/BOM/RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Jeffrey L. Eller (ELLER_J) (WHO)

CREATION DATE/TIME:18-FEB-1993 08:21:00.00

SUBJECT: Talking Points 2/18

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TO: Carol Rasco (RASCO_C) (OPD)
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TEXT:
PRINTER FONT 12_POINT_COURIER
Comments on the President's Schedule
February 18, 1993

PRINTER FONT 12_POINT_COURIER_OBLIQUE
Last night the President outlined the specifics of his bold plan to "create jobs, trim [the] deficit, [and] restore economic fairness." Washington Post
PRINTER FONT 12_POINT_COURIER
* Over 150 specific spending cuts to help reduce the federal deficit: including the elimination of programs that have outlasted their usefulness and a one year freeze on pay raises for federal employees.
* The plan includes a stimulus program of nearly $30 billion that will provide an immediate jumpstart to the economy, creating nearly 500,000 jobs by the end of 1994.
* A fundamental shift in spending priorities that demonstrated clearly how much Bill Clinton shares the values of working men and women, and believes in the things they believe in:
    * Investment in America's infrastructure to create jobs and rebuild our roads and bridges, including full funding of ISTEA;
    * Investment in small business, the engine of economic growth, through a series of tax incentives including a permanent investment tax credit that will reward small businesses for investing in expansion, growth, and job creation;
    * Investment in education and training, initiating the most ambitious plan for training and retraining ever conceived; and
    * Investment in children by providing money for Head Start and money so that babies who need vaccinations will have them.
* The largest deficit reduction program in history that will end the deficit's stranglehold on long-term economic growth. The Washington Post called the President's $493 billion deficit reduction package "as dramatic and comprehensive as he had promised." It will mean a drop in interest rates that will allow middle-class people to afford loans to buy houses, buy cars, and sen d promising children to college.

By all accounts, the President's speech and the supporting documents that accompanied it bring a new era of integrity, honesty, and accountability to the budget process.

* Past Administrations have based their budgets on better-than-best-case scenarios; the President deliberately based his on one of the most conservative growth scenarios available. This won universal praise.

The President called on all Americans to come together and help him make this plan succeed. Hundreds of special interests will do their best to avoid doing their part; they will try to break his plan apart piece by

piece. The President's plan is a total package to bring change so
fundamental that it demands nothing less.
The public was overwhelmingly supportive of the President's plan. A
CNN/USA Today poll showed that 79% support the plan and 72% believe it will
improve the economy.
PRINTER FONT 12_POINT_COURIER_OBLIQUE
Today, the President, Vice President, and the Cabinet leave Washington to
visit 29 states over the next few days, to ask Americans for their help and
for their support. The President begins his trip in St. Louis, Missouri.

/EOM/

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Daniel J. Corbett (CORBETT_D) (OMB)

CREATION DATE/TIME:22-JUL-1993 16:07:00.00

SUBJECT: Draft Rivlin speech

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
Attached is the current file for the Rivlin speech, in case, you would rather work with it.
Dan
=================== ATTACHMENT 1 ===================
ATT CREATOR: Daniel J. Corbett (UNKNOWN)

ATT CREATION DATE/TIME:22-JUL-1993 16:04:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -RIVLIN2.DRF-

ATT TEXT:
Introduction
Thank you for your invitation to be the Keynote speaker at this important and timely conference on High Performance Infrastructure. Let me also thank you for the many hours that so many of you have put in debating this issue and developing your final report. I understand that this is the culmination of a 3-year effort looking at Infrastructure, and that you plan on continuing work in this area in the future. I look forward to that future work.
I would like to talk today about your report, why it is important and timely, and then discuss some specific areas that I think offer potential to meet our goals for economic growth while recognizing the serious financial, environmental, and other constraints we face today.
Discussion of ACIR Report

As most of you know, the ACIR report recommends specific actions for improving the investment choices and management of our nation's infrastructure. The Administration, through the National Economic Council, is in the process of looking at many of the ideas included in the ACIR report. I expect the ACIR final report to provide valuable and timely input into that process. I would also note that interest in this subject is not limited to the Administration. Rep. Carr, Chair of the House Appropriations Subcommittee for Transportation, is also pursuing this same area. I am hopeful that with this amount of interest in this subject, we can make some real progress in improving the return on our infrastructure investment.
I would like to briefly discuss some of the work of the task forces. I promise to be brief, because I know many of you have spent many days and hours working on this. I don't plan to read it back to you.
.

The reports recommendation for improved analysis, including increased use of benefit

cost analysis, is well received and will be an important part of the Administration's principles. In particular, the Administration wants benefits and costs quantified to the maximum extent feasible, and when they can't be quantified, fully inform decision makers of the qualitative impacts.

·

The maintenance task force correctly points out the need to ensure that we do not under invest in maintenance. Agencies at all levels of government should ensure that they have financially sustainable and detailed maintenance plans. We cannot shortcha
nge maintenance, because we get political kudos from new projects.

