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Issue #4

## OVERVIEW

### Rail Transportation 1978 Budget

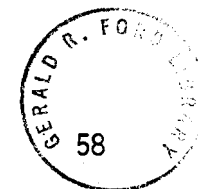
The railroads were the first modern transportation technology and the first big business in America.

- The first railroad started in Baltimore, July 4, 1826.
- For the next century, railroads dominated American transportation--there were no significant competitors.

The railroads were, however, badly hit by the depression of the 1930's. They have not recovered. Their present financial problems are due to a number of interrelated factors.

- Railroad facilities are old by the standards of other industries--often poorly located, physically run down, or simply obsolete. Rail costs are related to these fixed facilities which makes it difficult to adjust to new demands.
- Transportation technology has improved radically for all passenger and freight modes--except the railroads. The result has been that the automobile and the airplane have captured the passenger market, and trucking has taken half of the freight market.
- Basic changes have occurred in the market for intercity freight. The location of industries and the type of freight have become more diversified, but the physical plant of the railroads has remained fixed. Heavy industry, historically the basic generator of rail freight, has also been declining as a share of GNP.
- Railroads were the first large business to be regulated by the Federal Government and few other industries are regulated so pervasively. The result has been inflexible operations and investment, principally with respect to setting rates, abandoning costly routes and services, and changing the corporate structure of the industry.

Except for economic and safety regulation, the Federal Government did not become involved in rail operations until 1971. Beginning then, Federal assistance was offered to solve rail crises.



- AMTRAK was created in 1971. Its objective was to relieve the rail industry of its unprofitable passenger service and retain a self-supporting national rail passenger network.
- The Railroad Revitalization and Regulatory Reform Act was signed in February 1976, to aid the rail freight industry. In it, ConRail was created by government plan to replace six bankrupt railroads and provide freight service in the Northeast.
- Also in that Act, the government was committed to a program to improve rail passenger services between Washington and Boston.
- As a final measure, the Act created two financial assistance programs to aid the financially-troubled industry throughout the rest of the country.

The theme of these efforts was to help the rail industry, both passenger and freight, become self-supporting. The industry was expected to do most of the job itself. To this end, the emphasis of the 1976 Act was on regulatory reform to give the railroads more latitude for their efforts. All of these actions represent, however, a piecemeal response to specific problems as they arose in the rail industry.

- The government has not emphasized efforts to determine what the basic causes of the industry's problems are.
- Most aid programs under discussion treat only one symptom of the problem--a capital shortage.
- There is no consensus on what the rail industry should be like in ten or twenty years or how to get there. Secretary Coleman believes that the railroads should be merged into 4-5 national lines, but still has not outlined how he would do this.

Below, three rail issues are discussed. Common to them is the theme that DOT is not sure where the industry should be going. Rather, DOT has strayed from an emphasis on regulatory reform to the legislative emphasis to spend the problem away. The short term impact of this is not being assessed.

We believe that the long term result of these programs--without a conceptual framework for them--will be an industry so dependent on direct Federal subsidy that it cannot exist on its own. Our recommendations are designed to minimize the depth of Federal involvement because the framework is not available, and are designed to spur development of the conceptual base.

Issue Paper  
Department of Transportation  
1978 Budget  
Issue #4: Railroad Rehabilitation Financing

Issue: At what level should the railroad rehabilitation financing program be funded?

Background

Since 1971, the rail industry nationwide has been showing the same characteristics as the railroads in the Northeast before they went bankrupt.

- The physical plant is deteriorating with deferred maintenance and average age of equipment increasing.
- The railroads have a low rate of return on investment. In 1975, it was 1.2 percent. The industry average has been below four percent since 1955.
- The railroads are unable to borrow sufficient capital to reverse their decline.

In February, the Railroad Revitalization and Regulatory Reform (4-R) Act was signed with two objectives for rail rehabilitation.

- DOT and ICC were to determine the nature of the problems in the rail industry (with emphasis on their financial and government regulatory aspects).
- DOT and ICC were also to recommend ways to help the industry resolve its problems through Federal assistance and regulatory reform.

Implicit in the 4-R Act was the belief that the rail industry needed to be restructured. That is, too many railroads -- all with very high fixed costs -- were competing for a fixed share of the freight market.

- Railroads carry about 40 percent of the freight in the country.

- Although this country has over 200,000 miles of track, 67 percent of the rail freight is carried over only 20,000 miles of track.
- Of the 65 Class I railroads (a Class I railroad has revenue greater than \$5M per year), 39 showed a positive net income in the first quarter of calendar 1976. Of those, only 31 showed an increase over the same period in 1975.

To define more clearly the industry's problems, the 4-R Act required some 35 separate studies to be performed by DOT and the ICC. The key ones for this issue are presented below.

- The classification study is required to rank the nation's track system by six categories of use (due by May, 1977). A preliminary ranking was issued in August, 1976, and we expect the final report to be completed by February 1977.
- The capital needs study is to estimate the railroads' requirement for additional capital investment over the next ten years and suggest appropriate funding mechanisms (due December 1977).
- The Secretary of Transportation is required to recommend the structure of a national rail freight system and the Federal role in that system (due March 1978).

Interim financial assistance was provided to help the rail industry while permanent solutions were sought. Because of the industry's inability to support itself, and because it was believed to be less expensive than allowing the decline to continue while the government studied the problem, two programs were created.

- The program given highest priority by the administration consists of loan guarantees for rehabilitation and improvement projects.
  - (1) Total of \$1 billion has been authorized.
  - (2) There is a maximum 25 year term with interest approved by DOT and secured by the asset acquired.

-- The more attractive program, for the railroads, is designed to give DOT the greatest leverage in restructuring the industry, it consists of the purchase of redeemable preference shares.

- (1) Total of \$600 million has been authorized through March 1979.
- (2) It is essentially equity funding through the purchase of redeemable stock from the railroads.
- (3) Preference shares have a maximum 30 year term with redemption deferred to begin between years 6 and 11.
- (4) The dividend rate varies from a two percent interest rate to a maximum equal to the acquiring railroad's rate of return on total capital (the industry average by this method is 4.9 percent).\* The actual rate for each project is determined by DOT.

In June, DOT requested a 1977 supplemental for \$400 million each in loan guarantees and preference shares. The Department compromised with OMB at \$400 million for loan guarantees and \$70 million for preference shares. The preference shares were to be used as a catalyst for mergers only. The funding levels were determined arbitrarily because, at that time, no information was available to define the need for assistance or to specify the mergers that would be aided.

#### Analysis

There were four assumptions upon which the DOT request was based.

- The 4-R Act studies will successfully define the industry's problems and suggest a workable solution.
- The 4-R Act meant the financial assistance program in 1977 and 1978 to be an interim measure; providing the transition to increased Federal involvement.
- Regardless of the level of federal assistance chosen for 1977 and 1978, it will not meet the needs for outside capital as perceived by the industry. Current estimates for needed capital range from \$10-40 billion for the next

1/ By the same formula, the industry's rate of return on total capital ranges from a low of minus 383 percent for Amtrak to a high of 46 percent for the Duluth, Winnipeg, and Pacific.

ten years. This would be in addition to the capital expenditures by the industry itself. In 1975, the industry's capital expenditures were \$1.79 billion. (Since 1953, annual capital expenditures have been below \$2B in current dollars.)

- The priorities established by DOT, with OMB concurrence, for use of preference shares will continue in force. These priorities are:
  - (1) Encourage mergers and consolidations to streamline the rail system.
  - (2) Facilitate competition within the industry and with other transportation modes.
  - (3) Provide essential public service. (This priority is required but not defined by the 4-R Act.)

The OMB recommendation was based upon the belief that if the course of this assistance program is to be affected, it must be done now. Our analysis is based upon four points.

- DOT assumes that the problems of the rail industry are lack of capital and lack of a nationwide network, similar to the interstate highway system. As discussed in the overview, however, the causes of the industry decline are many and are interrelated. Money and mergers alone may not be the answer.
- The 4-R Act studies are still in their formative stage; final reports are not due for a year. We have requested DOT to try to unearth the basic problems of the industry so they, and not symptoms, may be treated.
- The actions proposed by DOT, if continued, will tend to supplant the Administration's earlier emphasis on aid to the freight rail industry--regulatory reform.
- None of these assistance programs has been used yet, nor will applications be approved before the first of the year.



## Alternatives

The 1977 and 1978 budgetary decisions will be made in terms of the long range activities now underway. Three alternative levels of financial assistance were considered.

