using $430M/year in trust funds for airway system maintenance. (General taxpayer funds now pay for all operation and maintenance costs--$1.6B/year). DOT has worked hard to achieve inclusion of some Administration proposals but the House bill, H.R. 9771, which is expected to pass soon, is inconsistent in several key respects--provides 33% more funds over the 1976-80 period and only an average of $100M/year in maintenance trust funding. Moreover the Senate is developing a proposal which has virtually no Administration provisions and exceeds the House's funding by over $100M/year.

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($ in M)

Analysis	1975		1976		TQ	1977			1978	1979
	PL	O	PL	O	O	PL	O	FTP EMPL.	O	O
Option #1	345	279	350	380	95	450	400	700	425	450
Option #2	345	279	350	380	95	350	355	675	350	350
Option #3	345	279	250	355	90	250	302	600	250	250

Option #1, recommended by DOT, would accept legislation such as H.R. 9771. Funding would be set at $350M in 1976 (an obligation ceiling has been set at this level by DOT's appropriation bill) and $450M in 1977. Resulting higher 1977 outlays would be offset by seeking increased general aviation user fees that year.

...Would accept higher funding levels in exchange for advances gained in program administration and use of some trust funds for maintenance, a package which DOT has committed itself to supporting in its negotiations with the House Public Works Committee.
...Increases funding by $100M for a low-priority program.
...Liklihood of achieving user fee offset is quite low. The Administration has been completely unsuccessful in past attempts to have these charges instituted.

Option #2 would provide funding at $350M/year for both 1976 and 1977 which is consistent with the Administration's current legislative proposal. This would entail seeking a $350M obligation limitation again in 1977 and, if unsuccessful, deferral of funding over $350M that year.

...Could still attempt to achieve legislative program improvements with pending legislation, although efforts would be hampered without the promise to allow higher funding in 1977 as in Option #1.
...If forced to defer in 1977 the chances of it being overturned are probably good. The House Budget Committee has already indicated its willingness to accept a $450M level this year.

Option #3, recommended by OMB, would set funding at $250M for 1976 and 1977. It would mean a veto of the legislation likely to pass, seeking enactment of a bill with much lower funding levels.

...Achieves $98M in 1977 outlays savings in this low-priority activity over Option #1, $53M over Option #2. Out-year savings would be even greater.
...Chances of achieving programmatic improvements and some funding of maintenance from the aviation trust fund are eliminated.

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Recommendation:

DOT recommends Option #1, arguing it has gained important concessions from the Congress in its negotiations.

OMB recommends Option #3, given this program's worth and the considerable outlay savings attainable from this option.

