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Mr. Chairman, and distinguished members of the Subcommittee, I am pleased to have this opportunity to appear before you to discuss the Administration's proposed transit reauthorizing legislation. I will first go over some of the key concepts in the bill and then outline its specific provisions.

As you know, it is the Administration's position that we can no longer afford to spend tax dollars from the General Fund of the Treasury of the United States to fund transportation programs that provide benefits locally, programs that are a local responsibility. That was our position before the enactment of Gramm-Rudman-Hollings, but in light of that legislation, we believe it is more urgent than ever that our position be adopted. In order to meet the deficit targets of that historic legislation, the Federal role in transit will have to be reduced, and we believe that our reauthorizing proposal is necessary to achieve that reduction.

The changes that we think are necessary represent a challenge to State and local officials to uncover the solutions to the problems facing mass transit, many of which are right at their

doorstep and can no longer be neglected. This shift in responsibility is particularly appropriate at a time when the States are in sounder fiscal condition than the Federal government. Moreover, local governments should rise to the challenge by dedicating funding to transit where transit is a local priority.

Rethinking the Federal transit program

Despite the overriding importance of our deficit reduction efforts, much more is involved here than a mere budget cutting exercise. I believe this reauthorizing cycle also presents us with an excellent opportunity to rethink our approach to the Federal transit program. Mass transit has suffered from difficulties that Federal dollars alone cannot solve: capital cost overruns (like the Detroit People Mover), rising operating costs, stagnant ridership and an inability to adjust to changing patterns of urban development. It is time that we look more closely at what we are purchasing for our transportation dollars, particularly our Federal transportation dollars, and how we are purchasing it.

The Administration believes that transportation projects should be undertaken based upon mobility needs, rather than be driven by the availability of Federal dollars. Some localities have taken a mobility-oriented approach. In Houston, for example, a plan was developed by the State highway director, the mayor, the transit authority and the county road department. The plan was

not a highway plan or a transit plan, but a regional mobility plan. It has resulted in construction of a network of busways funded by both Federal transit and highway dollars, rather than separate projects.

Unfortunately, the current program structure discourages such an integrated approach to transportation planning. Instead, in many cases the existence of categorical Federal grants has been the driving force behind investment decisions. Our proposal would encourage more rational decisionmaking.

Block grant concept

We are proposing a transit and highway block program that would combine many of the exisitng categorical programs for transit and highway projects. Under our proposal, transportation planners would be able to consider transit investments and highway investments in context, as complementary transportation investments, rather than in isolation, as competing and perhaps redundant investments. State and local officials would have the flexibility to use about $3.3 billion in "transit" and "highway" funds for necessary transportation investments in their communities -- whether transit or highway -- instead of planning overlapping or unnecessary projects in order to maximize Federal dollars, as is all too often the case under the current system.

Increasing competition

Two other critical components in the effort to improve transit planning, financing, and service are increased private participation in the transit marketplace and increased competition. Greater participation by the private sector and more extensive competition in the provision of services would further encourage the cost-efficient use of resources and assure flexible responses to changing transportation needs. Let me stress, Mr. Chairman, that our objective in increasing private participation is not to transfer public transit into private hands, but to establish a partnership between the public and private sectors, a partnership that we believe will result in the provision of equal or better transit service at a lower cost than that currently provided.

Introducing competition is important because the transit industry's current structure provides no market pressures to ensure maximum efficiency and productivity. Therefore, our proposal would require that fixed percentages of the services provided by Federal recipients be put out for competitive bidding.

A number of studies have shown that introducing greater competition through competitive bidding of service and maintenance results in significant cost savings without sacrificing service. For example, contracting out bus service on a competitive basis can result in savings ranging from 10 to 50 per cent, according to

a recent study by Dr. Teal of the University of California and Dr. Marlok of the University of Pennsylvania. In addition, the Rice Center in Houston has just completed a study which concluded that Salt Lake City could save $2.8 million over four years by competitively procuring its peak-oriented commuter services. The Rice Center study also concluded that Milwaukee could save $50 million over the same period by competitively contracting for a portion of its commuter bus services. Finally, the Dallas Area Rapid Transit Authority has used a private firm to start up an express bus service. Estimated savings for Dallas was $9 million on the route for the first year of service.

We want to encourage competition, but we also want to ensure that that competition is fair. Under the current system, it is often difficult for private operators to participate in the provision of transit services. To assure more meaningful private participation, our proposal would require that private operators be involved at the earliest stages of transportation planning and that they receive fair consideration as service providers.