·

Regarding regulation, the Administration is reviewing the regulatory process and how to make it more effective. In particular, OMB is looking at its regulatory oversight function, particularly our relationship with the various Federal agencies. We hope
that this reevaluation will lead to more prudent and effective regulation, including for State and Local governments faced with meeting Federal requirements.

·

For the Environment, the Administration plans to improve the consideration of the environment in the analytical and decision making process. We must take efforts to fully consider environmental effects rather than as an afterthought after the "real" anal
ysis is done. Alternatively, we need to take steps so that the environmental process is less contentious for all involved. This will lower costs and increase our ability to respond to infrastructure needs in a more timely fashion.

·

Lastly, the Administration believes that we need to give serious consideration to new ways of financing infrastructure. There are a variety of ideas on new ways to improve the financing of infrastructure. I for one, believe new pricing mechanisms such
as highway congestion pricing, axle-weight taxes, and assessments for infrastructure required for new commerical and residential development offer significant potential.
I would now like to talk about the importance of this report and efforts to improve the return on our infrastructure investments.
Goals and Constraints ("3 Themes")

This effort to develop your four-point Infrastructure strategy is important for three key reasons.

-

It can help us achieve economic growth and productivity by improving our infrastructure investment decision making and infrastructure management.

-

It will enable us to make the tough budget decisions that need to be made in light of the large Federal budget deficits and constrained Federal spending.

-

It will help us to deal with the social implications of infrastructure such as air quality, mobility, wetlands preservation, among others.
Theme 1:

Economic Growth & Infrastructure (President's Commitment to Economic Growth)
As many of you know, Infrastructure is a key part of one of the three key elements of the President's economic plan --- "long-term public investments to increase the productivity of our people and business." The President's plan moves our

spending
priorities away from consumption to investment. Investment is the key to a growing economy that produces good jobs and high-quality goods and services for ourselves and for the international marketplace.

The U.S. has about one trillion invested in its public works capital and spends another $100 billion annually on operations, maintenance and additional capital investment. I know there is some debate on the extent to which investment in public capital
affects economic growth and national productivity. I am not here today to render an opinion, and I understand that you plan on are working on this topic, but some example statistics on the importance of public capital can illustrate that infrastructure
has to be important to our national economic growth and productivity. In transportation alone, we travelled an unfathomable 3.5 trillion passenger miles. When we are talking about numbers this large, any size percentage improvement won't be trivial to
our economic growth.

The President's plan recognizes the link between infrastructure and economic growth. In particular, the plan calls for significant increases in infrastructure spending. For the traditional infrastructure programs, the program calls for a $4-5? billion
increase or xx percent increase over baseline spending projections. The plan calls for increased spending in highways, transit, high-speed rail, airports, clean water grants and drinking water grants.

However, the Administration is equally committed to deficit reduction. The reality of the Federal budget deficit will mean that the nation has to make tough budget choices, including regarding infrastructure programs.

Theme 2: Budget Reality

As many of you know, the budget situation is tough and getting tougher. The Congressional budget resolution adopted in the Spring of this year opted for a "hard freeze" on discretionary spending, which includes the major infrastructure spending programs.

As a consequence, the FY 1995 discretionary outlay cap implied by the Congressional budget resolution is $13.6 billion below the outlays shown in the President's economic plan. This will mean that "hard choices" will need to be made.

I know some of you probably expected the OMB Deputy Director to talk predictably about the "tight" budget, but I want to emphasize that these are not normal times. We will not create economic assumptions that make the deficit disappear or develop other
budgetary gimmicks that get us out of making tough choices.

Let me go back to the numbers again. Our current figures show that if the Administration were to protect the investments included in the President's plan, this would require a 10 percent reduction in outlays in all other discretionary programs. Clearly,
preserving the President's investments including several of the infrastructure-related investments will be a major challenge for the 1995 budget and beyond. That is one of the reasons that the ACIR product is so timely and important.

We believe this budgetary reality can have positive benefits if it forces both our Administration and the Congress to rethink and restructure federal activities. We can seize this opportunity, not only to strengthen our investment proposals, but also to
reexamine the whole range of government programs. We must identify sets of activities that are no longer high priority, which are of questionable effectiveness, or that other levels of government could perform as well. We can work with the Congress to
eliminate these programs or drastically restructure them. The result could be a leaner, more effective, more manageable Federal government.

Theme 3: Social Impacts

Let me now turn to the social impacts of infrastructure and the need to more fully incorporate them in our infrastructure plans.

As many of us in this room are familiar, the "infrastructure" business is getting more complicated and making even greater demands on our analytical and management skills. Our infrastructure programs need to take account the environmental, health, and
social impacts up front, rather than as an afterthought.

