The original documents are located in Box 47, folder "1975/06/16 - Metro Financing Meeting" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

4PM - Presidential Metro Financing
Meeting (oval office)
Cannon, Coleman, Friedersdorf
Lynn and O'Neill

Monday, June 16, 1975

THE WHITE HOUSE

WASHINGTON

File

April 28, 1975

MEMORANDUM FOR THE VICE PRESIDENT

FROM : JIM CANNON

SUBJECT : Metro Construction and Financing

Here is the background on the financing of the Washington subway system.

In brief, OMB recommends that the incompleted sections be financed by money transferred from state highway funds.

Attachment

Copy to Cap Howe + take with Jim Cannon

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

APR 16 1975 ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: METRO Construction and Financing

Statement of Issue

What should the Administration's position be with respect to further financing of the Washington area METRO rail system?

Background

Current METRO construction stems from a substantial history of executive and congressional legislative support for a regional rapid-rail system. Based on earlier studies, Congress authorized a system of 25 miles in 1965. The Washington Metropolitan Area Transit Authority (WMATA) had been created as an interstate compact agency to plan and carry out the transit program. To obtain greater participation from local jurisdictions and improve area-wide transportation, a 98-mile system was proposed late in the Johnson Administration. The legislation was resubmitted, with some technical changes, as a Presidential program proposal early in the Nixon Administration. The Congress enacted the National Capital Transportation Act of 1969 authorizing the 98-mile system on December 9, 1969, at a system cost of $2.5B.

Events in 1970 and 1971 such as greater than anticipated inflation in construction costs, congressional funding delays, and the weak state of the market for the Authority's bonds led to a gap in the 1969 financial plan. The Administration strongly supported legislation to provide a Federal guarantee for taxable bonds with a 25% interest subsidy to generate the additional necessary financing, enacted July 13, 1972.

The 1969 Act, as amended, endorsed a 98-mile system and authorized \$3.0B of financing through three sources: revenue bond proceeds, local contributions, and Federal contributions.

Total project costs	\$2.980M
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Two recent analyses performed for WMATA materially alter this financial scheme:

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Recent analysis indicates that because of higher than anticipated costs of rail system operations, unanticipated bus deficits, and the current level fare policy, the bond obligations cannot be fully covered by the farebox revenues. Localities are now faced with the need to make substantial unanticipated annual contributions toward the \$2.9B required through the year 2015 to repay the bonds. This prospect, combined with doubt whether 98 miles will be built, makes issuance of the remaining bonds (\$200M) open to question.

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In addition, cost estimates have grown due to design changes, unforeseen construction conditions and unprecedented inflation. An analysis of the 98-mile system, made in late 1974, now projects a cost of \$4.5B or \$1.5B more than currently authorized. Even this total is subject to upward revision if further unscheduled delays occur and the inflation rate continues.

Construction Status and Local Concerns

Construction of METRO began in the core area of the District and has radiated outward. Forty miles are now under construction and an additional 30 miles are under final design. If all existing commitments--Federal and local--toward the \$3.0B plan were met, 76 miles of the system could be built. However, WMATA believes a Federal decision not to provide additional funding toward the \$4.5B cost estimate would collapse existing financing arrangements to the point that only 47 miles could be built (at a cost of about \$2.4B).

The financial contribution of the local governments is based upon their proportionate share of a 98-mile system, even though actual construction to date in Maryland and Virginia is relatively small. This has caused great concern on the part of local suburban officials who fear that their areas will not receive the transit service for which payment has already been made. They also fear that a truncated system will have operational problems and not provide adequate revenues to meet operating costs.

In addition, they are concerned that local transit and air pollution goals will not be met if less than 98-miles are built. They further assert that local fiscal resources cannot bear additional burdens, particularly in the face of continuing bus operation deficits and the bond problem. (Their position is set forth in more detail in Attachment A.) As a result, the WMATA Board--representing the local jurisdictions concerned--is seeking Administration support for authorizing legislation which would provide Federal financing of 80% of the funds needed to meet the new \$4.5B cost estimate, with the 80% retroactive to fiscal 1974.

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Existing WMATA legislation was developed cooperatively between the previous Administration and WMATA and transmitted jointly by the Secretary of DOT, the District, and WMATA.

Due to the dramatically higher cost estimates, mutually acceptable legislation will now be much more difficult to achieve.

Unless the Administration and WMATA jointly agree on a policy, WMATA would probably develop its own proposal. Such a bill would seek to maximize Federal underwriting of the project. As an interstate compact agency with no Federal Board member, there is no direct means of preventing WMATA from pursuing an independent course--if they choose to forfeit Administration support. Such a WMATA bill could be expected to receive a sympathetic hearing from the Senate and House District Committees which have strong local representation, particularly since the election to Congress this fall of two former WMATA Board members.

Since no legislation has yet been introduced, congressional views are so far relatively unfocused. The House Budget Committee, however, has included an initial increment of \$211M for METRO construction in its proposed expenditure plan. District Committee Chairman Diggs had asked the Budget Committee for the entire \$1.2B. This indicates that the D.C. Committees would tend to favor the WMATA proposal or at least a substantial Federal contribution.

The fate of such a bill on the floor would be much less certain. There may be a congressional feeling that too much has been invested to turn back now. This is the view purported to be expressed to WMATA congressional liaison staff. On the other hand, it is likely that there will be little enthusiasm in the Congress as a whole for spending such a large amount on transit in the National Capital area compared to the resources available for the rest of the nation. There also may be opposition by the House Public Works Committee to the shift of D.C. highway funds to mass transit, in the alternative discussed below.

Interstate Highway Transfer

A resource that could be used to provide additional funding is the "Interstate Transfer" provision of the 1973 Highway Act. Under this act, localities can substitute transit projects--on an 80%-20% basis--for segments of the Interstate Highway System which they decide not to build. Maryland, Virginia and the District all have controversial interstate segments which may not be built. Current estimates of the costs to complete such segments are:

D.C. - \$1,418M   Maryland - \$306M   Virginia - \$157M

In the District, both the Mayor and the City Council have expressed the view that much of their interstate construction will not be approved. Maryland has already announced that it does not plan to complete several interstate segments in the Washington area and plans to use these funds to extend the Rockville METRO line and upgrade highways elsewhere in the State. It is doubtful that Virginia would be very receptive to use of interstate funds for METRO construction.

Although the total cost of completion of these interstate segments may be reasonably close to the shortfall in METRO's present financial plan, the routine timing of the availability of interstate substitution funds falls substantially short of the rate at which METRO plans to obligate funds. Under either the current interstate allocation system or the Administration's new proposal, METRO would have a substantial cash shortfall in FY 1976-78. One approach to eliminate this problem would be to have all interstate transfer funds immediately available for obligation (i.e. funds for the cost of the completion would be immediately available for obligation rather than on a pro rata basis over a period of years as with other interstate funds). OMB has rejected this proposal because it would substantially reduce Executive control over all future transfers and represents a significant uncontrolled add-on to future Federal transportation expenditures.[1/]

Special legislation for METRO could be proposed to accelerate Federal payments to the District to augment their interstate funds. This, in effect, would be borrowed from their future year interstate allocations. Thus, the local jurisdictions could increase their obligations in FY 1977-79 at the expense of anticipated FY 1980-85 allocations. Such increases would have to represent an addition to the Federal budget as it is not politically feasible to have these increases absorbed within proposed interstate program levels. In the long run, these would be offset by the non-use of interstate highway construction funds through the 1980's.