- Alternative #1: Phase all \$600 million of preference shares over 2-1/2 years and use all \$1 billion of loan guarantees. (DOT)
- Alternative #2: Keep preference shares and loan guarantees at a constant funding level.
- Alternative #3: Maintain the OMB/DOT agreement of June; no increase in funding until the studies are completed. (OMB)

The resource impact of the above alternatives (program level in millions) is presented below.

### Loan guarantees

	<u>1977</u> <u>est.</u>	<u>1978</u> <u>req.</u>	<u>Total</u>
Alt. #1 (DOT)	400	600	1,000
Alt. #2	400	400	800
Alt. #3 (OMB)	400	400	800

### Redeemable Preference Shares

	<u>1977</u>		<u>1978</u>	<u>To March</u> <u>1979</u>	<u>Total</u>
	<u>est.</u>	<u>supp. req.</u>	<u>req.</u>	<u>req.</u>	
Alt. #1 (DOT)	70	125	275	130	600
Alt. #2	70	---	70	70	210
Alt. #3 (OMB)	70	---	---	---	70

Considerations in favor of each alternative:

-- Alternative #1:

- The Administration is not perceived by Congress and the industry to be committed to preference shares, inferentially bringing the total Federal commitment into question, this alternative resolves their doubts.
- Merger negotiations are time consuming, they cannot start in earnest until there is proof that funds will be available at the end.
- A lower funding level, in DOT's opinion, would limit their ability to view industry-wide problems, limit flexibility, weaken their negotiating position, and not implement an Administration commitment.
- A supplemental in 1977, even if not passed by Congress until early summer, would gain goodwill in the industry, and still allow work to begin next year.

Alternative #2:

- Full funding of preference shares now, as advocated by the first alternative, would have several undesirable aspects.
  - (1) It would create an expectation in the industry for a program at this, or larger, annual levels in the future.
  - (2) It would serve as an unprecedented (except for ConRail) equity investment in a private industry. Every industry believes itself to be short of capital funds. Others could feel entitled to a similar program.
  - (3) A commitment of the full amount makes it more difficult to adopt other types of assistance programs in the future.
  - (4) A commitment of the full amount makes the use of loan guarantees -- the preferred method -- more difficult.

(5) Partial funding now allows the studies time to be completed and evaluated before the government is committed to a given position.

(6) Conversely, a level appropriation request could cause a Congressional backlash to legislatively eliminate the Administration's discretion.

-- No demand for full use of loan guarantees has appeared.

(1) Although it may not be used fully, and it does not increase outlays, a guaranteed loan is still a commitment of Federal funds.

(2) Given the history of the rail industry, it is likely that some loans will default -- the more loans guaranteed, the greater the probability this will happen.

#### Alternative #3:

-- Nothing has changed the situation since the DOT/OMB June agreement to warrant a second 1977 supplemental.

-- No merger negotiations have started, nor are any expected in the near future. Given the time required for these negotiations, no money may be needed for mergers (DOT's highest priority) in 1978.

-- In any case, until the studies are completed and DOT is able to decide what impact it wants to have on the rail industry, an increase in funding is premature.

-- Significant funding levels at this time will encourage the Administration to continue its pursuit of the financial solution to the detriment of a more basic examination of what the industry really needs.

Recommendation

Agency request: Alternative #1. Both Congress and the rail industry believe the Administration to be committed to rail rehabilitation. Full funding accepts that commitment.

OMB recommendation: Alternative #3. Although it may be possible to define more accurately the need for this program, and how this program is to be used to solve the problems of the industry before the end of 1978 -- it cannot be done now.

Issue #5

Issue Paper  
Department of Transportation  
Issue #5: Northeast Corridor Improvement Program

Issue

Are the social benefits of the Northeast Corridor Improvement Program commensurate with the financial costs?

Background

The Northeast Corridor (NEC), for rail purposes, consists of all the property used in passenger service along AMTRAK's 437 mile mainline between Washington and Boston. Although this area represents only two percent of the land in the U.S., it contains about 20 percent (40+ million) of the population; making it the densest transportation corridor in the country.

Since the mid-1960's, both the Executive Branch and Congress have been interested in an expanded rail program for the NEC. Studies in 1971 and 1973 were addressed to the growing demand for intercity transportation in the corridor and potential road and air congestion. They concluded that expansion of the motor and air modes would meet increasing public opposition, so rail -- with its excess capacity -- seemed to be the answer.

The bankruptcy of the Penn Central, which owned the NEC, occupied Federal attention during this time. By the mid-1970's, however, the Administration was ready to propose a program. DOT recommended a \$2.5 billion effort to rebuild track allowed to decline by the Penn Central and to upgrade the entire system to 150 MPH service (from 105 MPH). The Administration requested a \$1 billion program to renovate the track and to standardize some aspects of the line, such as electrification.

The result, in February, 1976, was Title VII of the Railroad Rehabilitation and Regulatory Reform Act. The Act authorized a \$1.75 billion, five-year program to accomplish the following goals:

1. Some \$1.6 billion was authorized to establish trip times of 2-hours-40 minutes between Washington and New York, and 3-hours-40 minutes between New York and Boston.

2. The remaining \$150 million was authorized for a 50-50 matching program with the States to develop nonoperational portions of stations and to provide track fencing.

3. DOT was also required to maximize labor benefits in areas of high unemployment and to insure that a fair portion of the contract work went to minority-owned businesses.

### Analysis

The Department believes that the Administration has a total commitment to the NEC and has developed a five-year plan to meet the statutory goals. Below, the benefits and costs of this program are discussed.

#### Benefits of the NEC

1. It will reduce trip time between Washington and New York by 20 minutes and between New York and Boston by 26 minutes. The time savings on the most frequently travelled segment of the corridor, Philadelphia to New York, will be 5-7 minutes.

2. A total employment (direct and indirect) of some 30,000 workyears will be required over the life of the program. The maximum impact will be about 15,000 jobs during the summer of 1979.

3. Although the NEC will not divert enough passenger's from other modes to obviate expansion of air or ground modes, it will serve to delay the time at which expansion is required. It will also provide a real alternative to travelers of short distances.

4. It will save about one million barrels of oil a year and provide some unquantifiable environmental benefits.

5. It is a unique national resource providing a reservoir of all-weather transportation capability in an area of high population. When regular high-speed service is available, the U.S. will enjoy the prestige of Japan, England, France, and Germany -- where "bullet" service has been available for years.

Costs of the NEC

1. The NEC program funding will not be enough, in itself, to meet the statutory goals for the corridor. In addition to the \$1.75 billion authorized in direct costs, some \$500-800 million is needed to:

- improve the roadbed between New York and New Haven (a factor in trip time)
- offer minority business assistance,
- to purchase new AMTRAK rolling stock (a factor in trip time and reliability), and
- to rebuild bridges along the route.

2. Once completed, the NEC will not be self-supporting (cost-effectiveness was the basic assumption in the earlier studies and the earlier administration position).

-- If only direct operating costs to AMTRAK are considered, and the Federal subsidy is considered interest-free, it will take AMTRAK approximately 50 years to break even on annual costs and revenues.

-- If the total direct investment is amortized, AMTRAK will never break even.

-- The net present value of the NEC investment is an annual cost to the Federal government of \$150-200 million indefinitely.

3. Once the present program establishes 120 MPH service in the corridor it will be a simple -- albeit costly -- next step to increase speeds to the 150-200 MPH range. In fact, the Act requires DOT to make recommendations on this point.

4. DOT has been unable to demonstrate that any significant number of passengers will be diverted from the other modes; bringing into question the claims for energy savings, environmental benefits, and congestion relief.



### Political Aspects of the NEC

Within the Administration, DOT has never given up on the idea of first class, high speed rail service in the NEC. The Department unofficially retains plans that would allow it to eventually move to 200+ MPH service. Secretary Coleman also believes that he is constrained by the Act and by Congressional pressure to finish the project as ordered. He would view any delay or change as a direct reversal of his policy.

Within Congress, the NEC has been even more popular. The chairmen of the substantive and appropriations committees were pro-rail in the Senate. The House committees have been ambivalent; generally deferring to the Senate. The recent election, however, has made the Congressional position on the NEC uncertain. Of the NEC's three most ardent supporters, two will not return to the Senate (Senators Hartke and Pastore). Only Senate Weicker remains.

### Restatement of the Problem

Are the social and political benefits to be gained by acceptance of the NEC worth a permanent Federal cost of \$150-200 million per year?

On the basis of social benefits we think the answer is no. The following options assume that it would be impossible to stop the program entirely. Instead, options are presented below that will lessen the direct cost to the Government.