Environmental requirements such as the National Environmental Policy Act, and the Clean Air Act Amendments of 1990, along with the Americans with Disabilities Act will require that we make improvements to the way the different agencies and levels of

government work and the level of rigorous analysis required of those same agencies and levels of government.
The need to fully incorporate these social impacts into our analysis, along with, as I discussed earlier, our desires for economic growth and the constrained Federal government can also be looked on as an opportunity to try some new ways of doing business,
new technologies, and new ways of working together.
The Challenge: "look at new ways, including pricing, demand mgmt, etc.)
The current budget and enviromental constaints, among others challenge the traditional way of thinking about infrastructure. We can no longer simply "build our way out of a problem." We don't have the money or we don't have the land or both. This means
that we need to look at new ways of doing business, including demand management and using technological breakthroughs to our advantage.
New Ideas and Methods
Demand Management
Paramount among these new ideas is the use of demand management strategies such as pricing. Breakthroughs in computer, communications, and sensor technologies make the idea of pricing infrastructure not simply a "textbook economic theory," but it can make
it a reality. Previously, this type of demand management could not be attempted without tremendous cost and inconvenience. For highway congestion, congestion pricing was previously simply too costly and too inconvenient for serious application. The
addition of manual tolls booths to price the road system is unacceptable because it would probably increase highway congestion rather than relieve it.
However, new technologies that allow the development of electronic toll booths should cause us to rethink how we operate and finance our road systems. Electronic toll booths can assess user charges automatically with no stopping or need to reduce speed
and no fumbling for change. I understand that x roads in the U.S. are already using electronic tolls with more planned.
Idea 1: Congestion Pricing
Highway Congestion is probably the most visible example of our need to use these technological breakthroughs to our advantage and implement demand management. Congestion on our highways is reaching epidemic proportions. During the daily rush hour, more
than 61? percent of peak-hour travel on our Urban Interstates is considered congested, according to the U.S. Department of Transportation. It has been estimated that this results in over 1.25 billion vehicle-hours lost annually and xxxx million gallons
of gasoline wasted. The Texas Transportation Institute estimated that the annual cost of congestion in thirty-nine urban areas exceeds $34 billion or $290 per resident. The annual benefits of implementing congestion pricing nationwide are well worth
pursuing.
I am glad that we are finally taking the first steps on our way to introduce pricing into the nation's road system. The Intermodal Surface Transportation Efficiency Act (ISTEA), or so

called ISTEA is part of those first steps. ISTEA authorized five pilot
projects for congestion pricing and authorized $25 million.
I understand the Federal Highway Administration has had significant interest in the congestion pricing pilot project, but so far only one successful application. I am hopeful that the FHWA's second solicitation will bring more urban areas into the pilot
program. I know there are practical problems with implementation of congestion pricing, but we must focus to overcome them.
Airport Peak-Pricing
The idea of pricing is not limited to highways. Currently, over 20 airports experience more than 20,000 hours of delay annually. Thirteen additional airports are projected to get this infamous designation in the near future. One possibility for dealing
with this issue is the introduction of peak-period pricing for the nation's airports, including proper pricing for general aviation. Colleagues of mine when I was at the Brookings Institution estimated annual benefits of more than $4 billion from airport
peak-pricing.

Demand Management for Water Treatment

Another area where we need to look very closely at demand management is in the supply and treatment of the nation's water. Rather than building larger and more sophisticated water treatment facilities, we need to carefully at controlling the inputs into these systems. Nonpoint source controls (which address agricultural and other sources of runoff) may be more cost effective than additional controls on municipal wastewaster. This is another example of where we need to face up to our fiscal constraints and try new ideas.

Reevaluating our current user charges

Not only dow we need to look at new mechanisms' for pricing and demand management, but in some cases, we must also take a second look at our current pricing mechanisms. We need to look at making user charges more accurately reflect the costs and benefits to infrastructure users. This may also mean moving to charges that more accurately reflect the capital and maintenance charges of users. A prime example of this are weight-distance taxes for highway use, referred to also as axle-weight taxes. Current fuel taxes simply reflect miles driven and do not reflect the capital and maintenance needs of various highway users, particularly trucks.

As many of you are familiar, highway capital and maintenance costs rise geometrically with the load put on a road segment. This does not mean simply however, that heavier vehicles do more damage. The real impact is on the weight per axle. Additional axles distribute the weight of a vehicle making it less damaging to the roadway. However, current user charges, primarily based on fuel use provide little incentive for using vehicles that distribute weight in a more effective manner. Moving to a system based on axle-weight has been estimated to have net benefits of about $7.6 billion annually. This is the kind of change that we need to look at carefully if we are to get at the economic growth and positive change that the President and the nation want.

Demand Management is not the only area where we can get significant benefits. Some of the new technologies offer capacity and efficiency gains, in and of themselves.