The additional costs of METRO construction above amounts assumed in the budget and their relationship to anticipated Federal interstate payments are displayed below.

1/ The appropriate treatment of interstate transfer financing nationally will be further addressed in the final Administration decisions regarding a 1975 Federal Highway legislative proposal.

($ in millions)

	1976	1977	1978	1979	1980	Total
METRO overrun	237	461	532	206	41	1477
Federal share (80%)	190	369	425	165	33	1182
D.C. Interstate	200 1/	85	85	90	90	550
Net Accelerated Payments	(-10)	284	340	75	(-57)	632

1/ FY 1976 availability depends upon how quickly the District can implement interstate transfers and the size of overall Federal highway funding. Some acceleration may be needed in FY 1976.

Financing Alternatives

Alt. #1. The Federal Government to pay 80% of the increased costs plus 80% of the costs since July 1, 1973. (The date on which the national mass transit program went to 80-20.) Local officials on November 21 voted unanimously to seek this arrangement. It would entail additional Federal contributions of $1,257M and additional local contributions of $135M.

Alt. #1A. To ease the near-term Federal outlay impact, WMATA has proposed that the Federal Government authorize the sale of $1.257M in taxable bonds for which the Government would pay the principal and interest over a 40-year period. Annual liquidating appropriations would be $88M, with a $14M tax recapture for a net annual Federal cost of $74M.

Alt. #2. No further special Federal financing. Any additional funds would come from a combination of local funds, interstate substitution funds, and perhaps, the UMTA nationwide mass transit program late in the decade. The current UMTA funding assumptions do not include any planned coverage for METRO. This alternative assumes the localities would repay existing bond obligations, but some contingent Federal liability of up to $997M already exists due to the Federal guarantee.

Alt. #3. Reliance on Interstate Funds with accelerated payments. Funding would come from money available through interstate transfer. Legislation, in the form of an amendment to the National Capital Transportation Act, would be submitted soon to provide for such a mechanism.

This mechanism would allow local officials to choose between highway mileage and mass transit. Until final local decisions on highway substitutions are made, it will not be known if such funds will be adequate to complete the system. If these funds are not adequate, or if fiscal uncertainties cause a failure to issue the remaining bonds, a decision on possible additional Federal assistance will be needed. However, any consideration of this question should not be required until all highway substitution decisions are made and resultant funding substantially committed, in two to three years.

(A table showing costs of the alternatives is Attachment B.)

Pros and Cons

Alt. #1. (80% Federal share of new total cost, retroactive to FY 1974)

Pro

- Provides relief for overburdened local fiscal resources. Local funds already committed would match additional Federal contributions. Also requires added local resources.

- Carries out existing Federal commitment. "Keeps faith with citizens of the region."

- Makes formula consistent with national transit formula.

- Insures maximum transit and environmental objectives.

Con

- Requires highest level of added Federal resources-- $1.2B over next 3-4 years. Difficult burden for Federal budget to sustain.

- No logical reason for retroactive shift, particularly in light of other benefits (e.g., bond guarantee) given to METRO not in national program.

- Disproportionate amount of Federal spending on single transit project compared with new Federal transit capital program for entire nation of $11.8B over 6 years.

- Endorses primarily at new Federal expense, construction of marginal segments of transit system.

Alt. #1A. (40-year bond financing)

Pro

- All advantages of Alt. #1.
- Lessens severe outlay impact on Federal budget in near term.

Con

- Adds interest costs to principal used for construction, raising total additional costs over 40 years to $2.9B.
- Sets bad precedent for Federal bonds for individual projects.

Alt. #2. (No additional special Federal funding)

Pro

- Keeps special Federal funding at lowest level.
- Provides incentive for localities to use Interstate highway transfer provisions of 1973 Highway Act to pay for transit to the extent possible.
- Allows completion of significant portion of system if existing local commitments are kept, depending on local highway substitution decisions.

Con

- Would be perceived as reneging by Federal Government, which local officials regard as committed legally and morally to complete a 98-mile system.
- Local governments committed to share capital costs and guarantee bond repayment based on 98-mile system. Voters in Virginia, where bond referendum was required, heavily favored issuing bonds on premise of full system.

- Failure to complete because of fund shortfall will compound traffic problems by not encouraging shift of potential riders from buses and cars. Adds to pollution and demand for additional highways.

- Subsequent to inception of METRO planning, Federal clean air and energy conservation requirements have increased the need to shift riders from private auto to transit.

Alt. #3. (Use of Interstate Transfer with accelerated payments)

Pro

- Provides significant Federal support consistent with overall budget constraints. Requires additional local funding above that already planned.

- Federal support provides strong incentive to local officials to meet existing commitments for coverage of revenue bonds.

- Allows existing statutory arrangement to run its course as contemplated at outset of program. (2/3 - 1/3 basis)

- Presents a creditable posture to the Congress.

- Allows National Capital Region to choose to complete system which would significantly meet transit objectives of area with appropriate mix of highways and transit.

Con

- Fails to meet local objectives of full Federal commitment by direct appropriation with retroactive formula change.

- Sufficient funding for completion of 98-mile system requires local agreement on highway decisions which may be difficult to achieve.

- Represents "new Federal spending" in 77-79.

- Requires special legislation.

OMB Evaluation and Recommendation

Support of the full WMATA request for expansion of separate Federal financing is not justified in our view because of the high marginal cost of the transportation benefits received. Rough analysis by WMATA indicates that the additional $1.5B will only increase ridership about 15-20 percent over a $3B, 76-mile system. It is probable that if WMATA were applying for Federal assistance for the unbuilt lines for the first time through the regular UMTA program, some of their proposals might not withstand the test of cost-effectiveness and would not be funded by UMTA.

In contrast, however, the Federal involvement during the inception and development of METRO, the Federal stake in some kind of successful outcome, plus the good faith efforts of the local jurisdictions make it undesirable to take a position that no further Federal assistance should be forthcoming. Such a position would probably not be agreeable to the Congress.

Taking all factors into account, a constructive response to the WMATA proposal is recommended--Alt. #3. Full local use of interstate transfer funds and their accelerated availability should make possible completion of the system. It would provide the maximum incentive to local officials to make good their bond guarantees, reducing possible Federal liability for almost $1B in already issued bonds. This proposal would offer a solid alternative to area officials and, if agreed to, prevent a separate appeal to the Congress.

Secretary Coleman has been briefed on the details of this memorandum. He strongly supports the effort to meet the METRO construction schedule and agrees that among the financing alternatives available, the use of the interstate transfer provision is the best means of meeting increased METRO construction costs while minimizing the total impact on Federal expenditures. His other views with respect to METRO issues are set forth in attachment C.

In summary, Alt. #3--while subject to some uncertainties--appears to be the most desirable course at this time.

