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BEFORE THE SUBCOMMITTEE ON GOVERNMENT
OPERATIONS AND METROPOLITAN AFFAIRS OF THE
HOUSE COMMITTEE ON THE DISTRICT OF COLUMBIA
ON TUESDAY, MARCH 25, 1986

Mr. Chairman, and distinguished members of the Subcommittee, I am pleased to have this opportunity to appear before you today to discuss funding issues involving the Washington, D.C. area Metrorail system. We at the Department of Transportation are concerned about this issue, not only in light of the Federal deficit and the Gramm-Rudman-Hollings legislation, but more specifically in the context of our experience with the funding of the system to date. I would thus like to share with you some of the concerns I have raised with WMATA officials and others over the past year or so about the funding of Metrorail. I also want to bring to your attention the results of a Federal City Council study on the projected costs of transit in this area through the year 2000.

Before I do, let me briefly outline the Administration's budget proposal for fiscal year 1987. The Administration has proposed a 1986 rescission of all existing discretionary funding for new systems and extensions, except for those few cases where full funding contracts exist. For Washington Metro, under the Stark-Harris legislation, no rescission is proposed but no additional Federal funding has been requested. This

recommendation, like that for construction of other new start systems across the country, is required in order to meet the budget deficit levels mandated by Gramm-Rudman-Hollings.

The Federal Role

In this connection, I think it would be useful to begin by addressing the matter of the "Federal commitment" to funding completion of the 103 mile Metro system. There has been much public discussion about the "Federal commitment" of five Presidents and eleven Congresses to the completion of the rail system, and it is true that there have been a number of public endorsements of completion of the system. But when the system was endorsed by President Nixon in 1970, the estimated cost of the rail system was \$2.9 billion. By the time of President Ford's endorsement in 1975, the total cost estimate escalated to \$4.6 billion. When President Carter signed the Stark-Harris legislation for Metro funding in 1979, it was understood that the cost to complete the system was \$7.5 billion. Less than six months later, the cost to complete the system was estimated to be in excess of \$9 billion. Today, the estimate to complete the new 103 mile system exceeds \$12.5 billion.

Given this dramatic increase in the estimated cost to complete the system - from \$2.9 billion to \$12.5 billion - we think a closer look at what Federal officials have said about this "Federal commitment" is called for. Let me cite for you a few of the

remarks of Administration officials who are said to have committed to the full rail system. In 1975, Secretary Coleman said "my recommendations ... will be based on my belief that all possible sources of funding in the region should be exhausted before the Federal taxpayer is asked to make further contributions to Metro." UMTA Administrator Patricelli, in 1976, stated the commitment as follows: "The Federal Government, reviewing all the other demands being made upon it, has set a ceiling of \$4.67 billion on system costs in which it will participate." Finally, in 1979, President Carter predicated his public endorsement on the assurance of the WMATA Board that funds made available under Stark-Harris were all that would be needed to complete the system: "The Federal Government has now placed its total monetary commitment to Metro on the table."

We know today, however, that the remaining Stark-Harris authorization is insufficient to complete the 103 mile system. To date, \$4.4 billion in Federal funds have been spent on Metrorail construction. Included in this amount is the Federal Government payment of \$51 million annually in bond interest payments. The Government is also committed to pay \$664.7 million in bond principal payments and \$1.4 billion in interest payments by 2012. In addition, some \$19 million a year is provided in Federal operating assistance and \$38 million in Federal capital funding from our formula grants program. We believe that this amount of Federal funding for WMATA has been more than generous. Clearly, it is time to focus on the local commitment to the system.

Operable Segments

It is in this context of escalating costs over the past decade, the large Federal contribution to Metro to date, and the repeatedly expressed concerns of Federal transportation officials, that we have asked WMATA to identify how it will spend its available Federal funding before we will release those funds. I have stressed to WMATA officials that an UMTA Administrator must not approve grants for elements of a construction project which do not stand alone as useable facilities, unless there are other funds available to bring them on line. This is true for all UMTA-funded projects, and should apply to Metro construction as well. Simply put, you cannot begin something which you do not have the money to finish. This is the problem I have when considering WMATA's current proposed rail construction program, and judging from the reaction of WMATA officials and the Washington press in discussing this principle, perhaps this should be made clearer.