Idea: New technologies

(Discussion of Intelligent-Vehicle Highway System (IVHS), so

called Smart Cars

Examples of these new technologies increasing infrastructure capacity directly is in the Department of Transportation's Intelligent Vehicle Highway System (IVHS) or so-called "smart cars/smart highways" initiative. Breakthroughs in computer and communication technologies, artificial intelligence & expert systems, and other defense-related technologies can enable us to increase our highway and transit capacity and efficiency without major new construction. This means we can avoid current land-use constraints, while still meeting our economic growth goals, environmental goals, and our budget goals. As conceived, IVHS will improve traffic control systems, warn drivers of dangerous situations, and make more efficient use of the existing highway infrastructure. IVHS will include such things as in-vehicle navigational capabilities that can help drivers plan efficient routes and, when linked to a dynamic traffic reporting system, avoid congested areas. This is not pie-in-the-sky theory.

Such a sysusts taking place in other areas.

IVHS will also include additional safety technologies, such as blind-side warning systems, vision enhancements, etc, that should help drivers avoid accidents. This reduction in accidents can be very important to making better use of our road system. It has been estimated that about 60 percent of congestion is related to highway accidents. During rush

hour, small fender benders can reduce the capacity of a road system by tremendous amounts, depending on the number of lanes that are blocked. I am sure that many of us can offer some personal experience about this loss of capacity on the Washington Beltway, especially when we are running late to work or the dentist.

Seeing the potential for this technology, the President's plan calls for a 50 percent increase for IVHS over the 1994-1997 period or close to a $1 billion investment in research and demonstration projects.

Another area where I hope we can collectively focus some attention is to learn from each other and from the experiences of other countries.

Learning from Others - New Methods and Procedures

On a recent tour of Europe, a U.S. delegation learned some interesting facts about the European road system and some important differences in their investment planning.

For example, the Europeans generally build their roads to last longer, in some cases 40 years versus the U.S. 20-year standards. They also generally build them thicker, with better road bases, and in some cases to withstand heavier loads than the U.S.

Some of the European design practices may offer significant benefits. Other public infrastructure should try to gain similar insight from other states and countries.

In addition, the Europeans have also looked at some innovative ways of contracting that are now also being tried in the U.S. These include increased use of performance standards rather than design standards. Performance standards in the operation and construction of infrastructure can increase innovation rather than simply "meeting the specs" of the construction contract, especially where a contractor has ideas of how to build it better. Performance standards offer potential to allow the private sector to add its technical expertise and new ideas. Specifically, we need to seriously consider increased use of "turnkey" operations, where a private group, designs, builds, and operates infrastructure based on performance criteria agreed to in advance. I understand that the Environmental Protection Agency, the Federal Transit Administration and the Federal Highway Administration are all looking at the use of performance based criteria and "turnkey" contracts.

Rethinking the Distribution of Infrastructure Responsibility and Infrastructure Program Delivery

The last area that I would like us to rethink, and it doesn't involve new technology is in the distribution of responsibility for infrastructure maintenance, capital construction, financing, and operations. As you know, the Federal government is involved in a wide variety of ways with our nation's infrastructure. The Federal government is involved in dams, hydropower facilities, flood control projects, roads, bridges, transit systems, airports, and water and sewer systems. In these areas, the Federal government participates in a variety of ways. The Federal government builds and operates some infrastructure, we provide discretionary grants in others, formula grants to others, funding for State Revolving Funds for some programs, and tax benefits for State and municipal bonds. In other cases, the Federal government plays no role at all, and in the cases of some of the nation's infrastructure, such as oil and gas pipelines, and telecommunications, only the private sector maintains and provides the in frastructure.

I believe that this mosaic of financing, program delivery, and levels of responsibility also needs to be reexamined. In some cases, this division of responsibility between government diffuses responsibility and accountablity for the taxpayers. We need to reduce the ability to point the finger of blame at other levels of government when the taxpayer wants to hold someone accountable.

In other cases, we need to ensure that the program delivery and financing mechanisms do not cause poor decisions to be made such as deferring maintenance, because the Federal government provides "cheap" capital replacements. I believe that a look at this issue should also be an important part of our infrastructure policy making.

Conclusion

I would like to conclude by again thanking you for the invitation to speak to you today and for the excellent product that you have produced. This report is valuable input into a topic of vital importance to our goals of increased economic growth and to increased taxpayer faith and trust that we spending their money wisely.

Thank you.

As your report points out, the Federal government is involved in a variety of ways with our nation's infrastructure. In some cases, the Federal government builds and operates infrastructure such as dams, hydropower facilities, and flood control projects.
In other cases, the Federal government's emphasis is on assisting state and local governments to build and operate infrastructure such as roads, highways, bridges, transit systems, airports, and water and sewer systems. The Federal government also plays
a role in the regulation of Infrastructure programs, primarily through environmental requirements and in other areas.

David Tornquists's - constant $ graphs or copy of CBO study graphs.
Journal of Economics - summary of Winston's book and ideas.
1/2 page by Don Blanchon on ACIR status
1/2 page by Norm Starler on ACIR effor
Randy Lyon's Friday Report on Infrastructure
NEC document (revised version) - original version from Deich
Draft version of final ACIR report
A-94
S-20 background info.
- Congestion Pricing - Federal Register Notice
- Library copy of "Road Work"
- Table on President's infrastructure spending

Water trading permits
Non-source point controls
Airport pricing in Winston's book
LA study on benefits of IVHS

Notes to Alice Rivlin
- ACIR recommends several OMB/Presidential actions. We have avoided explicit decisions so as not to get out in front of the NEC process.