Alternatives

(Dollars in millions, direct NEC costs only)

		<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Total</u>
Alt. #1 (DOT)	PL	21	150	450	600	529	---	---	1,750
	O	6	56	215	435	549	385	104	
Alt. #2	PL	21	150	277	358	294	---	---	1,100
	C	6	56	162	276	322	219	59	
Alt. #3 (OMB)	PL	21	150	155	189	170	---	---	685
	O	6	56	125	164	177	123	34	

Alternative #1: (DOT) This alternative accepts the statutory goals for the corridor and the DOT five year program to meet those goals.

- From the transportation perspective, the NEC is the best area in the country for improvement of rail passenger service.
- If anything less than the full program is funded, there is a risk that Congress might make AMTRAK responsible for the NEC--removing it from Executive Branch control.
- By avoiding a battle with Congress, there is no risk that a backlash may affect Administration proposals in other transportation areas.

Alternative #2: This alternative is based on the assumption that the social and financial benefits are not worth the cost to the government of the program. The funding level in this option would not begin construction between New Haven and Boston. Attachments I and II present the specific costs of this option.

- This is the most expensive segment of the corridor to improve.
- This segment also carries the lowest number of passengers (but offers the greatest potential for increase in ridership).

- Because this alternative cuts the total cost of the improvement project by 38 percent, while the potential ridership is cut by only 12 percent, the project becomes more cost effective.
- The area affected by this alternative, however, would receive the greatest benefit from new jobs if the project were continued. (Especially in Massachusetts and Connecticut.)
- Connecticut is funding much of the improvement work south of New Haven; making the New Haven-New York segment very attractive. If Federal funds were withdrawn from the northern half of the State, there is a slight chance that Connecticut might stop its contribution.

Alternative #3: (OMB) This alternative also makes the same assumptions the second alternative and is drawn from the figures in the attachments. In addition to not beginning work between New Haven and Boston, this alternative would not begin construction between Washington and Philadelphia.

- The Washington-Philadelphia segment is the second most expensive segment, and the next logical segment to cut.
- The southern segment carries fewer passengers than the Philadelphia to New York Segment.
- The alternative concentrates Federal funding in the areas of greatest service.

#### Recommendation

Agency request: Alternative #1. The NEC represents a showcase transportation effort and is popular with Congress. The program must go ahead to keep AMTRAK from getting control.

OMB Recommendation: Alternative #3. Stopping construction work between New Haven and Boston and between Washington and Philadelphia is the more effective option to reduce the program -- the highest cost, lowest payoff segment is amputated. Improvement between Philadelphia and New Haven is retained.

## Comparison of Costs and Number of Passengers

Alternative #1: Full Program (DOT)

	<u>Boston- New Haven</u>	<u>New-Haven- New York</u>	<u>New York- Phila.</u>	<u>Phila.- Wash.</u>
Construction				
Cost to improve	\$684M	\$55M	\$406M	\$476M
No. passengers (five year total)	6.758M	7.882M	29.275M	12.385M
\$/Passenger	\$101	\$ 7	\$ 14	\$ 38

Alternative #2: Stop Boston-New Haven in 1978

Construction				
Cost	\$34M	\$55M	\$406M	\$476M
No. Passengers (five year total)	6.758M	7.882M	29.275M	12.385M
\$/Passenger	\$ 5	\$ 7	\$ 14	\$ 38

Alternative #3: In addition to Alt. #2, Stop Phila-Wash in 1978 (OMB)

Construction				
Cost	\$34M	\$55M	\$406M	\$61M
No. Passengers (five year total)	6.758M	7.882M	29.275M	12.385M
\$/Passengers	\$ 5	\$ 7	\$ 14	\$ 5

\*For all three alternatives, the New Haven-New York costs represent only the Federal costs. Both New York and Connecticut are contributing track construction funds to upgrade commuter rail service. The Corridor benefits from this effort.

## ATTACHMENT II

(\$ in M)	Comparison of Corridor Investment by State								
	<u>Mass.</u>	<u>R.I.</u>	<u>Conn.</u>	<u>N.Y.</u>	<u>N.J.</u>	<u>Penn.</u>	<u>Delaware</u>	<u>Maryland</u>	<u>D.C.</u>
Alt. #1 DOT	155	195	379	96	189	187	96	257	67
Alt. #2	9	12	13	96	189	187	96	257	67
Alt. #3 OMB	9	12	13	96	189	157	11	16	4

Issue #6

Issue Paper  
Department of Transportation  
1978 Budget  
Issue #6: Amtrak Funding

Issue: What should be the federal criterion to determine AMTRAK's Funding level?

Background

Before the creation of AMTRAK in 1971, intercity rail passenger traffic had been on a fifty year decline.

- In 1929, there were 20,000 passenger trains per day representing 77 percent of the market (buses had 15.4 percent)
- In 1950, 10,000 trains were operating per day to cover 46.3 percent of the market (buses had 37.7 percent and the airlines 14.3 percent)
- In 1970, only 450 trains were in operation each day (with 100 slated for discontinuation) this represented 7.2 percent of the market (buses had 16 percent and the airlines 73 percent).

By 1971, it became apparent that the ICC requirement to provide passenger service was putting otherwise sound railroads into the red. To save passenger service and the rail industry, the Administration proposed AMTRAK.

- AMTRAK was created as a mixed ownership, for-profit corporation.
- Government subsidies were to be temporary. They consisted of loan guarantees for capital investment and direct grants to meet the operating deficit. In 1976, a direct appropriation for capital investment was provided; it was clear that AMTRAK could not service its debt. (The 1978 budget includes appropriations to start reduction of this \$900 million debt.) The Transportation Improvement Act, signed in October; allows AMTRAK to convert the direct grants to guaranteed loans.

-- AMTRAK was to provide nation-wide rail service.

AMTRAK's performance since 1971 is viewed by AMTRAK as a success, by its critics as failure. The AMTRAK perspective of success emphasizes service.

- The system grew (1972-1975); route miles from 23,000 to 26,000, stations from 440 to 484, and millions of train miles from 26 to 31.
- From 1972 to 1976, revenues increased by 75 percent, ridership by 23 percent, and revenue per passenger mile by 36 percent.
- AMTRAK's market share of all common carrier travel (in 1974) increased to 12 percent. Between only those cities serviced by AMTRAK, the share in 1974 was 18.5%.1/

By other factors, however, AMTRAK has been a failure.

- Although revenue has increased by 75 percent since 1972, cost has increased by 120 percent. As a result, revenue has decreased from 50 percent of cost in 1972 to 40 percent in 1976. 2/
- The deficit in terms of revenue passenger miles has almost doubled from 56 cents/mile to 95 cents/mile.
- AMTRAK's performance during the energy crisis fell short of expectations. Although the average load factor before the Arab oil embargo was 40-50 percent -- giving excess capacity -- costs increased faster than revenue. At present the average load factor is about 50 percent.
- AMTRAK's costs for the past two years rose at a rate 12 percent higher than costs for the industry as a whole.

AMTRAK's, emphasis on service, and the Administration's emphasis on AMTRAK's financial situation has lead to repeated confrontation.



- Since 1973 (with 1976 the only exception), the Administration has proposed reductions in AMTRAK's operating grant.
- AMTRAK has interpreted these cuts as contrary to its "mandate" to provide national service and defended its own request before Congress. (AMTRAK submits its request to OMB and Congress concurrently.) It discusses the impact of the Administration's position to Congress in terms of route reductions.
- The Congress, concerned by the prospect of discontinued service in home districts, has always appropriated AMTRAK's full request. Within the last year, however, some members of both the substantive and appropriations committees have displayed waning enthusiasm for ever-rising AMTRAK deficits.

Analysis Assumptions: Two general assumptions were made about AMTRAK by both DOT and OMB. Below, they are presented with their supporting points.

1. Unless some change in the relationship occurs, the AMTRAK-Administration dichotomy is likely to continue indefinitely.
  - From 1972 through 1977, the Federal government has provided AMTRAK an operating subsidy of \$1.5 billion, loan guarantess of \$900 million, and capital grants of \$217 million for what was meant to be a temporary subsidy.
  - In addition to direct subsidy the government has committed almost \$2 billion to rehabilitate the Northeast Corridor for 120MPH AMTRAK service.
  - Starting in 1978, AMTRAK proposes to accelerate expansion from the above base. If the AMTRAK program is accepted, the four year cost (1978-1981) will be at least \$3.5-4 billion, \$1 billion of which is capital investment.
  - This plan would provide for the creation of three new routes each year and the discontinuance of one route. It would eventually replace all

of AMTRAK's rolling stock (some of which was purchased through loan guarantees).