While we believe that traditional transit markets should be opened up to competition, we are also concerned that charter operators using non-federally subsidized buses are disadvantaged in competing with operators using federally subsidized equipment. Therefore, we have proposed the revision of the charter bus section of the Urban Mass Transportation Act. Under our proposal, no

federally financed equipment or facilities could be used to operate charter service. Moreover, Federal operating assistance could not be used to operate buses in charter service, even if the buses had not been purchased with Federal funds. This prohibition would apply to public and private operators alike. We believe that when Federal funds are used to purchase equipment and facilities to provide mass transit service, that federally subsidized equipment should not be used -- by anyone -- to compete against non-federally subsidized equipment in the provision of charter bus service. Based upon our experience with the current provision, the only way to prevent this unfair competition is to prohibit the use of federally subsidized equipment in charter bus service.

While competition is critically important, cooperation between the public and private sectors is also extremely beneficial. For example, private sector involvement in capital infrastructure development through direct private investment or public/private joint ventures in new rail systems, rail extensions, and station modernization, offers opportunity for considerable savings, thereby greatly reducing reliance on Federal assistance. For instance, two private groups have proposed building a rail line to nearby Dulles Airport, connecting with the Washington Metrorail system at West Falls Church, Virginia. New York City is working with local developers to build a rail line along New York's Westside. Private developers, in order to secure easy access to their properties, are expected to make major contributions to the financing of

Planning Commission for a study of this proposal. The joint development approach has provided substantial benefits to New York, Denver and Washington by allowing public agencies to recapture some of the proceeds from development that were made possible by the associated transit project.

Structure of transit proposal

Now that I have discussed some of the key concepts of our proposed reauthorizing legislation, I will explain the structure of the transit portion of the proposal. I would point out that UMTA's fiscal year 1987 budget request of $1.22 billion, the projected average annual receipts into the Mass Transit Account for the next four years exclusive of interest, is based upon our reauthorizing proposal.

Because the current structure of the UMTA and FHWA programs leads, at the local level, to duplication, lack of coordination and distorted decisionmaking, with projects often selected based on availability of funds rather than on transportation needs, we would restructure the UMTA program as part of a transit and highway block program. For the first time since the inception of the UMTA program, State and local governments would be able to base transportation decisions on urban and State mobility needs, rather than choosing projects in order to maximize the availability of Federal funding. We believe this flexibility, coupled with the

need to conserve resources, will encourage State and local officials to carefully evaluate their transportation requirements and only proceed with needed and cost-effective projects.

Under our legislative proposal both the funding source and the delivery mechanism for transit funds would be changed. General revenues would no longer be used to fund transit projects. Instead, about $1.1 billion from the Mass Transit Account -- as well as about $2.2 billion from the Highway Account -- of the Highway Trust Fund would be the sole source of funding for a combined $3.3 billion transit and highway block program. We believe user fees are the appropriate source of revenues for this program. Moreover, this funding arrangement would prevent the UMTA program from adding to the Federal deficit because the program would be funded at the level of expected tax receipts to the Trust Fund.

Under the new program, funds would be set aside from the Mass Transit Account for UMTA's administrative expenses, the research, training, and human resources program, planning, and the elderly and handicapped program. Our fiscal year 1987 budget request for administrative expenses is $26.8 million; for research, training and human resources, $19.5 million; for planning, $30.5 million; and for elderly and handicapped programs, $35 million. This $35 million level is an increase over the FY 1986 level.

Funding UMTA's administrative expenses from the Mass Transit Account would parallel the treatment of the Federal Highway Administration's administrative expenses, which come from the Highway Account of the Highway Trust Fund. The elderly and handicapped program funds would be distributed to the States, and the planning funds to State and local officials, on the basis of an adminstrative formula, as is currently done.

The remaining Mass Transit Account funds, approximately $1.1 billion, would comprise UMTA's contribution to the block grant program and would be apportioned to the States, along with the $2.2 billion in highway funds, for use on eligible transit and highway projects. Rather than requiring detailed Federal review before releasing the funds as grants, UMTA and FHWA would receive assurances from the States that the States would comply with minimal Federal requirements. Some of these assurances have been patterned after the pioneering work that your Committee did in the development of the assurances for the Community Development Block Grant. Once those assurances were received, we would obligate the funds, and then make payments under an administrative payment schedule. We would review the projects to verify that the assurances had in fact been complied with.

Formula

Under our legislative proposal, funds from the Mass Transit Account would be apportioned to the States on the basis of the existing section 9A and section 18 formulas. There would be no discretionary grant program, as I will explain shortly. The States would have to make the approximately $980 million attributable under the 9A formula to urbanized areas over 200,000 available for expenditure on transit or highway needs in those areas. The States could spend all other Mass Transit Account funds apportioned to them at their discretion in accordance with their transportation needs. From the $2.2 billion Highway Account component of the block grant program, the States would have to make approximately $540 million available to urbanized areas over 200,000 in population. This would guarantee that these areas would receive about $1.5 billion of the block grant funds. The remainder would be available to the States on the basis of existing urban, secondary, and bridge formulas for use on either transit or highway projects anywhere in the State.