- Pres. Exec. Order

- Infrastructure Investment section of the Budget
Legislative Plan

- Infrastructure Investment Act

- includes tax and bond incentives, flexible block grants

- NEPA Integration Act

- Remove prohibition on cost-benefit analysis

- Infrastrucute Mandate Relief Act

- inventory and cost estimates of mandates

- consider cost sharing or more affordable prioritization and scheduling of compliance

Note to Randy Lyon & Norm Starler & Roger Adkins
Attached is my first draft of the speech. I don't know how long it is, but I don't think we want to add a whole lot more. I may try to read it and time it. The proportional fonts shrink it up.
Don't be shy at all. I would like as many comments as possible, including re-writes.
My preference for adding and dropping things..
Possible Additions
If I could add more non-highway and even non-transportation discussion, that would be useful. I believe that there is an outstanding issue regarding the pricing of inland waterways, including the differential costs of maintaingin different segments, but
I didn't know enough to write about it.
Also, if we need to add length, I think we could add more to the description of the ACIR report and what we think about it, although Alice didn't seem excited about that.
Possible Drops
- Either drop some highway specific examples or some of the specifics.
I would like to get your comments, in time to give Schwartz and maybe others a redraft by the end of the day. I will take them piecemeal if I can.
After you have taken a look at it, let me know if we should share with others, including Michael Diech.
================ END ATTACHMENT 1 ================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Christopher W. Parker (PARKER_C) (OMB)

CREATION DATE/TIME:07-OCT-1993 10:04:00.00

SUBJECT: Infrastructure Meeting

TO: Harry G. Meyers (MEYERS_H) (OMB)
READ: UNKNOWN

TO: David C. Childs (CHILDS_D) (OMB)
READ: UNKNOWN

TO: Lawrence W. Hush (HUSH_L) (OMB)
READ: UNKNOWN

TO: Norman H. Starler (STARLER_N) (OMB)
READ: UNKNOWN

TO: Adrienne C. Erbach (ERBACH_A) (OMB)
READ: UNKNOWN

TO: Richard A. Mertens (MERTENS_R) (OMB)
READ: UNKNOWN

TO: Courtney M. Manning (MANNING_C) (OMB)
READ: UNKNOWN

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TO: Franklin S. Reeder (REEDER_F) (OMB)
READ: UNKNOWN

TO: Roger S. Adkins (ADKINS_R) (OMB)
READ: UNKNOWN

TO: David J. Haun (HAUN_D) (OMB)
READ: UNKNOWN

TO: Daniel J. Corbett (CORBETT_D) (OMB)
READ: UNKNOWN

TO: Justine F. Rodriguez (RODRIGUEZ_J) (OMB)
READ: UNKNOWN

TO: T J Glauthier (GLAUTHIER_T) (OMB)
READ: UNKNOWN

CC: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ: UNKNOWN

CC: Margaret R. Shaw (SHAW_M) (OMB)
READ: UNKNOWN

CC: Alan B. Rhinesmith (RHINESMITH_A) (OMB)
READ: UNKNOWN

CC: Carolyn R. Griffith (GRIFFITH_C) (OMB)
READ: UNKNOWN

TEXT:

The purpose of the 4:30 meeting with Edley is to discuss the content of an upcoming speech he will be making to a major conference entitled "Emerging Public-Private Partnerships for Infrastructure Development and Finance" to be held on October 26. The title of the speech has been dubbed "The Clinton Administration: What Is He Promising?" Should we take this opportunity to impart a policy direction on infrastructure? If so, what direction do we want to go in?

At the present time we do not envision signalling any policy direction, but rather an objective discussion and analysis of the following options we see before us. In general they include:

Adjusting the existing tax-exempt finance system to promote infrastructure investment (e.g. increase private activity bond volume cap, public benefit bonds, creation of a TIB bond).

Targeting grants to promote user-fee based financing (e.g. fund various ISTEA provisions).

Having a government sponsored enterprise foster infrastructure investment via the provision of insurance and/or the creation of taxable GSE infrastructure-based securities (e.g. NIC, Connie Lee).

Targeting grants to state revolving loan funds in areas other than wastewater treatment.

Allowing municipalities to privatize public assets and recoup more of the sale revenue (E.O. 12803).

Encouraging further creativity and voluntarism with respect to public-private partnerships dedicated to increasing infrastructure investment.

Your input on the options above would also be of great help. Are they the right options? What do we want to say about them? Etc.