2. The 1978 budget presents a juncture in the Federal-AMTRAK relationship which allows a change to be seriously considered.

-- After five years of operation it is possible to assess AMTRAK's performance.

-- Heretofore, capital investment has been used to consolidate operations, the major investment in new equipment and expanding the system begins in 1978. Both actions are totally dependent on direct Federal subsidy.

As long as AMTRAK believes that it is a national railroad it will view any proposed change as a challenge to its basic authority. It will be successful as long as Congress supports this position. Yet, given the rising Federal support, should there be a change in the criterion used to determine AMTRAK's funding level? Or, fundamentally, should AMTRAK remain a "national" system dependent on Federal subsidy but independent of Presidential control?

-- OMB has sought a means to provide a programmatic evaluation of AMTRAK, and has requested DOT to participate on many occasions. DOT has demurred.

-- The DOT recommendation for a decrease in the 1978 request is based upon a rough formula. They cannot, when requested, provide an assessment of the specific areas they wish cut nor the impact of their recommendation.

-- The OMB recommendation is based upon an equally rough criterion.

-- AMTRAK has consistently refused to support the President's budget before Congress. It will be the same this year.

Resource Alternatives

Budget Options in 1978  
(Program Level in millions)

<u>Category</u>	<u>1978</u>		
	<u>Alt. #1</u> <u>(AMTRAK)</u>	<u>Alt. #2</u> <u>(DOT)</u>	<u>Alt. #3</u> <u>(OMB)</u>
Operating	460	420	386
NEC operating	70	70	70
Capital grant	317	105	77
Debt retirement	25	25	25
Purchase of corridor	<u>25</u>	<u>25</u>	<u>25</u>
Total appropriations	901	645	583

Out Year Impact of Budget Options

(Program Level in millions)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Alt. #1 (Amtrak)	901	905	881	864
Alt. #2 (DOT)	645	600	588	582
Alt. #3 (OMB)	583	595	600	605

Alternatives:

Alternative #1 (AMTRAK) has two features.

- It assumes an entitlement to a government subsidy that: meets AMTRAK-defined requirements for service; allows three new routes per year with one discontinuation, if Congress allows discontinuation; and allows the continuation of a capital improvement program which will ultimately replace all AMTRAK rolling stock.

- Adoption of this option would still the dispute between the Administration and AMTRAK and be the most acceptable to AMTRAK's congressional committees.

Alternative #2 (DOT) proposes that a constant level of funding be the criterion for funding AMTRAK.

- It recommends that the subsidy be permanently held at approximately the 1977 level. To do this, AMTRAK is required to absorb inflation through management initiatives or modest route reductions. DOT estimates that the 1978 level may result in three or four route reductions, but does not specify which routes nor estimate the implications of this approach if it were adopted as policy. AMTRAK, because no routes are specified, could claim to Congress that some 6-8 route reductions would be required and that capital improvement would be delayed, continuing the provision of inadequate service.

Alternative #3 (OMB) proposes that an AMTRAK route be discontinued when the Federal subsidy per passenger is greater than the cost of a commercial airline ticket between the terminal cities of that route.

- With this criterion, nine routes would be discontinued in 1978 for a decrease of \$78 million from the AMTRAK request. Attachment I shows the analysis by each route and ranks all AMTRAK routes by size of subsidy.
- This alternative would discontinue service in the following areas: Seattle-Vancouver, San Francisco-Bakersfield, Los Angeles-San Diego, Temple-Laredo, St. Louis-Ft. Worth, Chicago-Dubuque, Independence-Jacksonville, and Independence-Norfolk. Attachment II shows these areas graphically.
- Although rough and somewhat arbitrary, this alternative dramatizes to Congress and to the public the degree to which AMTRAK funding is out of control.
- Unlike Alternative #2, this criterion is specific. The rationale can be understood and defended before the inevitable AMTRAK opposition.

Recommendation:

Agency request: Alternative #2. A change is needed for the basis upon which AMTRAK receives the Federal subsidy. The criterion should be to hold them at the 1977 level in current dollars; forcing a reduction in operations as they must absorb inflation.

OMB recommendation: Alternative #3. A change is needed. Rather than level of effort, however, it should be specific: AMTRAK service on a route should be discontinued when the Federal subsidy per passenger for that route exceeds the cost of a commercial airline ticket.

1/ Market Share - 1974 passenger miles; All travel - Bus 58.3%, Air 29.7%, Rail 12.0%; Travel between AMTRAK Cities - Bus 26.3%; Air 55.2%, Rail 18.5%.

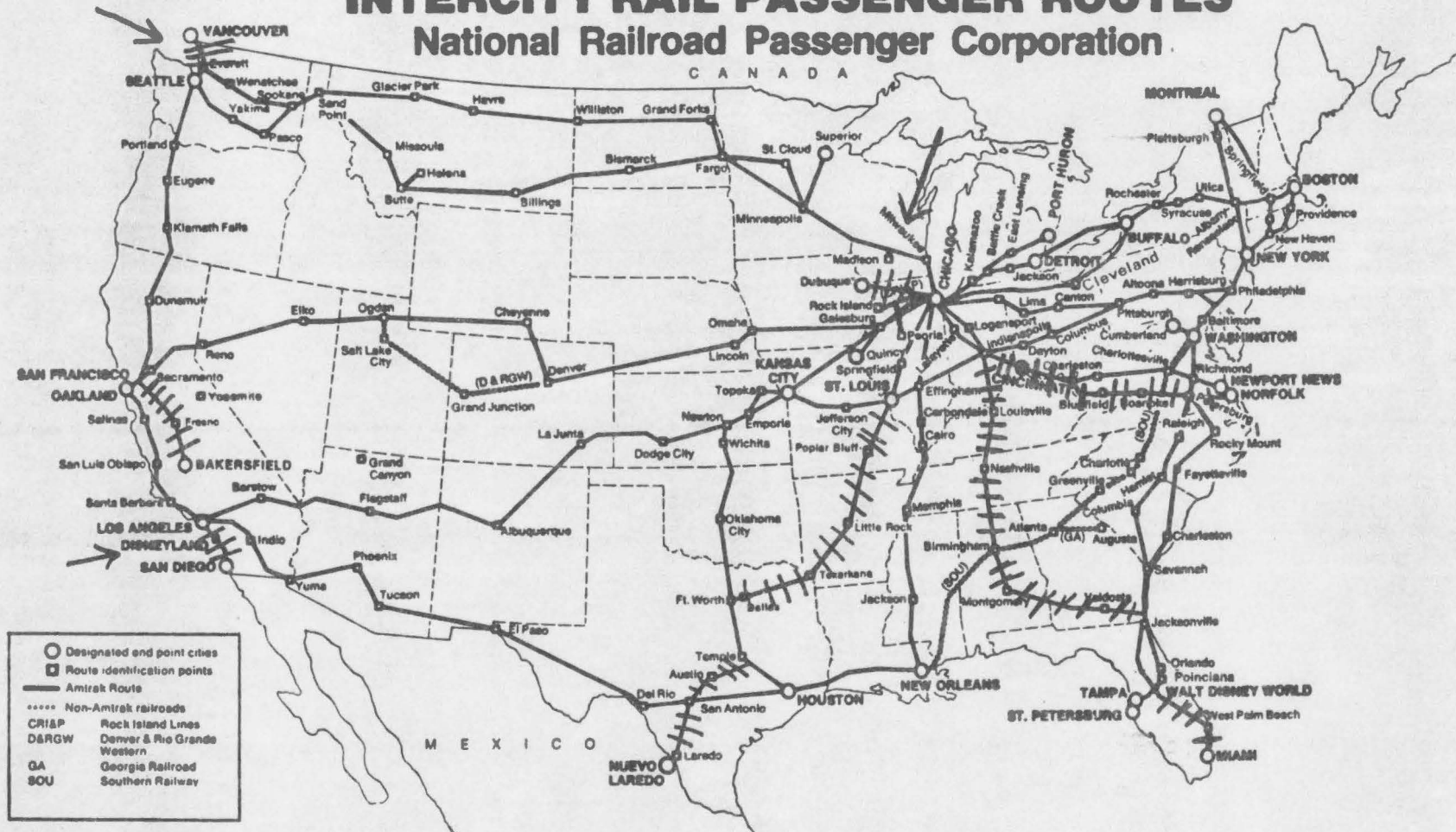
2/ Amtrak's fare structure continues this decline. Because revenue is less than half of the total cost, fare increases must be greater than cost increases if the deficit is ever to be overcome. Instead, Amtrak's explicit policy is to keep the rate of fare increases below cost increases to encourage more people to ride AMTRAK.

