

U.S. DEPARTMENT OF TRANSPORTATION
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WASHINGTON, D.C. 20590

STATEMENT OF SECRETARY JOHN A. VOLPE BEFORE THE SENATE COMMITTEE ON THE DISTRICT OF COLUMBIA AND THE SUBCOMMITTEE ON BUSINESS, COMMERCE AND FISCAL AFFAIRS OF THE HOUSE COMMITTEE ON THE DISTRICT OF COLUMBIA, RESPECTING S. 2297 AND H.R. 11877 THE NATIONAL CAPITAL TRANSPORTATION ACT OF 1971, WEDNESDAY, MARCH 1, 1972.

Mr. Chairmen and members of the Committees:

I appreciate the opportunity to appear before you today to discuss S. 2297 and H.R. 11877, the National Capital Transportation Act of 1971. It is, I think, an indication of the importance of this legislation and the concern of the Congress that you are meeting this morning in joint session.

Since becoming Secretary of Transportation, I do not believe there is anything I have stressed more frequently than the need to achieve for the Nation a balanced transportation system, a system which offers a true modal choice to all our citizens. It is, therefore, especially satisfying for me that our Nation's Capital is moving forward to achieve an efficient and effective public transportation system. For without such a system, "balanced transportation" would have no meaning in the Nation's Capital.

I cannot overemphasize the importance of an efficient public transportation system for this area. METRO will be the heart of that system. It is the keystone of a coordinated transportation system and essential to the effective performance of the Federal Government. Even above that, it is of vital importance to insuring the well-being of the inhabitants of this area. The alternative to such a system is steadily increasing congestion of local streets and highways and the adverse environmental effects

that accompany a system that relies almost totally on use of the automobile.

There is a further reason for moving ahead immediately to secure balanced transportation for Washington. Each year the Nation's Capital draws millions of American and foreign visitors. Throughout 1976, our bicentennial year, it is estimated that a daily average of 100,000 people may visit this city. From a purely practical transportation standpoint, it is essential that we increase our people-moving capacity. And perhaps more importantly, we will be able to demonstrate to all that the problems which we face throughout our Nation can be solved here in the Nation's Capital. This is no less true in the field of transportation than it is in other major areas of concern to our Government.

The Department has consistently maintained that mass transportation is an essential part of the multi-modal mix, and we would like to see greater emphasis placed upon it in many of our metropolitan areas. As is true in the Washington area, efficient mass transit systems can help revitalize the central city by encouraging businesses to retain their downtown locations; they can help tie together the central city and its outlying areas by providing improved access in both directions for purposes of employment, shopping, and entertainment; and they can help reduce traffic congestion which is a source of inconvenience, frustration, and wasted time.

Fortunately, there is general agreement that balanced transportation is necessary for Washington. This agreement is reflected in actions of

both the Legislative and Executive branches. Congress has made its position clear by passage of the National Capital Transportation Acts of 1960, 1965, and 1969, and by its approval of the Washington Metropolitan Area Transportation Authority Compact. It has demonstrated in the past its support of the concept of a regional subway system financed jointly by the Federal Government and the localities which it will serve.

Likewise, the Executive Branch is fully committed to improving the total transportation framework for the Capital region. As the President emphasized in his recent Bicentennial Message to the Congress:

"I am today renewing the commitment of all the agencies and resources of the Federal Government towards maximum progress on the entire transportation system -- subway, freeways, bridges, parking, and support facilities Urgently needed now is prompt approval by the Congress of Federal guarantees for Metro revenue bonds -- the next essential step to getting the trains running."

The commitment, therefore, has been made. Now is the time to demonstrate that what must be done can be done.

The physical progress of the METRO system is heartening. To date, nine miles are under construction and eleven stations are under contract. Further, and equally importantly, we are working closely with WMATA to deal with the "people problems" that accompany a major construction project of this kind, such as taking into account the needs of the elderly and handicapped in the design of the system, minority contracting and the relocation of businesses. Unfortunately, a new problem has arisen, a financial problem which threatens to halt the progress which has been made.