Hope to see you at 4:30 PM.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael D. Deich (DEICH_M) (OPD)

CREATION DATE/TIME:15-NOV-1993 15:25:00.00

SUBJECT: RE: Event -> 17-Nov-1993 02:00pm CORBETT_D

TO: Daniel J. Corbett (CORBETT_D) (OMB)
READ: UNKNOWN

TEXT:
It's a proactively defined, pro-competitive, intermodal network designed to grow the economy and provide high wage jobs. An NTS leverages federal capital through creative financing techniques to spur critically-needed investment via public-private partnerships that provide essential capital without imposing unfunded mandates on state and local governments.
Sarcasm aside, I think the NTS may represent an admirable attempt at recognizing that the most efficient transportation system involves more than just the highways included in the NHS mandated by ISTEA. The proof of the pudding will be in the eating. I'll see you at 2pm on Wed.
Thanks for the invite.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Sharon A. Barkeloo (BARKELOO_S) (OMB)

CREATION DATE/TIME:19-NOV-1993 11:03:00.00

SUBJECT: congestion pricing

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

CC: Daniel J. Corbett (CORBETT_D) (OMB)
READ: UNKNOWN

TEXT:
PRINTER FONT 12_POINT_COURIER
Michael-
Dan Corbett and I would appreciate your comments on these congestion pricing ideas, which still need a lot of fine-tuning. We handed this out at Director's Review on Tuesday and received approval to pass this back to the Department. The Director sees a congestion pricing initiative as something we can use to rationalize the three-year phase-out of transit operating subsidies that we are proposing. We can argue that congestion pricing will (1) help transit by increasing its ridership and (2) create a new local revenue source that could be used to replace Federal operating subsidies.

CONGESTION PRICING

Highway congestion is estimated by the Department of Transportation (DOT) to cost the economy $150 billion annually. This is an estimate of the cost of delay to long-distance highway travel (especially commercial vehicles) attributable to congestion. While these costs cannot be eliminated completely, this estimate demonstrates that even a small reduction in highway congestion could have a significant positive economic impact.
We lack the funds, and in many urbanized areas we lack the space, to build our way out of highway congestion. Travel demand management strategies such as congestion pricing are, therefore, increasingly important. This is recognized by the Congestion Management System regulation that will soon be issued by the Federal Highway Administration (FHwA) and the Federal Transit Administration (FTA). Pursuant to ISTEA, this regulation requires States and localities to monitor congestion and strongly encourages the use of demand management measures prior to additional single occupant vehicle capacity increases.
There are several other actions the Federal Government could take to encourage localities to implement congestion pricing. These actions include removing existing impediments to congestion pricing, providing incentives, and imposing penalties.
REMOVING IMPEDIMENTS

Cashing-

Out Employer-

Provided Parking: The Internal Revenue Code should be amended to require employers who provide free or subsidized parking to their employees to offer those employees the option of taking the value of that parking as a taxable cash allowance, or a tax-free transit benefit. This change is included in the President's Climate Change Action Plan. Without dealing with the effects of subsidized parking, any congestion pricing efforts will be undermined.
Allow Tolls on Interstates: The restrictions on the imposition of tolls on the Interstate Highway System should be eliminated during congested conditions if the tolls are established for the purpose of managing demand.

PROVIDING INCENTIVES

Broaden Use of Congestion Pricing Revenues: ISTEA should be amended to allow use of congestion pricing revenues for any local public purpose, not just for more highways and transit, as is now the case in Title 23, U.S.C. This would provide local elected officials with a more powerful incentive to risk the wrath of their constituents by imposing congestion tolls. However, safeguards would be needed against localities gouging non-local traffic with high tolls that are accepted locally because the revenues are rebated to local taxpayers.
Transit Incentive Grant: The PAD recommendation would use the proposed increase in transit formula capital grants (+393 million over 1994) as an incentive grant to encourage urbanized areas to implement congestion pricing. This would require amending the statutory formula in ISTEA to allow each urbanized area that implements congestion pricing to receive up to a 25 percent increase in its formula grant apportionment, up to the $393 million amount available for this incentive.
Demonstration Grants: Section 1012 of ISTEA set up a program of congestion pricing pilot projects. Thus far, only one project (San Francisco) has qualified for a grant under this program. This provision should be amended to permit the use of these funds for development of congestion pricing projects, in addition to funding the projects themselves.
IMPOSING PENALTIES

Funding Sanction for Congested Conditions: Areas would be required to reduce congestion on interstate highways to a specified level (e.g., to a volume-to-capacity ratio no greater than 0.8, which is stop-and-go traffic) on all but a handful of days each year. Any area failing to do so would be required, during the following year, to transfer a certain percentage of its Surface Transportation Program (highway block grant) funds to the Congestion Mitigation and Air Quality (CMAQ) program. Once transferred to the CMAQ program, which is a $1 billion per year program established by ISTEA, these funds could only be used for projects such as high-occupancy vehicle lanes, improved traffic signalization, and mass transit.