Decision

/__/ Alt. #1 /__/ Alt. #1A /__/ Alt. #2

/__/ Alt. #3 /__/ Other (See me)

Attachments

ATTACHMENT A

Position of Local Officials

The posture of the local officials with respect to further financing is quite clear. They are seeking to insure maximum Federal funding to carry out what they consider the Federal commitment to a full system to meet the transportation and environmental needs of the area. It is politically very difficult for them to consider alternatives to completion of the 98-mile plan.

WMATA staff has done some preliminary analysis of the transportation effects of building only 76 miles with the authorized $3.0B because of a shortfall in funding. This analysis indicates that 270 more buses ($20M capital cost, $18M annual operating cost) would be required. In addition, WMATA argues that further extensive but undetermined road construction would be required to meet 1990 traffic demands. Also, the failure to divert auto passengers to mass transit would have a negative effect on air quality and environmental goals, a national priority. The most troublesome effect would be that if system construction shrinks below 76 miles, it becomes more of a District of Columbia system with lesser rail mileage for the suburbs which have financially committed themselves to the system. It also eliminates the important Mid-City Line, which in D.C. official's eyes is vital to serving low income District residents.

In the view of local officials, much of the cost overrun has been caused by national inflation which is beyond their control. They view it as unthinkable that the Federal Government would back away because of the added cost, given the fact that numerous Federal projects are initially underestimated in cost but subsequently completed. They note that the Interstate system was originally estimated in 1956 to cost less than $30B while the Federal Government has bi-annually increased the estimated cost to $76.3B, (as of 1972) rather than eliminate mileage in the system.

They also believe their fiscal resources are strained to the utmost, particularly in view of the mounting bus operating deficits--projected to reach $52M in 1976--and the unanticipated necessity to subsidize rail system operations to pay off part of $2.9B in bond costs.

Local officials stress that there is a strong Federal interest in completing the project. They note that in testimony on the original authorizing bill, then Deputy Director of the Bureau of the Budget, Phillip S. Hughes, stated that the legislation would (1) fulfill a mandate of Congress; (2) sustain local support and responsibility for the system; and (3) recognize the special Federal interest in the National Capital area.

With respect to the Federal interest, he noted the significant Federal impact on the area economy--employing 30% of the work-force, generating 40% of the area's total wages, and occupying about 30% of available office space. The logic was that in other localities, sectors of the local economy equivalent to the Federal Government's local role in Washington would contribute tax resources necessary to build a rapid-transit system. Hence, the proposed Federal contribution would provide compensatory recognition of the lack of comparable local tax resources. Hughes also stated that as the region's major employer, the Federal Government would benefit by improved productivity from the estimated 40% of its employees commuting to their place of employment. Finally, he noted the responsibility of the Government for the quality of life in the National Capital area for those who work, live, and visit here.

In light of these factors and firmly believing that the Federal Government has a commitment to fulfill in achieving the 98-mile system, WMATA and the local governments are pressing vigorously for the fullest Federal financial commitment.

ATTACHMENT B

METRO SYSTEM FUNDING PROPOSALS

(In Millions of Dollars)

	Alt. #1 80-20 Effective 7/1/73	Alt. #1A 80-20 Effective 7/1/73	Alt. #2 $2.980 Million System	Alt. #3 80-20 of Increased Cost
Federal Grants 1/	2,404	1,147	1,147	1,147
Local Grants	856	856	723	1,018
Bonds and Proceeds	919	919	919	919
Internally Generated Funds	275	275	191	191
Federally Supported Bonds	--	1,257 2/	--	--
Federal Interstate Transfer Funds	--	--	3/	1,179
Project Cost	4,454	4,454	2,980	4,454

1/ Does not include total 40 year outlays of $963M in interest subsidy for bonds, recovered from Federal income tax receipts.

2/ $74M per year average - Debt Service.

3/ Could also be supplemented by funds made available under regular Interstate Transfer procedure.

Attachment C

Additional Views of Secretary Coleman

The Administration's decision on the financing issue should not force either a slowdown in the pace of METRO construction or cutbacks in the mileage of the final system. At a time when the Administration is attempting to cut back fuel consumption, when construction delays mean substantially increased costs, and when cutbacks in the METRO system would greatly reduce service to low and moderate income areas of the District, such a position would not be tenable.

While the Department concurs that the interstate transfer provision is the best available means of meeting increased METRO construction costs, the Department believes that the mechanism recommended in the proposed OMB memorandum is not the most effective way to implement the interstate transfer concept. The Department's recommended approach for managing the interstate transfer provision throughout the Nation as well as in D.C., would provide for control of the rate at which funds are obligated without the need for new legislation. Furthermore, the DOT recommendation would permit management and funding decisions on the substitute transit projects to be made in the context of the national transit program, rather than being dictated by an unrelated highway distribution formula.

THE WHITE HOUSE

WASHINGTON

May 8, 1975

ADMINISTRATIVELY ~~CONFIDENTIAL~~

MEMORANDUM FOR JIM CANNON

FROM ANDRE BUCKLES
MIKE DUVAL

SUBJECT FEDERAL CITY COUNCIL REQUEST THAT THE VICE PRESIDENT TAKE ON LEADERSHIP ROLE IN SOLVING D.C. METRO PROBLEMS.

REQUEST

You have requested comments and recommendations regarding former Ambassador Linowitz's letter to the Vice President (Tab A) requesting his action in obtaining funds for Metro construction. This memorandum will present certain recommendations as to the future handling of Metro problems and attaches an option paper to the President (Tab B) as well as a draft response to Ambassador Linowitz (Tab C).

BACKGROUND

Attached at Tab B is the OMB option paper which is now before the President and which recommends that the respective jurisdictions use substituted Interstate highway funds as the Federal share for meeting the most recent cost overrun of the Metro.

Because of the history of the District of Columbia's dependence on the Federal government and because of the independent structure of the Washington Metropolitan Area Transit Authority, Metro issues have been closely associated with the White House. The current press coverage has reported that OMB has sent an option paper to the President. Consequently, the President has been placed out in front of every Metro issue.

Metro should be considered as a transportation issue rather than a District matter. The Secretary of Transportation is the logical choice to be the Administration point man on the Metro. This would serve the dual purpose of removing the issue from the White House and placing it in the context of the nation's transportation program.

We see the Metro cost overrun issue as controversial and a no-win matter. We should move quickly to put some distance between it and the President.

RECOMMENDATION

1. That you sign the attached memo to the President (Tab D) recommending that Secretary of Transportation Coleman be designated as the Administration's coordinator for Metro.

   Approve ________ Disapprove ________

2. That you sign the attached response to Ambassador Linowitz, subsequent to the President's designation of Secretary Coleman as the Administration's coordinator for Metro. (Tab C)

   Approve ________ Disapprove ________

April 17, 1975

The Honorable Nelson A. Rockefeller
Vice President of the United States
The White House
Washington, D. C. 20500

Dear Nelson:

The Federal City Council has for some months been studying the mounting problems involved in completion of the Washington subway system. Now it is becoming increasingly evident that without firm leadership at the Federal level, the METRO financial crisis could lead to chaos. It is now five months since the Administration was notified that METRO had serious financial problems, including a $1.5 billion construction cost overrun, an apparent inability to repay $1.2 billion in revenue bonds from the fare box, and bus operating deficits in excess of $50 million per year for 1976.