Eligible expenses

Funds would be available for capital assistance in all areas and for transit operating assistance in areas under 200,000 only. The Administration maintains its position that transit operating costs are primarily driven by local policies and should be paid

for at the local level. However, given the percentage of dependence on Federal operating assistance of the small urbanized and rural areas, we concluded that it would be appropriate to allow some level of operating assistance for those areas in our legislation. Operating assistance would be limited, however, to the amounts that were available to the small urbanized and rural areas for operating assistance in fiscal year 1985. The Federal share would continue to be 50 per cent.

Recognizing the importance of maintenance, we have also proposed expanding the definition of eligible transit capital items for all recipients to include "tires, materials, and supplies," items that currently are treated as operating expenses. By bringing these into the capital program we will ease the effect of the operating assistance cut and also encourage recipients to properly maintain their capital investments.

Discretionary grants

As part of our restructuring of the Federal transit program, we propose to eliminate the discretionary grant account. These funds have reached only a few cities. In fact, three-fourths of this account, the rail modernization and new starts funds -- by far the largest portion of the discretionary grants account -- go to only 20 cities. The Administration believes that this is not an equitable distribution of the nationally collected gasoline

tax. Instead, receipts of the tax should be allocated nationally, so that, to the greatest degree possible, all payers of this tax may benefit from it.

Moreover, regardless of the source of funding, there are inherent problems in allocating discretionary funds. Congress' growing tendency to earmark these funds has created enormous political pressure to fund inefficient and unreasonably expensive systems. For example, in Detroit, Federal funding for the people mover project, originally estimated at $109 million, has escalated to over $124 million because of cost overruns. The project has been plagued with construction difficulties. Moreover, the South-eastern Michigan Transportation Authority has concentrated on building the people mover project to serve overestimated downtown circulation needs, to the detriment of the bus service. In other cases, funds meant for rehabilitating existing rail lines have been used for extensions that cannot be completed.

So long as discretionary Federal funding is available to pay for 75 per cent of the cost of new fixed rail projects, local officials will be tempted to build or extend systems that they would not undertake with their own local tax dollars. This is wrong. We believe that the decision to build a new fixed rail system should be governed by local political and fiscal constraints. Such a decision should not be influenced by the possibility of funding from a Federal discretionary program.

We have attempted to work with Congress to ensure that the discretionary funds would be used in a cost-effective manner. Unfortunately, our efforts to carefully evaluate new start proposals against objective criteria came to naught. Congress has continued to recommend funding of the Miami Metrorail system, despite the fact that the system has not delivered as promised. Ridership is only one-tenth of the original estimate, which has led to lower than projected revenues for the rail line. As in Detroit, the cost of the rail system has led the transit authority to reduce funding for the bus system. In Miami, reduced bus service has resulted in even lower rail ridership. Thus, a one billion dollar transit investment will have reduced overall Miami transit ridership and forced the transit dependent to endure less frequent, more costly service.

The Administration has concluded that the only way to prevent the squandering of Mass Transit Account funds is to no longer make them available on a discretionary basis. Moreover, the projects the earmarked new starts funds would support could ultimately impose an additional cost of more than $4 billion on the Federal government. I cannot overemphasize how costly these projects would be and how imperative it is in this time of deficit crisis that localities decide whether they can develop community support and local funding for these projects. For these reasons, we propose elimination of the discretionary account.

This does not mean that cost-effective and needed new start projects could not be undertaken. Under our $3.3 billion formula-based transportation block proposal, States and localities could, of course, undertake new start projects if they felt this was their most pressing transportation need. The choice is theirs.

Local share

We are proposing that the local share for capital projects be set at no less than 25 per cent. This change will present a "level playing field" between transit and highway projects. In addition, this level of local share will encourage better capital utilization by the States.

Interstate Transfer Grants-Transit

Our proposal would not reauthorize funding for Interstate transit substitution projects from the General Fund. Instead it would authorize funding for these projects from the Highway Trust Fund. We believe that this proposed funding arrangement is more in line with the original intent of the Interstate Transfer program and puts substitute transit and highway projects on the same basis. Funding all substitute projects directly from the source that would have otherwise funded the withdrawn Interstate segments is more appropriate than separately funding substitute transit projects from the General Fund. Direct funding from the Trust

Fund would support deficit reduction efforts because the funding level would be tied to the level of tax receipts into the Trust Fund.

Conclusion

The changes in the UMTA program I have described -- while still providing an appropriate level of Federal assistance for transit -- will enable States and localities to better meet their mobility needs. Moreover, the changes are necessary to achieve deficit reductions required to meet the Gramm-Rudman-Hollings target for fiscal year 1987. I look forward to working with you to enact the authorizing legislation needed to implement this restructuring.

Mr. Chairman, that concludes my prepared statement. I would be pleased to answer any questions that you or other members of the Subcommittee might have.