There is precedent for the use of highway funding sanctions, e.g., in the Clean Air Act and the requirement for States to establish a minimum drinking age. In addition, the requirement for congested areas to transfer funds to the CMAQ program is similar to existing requirements for States without seatbelt or motorcycle helmet laws. States without the necessary laws must transfer a percentage of their highway construction funds to highway safety programs.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Daniel J. Corbett (CORBETT_D) (OMB)

CREATION DATE/TIME:29-NOV-1993 12:30:00.00

SUBJECT: NHS Designation

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
Attached is a note regarding the NHS designation and the possibility of making it a White House/Presidential event.
If you get a chance, I would like to get your reaction, and try to answer any questions you have regarding the NHS.
Either DOT or myself will be briefing Chris Edley on the NHS in the next day or so.
Dan
=================== ATTACHMENT 1 ===================
ATT CREATOR: Daniel J. Corbett (CORBETT_D)

ATT CREATION DATE/TIME:23-NOV-1993 15:26:00.00

ATT BODY PART TYPE: B

ATT SUBJECT: Draft note to David Dreyer on NHS release

ATT TO: Christopher F. Edley, Jr (EDLEY_C)
READ: UNKNOWN

ATT TO: Barry J. Toiv (TOIV_B)
READ: UNKNOWN

ATT CC: Roger S. Adkins (ADKINS_R)
READ: UNKNOWN

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)
READ: UNKNOWN

ATT TEXT:
PRINTER FONT 12_POINT_COURIER
This note is to give you an update on the Department's plans regarding the release of the report to Congress on the Designation of the National Highway System (NHS).
The plan is still for an event on December 9th (statutory deadline for transmission is December 18th). Currently, the Federal Highway Administrator, Rodney Slater, will present the NHS. The Secretary will follow with his vision of a National Transportation System (NTS). We have notified DOT of preliminary White House interest in the release of the NHS and DOT is very supportive of any plans to elevate the issue.
Both the Secretary and key members of Congress have stated their

intention to move the NHS legislation quickly through the Congress. The Congress must approve the NHS by September 30, 1995 or funding for the $3.6 billion per year, National Highway System Program will be stopped. However, the House Public Works Committee has stated publicly that it intends to use the "must pass" NHS legislation as a vehicle for needed adjustments to ISTEA, including the authorization of additional demonstration projects (pork).

Below are some additional thoughts on having the President/White House involved in the release of the NHS......

Budget Concerns

To the extent the President becomes associated with the NHS and highways, the expectation will be that the budget will meet those high expectations. The 1994 President's Budget promised to fully fund the Federal-Aid Highway Program at the levels authorized by ISTEA. Before proceeding any further towards White House involvement, we need to sit down and discuss the budget outlook for highways as it relates to the release of the NHS.

Transit and Environmental Concerns

Transit advocates and some environmental groups may criticize the Administration for paying too much attention to highways and not enough to other modes of transportation such as transit and rail. These groups have advocated that the Secretary designate a National Transportation System rather than a National Highway System. Secretary Pena plans to address these concerns in his talk, by unveiling his proposal to develop a National Transportation System.

Demonstration Projects

- Lastly, the issue of demonstration projects. It is possible that we will propose to eliminate a great deal of demonstration projects ($2.2 billion in 1994 alone), so as to allow us to fund the base Federal-aid highway program at a higher level. This proposal to eliminate demonstration projects will be juxtaposed against Congressional assertions by the House Public Works Committee to add more projects and the expected opposition to elimination of these projects. No Administration has proposed such a large cancellation of highway demonstration projects. Having the President involved with the National Highway System Designation could provide cover for the proposal to eliminate demonstration projects. The NHS can give the Administration something to support rather than simply having a policy of being against demonstration projects.

We would recommend that senior Administration officials be fully briefed on these upcoming "highway" issues so the Administration can fully consider its legislative, political, and communications strategies.

================== END ATTACHMENT 1 ==================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael D. Deich (DEICH_M) (OPD)

CREATION DATE/TIME:15-DEC-1993 11:33:00.00

SUBJECT: memo for BR/MM on ATA mtg

TO: Sylvia M. Mathews (MATHEWS_S) (OPD)
READ: UNKNOWN

TEXT:
attached is a draft memo to BR/MM for their Fri meeting. A separate memo on truck dereg, which will not be raised at the meeting, will follow.
DEREG -- Chris wants to push truck dereg through the budget process, which means a decision within days. I think that he is doing this with little sense of the politics involved, so that (1) we cannot yet tell the President specifically the strength of the reaction this policy would get from Congress, labor, shippers, consumers groups, states; (2) we;ve left unexplored other ways of accomplishing same broad policy objectives (more on this in the memo). I think we very much need a meeting with the Steph, Gergen, Paster, Baggett etcs AFTER they've had a chance to make some phone calls. Please call to discuss appropriate next steps.
=================== ATTACHMENT 1 ===================
ATT CREATOR: Michael D. Deich (UNKNOWN)

ATT CREATION DATE/TIME:15-DEC-1993 11:21:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -ata-

ATT TEXT:

December 15, 1993
MEMORANDUM FOR MACK MCLARTY
BOB RUBIN
FROM:

Michael Deich
SUBJECT:

Background for Meeting with Tom Donahue

of the American Trucking Associations (ATA)
According to John Collins, the ATA's Senior VP for Governmental Affairs, ATA members are concerned that the

federal-aid highway program will be underfunded in the FY 95 budget. At your meeting, Mr. Donahue will limit his remarks to a discussion of the contribution made by federal highway outlays to the health of the economy as a whole. In brief, he will argue that:

- highways should be seen not only as a means of transportation, but also as a prerequisite for jobs and economic growth. To my knowledge, Mr. Donahue will speak broadly of the benefits that highways offer, but provide no information about the rate of return that could be expected from increased public investment in highways.