This "operable segment" requirement has been set forth by the Department and recognized by WMATA officials for a number of years. In 1978, former Secretary Adams stated that "the segments to be built should be useable and contiguous and should emphasize the areas of highest ridership." Before the House Appropriations Committee in 1979, former General Manager Lutz, in response to a question by Congressman Duncan, indicated that it was WMATA's "basic view...to try and get operable segments constructed."

When we commenced negotiations with WMATA for a full funding contract for an 89-mile system to utilize the remaining Stark-Harris authorization last spring, I withheld approval of the Fiscal Year 1985 grant program thinking that it would be folded into the full funding contract. I sincerely believed this would be achieved in calendar year 1985, but it was not. The 1985 program alone does not sufficiently advance work on construction elements approved in earlier grants so as to make them operable. This deficiency would have been rectified in the framework of a full funding contract utilizing all of the remaining Stark-Harris authorization. The Gramm-Rudman-Hollings legislation was then enacted and affected Fiscal Year 1987 funding deliberations. The WMATA Board reacted by suggesting there was no further possibility of full funding contract negotiations. However, the full funding contract format will still be used and remains the standard UMTA management approach for major construction projects regardless of how much money is appropriated. The scope of the intended work must reflect the realities of the current funds available.

WMATA must identify those segments of the proposed system which can be completed with currently available resources. It appears to me that WMATA has two choices. First, it can utilize Federal funds for completion of those elements in its current schedule, provided it assures UMTA that any funding required to complete the segments begun beyond that appropriated by Congress will be provided solely from non-Federal sources. This is the practice of other cities which do have dedicated local funding.

Second, if WMATA cannot or chooses not to provide UMTA with such assurances, it can amend the construction schedule and utilize Federal funds for construction activities only on those segments which can be brought into revenue service with currently available funds. Either of these approaches will ensure that available Federal funds will produce useable facilities.

At this time, however, there is no apparent source of working capital to proceed under the first approach nor does it appear that the WMATA jurisdictions are anxious to guarantee the substantially increased local share liability implicit in this approach. And if the second option is not followed, I have no choice but to limit grant approvals to those selected elements of WMATA's program which can result in useable facilities, and hold off on those which patently cannot.

There have been instances in the past where the WMATA Board authorized the construction of facilities which have stood idle, for years in some cases, while other pressing mass transportation problems have gone unaddressed. Though in some cases unforeseen difficulties were the cause of this problem, in other they were not. In any event, we cannot let it happen in the future.

It appears, however, that WMATA is on the verge of continuing this illogical practice. If WMATA were to proceed with its current construction schedule, then only the Red Line from Silver Spring to Wheaton would be brought into revenue service with

available resources. Left partially built, inoperable, and without funds to complete would be the Green Line to U Street, the Green Line to Anacostia, the Green Line from Fort Totten to Greenbelt, and the Yellow Line to Van Dorn Street. These incomplete routes would require an additional \$928 million to be put into revenue service. WMATA's plan for constructing the system, the ICCA-IV, encourages, in fact mandates, use of scarce capital resources in this manner. No other areas are permitted to construct rail systems in such a piecemeal fashion. Simply put, WMATA cannot continue to construct the system in this fashion.

The Completion of the Inner Green Line

There is something the Board can do, however. On January 9, 1986, the WMATA Board wrote President Reagan a letter and stated that "this proposed withdrawal of funding [in the 1987 budget] could not come at a worse time, because of its impact on the Green Line. After many years of difficult planning choices and legal challenges, all the decisions are finally made. At long last, we are ready to go ahead with this rail line, which will serve the heaviest concentration of riders in the regions. Many of these citizens are some of the most economically disadvantaged and transit dependent people in the area. It is essential, as a matter of equity, that this line go forward." We at DOT also recognize that the inner Green Line is the most cost-effective portion of the system and serves the most transit dependent

citizens in the region. We could not agree more, and are pleased that WMATA is ready to proceed with its construction.