To date, no response has been forthcoming except an unofficial indication that the Administration might look with favor on the transfer to METRO of funds set aside for some District freeways. Although this might have merit for part of the Federal share of the increased cost, we have been unable to find anyone within the Administration or without, who thinks this alone is an adequate response.

In the meantime, various Congressional initiatives have gotten underway, including the introduction this week by several members, of what is WMATA's basic proposal (40 year bonds, with retroactive 80%/20% financing). Others on the Hill feel that such legislation is ill-advised at this time.

At the local level, the uncertainty over METRO's future is beginning to cause severe damage to the frail regional Compact. The combination of rising bus deficits large increases in construction cost outlays, "moral" liability for nearly a billion dollars of outstanding revenue bonds, and a generally tight budget year is takin its toll on voluntary acts of regional cooperation.

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ment
RAL CITY COUNCIL
15th Street, N. W.
ngton, D. C. 223-4560

Each government entity is understandably concerned about protecting its flanks. There is talk of some jurisdictions leaving the Compact, establishing their own bus operations and refusing further contributions. Some of the local governments cannot legally make any further contributions to METRO after July 1st without obtaining voter approval through referendum. And how, they argue, can they go to the voters without a firm proposal as to future Federal financial assistance.

What this all means is that without a broadly agreed upon plan, METRO faces a slow down in its construction program sometime this Summer. Everyone agrees that this, in turn, will mean (1) an even higher cost to complete the system, (2) possible unemployment for thousands of workers, (3) a drop in expenditures for goods and services affecting not only local industries but also other parts of the country where the component parts are produced, including steel, lumber and electronics, and (4) further unreadiness for the Bicentennial celebration which will be focused here to a large extent.

In this climate of uncertainty and confusion, the Council is convinced that there is an urgent need for effective leadership from someone who has the practical authority and ability to bring the pieces together. From discussions with a wide range of sources at the Federal, state and local levels, there appears to be a consensus that you would be the ideal person to assume this role. In addition to the obvious merit of resolving a difficult problem for the Nation's Capital, there are aspects of the situation that have broad implications for public transportation policy throughout the country.

If you would consider looking into this problem, we would be glad to share with you and your staff any of the detailed information we have assembled as to the parties involved, their likely positions, and possible courses of action.

Best wishes.

Sincerely,

Sol M. Linowitz
President

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

April 16, 1975

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

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D.C. - \$1,418M   Maryland - \$306M   Virginia - \$157M

In the District, both the Mayor and the City Council have expressed the view that much of their interstate construction will not be approved. Maryland has already announced that it does not plan to complete several interstate segments in the Washington area and plans to use these funds to extend the Rockville METRO line and upgrade highways elsewhere in the State. It is doubtful that Virginia would be very receptive to use of interstate funds for METRO construction.

Although the total cost of completion of these interstate segments may be reasonably close to the shortfall in METRO's present financial plan, the routine timing of the availability of interstate substitution funds falls substantially short of the rate at which METRO plans to obligate funds. Under either the current interstate allocation system or the Administration's new proposal, METRO would have a substantial cash shortfall in FY 1976-78. The Department of Transportation has proposed to eliminate this problem by having all interstate transfer funds immediately available for obligation (i.e. funds for the cost of the completion would be immediately available for obligation rather than on a pro rata basis over a period of years as with other interstate funds). OMB has rejected this proposal because it would substantially reduce Executive control over all future transfers and represents a significant uncontrolled add-on to future Federal transportation expenditures.

Special legislation for METRO could be proposed to accelerate Federal payments to the District to augment their interstate funds. This, in effect, would be borrowed from their future year interstate allocations. Thus, the local jurisdictions could increase their obligations in FY 1977-79 at the expense of anticipated FY 1980-85 allocations. Such increases would have to represent an addition to the Federal budget as it is not politically feasible to have these increases absorbed within proposed interstate program levels. In the long run, these would be offset by the non-use of interstate highway construction funds through the 1980's.

The additional costs of METRO construction above amounts assumed in the budget and their relationship to anticipated Federal interstate payments are displayed below.

($ in millions)

	1976	1977	1978	1979	1980	Total
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D.C. Interstate	200 1/	85	85	90	90	550
Net Accelerated Payments	(-10)	284	340	75	(-57)	632

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Alt. #3. Reliance on Interstate Funds with accelerated payments. Funding would come from money available through interstate transfer. Legislation, in the form of an amendment to the National Capital Transportation Act, would be submitted soon to provide for such a mechanism.

This mechanism would allow local officials to choose between highway mileage and mass transit. Until final local decisions on highway substitutions are made, it will not be known if such funds will be adequate to complete the system. If these funds are not adequate, or if fiscal uncertainties cause a failure to issue the remaining bonds, a decision on possible additional Federal assistance will be needed. However, any consideration of this question should not be required until all highway substitution decisions are made and resultant funding substantially committed, in two to three years.

(A table showing costs of the alternatives is Attachment B.)

Pros and Cons

Alt. #1. (80% Federal share of new total cost, retroactive to FY 1974)

Pro

- Provides relief for overburdened local fiscal resources. Local funds already committed would match additional Federal contributions. Also requires added local resources.

- Carries out existing Federal commitment. "Keeps faith with citizens of the region."

- Makes formula consistent with national transit formula.

- Insures maximum transit and environmental objectives.

Con

- Requires highest level of added Federal resources--$1.2B over next 3-4 years. Difficult burden for Federal budget to sustain.

- No logical reason for retroactive shift, particularly in light of other benefits (e.g., bond guarantee) given to METRO not in national program.

- Disproportionate amount of Federal spending on single transit project compared with new Federal transit capital program for entire nation of $11.8B over 6 years.

- Endorses primarily at new Federal expense, construction of marginal segments of transit system.

<u>Alt. #1A.</u> <u>(40-year bond financing)</u>

<u>Pro</u>

- All advantages of Alt. #1.

- Lessens severe outlay impact on Federal budget in near term.

<u>Con</u>

- Adds interest costs to principal used for construction, raising total additional costs over 40 years to $2.9B.

- Sets bad precedent for Federal bonds for individual projects.

<u>Alt. #2.</u> <u>(No additional special Federal funding)</u>

<u>Pro</u>

- Keeps special Federal funding at lowest level.

- Provides incentive for localities to use Interstate highway transfer provisions of 1973 Highway Act to pay for transit to the extent possible.

- Allows completion of significant portion of system if existing local commitments are kept, depending on local highway substitution decisions.

<u>Con</u>

- Would be perceived as reneging by Federal Government, which local officials regard as committed legally and morally to complete a 98-mile system.

- Local governments committed to share capital costs and guarantee bond repayment based on 98-mile system. Voters in Virginia, where bond referendum was required, heavily favored issuing bonds on premise of full system.

- Failure to complete because of fund shortfall will compound traffic problems by not encouraging shift of potential riders from buses and cars. Adds to pollution and demand for additional highways.