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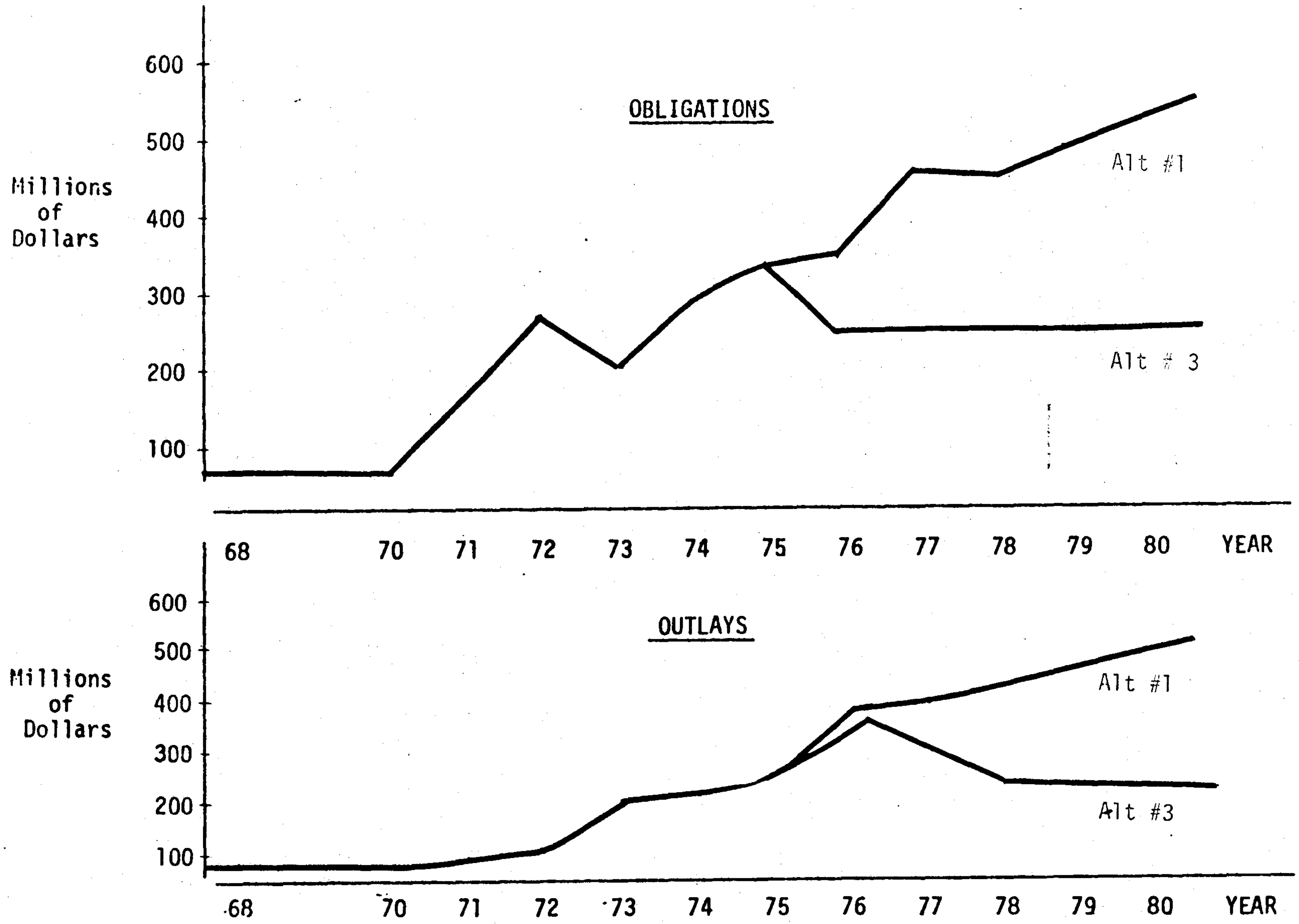
Airport Developm Grants, 1968-80



1977 Outlay impact:
DOT vs OMB $30M
1977 employment:
DOT vs OMB 2692

Issue Paper
DEPARTMENT OF TRANSPORTATION
1977 BUDGET
Issue #6: 1977 Employment Level of Federal Aviation Administration

Full Time Permanent End-of-Year Employment

	1975	1976		1977		
	Actual	Agency	OMB	Agency	OMB	Difference
Agency mission:	54,885	56,092	56,092	58,784	56,092	-2,692
Air traffic controllers second career program:	446	750	750	800	750	-50
FAA/Iran agreement	0	100	100	232	232	0
Total permanent	55,331	56,942	56,942	59,816	57,074	-2,742

Statement of Issue: OMB recommends denying employee increases of 2,159 positions. OMB further recommends an additional reduction of 533 employees so that a no-employee-increase 1976/1977 objective is achieved. The achievement of such an objective may involve an observable decline in specific areas of FAA performance.

Discussion:

During 1977 FAA will:

- Be required to control 4% more air traffic than in 1976, 66 million aircraft operations in 1977;
- Review 22,000 more medical certifications (567,000 in 1977) than in the prior year;
- Maintain about 400 more navigational facilities (about 15,000 total in 1977) than in 1976;
- Certificate the airworthiness of more aircraft, the proficiency of more pilots, mechanics, flight schools and similar aviation activities than in prior years.