In fact, our review of WMATA's own cost figures and construction schedule indicates that the Authority can, if it chooses, complete the inner Green Line from U Street to Anacostia with less than the total amount of Federal funds already appropriated by Congress and thus currently available.

Therefore, if Metrorail service to highly transit dependent areas is truly a priority of the WMATA Board, as its letter to President Reagan indicates, there is absolutely no question that the Green Line from U Street to Anacostia should be completed using already available budget authority from fiscal years 1985 and 1986. In doing so, the needs of the most transit dependent citizens of this area could be met quickly and within the bounds of Federal requirements.

The Federal City Council Study

I have been addressing issues involving the cost of constructing the Metrorail system. Let me now turn to an equally significant matter - the cost of operating and maintaining the system. In this connection, I want to call to your attention a report released on March 11, 1986, by the Washington, D.C. Federal City Council. Entitled "Transit In the Nation's Capital: What Lies Ahead?," it is a study of projected transit service, costs,

and financial impacts on the region through the year 2000. The Federal City Council is a nonprofit, nonpartisan organization dedicated to improving this area. The study, funded by UMTA, was conducted by a regional task force which included representatives from local, State, and Federal Governments, as well as from WMATA and the private sector.

The Council's study found that the total annual WMATA operating and maintenance deficit (costs net of revenues) will rise, in constant 1986 dollars, from \$211.5 million today to \$256.5 million in the year 2000. Another key finding of the study is that the cost of replacing and rehabilitating equipment and facilities will increase dramatically as the system ages. By the year 2000, when portions of the Metrorail system will be 25 years old, the annual amount required for rehabilitation and replacement of Metrorail and bus will be \$157.5 million, in constant 1986 dollars, compared to \$42 million today, a 400 percent increase. These findings mean that the recurring annual cost to public entities of operating, maintaining, and rehabilitating the WMATA system will rise from \$253.4 million today to \$414 million in the year 2000 - a 63 percent increase.

UMTA has a program for rehabilitation and replacement of rail systems under its section 3 discretionary program, but it applies only to systems that were built without major Federal funding - and therefore does not apply to WMATA. Thus, even if this existing rehabilitation program continues, the Washington area

cannot expect any Federal funds from that program to pay for these activities.

Another significant aspect of the study is that the unfunded costs of building additional segments of the rail system are extremely high. In 1979, President Carter was assured that the Stark-Harris authorization of \$1.7 billion would complete the then 101-mile system. We now know that at least an additional \$2 billion will be needed to complete the proposed 103-mile system. Absent additional Federal funding beyond the amounts appropriated to date, local governments will be faced with an average annual cost of \$300 million through the year 1993 to fund the scheduled Metrorail construction program.

In sum, the report notes that State and local governments in this area are paying about \$270 million annually for WMATA services. This payment will rise to nearly \$600 million annually by 1993, more than doubling the payment in eight years. Through the year 2000, cumulative State and local payments will be approximately \$6.5 billion.

Assured Local Funding

Mr. Chairman, given the history of Federal funding to date, the deficit crisis we now face, and the projected costs of operating, maintaining, and constructing the Metro bus and rail system as highlighted in the FCC study, it is clear that WMATA

must seek an assured source of local funding to complete the Metro system - and to help pay for its operation and maintenance. Others have come to the same conclusion. In response to the congressional concern about local sources of funding as expressed by Congressman Conte in March 1977, WMATA General Manager Lutz testified that: "The Authority is investigating new sources of funding which will supplement fare box revenue...[t]he Authority is convinced that ultimately an earmarked or dedicated tax[es] is essential to supplement the financial program of the Authority."