- Subsequent to inception of METRO planning, Federal clean air and energy conservation requirements have increased the need to shift riders from private auto to transit.

Alt. #3. (Use of Interstate Transfer with accelerated payments)

Pro

- Provides significant Federal support consistent with overall budget constraints. Requires additional local funding above that already planned.

- Federal support provides strong incentive to local officials to meet existing commitments for coverage of revenue bonds.

- Allows existing statutory arrangement to run its course as contemplated at outset of program. (2/3 - 1/3 basis)

- Presents a creditable posture to the Congress.

- Allows National Capital Region to choose to complete system which would significantly meet transit objectives of area with appropriate mix of highways and transit.

Con

- Fails to meet local objectives of full Federal commitment by direct appropriation with retroactive formula change.

- Sufficient funding for completion of 98-mile system requires local agreement on highway decisions which may be difficult to achieve.

- Represents "new Federal spending" in 77-79.

- Requires special legislation.

OMB Evaluation and Recommendation

Support of the full WMATA request for expansion of separate Federal financing is not justified in our view because of the high marginal cost of the transportation benefits received. Rough analysis by WMATA indicates that the additional \$1.5B will only increase ridership about 15-20 percent over a \$3B, 76-mile system. It is probable that if WMATA were applying for Federal assistance for the unbuilt lines for the first time through the regular UMTA program, some of their proposals might not withstand the test of cost-effectiveness and would not be funded by UMTA.

In contrast, however, the Federal involvement during the inception and development of METRO, the Federal stake in some kind of successful outcome, plus the good faith efforts of the local jurisdictions make it undesirable to take a position that no further Federal assistance should be forthcoming. Such a position would probably not be agreeable to the Congress.

Taking all factors into account, a constructive response to the WMATA proposal is recommended--Alt. #3. Full local use of interstate transfer funds and their accelerated availability should make possible completion of the system. It would provide the maximum incentive to local officials to make good their bond guarantees, reducing possible Federal liability for almost \$1B in already issued bonds. This proposal would offer a solid alternative to area officials and, if agreed to, prevent a separate appeal to the Congress.

The Department of Transportation has already processed such interstate transfers and believes this approach is feasible. This middle of the road decision--while subject to some uncertainties--appears to be the most desirable course at this time.

Decision

/__/ Alt. #1 /__/ Alt. #1A /__/ Alt. #2

/__/ Alt. #3 /__/ Other (See me)

Attachments

cc: DO Records
Director
Director's Chron
Deputy Director
Mr. Dorman (2)

Mr. Leonard (Rm. 7001)
Mr. Stoer (Rm. 9233)
Mr. Lutz-DOT
Return to Mr. Kallen

CVAD:ADKallen:ic 4/4/75

ATTACHMENT A

Position of Local Officials

The posture of the local officials with respect to further financing is quite clear. They are seeking to insure maximum Federal funding to carry out what they consider the Federal commitment to a full system to meet the transportation and environmental needs of the area. It is politically very difficult for them to consider alternatives to completion of the 98-mile plan.

WMATA staff has done some preliminary analysis of the transportation effects of building only 76 miles with the authorized \$3.0B because of a shortfall in funding. This analysis indicates that 270 more buses (\$29M capital cost, \$18M annual operating cost) would be required. In addition, WMATA argues that further extensive but undetermined road construction would be required to meet 1990 traffic demands. Also, the failure to divert auto passengers to mass transit would have a negative effect on air quality and environmental goals, a national priority. The most troublesome effect would be that if system construction shrinks below 76 miles, it becomes more of a District of Columbia system with lesser rail mileage for the suburbs which have financially committed themselves to the system. It also eliminates the important Mid-City Line, which in D.C. official's eyes is vital to serving low income District residents.

In the view of local officials, much of the cost overrun has been caused by national inflation which is beyond their control. They view it as unthinkable that the Federal Government would back away because of the added cost, given the fact that numerous Federal projects are initially underestimated in cost but subsequently completed. They note that the Interstate system was originally estimated in 1956 to cost less than \$30B while the Federal Government has bi-annually increased the estimated cost to \$76.3B, (as of 1972) rather than eliminate mileage in the system.

They also believe their fiscal resources are strained to the utmost, particularly in view of the mounting bus operating deficits--projected to reach \$52M in 1976--and the unanticipated necessity to subsidize rail system operations to pay off part of \$2.9B in bond costs.

Local officials stress that there is a strong Federal interest in completing the project. They note that in testimony on the original authorizing bill, then Deputy Director of the Bureau of the Budget, Phillip S. Hughes, stated that the legislation would (1) fulfill a mandate of Congress; (2) sustain local support and responsibility for the system; and (3) recognize the special Federal interest in the National Capital area.

With respect to the Federal interest, he noted the significant Federal impact on the area economy--employing 30% of the work-force, generating 40% of the area's total wages, and occupying about 30% of available office space. The logic was that in other localities, sectors of the local economy equivalent to the Federal Government's local role in Washington would contribute tax resources necessary to build a rapid-transit system. Hence, the proposed Federal contribution would provide compensatory recognition of the lack of comparable local tax resources. Hughes also stated that as the region's major employer, the Federal Government would benefit by improved productivity from the estimated 40% of its employees commuting to their place of employment. Finally, he noted the responsibility of the Government for the quality of life in the National Capital area for those who work, live, and visit here.

In light of these factors and firmly believing that the Federal Government has a commitment to fulfill in achieving the 98-mile system, WMATA and the local governments are pressing vigorously for the fullest Federal financial commitment.

ATTACHMENT B

METRO SYSTEM FUNDING PROPOSALS

(In Millions of Dollars)

	Alt. #1 80-20 Effective 7/1/73	Alt. #1A 80-20 Effective 7/1/73	Alt. #2 $2.980 Million System	Alt. #3 80-20 of Increased Cost
Federal Grants 1/	2,404	1,147	1,147	1,147
Local Grants	856	856	723	1,018
Bonds and Proceeds	919	919	919	919
Internally Generated Funds	275	275	191	191
Federally Supported Bonds	--	1,257 2/	--	--
Federal Interstate Transfer Funds	--	--	3/	1,179
Project Cost	4,454	4,454	2,980	4,454

1/ Does not include total 40 year outlays of $963M in interest subsidy for bonds, recovered from Federal income tax receipts.

2/ $74M per year average - Debt Service.

3/ Could also be supplemented by funds made available under regular Interstate Transfer procedure.

THE WHITE HOUSE

WASHINGTON

May 8, 1975

Dear Mr. Ambassador:

The Vice President has asked me to thank you and to respond in his behalf to your letter regarding Metro construction and its related financial problems.

Since the original request for additional Metro monies was made in December of 1974, the Department of Transportation has been involved in a careful scrutiny of the alternative methods of funding the Federal share of the $1.4 billion cost overrun. The Metro problem not only presents complex legal and budget issues, but also raises questions of broad significance to the national mass transportation program.

The President has asked Secretary Coleman to coordinate the Administration's efforts concerning Washington Metro. Secretary Coleman will bring the requisite leadership, as well as a transportation focus, to the multiple problems you mentioned.