ATTACHMENT I: AMTRAK Subsidies by Route  
 (\*Route to be discontinued)

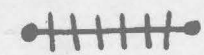
<u>Route-(Ranked by Subsidy/Passenger)</u>	<u># Pass. 1977 (K)</u>	<u>1977 Subsidy (K)</u>	<u>Subsidy/ Passenger</u>	<u>Air Coach Fare</u>
<u>Chicago-Laredo</u>	41	\$11,543	\$281.54	\$99.07*
<u>Chicago-Miami</u>	140	19,422	138.73	83.33*
<u>Chicago-San Francisco</u>	252	24,665	97.88	112.96
<u>Chicago-Los Angeles</u>	263	23,020	87.53	101.85
<u>San Francisco-Bakersfield</u>	69	5,946	86.17	20.93*
<u>New York-Newport News</u>	39	3,061	78.48	40.74*
<u>Washington-Norfolk-Chicago</u>	179	13,379	74.74	65.74*
<u>Chicago-Seattle (S)</u>	258	17,908	69.41	141.67
<u>New York-Miami</u>	785	54,246	69.10	77.78
<u>Chicago-Seattle (N)</u>	330	21,879	66.30	141.67
<u>Washington-New York-Chicago</u>	269	17,309	64.35	74.07
<u>New York-Washington-Kansas City</u>	195	12,062	61.86	98.15
<u>Vancouver-Seattle</u>	55	3,071	55.84	20.93*
<u>Chicago-Dubuque</u>	30	1,645	54.83	33.33*
<u>New Orleans-Los Angeles</u>	101	4,636	45.90	106.48
<u>Seattle-Portland</u>	111	4,526	40.77	21.30*
<u>Chicago-New Orleans</u>	180	6,345	35.25	65.81
<u>Washington-Montreal</u>	348	11,886	34.16	61.00
<u>New York-Montreal</u>	127	3,793	29.87	44.00
<u>Chicago-Houston</u>	286	8,279	28.95	86.11
<u>Chicago-Carbondale</u>	153	4,242	27.73	46.30
<u>Seattle-Los Angeles</u>	406	10,461	25.77	70.37
<u>Chicago-Detroit</u>	490	11,577	23.63	36.11
<u>Minneapolis-Superior</u>	55	1,250	22.73	33.33
<u>Chicago-St. Louis</u>	274	5,641	20.59	37.96
<u>San Diego-Los Angeles</u>	396	8,001	20.20	10.60*
<u>New York-Detroit</u>	669	12,398	18.53	58.33
<u>Washington-Cincinnati</u>	162	6,524	40.27	50.00
<u>Chicago-Milwaukee</u>	302	4,435	14.69	22.22
<u>Chicago-Quincy</u>	112	1,532	13.69	37.96
<u>New York-Boston-Chicago</u>	295	3,187	10.80	74.07

# INTERCITY RAIL PASSENGER ROUTES

## National Railroad Passenger Corporation



AREAS DENIED TRAIN SERVICE  
BY OMB RECOMMENDATION



Issue #7



Department of Transportation  
1978 Budget  
Issue #7: R&D Funding Requirements

Statement of Issue: What is the most appropriate funding level for FAA Research, Engineering and Development (R,E&D) activities? How can the Aerosat program be accommodated within this level?

Definitions:

- Third Generation System: A nine-feature upgrading of the air traffic control system. Some of the features include: microwave landing systems, collision avoidance systems, automated flight service stations, and wake vortex avoidance systems.
- Fourth Generation System: The follow-on air traffic control automation upgrading which is estimated for implementation during the 1990-2000 timeframe.
- Aerosat: A joint US/Canada/Europe space satellite program to place two geostationary satellites over the North Atlantic for the purpose of improving communications and aircraft surveillance in these airways.

Background

- . The FAA's R,E&D program for non-regulatory activities is funded from the Airport and Airways Development Trust Fund. Historical, FAA's 1978 request, and FAA's projected dollar levels are as follows:

	Budget Authority in \$M						
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
R,E&D .....	57.9	67.5	74.3	109.0	120.5	127.0	134.1
(Aerosat) .....	(0.6)	(4.5)	(3.6)	(24.6)	(27.7)	(14.8)	(14.8)
EOY employment ..	905	905	905	905			

- . FAA's 1977 funding level and 1978 request level breakdown as follows:

	<u>1977</u>	<u>1978</u>
Current system enhancement	\$10M	\$14M
Third generation (new systems)	60	87
Third generation (subsystems)	3	4
Fourth generation (future systems)	1	4

- . The time critical nature of implementation of Third Generation System (1980-1981) technologies or the current need for Fourth Generation System planning (1990-2000) is difficult to ascertain. FAA's outyear aviation activity forecasts are continually being modified downward.
- . In August OMB supported a DOT plan to initiate a \$45M construction program (via long term leasing) at FAA's R&D center located at Atlantic City. About 10-15% labor productivity in 1979 and beyond is to be expected from this program which will replace 36 WW II vintage buildings with a modern three-building complex.
- . Although the Aerosat program was supported strongly by FAA in the past, the agency's support waned when tradeoff analysis with other FAA R&D programs was requested by OMB.
- . FAA requests an R,E&D funding level in 1978 to allow for the partial prepayment of a yet-to-be-negotiated Comsat General contract to operate the U.S. portion of the Aerosat program.

#### Alternatives

- #1. Provide 46% increase in R,E&D funding; no staffing change.
  - Support DOT's \$109M request.
  - Guarantees Aerosat funding in a manner that will not impact other R&D programs.
  - Permits no slippage of any of the Third Generation air traffic control system elements due to be implemented 1979-81. Allows early planning for Fourth Generation system projected for implementation in 1990-2000.

- #2. Provide 27% increase in R,E&D dollars; no staffing change.
- Support a \$26M increase which would allow the full requested increases in all high priority, and/or safety-related programs.
  - Guarantees Aerosat funding in a manner that partial prepayment of Comsat General contract can be undertaken.
  - No major program slippages expected.
- #3. Provide a 21% increase in R,E&D dollars; support an Aerosat funding level that would preclude partial prepayment of the Comsat General contract; reduce staffing by 45 positions.
- Support a \$16M increase (\$15M for Aerosat program would preclude partial prepayment of the Comsat General lease).
  - 905 staffing level reduced to 860 to reflect labor productivity gains resulting from program reductions and the reinstatement of part-time staffing in the air traffic control simulation laboratory.
  - No major program slippages expected. No reduction-in-force (RIF) actions required as the FAA labor force experiences an annual attrition rate of 4-5 percent.
- #4. Provide a 5% increase in R,E&D dollars: support an Aerosat funding level that would preclude partial prepayment of Comsat General contract. Reduce staffing by 124 positions.
- Support a \$5M increase in R,E&D dollars
  - Funds are not available for partial prepayment of Aerosat contract with Comsat General. Aerosat program will not slip.
  - Fourth generation system development efforts would remain level through 1980.
  - Staffing reduced from 905 to 781 to reflect program reductions and the re-institution of part-time staffing.

- Some substantial program slippage of the Flight Service Station automation program and radar enhancement software activities.
- Safety-related program efforts (e.g. collision avoidance, wind shear, wake vortex) have been maintained at or increased above 1977 funding levels.
- Staffing reductions will result in either a RIF of 40 employees or their transfer into other divisions, preferably the latter action.

Summary of Alternatives

	Program Level (\$ in millions)					
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Alt. #1 (DOT recommendation).....	74	109	121	127	134	143
Aerosat Funding.....	(4)	(25)	(28)	(15)	(15)	(14)
Staffing (EOY employment) .....	905	905	905	905	905	905
Alt. #2.....	74	100	118	121	128	137
Aerosat Funding.....	(4)	(25)	(28)	(15)	(15)	(14)
Staffing (EOY employment).....	905	905	905	905	905	905
Alt. #3.....	74	90	108	125	132	140
Aerosat Funding.....	(4)	(15)	(18)	(22)	(22)	(21)
Staffing (EOY employment).....	905	860	860	860	860	860
Alt. #4 (OMB recommendation).....	74	79	90	105	110	115
Aerosat Funding.....	(4)	(15)	(18)	(22)	(22)	(22)
Staffing (EOY employment).....	905	781	781	781	781	781
Alt. #4 vs. Alt. #1 (dollars).....		-30	-31	-22	-24	-28
(staffing).....		-124	-124	-124	-124	-124

Agency Request: Alternative #1; DOT would probably not appeal Alternative #2. FAA believes that the critical mass for the Research, Engineering and Development program is at least \$100M. FAA strongly recommends that this level of funding be achieved as soon as possible. Funding level should accommodate the partial pre-payment of Comsat General contract.