With this background of anticipated workload, OMB has reviewed the FAA request to ensure that all potential gains in labor productivity will be taken and that actions to improve system efficiency will be carried forward. The review of personnel requirements has been thorough. For example:

	1976 Level	Net employment change over 1976 level
. In order to continue a safe and efficient air traffic control system OMB must support increases of 519 air traffic controllers and 61 system maintenance employees (compared to FAA's request for 978 more controllers and 1,031 additional system maintenance personnel).	40,151	+580
. OMB recommends sharply reducing increase requests in logistics, centralized training and aviation medicine (FAA requested 242 more employees).	2,680	+ 75
. No personnel growth was allowed for flight standards, civil aviation security, direction staff and support, research, and installation of facilities and equipment (FAA had asked for 347 more employees).	8,355	0
. FAA headcount has been reduced 122 employees below 1976 levels in airport grants service and research direction.	910	-122
. Total net change over 1976		+533

OMB recognizes that we cannot tolerate an air transport system that is either unsafe or inefficent (with numerous aircraft delays and high fuel consumption). As a consequence there appears to be three alternatives:

Alternative #1: Permit FAA to increase employment level by 2,692 positions over 1976 (agency request).

Alternative #2: Permit FAA to increase employment level by 533 positions over 1976.

Alternative #3: Require FAA to take the 533 position reduction in areas other than air traffic control and airways systems maintenance so that a safe and efficient operational environment is maintained. FAA would have no increase in employment level over 1976. (OMB recommendation).

Impact of Alternatives:

Function	Full Time Permanent End-of-Year Employment			
	1976 Estimate	Alternative #1	Alternative #2	Alternative #3
Air Traffic Control	27,826	28,804	28,345	28,345
Systems Maintenance	12,325	13,356	12,386	12,386
Logistics	1,390	1,454	1,412	1,347
Flight Standards	4,560	4,783	4,560	4,467
Research Direction	210	217	188	188
Aviation Medicine	290	304	294	275
Airport Grants	700	700	600	600
Centralized Training	1,000	1,164	1,049	834
Direction, Staff and Support	3,543	3,622	3,543	3,443
Reimbursable Personnel	562	649	562	562
Facilities Engineering and Development	186	194	186	186
Facilities and Equipment	1,529	1,559	1,529	1,529
Research, Engineering and Development	907	907	907	907
National Capital Airports	810	810	810	810
War Risk Insurance	2	2	2	2
Totals	56,092	58,784	56,625	56,092
Differences		+2,692	-2,159	-533

- Alternative #1 will allow FAA to carry out its responsibilities and initiate some expansion of programs. (Agency Request)

- Alternative #2 will allow FAA to carry out its primary objectives, however staffing will be much tighter in the face of increasing workload than in previous years.

- Alternative #3 would be expected to produce the following declines in performance (OMB recommendation):

  - Inspection of airport security systems will be reduced from an annual basis to a once every year and a half schedule with some deterioration of security levels.

  - Response to field orders to the FAA Supply Depot (which average 65,000 monthly) will slip from a three week turnaround to a six week turnaround on non-priority items.

  - A new training approach designed to reduce the training time of the 1,400 new air traffic control students each year from three years to about two and a half years will not be implemented. The instructor to student ratio of 1 to 3 will become 1 to 4.

  - Headquarters and Regional Offices would experience additional two month delays in issuing air-worthiness directives, preparing environmental impact statements and similar activities.

  - Some minor delays will be incurred in the air-worthiness certification of new models of aircraft. FAA review of general aviation pilot instructors and general aviation maintenance facilities will be carried out at less frequent intervals.

  - FAA review of airmen medical examinations would lag and medical certification lag would increase from the current one month to an expected three months.

Alternative #3 would not adversely impact the day-to-day safety and efficiency of the air traffic control system.

Recommendation: DOT recommends Alternative 1 - increase in staff of 2,692.

OMB recommends Alternative 3 - no increase in staff.