I want to thank you for your candid views and to congratulate you and the Federal City Council for your valuable contribution to the District of Columbia.

Sincerely yours,

James M. Cannon
Assistant to the President
for Domestic Affairs

Honorable Sol Linowitz, President
Federal City Council
1155 - 15th Street, N. W.
Washington, D. C.

THE WHITE HOUSE

WASHINGTON

May 8, 1975

MEMORANDUM FOR THE PRESIDENT

FROM JIM CANNON

SUBJECT DESIGNATION OF SECRETARY COLEMAN AS ADMINISTRATION'S COORDINATOR FOR THE DISTRICT OF COLUMBIA METRO

PURPOSE

To recommend the designation of the Secretary of the Department of Transportation to coordinate the Federal effort for the District of Columbia Metro problems.

BACKGROUND

Because of the history of the District of Columbia's dependence on the Federal government and because of the independent structure of the Washington Metropolitan Area Transit Authority, Metro issues have been closely associated with the White House. The current press coverage has reported that OMB has sent an option paper to you. Consequently, you will be placed out front of every future Metro issue.

Metro should be considered as a transportation issue rather than a District matter. The Secretary of Transportation is the logical choice to be the Administration's coordinator on the D. C. Metro. This would serve the dual purpose of removing the issue from the White House and placing it in the context of the nation's transportation program.

RECOMMENDATION

That you designate Secretary of Transportation William Coleman as the Administration's coordinator for the Washington Metro. Jack Marsh and Paul O'Neill concur in this recommendation. If you approve, I will advise the Secretary and other interested parties.

Approve __________ Disapprove _________

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

June 12, 1975

MEETING ON METRO FINANCING
June 16, 1975
4:00 p.m.
The Cabinet Room
(30 minutes)

FROM: JAMES T. LYNN *Elwin*

I. PURPOSE

To resolve the METRO financing issue.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: After your review of my April 16 memorandum on this subject, (attached at Tab B) you requested a meeting to discuss the options further.

B. Participants: James M. Cannon, William T. Coleman, Jr., Max L. Friedersdorf, James T. Lynn, Paul H. O'Neill.

C. Press Plan: No press.

III. AGENDA

A. Discussion of Available Options On METRO Financing.

The METRO is facing a $1.5B deficit. Local & Congressional interests are pressing the Administration for a decision.

A summary of the issue is provided at Tab A.

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

JUN 12 1975

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN (Signed) James T. Lynn

SUBJECT: Summary of METRO Construction and Financing Issue

The major elements of the METRO financing issue which you should be aware of are:

-- The system was authorized in 1969 and the current financial plan provides for a $2.980M project cost.

-- The system currently has 43-miles under construction--30 more under final design. Because of inflation, strikes, lawsuits, etc.,new cost to complete is now estimated at $4.4B.

-- Revenue bonds are guaranteed by Federal Government. To be paid from farebox or "best effort" of local governments. Studies indicate fare revenues will not cover debt service. Ultimate Federal liability exists for all or part of the $997M bonds already issued.

-- Local officials are concerned that failure to complete will mean that jurisdictions will not receive transit service for which they have already paid in many millions of dollars.

-- Local officials believe the Federal Government is committed to see project through to completion. Previous Federal participation plus impact of inflation means project should have Federal support, as have other Federal projects which have continued despite cost increases.

-- WMATA is seeking Administration support for an additional $1.2B in Federal contributions, local governments would provide an added $133M. Bills to authorize this contribution through the sale of taxable 40 year bonds have been introduced in both Houses.

-- A financing alternative would be to use Interstate Transfer funds, substituting mass transit projects for Interstate highway segments which would not be constructed, primarily in the District of Columbia. Funds available over the life of the Interstate program could fill all or most of the financial gap--if all complex procedural steps are complied with and local governments agree.

-- District of Columbia has begun procedures to withdraw \$500M of Interstate segments for financing portion of METRO.

Options

-- Federal Government contribute 80% of increased costs plus retroactive 80% to July 1, 1973. Total - \$1.2B. (WMATA proposal)

-- No further special Federal financing. (Federal Government would still be ultimately liable for up to \$997M of already issued revenue bonds.) Would probably curtail construction at 40-45 miles, rather than 98 miles in original plan.

-- Use Interstate Transfer funds--with Administration support of legislation to accelerate availability. (OMB recommendation)

no view

~~from support~~

will not object.

W/ the understanding that there will be no new legis. for operating subsidy

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

APR 16 1975 ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN (Signed) James T. Lynn

SUBJECT: METRO Construction and Financing

Statement of Issue

What should the Administration's position be with respect to further financing of the Washington area METRO rail system?

Background

Current METRO construction stems from a substantial history of executive and congressional legislative support for a regional rapid-rail system. Based on earlier studies, Congress authorized a system of 25 miles in 1965. The Washington Metropolitan Area Transit Authority (WMATA) had been created as an interstate compact agency to plan and carry out the transit program. To obtain greater participation from local jurisdictions and improve area-wide transportation, a 98-mile system was proposed late in the Johnson Administration. The legislation was resubmitted, with some technical changes, as a Presidential program proposal early in the Nixon Administration. The Congress enacted the National Capital Transportation Act of 1969 authorizing the 98-mile system on December 9, 1969, at a system cost of $2.5B.

Events in 1970 and 1971 such as greater than anticipated inflation in construction costs, congressional funding delays, and the weak state of the market for the Authority's bonds led to a gap in the 1969 financial plan. The Administration strongly supported legislation to provide a Federal guarantee for taxable bonds with a 25% interest subsidy to generate the additional necessary financing, enacted July 13, 1972.

The 1969 Act, as amended, endorsed a 98-mile system and authorized \$3.0B of financing through three sources: revenue bond proceeds, local contributions, and Federal contributions.

Total project costs	\$2.980M
Revenue bonds	1.110M
Net project cost:	1.870M
Federal share (2/3)	(1.147M)
Local share (1/3)	(.723M)

Additional Federal financing was provided on an 80%-20% basis to construct facilities for the handicapped (\$52M Federal share, \$13M local share). \$11.3M was added for construction of "Federal interest" stations to serve the Smithsonian and Arlington Cemetery.

Two recent analyses performed for WMATA materially alter this financial scheme:

Bond Repayment Problem

Debt service on the \$1.2B of bonds was to be liquidated by farebox revenues from the rail system. To date, \$997M of the bonds have been issued with a Federal guarantee, with a pledge from the local governments that they would take "whatever action is necessary" to pay any principal and interest costs not met through the farebox.

Recent analysis indicates that because of higher than anticipated costs of rail system operations, unanticipated bus deficits, and the current level fare policy, the bond obligations cannot be fully covered by the farebox revenues. <u>Localities are now faced with the need to make substantial unanticipated annual contributions toward the \$2.9B required through the year 2015 to repay the bonds.</u> This prospect, combined with doubt whether 98 miles will be built, makes issuance of the remaining bonds (\$200M) open to question.

Construction Cost Escalation

The existing financial plan was based on a cost estimate of about \$3.0B. Construction has been delayed by factors such as Hurricane Agnes, congressional funding delays, strikes of various construction crafts, and environmental impact suits.