OMB Recommendation: Alternative #4. In view of the uncertainty of the aviation activity projections and the absence of adequate economic analysis of need, a slippage of the implementation of many non-safety related features the Third Generation Air Traffic Control system is not viewed as serious.

Now is the appropriate time to trim this account to a hard core base. The schedule of the Third Generation system implementation should await the results of benefit/cost studies, not yet completed.

Issue #8

Department of Transportation  
1978 Budget  
Issue #8: Reduction of Airport Grants Program

Background

- . The Airport and Airway Development Act Amendments of 1976 primarily provides financial assistance for air carrier and general aviation airports.
- . Revenues placed in the airport and airway trust fund are derived from an aviation fuel tax (7¢ per gallon), airline ticket tax (8% on domestic fares, \$3.00 per ticket for international travel) and an air freight waybill tax (5% of freight charges).

With the Airport and Airways Development Act Amendments of 1976 as a base, DOT expects airport grants program obligations by category to be:

	Program Level (\$M)		
	1977	1978	1979
<u>Air Carrier Airports</u>			
Entitlements.....	293	310	330
Discretionary.....	147	155	165
<u>General Aviation Airports</u>			
Entitlements.....	41	45	49
Discretionary.....	29	30	31
Total Grants .....	510	540	575

- . Historically discretionary funding has been obligated toward a project mix (e.g. runway repaving lighting, land acquisition) which is quite similar to the project mix supported by entitlement funding. This mix is not expected to change.

Statement of Issue: Should the discretionary portion of the airport grants program be reduced substantially?

Pros

- Airport grants is a relatively low priority program. If mass transit and highway grants programs are to be reduced, there's no clear rationale for exempting the airport grants program.
- The discretionary element of airport grants generate substantial Federal oversight activity, a phenomenon at variance with regulatory reform with the goal of less Federal involvement. Airport grants personnel levels can be reduced by 52 positions.
- There is no other aspect of the FAA budget than airport grants where (1) priority is lower and (2) the operation of the airport and airways system will receive less impact.

Cons

- The DOT request allows Secretary to meet higher priority funding needs in excess of entitlement money availability.
- \$540M is the 1978 contract authority level specified by the Airport and Airways Development Act Amendments of 1976.
- Full funding of the DOT request permits the full transfer of \$275M from trust fund to operations account. For every one percent of unspent funds in the grants, the same percent is cut from the level of transfers to the operations account.
- The \$155M reduction in program level will result in a 29% reduction (\$79M) of the \$275M scheduled for transfer from the trust fund to the operations account.
- Further, the \$155M reduction plus the loss of \$79M in transfer authority will increase the unobligated balance of the trust fund by \$234M to a new total of about \$1.88B.

Alternatives

- #1. Fund airport grants program at \$540M level in FY 1978. (Agency request).
- #2. Reduce discretionary portion of the airport grants program by \$155M in 1978. This is expected to produce about a \$55M reduction in outlays for 1978. (OMB recommendation).



Analysis

Budget Authority/Outlays (\$ Millions)	1976		1977		1978		1979		1980	
	PL	0	PL	0	PL	0	PL	0	PL	0
Airport Grant Programs:										
Alt. #1 (Agency req.)...	--	269	510	360	555	517	575	520	610	565
Alt. #2 (OMB rec.).....	--	269	510	360	400	462	575	458	610	542
Change.....					-155	-55	0	-62	0	-23

Agency Request: Alternative #1. The Department believes that the volume of airport grant requests will require the level of funds requested.

OMB Recommendation: Alternative #2. Entitlement funds should meet the majority of the airports' priority needs. Discretionary funding, with its substantial Federal involvement, should be minimized. Significant 1978 staffing reductions (52) employees and outlay savings (\$55M) can be achieved.

MODAL ANALYSIS



Department of Transportation  
Coast Guard  
Program Level  
(\$ in millions)

	<u>1976</u>	<u>1977</u>	<u>1978</u>		<u>Explanation of changes from 1977 to 1978</u>
			<u>DOT</u>	<u>OMB</u>	
Total	1,041	1,355	1,416	1,350	
Operations	(728)	(842)	(900)	(875)	
Capital Investment and R&D	(144)	(309)	(286)	(253)	
Other	(169)	(206)	(231)	(222)	
Outlays	1,014	1,260	1,449	1,350	
End-of-year *					
Civilian	6,317	6,444	6,655	6,564	(Military and civilian staffing is not separately identified in the explanation of changes).
Military	37,812	38,483	39,553	38,636	
			<u>Key programs</u>		
Search and Rescue (SAR)	232	255	269	263	\$14M and 478 positions requested for: annualization and cost increases associated with current programs (\$8M); operation of new or expanded SAR facilities (\$2M, 91 positions); and increases in operational capabilities, including \$3.4M and 380 positions for workweek reduction (\$4M, 387 positions).

	<u>1976</u>	<u>1977</u>	<u>1978</u>	
			<u>DOT</u>	<u>OMB</u>
Aids to Navigation (ATN)	150	163	170	169
Marine Safety (MS)	58	63	68	67

Explanation of Changes from 1977 to 1978  
(CG)

Recommend cost increases for continued operations (\$6M); and staffing and operation of facilities constructed under prior year funding (\$2M, 78 positions).

\$7M requested for: continuing 1977 program (\$3M); initiate operation of Gulf of Mexico and East Coast LORAN-C (\$2M); improvements in LORAN-C signal (\$1M); and increases in operational capability (\$1M). Staff increase of 122 requested for LORAN-C operation and aids to navigation team expansion offset by 125 decrease from decommissioning buoy tenders, LORAN-A and lighthouses.

Recommend continuation of 1977 program and operation of the new LORAN-C stations coming online in 1978 (\$4M), and improvements in aids-to-navigation operations through development of specialized teams to maintain and service aids (\$2M). Staff increases offset by program reductions for a net decrease of 9 positions.

\$5M and 81 positions increase for: increased operations in Outer Continental Shelf (\$1M, 30 positions); expansion of commercial and recreational boating safety programs (\$2M, 51 positions); and program cost increases (\$2M).

	<u>1976</u>	<u>1977</u>	<u>1978</u>	
			<u>DOT</u>	<u>OMB</u>
Marine Environmental Protection (MEP)	53	61	67	64
Ocean Operations (00)	83	98	109	104

Explanation of Changes from 1977 to 1978  
(CG)

Recommend increased capability in the Outer Continental Shelf to respond to increasing workload (\$1M, 30 positions), improvements in commercial and boating safety (\$2M, 11 positions), and continuation of 1977 program (\$1M).

\$6M and 193 positions increase for: operation of newly acquired facilities (\$1M, 70 positions); expansion of capability to detect and prevent oil and hazardous materials spills (\$2M, 123 positions); and costs of continuing present program (\$3M).

Recommend continuation of 1977 program and operation of port safety boats approved in prior years (\$3M, 49 positions). Contract support and current field staff used for increased analysis of oil samples, ocean dumping and participation in coastal zone planning.

The \$11M and 231 positions are requested to: continue the 1977 program which was expanded as a result of recently enacted 200 mile legislation (\$6M); augment icebreaker operations (\$2M, 190 positions); and increase operational capability (\$3M, 41 positions).

Recommend continuation of 1977 program with increase in helicopter operations in support of 200 mile limit (\$6M, 13 positions). Icebreaker augmentation should be deferred pending completion of reengineering defective propellers.

	<u>1976</u>	<u>1977</u>	<u>1978</u>		<u>Explanation of Changes from 1977 to 1978</u> (CG)
			<u>DOT</u>	<u>OMB</u>	
Military Readiness (MR)	28	31	32	32	\$1M requested for cost increases associated with 1977 program level.  <u>Recommend</u> maintenance of current program.
General Support (GS)	134	147	156	152	\$9M and 211 positions requested to: maintain current program (\$4M); operate newly acquired facilities (\$1M, 56 positions); and increase Coast Guard training and improve management support (\$4M, 155 positions).  <u>Recommend</u> allowing program cost increases and operation of facilities approved in prior years (\$3M, 51 positions), maintenance of capability of physical plant (\$1M), and improvements in training and management operations (\$1M, 46 positions).
Repair and Replacement of Facilities and Equipment	(131)	(286)	(257)	(231)	
(Ships and Boats)	37	115	98	94	\$98M requested for: continuation of cutter replacement (\$46M); renovation, repair or replacement of other vessels and small boats (\$43M), and pollution abatement from Coast Guard vessels (\$9M).  <u>Recommend</u> continuation of cutter replacement program (\$46M); ongoing repair and replacement of vessels and small boats at basically the 1977 level with phase out of program for additional port safety boats (\$39M); and pollution abatement requirement for installation of waste-water holding tanks in Coast Guard vessels (\$9M).