Secretary Adams stated his concerns to WMATA officials at a conference in 1978 when he said: "This brings me back to the message I have delivered to this assembly before, and no doubt will deliver again, because I believe it is absolutely essential to the future of Metro. We must have a dedicated local funding source to support public transit construction, maintenance and operation. I believe such action on your part is imperative. It is the next important step. It is inevitable if WMATA is to succeed and Metro is to continue."

During the House Appropriations hearings in March 1979, Congress reiterated its concern about the lack of action to implement a local source of funding and a financial plan. This time Congressman Duncan voiced the frustration and WMATA General Manager Lutz responded that "at this point in our history, some source of dedicated tax, at least within the major jurisdictions,

is a very important goal for the fiscal health of the program and good management."

The Senate Report accompanying the Stark-Harris legislation, in discussing how the "stable and reliable" funding requirement in that bill would be met, states that "[s]uggestions have included increases in sales taxes, increases in gasoline taxes, and implementation of a payroll tax in the District of Columbia. While the committee makes no recommendation as to how the stable and reliable revenues should be obtained, it agrees with DOT and the House of Representatives that a stable and reliable source of revenue is needed in order to make decisions about Metrorail financing."

Most recently, in the Congressional Appropriations hearings in 1984 and 1985, Congressman William Lehman and Senator Lawton Chiles persistently pressed WMATA General Manager Turner regarding the need for a regional tax for transit. WMATA's position after more than ten years of consideration was to assign to a Board Committee the responsibility to explore the issue of a regional tax. After promising in March of 1984 to give its official position by July 1, 1984, the WMATA General Manager responded in March 1985 that after one year "[c]onsiderable data has been developed and many meetings have been held, but as of this date (March 1985), the Board has taken no official position on the issue."

It is urgent that WMATA address the cost of completing the planned system as well as the implications of the projected costs of maintaining the completed system as shown in the FCC study. How are those costs going to be paid? To put these costs in scale, UMTA staff estimated that funding the approximately \$400 million non-Federal payment to WMATA in the year 2000 would require either about a 40-cent per gallon tax on gasoline or a 1 and 2/3rds percent retail sales tax in the region. This should not suggest that we are endorsing new taxes in these amounts, but rather demonstrates the magnitude of the problem.

This is an economically strong and growing area that includes four of the wealthiest counties in the country. Other areas have adopted local funding sources to support their mass transit needs. However, little has been done to alert the local taxpayer of the long-term financial implications of Metro. If the Board cannot even take an official position after ten years, when will an assured local funding source be established? The Congress and the Executive Branch have demonstrated both good will and financial support for Metro, while the WMATA Board has ignored the widely recognized need for assured local funding. I only wish the WMATA Board had shown the same regional unity and commitment to secure local assured funds as it has demonstrated in obtaining Federal funds. I cannot emphasize enough the fact that there are very large out year expenses that WMATA must begin budgeting for now. The Federal Government cannot be expected to cover these costs. WMATA must recognize these costs and be prepared to pay for them.

In addition to establishing an assured level of local funding, we also encourage WMATA to consider a range of innovative financing techniques that have been used by other cities. WMATA has been active in this area, but more can be done. These techniques include development fees, where a developer would be required to pay a fee as a condition of permit approval and the fees would be used for transit benefits. Or WMATA could negotiate with developers to agree to share the cost of transit improvements that will benefit their property, as has been done in New York City. Another interesting concept is the benefit assessment district where increased property values and taxes attributed to transit improvements can be earmarked for transit use. There are a number of other concepts that cities are looking at. In short, WMATA should be considering every possible financing mechanism in addition to securing an assured level of local funding. We will be glad to provide them with studies and information that we have developed about useful financing techniques.

Mr. Chairman, my staff has pointed out to me the relevance of certain verses from the New Testament. Let me conclude by quoting the following from St. Luke:

For which of you, intending to build a tower,
sitteth not down first, and counteth the cost,
whether he have sufficient to finish it?

Lest haply, after he hath laid the foundation,
and is not able to finish it, all that behold
it begin to mock him,

Saying, This man began to build, and was not
able to finish.

I would be glad to answer any questions you may have.