In addition, cost estimates have grown due to design changes, unforeseen construction conditions and unprecedented inflation. An analysis of the 98-mile system, made in late 1974, now projects a cost of \$4.5B or \$1.5B more than currently authorized. Even this total is subject to upward revision if further unscheduled delays occur and the inflation rate continues.

Construction Status and Local Concerns

Construction of METRO began in the core area of the District and has radiated outward. Forty miles are now under construction and an additional 30 miles are under final design. If all existing commitments--Federal and local--toward the \$3.0B plan were met, 76 miles of the system could be built. However, WMATA believes a Federal decision not to provide additional funding toward the \$4.5B cost estimate would collapse existing financing arrangements to the point that only 47 miles could be built (at a cost of about \$2.4B).

The financial contribution of the local governments is based upon their proportionate share of a 98-mile system, even though actual construction to date in Maryland and Virginia is relatively small. This has caused great concern on the part of local suburban officials who fear that their areas will not receive the transit service for which payment has already been made. They also fear that a truncated system will have operational problems and not provide adequate revenues to meet operating costs.

In addition, they are concerned that local transit and air pollution goals will not be met if less than 98-miles are built. They further assert that local fiscal resources cannot bear additional burdens, particularly in the face of continuing bus operation deficits and the bond problem. (Their position is set forth in more detail in Attachment A.) As a result, the WMATA Board--representing the local jurisdictions concerned--is seeking Administration support for authorizing legislation which would provide Federal financing of 80% of the funds needed to meet the new \$4.5B cost estimate, with the 80% retroactive to fiscal 1974.

Current Congressional Situation

Existing WMATA legislation was developed cooperatively between the previous Administration and WMATA and transmitted jointly by the Secretary of DOT, the District, and WMATA.

Due to the dramatically higher cost estimates, mutually acceptable legislation will now be much more difficult to achieve.

Unless the Administration and WMATA jointly agree on a policy, WMATA would probably develop its own proposal. Such a bill would seek to maximize Federal underwriting of the project. As an interstate compact agency with no Federal Board member, there is no direct means of preventing WMATA from pursuing an independent course--if they choose to forfeit Administration support. Such a WMATA bill could be expected to receive a sympathetic hearing from the Senate and House District Committees which have strong local representation, particularly since the election to Congress this fall of two former WMATA Board members.

Since no legislation has yet been introduced, congressional views are so far relatively unfocused. The House Budget Committee, however, has included an initial increment of \$211M for METRO construction in its proposed expenditure plan. District Committee Chairman Diggs had asked the Budget Committee for the entire \$1.2B. This indicates that the D.C. Committees would tend to favor the WMATA proposal or at least a substantial Federal contribution.

The fate of such a bill on the floor would be much less certain. There may be a congressional feeling that too much has been invested to turn back now. This is the view purported to be expressed to WMATA congressional liaison staff. On the other hand, it is likely that there will be little enthusiasm in the Congress as a whole for spending such a large amount on transit in the National Capital area compared to the resources available for the rest of the nation. There also may be opposition by the House Public Works Committee to the shift of D.C. highway funds to mass transit, in the alternative discussed below.

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The additional costs of METRO construction above amounts assumed in the budget and their relationship to anticipated Federal interstate payments are displayed below.

1/ The appropriate treatment of interstate transfer financing nationally will be further addressed in the final Administration decisions regarding a 1975 Federal Highway legislative proposal.

($ in millions)

	1976	1977	1978	1979	1980	Total
METRO overrun	237	461	532	206	41	1477
Federal share (80%)	190	369	425	165	33	1182
D.C. Interstate	200 1/	85	85	90	90	550
Net Accelerated Payments	(-10)	284	340	75	(-57)	632

1/ FY 1976 availability depends upon how quickly the District can implement interstate transfers and the size of overall Federal highway funding. Some acceleration may be needed in FY 1976.

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Alt. #2. No further special Federal financing. Any additional funds would come from a combination of local funds, interstate substitution funds, and perhaps, the UMTA nationwide mass transit program late in the decade. The current UMTA funding assumptions do not include any planned coverage for METRO. This alternative assumes the localities would repay existing bond obligations, but some contingent Federal liability of up to $997M already exists due to the Federal guarantee.

Alt. #3. Reliance on Interstate Funds with accelerated payments. Funding would come from money available through interstate transfer. Legislation, in the form of an amendment to the National Capital Transportation Act, would be submitted soon to provide for such a mechanism.

This mechanism would allow local officials to choose between highway mileage and mass transit. Until final local decisions on highway substitutions are made, it will not be known if such funds will be adequate to complete the system. If these funds are not adequate, or if fiscal uncertainties cause a failure to issue the remaining bonds, a decision on possible additional Federal assistance will be needed. However, any consideration of this question should not be required until all highway substitution decisions are made and resultant funding substantially committed, in two to three years.

(A table showing costs of the alternatives is Attachment B.)

Pros and Cons

Alt. #1. (80% Federal share of new total cost, retroactive to FY 1974)

Pro

- Provides relief for overburdened local fiscal resources. Local funds already committed would match additional Federal contributions. Also requires added local resources.

- Carries out existing Federal commitment. "Keeps faith with citizens of the region."

- Makes formula consistent with national transit formula.

- Insures maximum transit and environmental objectives.

Con

- Requires highest level of added Federal resources-- \$1.2B over next 3-4 years. Difficult burden for Federal budget to sustain.

- No logical reason for retroactive shift, particularly in light of other benefits (e.g., bond guarantee) given to METRO not in national program.

- Disproportionate amount of Federal spending on single transit project compared with new Federal transit capital program for entire nation of \$11.8B over 6 years.

- Endorses primarily at new Federal expense, construction of marginal segments of transit system.

Alt. #1A. (40-year bond financing)

Pro

- All advantages of Alt. #1.

- Lessens severe outlay impact on Federal budget in near term.

Con

- Adds interest costs to principal used for construction, raising total additional costs over 40 years to $2.9B.

- Sets bad precedent for Federal bonds for individual projects.

Alt. #2. (No additional special Federal funding)

Pro

- Keeps special Federal funding at lowest level.

- Provides incentive for localities to use Interstate highway transfer provisions of 1973 Highway Act to pay for transit to the extent possible.

- Allows completion of significant portion of system if existing local commitments are kept, depending on local highway substitution decisions.

Con

- Would be perceived as reneging by Federal Government, which local officials regard as committed legally and morally to complete a 98-mile system.

- Local governments committed to share capital costs and guarantee bond repayment based on 98-mile system. Voters in Virginia, where bond referendum was required, heavily favored issuing bonds on premise of full system.

- Failure to complete because of fund shortfall will compound traffic problems by not encouraging shift of potential riders from buses and cars. Adds to pollution and demand for additional highways.

- Subsequent to inception of METRO planning, Federal clean air and energy conservation requirements have increased the need to shift riders from private auto to transit.

Alt. #3. (Use of Interstate Transfer with accelerated payments)

Pro

- Provides significant Federal support consistent with overall budget constraints. Requires additional local funding above that already planned.

- Federal support provides strong incentive to local officials to meet existing commitments for coverage of revenue bonds.