	<u>1976</u>	<u>1977</u>	<u>1978</u>		<u>Explanation of Changes from 1977 to 1978</u> (CG)
			<u>DOT</u>	<u>OMB</u>	
(Aircraft)	2	109	99	99	Request for: continuation of Medium-Range Surveillance (MRS) aircraft replacement (\$83M); initiate replacement of HH-52 helicopters (\$5M); procure flight simulator for MRS aircraft (\$6M); and complete Long-Range Search (LRS) aircraft procurement (\$5M).  <u>Recommend</u> continuation of MRS and LRS aircraft programs (\$88M); replacement of HH-52 helicopters due to increases cost of operations and deteriorating mission capability (\$5M); and procurement of flight simulator to offset in-aircraft training requirements (\$6M).
(Shore Units)	39	32	27	10	Request based on relocating facilities to improve operations (\$4M); rehabilitation, renovation or replacement of overage or inadequate facilities (\$19M); and provide family quarters for married personnel (\$4M).  <u>Recommend</u> continuation of program to provide adequate quarters for Coast Guard families (\$4M) and renovation of replacement of only the most urgently needed facilities (\$6M).
(Aids to navigation)	45	21	22	19	Funds are requested to continue LORAN-C National Implementation Plan (\$8M); upgrade and extend LORAN-C coverage overseas (\$7M), and continue and expand various navigation projects (\$7M).



	<u>1976</u>	<u>1977</u>	<u>1978</u>	
			<u>DOT</u>	<u>OMB</u>
(Administration and engineering services)	8	9	12	9
Alteration of Bridges	6	11	23	15
Research and Development	15	23	28	22

Explanation of Changes from 1977 to 1978 (CG)

Recommend fully funding National Implementation and Improvement Plans for LORAN-C (\$15M), continuation of Lighthouse Automation program (\$2M); and upgrade replacement of buoys (\$2M).

Funds for engineering support (\$9M) and survey and design of facilities (\$3M). Staff increase of 55 to handle increased workload resulting from cutter and aviation procurement.

Recommend staff increase of 15 positions to support the increased workload caused by major capital replacement programs. Retain basically the 1977 level of funding.

Of the \$23M requested, \$15M is to continue alteration or removal of bridges that are hazards to navigation under the Truman-Hobbs Act. An additional \$8M is requested to initiate removal of the Newark Bay RR bridge and the Hastings, Minn. RR bridge.

Recommend funding only those bridges currently being altered or removed. Defer new starts pending completion of 3 bridges in 1978.

\$5M and 29 positions increase requested for: marine environmental research (\$2M); commercial vessel and recreational boating safety research (\$2M); and broad program research (\$1M).

Recommend retain basically the 1977 level with increased emphasis on marine environmental and commercial and boating safety research offset by phase down of research in the areas of Deepwater Ports and aids-to-navigation.

	<u>1976</u>	<u>1977</u>	<u>1978</u>		<u>Explanation of Changes from 1977 to 1978</u> (CG)
			<u>DOT</u>	<u>OMB</u>	
Reserve Training	32	35	36	35	\$1M and 5 positions increase requested for continuation of current program (\$800K) and increased support to reserve training activity (\$300K).  <u>Recommend</u> only increases for annualization of programs started in prior years (\$400K).
Retired Pay	122	147	155	155	\$8M increase tied to DOD determination of cost-of-living and growth in personnel receiving benefits.  <u>Recommend</u> approval (uncontrollable program).
State Boating Safety Assistance	6	7	6	6	Continuous program of assistance to states to promote boating safety.
Pollution Fund	7	8	9	9	Funds required to cleanup spills of oil and hazardous substances.  <u>Recommend</u> approval.
Other					
Regulatory Reform	--	--	-1	-1	Estimated (\$1M) savings resulting from modernizing outdated regulatory requirements. A reduction of 8 military and 12 civilian positions would result.

Explanation of Changes from 1977 to 1978  
(CG)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	
			<u>DOT</u>	<u>OMB</u>
Base reduction	--	--	--	-3

The Coast Guard maintains a ship 200 miles off the East Coast to make meteorological observations for NOAA. This is the last of several ocean weather stations that have been replaced by data buoy's and satellites. Funding to continue operation of this ship may be absorbed in the NOAA base for 1978.

Suggested Allowance Letter Items

- 1) The Department of Transportation should undertake a full review of current operation of Vessel Traffic Services (VTS) provided by the Coast Guard. A position paper should be forwarded to OMB no later than June 1, 1977, addressing the following issues and identifying the pros and cons for the options associated with these issues.
  - a) What should be the local and Federal role in establishing, operating and maintaining VTS's?
  - b) If one or all of these functions were transferred to local authorities, how should this be accomplished?
  - c) If VTS operation is a Federal responsibility, how should it be staffed, and why?
  - d) Should there be a moratorium on VTS's pending determination of the effectiveness of those systems under construction or currently operational?

- 2) A review of the State Boating Safety Assistance program should be undertaken and forwarded to the OMB by August 1, 1977, to address the following issues:
  - a) What is and should be the Federal vs. State/local role in recreational boating safety?
  - b) How well has this program met the objectives of the Boating Safety grant program?
  - c) What changes should be made to make it more effective; what would be the impact of terminating this program or consolidating it in a block grant?
- 3) Prior to requesting an increase in workweek reduction staffing in 1979, the Department should forward to OMB a study of staffing criteria for Coast Guard SAR stations taking into account workload, seasonality, maintenance requirements and general detail. Some measure of program effectiveness should be identified to evaluate results of staffing changes recommended.
- 4) The capital equipment and facilities replacement request for 1979 should clearly identify those line items justified on the basis of maintenance and operating cost increases. Backup documentation demonstrating the long-range cost savings and productivity improvements anticipated should be submitted with the budget.
- 5) The Department should undertake a study of the training needs of the Coast Guard to identify facilities and staffing requirements, criteria for evaluating effectiveness of training on mission performance, alternatives to Coast Guard operated schools and training, and possible areas for savings through consolidation of facilities.
- 6) A reduction of \$3M for operation of Ocean Weather Station (OWS) Hotel is reflected in the Operating Expenses total. Continuation of OWS Hotel should be on a reimbursable basis with NOAA, if NOAA agrees. Staffing associated with OWS Hotel has been retained in the Coast Guard.

FAA

Department of Transportation  
Federal Aviation Administration  
Program Level  
(\$ in millions)

	1976	1977	1978	
			DOT	OMB
Total Program Level	1,911	2,621	2,888	2,542
Total Outlays .....	2,133	2,439	2,751	2,607
End-of-year employ- ment .....	56,111	56,463	58,899	57,063
General Fund Programs (P.L.)				
Operations .....	1,567	1,744	1,862	1,808
-- Traffic Control Operations .....	(697)	(776)	(809)	(799)

FAA  
Explanation of Changes from 1977 to 1978

97% personnel costs and related benefits. FAA requests funding for 1,304 additional controllers (1977 base of 28,300). Aviation activity is expected to increase by about 5% from 1977 to 1978. Air traffic staffing request is based primarily upon zero base staffing models. Annualizations and automatic salary increases total \$23M. Program increases (e.g. overtime, rents, part-year salaries for additional staff, aeronautical charting, communications) amount to \$10M.

Recommend:

- . 500 additional air traffic controllers.
- . Appropriate productivity gains be taken for past and current system automation activities.
- . \$6M for program increases, \$17M salary annualization.