The National Capital Transportation Act of 1969 authorized the construction of an Adopted Regional System which had been designed pursuant to the Acts of 1960 and 1965. The original financial plan for the system called for the realization of \$835 million from the sale of unsecured revenue bonds supported by fare box revenues. The balance of the cost, some \$1.7 billion, was to be shared by the Federal Government and the eight participating jurisdictions on a two-thirds Federal, one-third local matching basis.

Since the enactment of the 1969 Act, two principal factors emerged which severely undercut the original financial plan advanced by WMATA. One problem was caused by the combination of severe inflation in the construction industry and the unexpected delays in the METRO construction timetable. Early in 1971, WMATA completed a revised financial plan for the system based upon updated engineering and revenue studies. The analysis showed that, due principally to cost escalations caused by inflationary pressures, the construction cost of the system had increased by \$486 million. Although the studies also indicated that projected revenues for the system were higher than originally estimated, the net system cost had increased by almost \$450 million.

The other equally damaging development was the conclusion of WMATA's securities underwriters that the absence of additional security seriously impaired the marketability of the METRO revenue bonds. This opinion was based upon rising construction costs for METRO and the resulting cash shortfall

in the original financial plan. Further, they took into consideration the uncertainty of the provision of local government shares, including that of the District of Columbia, and the prevailing market conditions and investor attitudes for unsecured transportation revenue bonds.

I believe we have in S. 2297 and H.R. 11877 an effective solution to both of these unanticipated problems associated with the METRO financing. First, these measures will assure the orderly financing of the METRO system by authorizing the Federal Government to guarantee up to \$1.2 billion of WMATA revenue bonds. With such a guarantee, WMATA will be able to market these securities and construction of the system can proceed unhindered by further financial uncertainty.

Secondly, our proposal provides a mechanism which not only covers the \$450 million shortfall in the original financial plan, but also remains consistent with the 2/3-1/3 Federal-local participation formula for financing the cost of the system. This is accomplished by making WMATA's bonds taxable instead of tax-exempt, as under the earlier proposal. Making these bonds taxable will produce revenue to the Treasury which will offset the 25 percent interest subsidy payment to WMATA called for by our legislative proposal.

For example, assuming that WMATA issues its guaranteed bonds at 7 percent, the 25 percent interest subsidy payment by the Federal Government would have the effect of reducing WMATA's effective interest rate from 7 percent to 5-1/4 percent. Consequently, based upon the same revenue

forecasts and with the advantages afforded by Federal guarantees, WMATA will be able to finance \$1.2 billion of bonds at the 5-1/4 percent rate rather than \$900 million based on the 7 percent rate without a significant reduction in excess debt service coverage. The additional \$300 million of bond sales attributable to the interest rate subsidy, coupled with the Federal guarantee, is counted as the Federal Government's matching contribution to cover two-thirds of the increased net system cost of \$450 million to which I referred earlier. The remaining \$150 million of this additional cost will be made up by the local governments involved and equals the regular one-third share required for local participation.

It should be understood that we are not suggesting a Government subsidy on the order of \$1.2 billion, nor are we suggesting that the Government purchase these bonds. Rather, we are, with no additional cost to the Federal Government, making the WMATA issue more attractive to the private investor. We are telling investors that we have faith in METRO and they should, too.

Another point that should not be ignored has to do with the cooperative nature of the whole METRO project. Due to the unique status of Washington as the Capital city and the involvement of a number of local jurisdictions as well as the Federal Government, the accomplishment of such a large project as METRO requires a great deal of cooperation and understanding on the part of many people. I believe that, overall, we have done well in this respect, and that the cooperation of the regional

participants has been especially heartening. To reward this extraordinary good faith effort and to make METRO a reality, additional help from the Federal Government is necessary. I believe that this is a proper role for the Federal Government.

The need for, and the Congressional commitment to, a true mass transit system for the Washington Metropolitan Area are clear. The enactment of the proposed National Capital Transportation Act of 1961, S. 2297 and H.R. 11877, will ensure that this need is fulfilled. I urge your Committees to act favorably upon the proposal as soon as possible.

Thank you very much, Mr. Chairmen, for the opportunity to testify before you today. I would be pleased to answer any questions you or your Committees may have.