- Allows existing statutory arrangement to run its course as contemplated at outset of program. (2/3 - 1/3 basis)

- Presents a creditable posture to the Congress.

- Allows National Capital Region to choose to complete system which would significantly meet transit objectives of area with appropriate mix of highways and transit.

Con

- Fails to meet local objectives of full Federal commitment by direct appropriation with retroactive formula change.

- Sufficient funding for completion of 98-mile system requires local agreement on highway decisions which may be difficult to achieve.

- Represents "new Federal spending" in 77-79.

- Requires special legislation.

OMB Evaluation and Recommendation

Support of the full WMATA request for expansion of separate Federal financing is not justified in our view because of the high marginal cost of the transportation benefits received. Rough analysis by WMATA indicates that the additional \$1.5B will only increase ridership about 15-20 percent over a \$3B, 76-mile system. It is probable that if WMATA were applying for Federal assistance for the unbuilt lines for the first time through the regular UMTA program, some of their proposals might not withstand the test of cost-effectiveness and would not be funded by UMTA.

In contrast, however, the Federal involvement during the inception and development of METRO, the Federal stake in some kind of successful outcome, plus the good faith efforts of the local jurisdictions make it undesirable to take a position that no further Federal assistance should be forthcoming. Such a position would probably not be agreeable to the Congress.

Taking all factors into account, a constructive response to the WMATA proposal is recommended--Alt. #3. Full local use of interstate transfer funds and their accelerated availability should make possible completion of the system. It would provide the maximum incentive to local officials to make good their bond guarantees, reducing possible Federal liability for almost \$1B in already issued bonds. This proposal would offer a solid alternative to area officials and, if agreed to, prevent a separate appeal to the Congress.

Secretary Coleman has been briefed on the details of this memorandum. He strongly supports the effort to meet the METRO construction schedule and agrees that among the financing alternatives available, the use of the interstate transfer provision is the best means of meeting increased METRO construction costs while minimizing the total impact on Federal expenditures. His other views with respect to METRO issues are set forth in attachment C.

In summary, Alt. #3--while subject to some uncertainties--appears to be the most desirable course at this time.

Decision

/__/ Alt. #1 /__/ Alt. #1A /__/ Alt. #2

/__/ Alt. #3 /__/ Other (See me)

cc: DO Records
Director
Director's Chron
Deputy Director
Mr. Derman (2)
Mr. Leonard (Rm. 7001)
Mr. Stoer (Rm. 9233)
Return to Mr. Kallen

Attachments

ATTACHMENT A

Position of Local Officials

The posture of the local officials with respect to further financing is quite clear. They are seeking to insure maximum Federal funding to carry out what they consider the Federal commitment to a full system to meet the transportation and environmental needs of the area. It is politically very difficult for them to consider alternatives to completion of the 98-mile plan.

WMATA staff has done some preliminary analysis of the transportation effects of building only 76 miles with the authorized \$3.0B because of a shortfall in funding. This analysis indicates that 270 more buses (\$20M capital cost, \$18M annual operating cost) would be required. In addition, WMATA argues that further extensive but undetermined road construction would be required to meet 1990 traffic demands. Also, the failure to divert auto passengers to mass transit would have a negative effect on air quality and environmental goals, a national priority. The most troublesome effect would be that if system construction shrinks below 76 miles, it becomes more of a District of Columbia system with lesser rail mileage for the suburbs which have financially committed themselves to the system. It also eliminates the important Mid-City Line, which in D.C. official's eyes is vital to serving low income District residents.

In the view of local officials, much of the cost overrun has been caused by national inflation which is beyond their control. They view it as unthinkable that the Federal Government would back away because of the added cost, given the fact that numerous Federal projects are initially underestimated in cost but subsequently completed. They note that the Interstate system was originally estimated in 1956 to cost less than \$30B while the Federal Government has bi-annually increased the estimated cost to \$76.3B, (as of 1972) rather than eliminate mileage in the system.

They also believe their fiscal resources are strained to the utmost, particularly in view of the mounting bus operating deficits--projected to reach \$52M in 1976--and the unanticipated necessity to subsidize rail system operations to pay off part of \$2.9B in bond costs.

Local officials stress that there is a strong Federal interest in completing the project. They note that in testimony on the original authorizing bill, then Deputy Director of the Bureau of the Budget, Phillip S. Hughes, stated that the legislation would (1) fulfill a mandate of Congress; (2) sustain local support and responsibility for the system; and (3) recognize the special Federal interest in the National Capital area.

With respect to the Federal interest, he noted the significant Federal impact on the area economy--employing 30% of the work-force, generating 40% of the area's total wages, and occupying about 30% of available office space. The logic was that in other localities, sectors of the local economy equivalent to the Federal Government's local role in Washington would contribute tax resources necessary to build a rapid-transit system. Hence, the proposed Federal contribution would provide compensatory recognition of the lack of comparable local tax resources. Hughes also stated that as the region's major employer, the Federal Government would benefit by improved productivity from the estimated 40% of its employees commuting to their place of employment. Finally, he noted the responsibility of the Government for the quality of life in the National Capital area for those who work, live, and visit here.

In light of these factors and firmly believing that the Federal Government has a commitment to fulfill in achieving the 98-mile system, WMATA and the local governments are pressing vigorously for the fullest Federal financial commitment.

ATTACHMENT B

METRO SYSTEM FUNDING PROPOSALS

(In Millions of Dollars)

	Alt. #1 80-20 Effective 7/1/73	Alt. #1A 80-20 Effective 7/1/73	Alt. #2 $2.980 Million System	Alt. #3 80-20 of Increased Cost
Federal Grants 1/	2,404	1,147	1,147	1,147
Local Grants	856	856	723	1,018
Bonds and Proceeds	919	919	919	919
Internally Generated Funds	275	275	191	191
Federally Supported Bonds	--	1,257 2/	--	--
Federal Interstate Transfer Funds	--	--	3/	1,179
Project Cost	4,454	4,454	2,980	4,454

1/ Does not include total 40 year outlays of $963M in interest subsidy for bonds, recovered from Federal income tax receipts.

2/ $74M per year average - Debt Service.

3/ Could also be supplemented by funds made available under regular Interstate Transfer procedure.

Attachment C

Additional Views of Secretary Coleman

The Administration's decision on the financing issue should not force either a slowdown in the pace of METRO construction or cutbacks in the mileage of the final system. At a time when the Administration is attempting to cut back fuel consumption, when construction delays mean substantially increased costs, and when cutbacks in the METRO system would greatly reduce service to low and moderate income areas of the District, such a position would not be tenable.

While the Department concurs that the interstate transfer provision is the best available means of meeting increased METRO construction costs, the Department believes that the mechanism recommended in the proposed OMB memorandum is not the most effective way to implement the interstate transfer concept. The Department's recommended approach for managing the interstate transfer provision throughout the Nation as well as in D.C., would provide for control of the rate at which funds are obligated without the need for new legislation. Furthermore, the DOT recommendation would permit management and funding decisions on the substitute transit projects to be made in the context of the national transit program, rather than being dictated by an unrelated highway distribution formula.