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>DOT</u>	FAA <u>Explanation of Changes from 1977 to 1978</u>
-- System Maintenance/ Logistics	(481)	(551)	(592)	(578)	<p>FAA requests funding for 13,273 maintenance and 1,414 logistics staff, an increase of 901 and 35 employees respectively over 1977 levels. About 40% of the maintenance growth is attributed to workload at existing facilities (currently there are about 16,500 facilities). The remaining 60% of the increase is due to workload projected for new facilities and new equipment. Thirty-five additional employees for logistics are justified as needed to provide support for expanding supplies requirements. Included are \$22M of annualization costs (\$6M personnel, \$12M program, \$3M space rental) and \$19M of program increase.</p> <p><u>Recommend:</u></p> <ul style="list-style-type: none"> <li>. 415 additional system maintenance technicians, based upon a more conservative forecast of workload.</li> <li>. 14 additional logistics personnel in order to maintain a 90% fill rate of supply requisitions and to reduce FAA academy class interruptions due to equipment breakdowns.</li> <li>. \$17M of annualization costs such as GSA space rental, supply inventories and leased communications; \$10M of program increases (e.g. salaries for additional personnel).</li> </ul>
-- Flight Standards	(137)	(148)	(152)	(148)	<p>FAA requests 62 additional positions to increase the base staffing level of 4,477. The need for the staffing growth is: 30 for increased monitoring and modifications, 22 to increase FAA oversight of the air taxi industry, and 10 to initiate a predevelopmental program for</p>

1976      1977      1978  
 DOT

FAA  
Explanation of Changes from 1977 to 19

minorities/females representation in the Flight Standards.

Recommend:

. Ten positions for predevelopmental program.

-- Centralized Training ..... (65)      (73)      (88)      (75)

An increase of 92 positions, on a base of 948, is sought for the instructor staff at FAA's Flight Training Academy in Oklahoma City. The increase is related to an expected 28% growth in student years (648 to 834). A \$5M increase of travel funds for students plus \$4M increase for the Air Traffic Control (ATC) Second Career Program account for the major portion of the increase.

Recommend:

- . No staffing increase since reductions in air traffic controller and flight standards request will decrease demand for training.
- . \$1M travel funds reflecting the rate of controller staffing increases. Another \$1M for salary annualization and the increased cost of maintaining/operating training aircraft.
- . No funding increases for Air Traffic Controller Second Career Program (current funding base is \$19M).





	<u>1976</u>	<u>1977</u>	<u>DOT</u>	<u>1978</u> ( )
-- Other Programs .....	(187)	(196)	(221)	(208)

FAA ( )

Explanation of Changes from 1977 to 1978

Airport grants program, research direction, aviation medicine, aviation security, and central administration show a total of \$3M in annualized personnel costs plus 38 more employees (base of 4,148). Significant increases include \$9M increase to DOL for workman's compensation claims, \$6M printing and postage expenses, \$3M computer costs, and rents/utilities/repairs/supplies.

Recommend:

- . Six additional employees for labor relations activities; a reduction of 52 airport grants personnel to a new base of 610 (see issue #8).
- . \$2M for 10-15 percent increases in areas such as postage, printing, repairs, computer software and study contracts. \$9M for large increase in workman's compensation payments. \$1M for salary annualizations.

Facilities,  
Engineering  
and Development

11	17	33	20
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Engineering and development supporting FAA regulatory program (aviation medicine \$1M, environment \$4M) which includes four aircraft replacements at a cost of \$6M plus a B727 flight simulator at \$4M.

Recommend:

- . Support B727 flight simulator, one small aircraft replacement, 5-10% increases for the environmental programs, and full funding (\$1.5M) of FAA's explosives detection research program.

	<u>1976</u>	<u>1977</u>	<u>1978</u>		<u>FAA</u> <u>Explanation of Changes from 1977 to 1978</u>
			<u>DOT</u>	<u>OMB</u>	
National/Dulles Airports	19	35	29	26	<p>. No funding (\$5M) for a new Jetstar II aircraft to be assigned to FAA Headquarters.</p> <p>FAA request includes operations and maintenance of Metropolitan Washington Airports (MWA) at \$21M and \$8M for construction (primarily paving at these two airports).</p> <p><u>Recommend:</u></p> <p>. \$3M reduction in lower priority MWA construction projects.</p>
<u>Trust Fund Programs</u>					
Airport Development Grants	-7	510	555	400	<p>The increase is a reflection of the funding levels contained in the Airports and Airways Development Act Amendments of 1976. Discretionary funds amount to \$9M, entitlement funds are \$21M, \$15M for planning grants.</p> <p><u>Recommend:</u></p> <p>. As issue #8 proposes, reduce the discretionary funds by \$155M, from \$185M to \$30M.</p>
Outlays	(269)	(360)	(517)	(462)	
Research, Engineering and Development	68	74	109	79	<p>FAA request reflects little constraint on the rate of development of the ongoing R&amp;D programs. An increase of \$21M for Aerosat, \$4M in flight service station automation, \$3M for collision avoidance program, \$2M each for communications, navigation, and system technologies development. Staffing level of 905 proposed.</p>

	1976	1977	1978	
			DOT	Om

FAA

Explanation of Changes from 1977 to 1978

Recommend:

- . \$79M funding level and a reduction of staffing from 905 to 781 (see Issue #7).
- . Both the \$79M funding level and the 781 staffing level will allow the high priority and safety-related R&D programs (e.g., Aerosat, microwave landing systems, wake vortex, wind shear research, collision avoidance) to move forward without delay. (See issue #7).

	1976	1977	1978 DOT	1978 Om
Facilities and Equipment	57	200	250	209
. Air Traffic Control (ATC) Facilities		(85)	(129)	(119)
. Flight Briefing Services		(42)	( 32)	( 11)
. Air Navigation Aids		(46)	( 56)	( 56)
. Other		(27)	( 33)	( 23)

New facilities and equipment to improve safety, to increase efficiency, and to expand capacity of the airway systems (i.e., FAA capital budget). ATC increases primarily due to expansion of long range radar (\$18M), air route center radar displays (\$10M), relocate airport tower facilities (\$9M). A major improvement of the Very High Frequency Omni-Directional Radio Range with Tactical Air Navigation (VORTAC). Equipment placement or replacement at 167 locations account for the increase in the Air Navigation Aids category.

Recommend:

- . \$209M funding level to be achieved through a postponement of flight service station automation procurement (\$17M) and reductions in lower priority areas. Reductions were not taken in safety-related areas but rather where the cost effectiveness of actions are unclear (e.g. remoting weather observations).

	<u>1976</u>	<u>1977</u>	<u>197</u> <u>DOT</u>	<u>5</u>
Aircraft Loan Guarantee Program	96	41	50	0

FAA

Explanation of Changes from 1977 to 1978

. Present staffing level of 1,429 reduced by 179 to reflect lower than requested funding levels in both 1977-78.

The \$9M increase reflects the uncertainty surrounding the future of this program. Program is scheduled to terminate 9/7/77 and therefore the number and amount of new loan guarantees in 1978 is speculative.

Recommend:

. Aircraft loan guarantee program be allowed to terminate 9/7/77.

### Allowance Letter Items

- . No convincing case has been that the Aircraft Loan Guarantee program should be extended, in any form, pass its expiration date of September 7, 1977. Should the Department not concur with OMB's assessment of this issue, a DOT position paper should be submitted for OMB review prior to March 15, 1977.
- . The Department should expand the 1976 Flight Service Station Automation and Consolidation Study to incorporate OMB-generated alternatives (e.g. immediate rather than phased decommissioning of the 316 stations replaced by 8 to 20 hub stations) to ensure that the most cost-effective approaches are considered. Requests for additional funding and implementation activities should await completion of this task and OMB review of the results. OMB does not support \$17M requested for 1978 to begin immediate implementation of the FAA's gradual phaseout strategy.
- . Legislative proposals and the results of the most recent airway user cost allocation study are to be submitted to OMB before May 1977 for review and interagency coordination.
- . By January 15, 1977, an implementation plan for recovering administrative user charges (e.g. licensing, airworthiness certification for aircraft) is to be sent to OMB for review. The plan will then be transmitted by DOT to the appropriate congressional committees. The 1978 budget contains \$24M in receipts for administrative user charges.
- . If additional productivity gains for enroute and terminal control activities in 1979 are expected to be less than 3% and 5% respectively, comprehensive studies should be submitted to OMB prior to August 15, 1977.
- . Before June 1977, the Department should provide OMB with a position paper which addresses the pros and cons, both economic and otherwise, of contracting to the private sector the mobile lounge operation at Dulles Airport. The paper should also address the option of utilizing part time, rather than full time, personnel to meet the peak demand periods for mobile lounge operations. Currently 51 FAA employees perform this operation.
- . End-of-year 1978 employment allowances for air traffic control should not be less than 28,810.
- . End-of-year 1978 employment allowances for system maintenance should not be less than 12,787. The maintenance study requested in last year's allowance letter should be completed and submitted for OMB review prior to August 1977. Requests for increased staffing will be considered, in part, in the light of the results of this study which is to explore maintenance cost reduction areas and to examine various maintenance strategies.