- unless highways are funded at the full level authorized by ISTEA (Intermodal Surface Transportation Act), highway conditions will deteriorate. For your information, the Department of Transportation estimates that although pavement conditions could be maintained without full funding for ISTEA, congestion would worsen.

================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael T. Schmidt (SCHMIDT_MT) (OPD)

CREATION DATE/TIME:10-JAN-1994 10:23:00.00

SUBJECT: Transportation Summit

TO: Carol H. Rasco (RASCO_C) (OPD)
READ: UNKNOWN

TEXT:
RE: your question on Secretary Pena's Transportation Summit announcement tomorrow. Apparently, Secretary Pena will be making an announcement tomorrow on three transportation-related issues, two of which I have known about for some time, and one that is news to all of us:
1) Pena will be announcing that he will be meeting with the Transportation Ministers from Canada and Mexico in a Transportation Summit to discuss NAFTA transportation provisions and other critical border transportation issues;
2) He will also release the results of an ISTEA trade corridors study;
3) Finally, he will anounce the creation of an interagency task-force (under NEC) to examine improvements in borader infrastructure planning and more efficient border crossing mechanisms. This one was apparently a last-minute arrangement, with Bob Rubin to release more details about the Task Force sometime today.
I was asked by NEC staff if I would be sitting on the Task Force as the DPC representative -- it was not an official invitation but more of an inquiry. Any thoughts on this? My feeling is that, although it does have an international flavor, the Task Force will be dealing with primarily domestic issues and therefore DPC might as well be represented.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael D. Deich (DEICH_M) (OPD)

CREATION DATE/TIME:04-FEB-1994 12:08:00.00

SUBJECT: infra bank draft

TO: Sylvia M. Mathews (MATHEWS_S) (OPD)
READ: UNKNOWN

TEXT:
a hard copy follows on fax. minarik is fine with this. edley and jack donahue (reich) promise comments by the end of the day.
================== ATTACHMENT 1 ===================
ATT CREATOR: Michael D. Deich (UNKNOWN)

ATT CREATION DATE/TIME:04-FEB-1994 12:07:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -nib7-

ATT TEXT:

February 7, 1994
MEMORANDUM FOR THE PRESIDENT
FROM:

Robert E. Rubin

Leon Panetta

Robert Reich
SUBJECT:

A Proposal to Develop Options for an Infrastructure Bank
All major transportation programs -- including those for highways, transit, and aviation -- are likely to require reauthorization in 1997. You will have an opportunity in 1996, therefore, to propose a new approach to financing public

infrastructure. We believe that one potentially fruitful method of meeting this policy challenge would be to establish a federal Infrastructure Bank. Various Bank proposals already enjoy some support in Congress (Rep. Gephardt and the Democratic Study Group) and among outside interest groups (the Rebuild America Coalition, Felix Rohatyn, and Peter Goldmark of the Rockefeller Foundation). This memorandum provides our initial thoughts on this issue, and asks whether you wish your staff to develop options for an Infrastructure Bank in greater detail.

Description of an Infrastructure Bank. Proponents have considered many variations of an Infrastructure Bank. The prototypical Bank would be off-budget, and would be capitalized with an initial grant from the federal government. The Bank would then borrow funds from private markets and provide the proceeds to state and local authorities. Responsibility for repaying the Bank's bonds either would rest with the federal government alone, or would be shared by the federal government and the state and local beneficiaries. The federal share of the Bank's debt would be repaid with an annual, on-budget appropriation.

Budget Effects under Current Budget Rules. Because the Bank would rely in part on continuing federal appropriations, the budget scoring rules contained in the Credit Reform Act of 1990 (CRA) mean that an off-budget Bank would have no budgetary advantage over a direct federal grant or loan program. Proponents of an Infrastructure Bank have assumed that the costs incurred by the federal government would appear in the budget only as the Bank's debt was repaid. Proponents have assumed, for example, that the cost of repaying a 20-year bond would be stretched out over a twenty year period. In fact, the CRA requires the present value of the entire federal liability be appropriated and obligated in the year that the liability is incurred. In the case of a 20-year bond, for example, the present value of all payments that will be made over twenty years must be appropriated and obligated in the year that the bond is first issued.

The CRA ensures that economically equivalent subsidies have identical effects on the budget, regardless of whether those subsidies are provided in the form of grants or credit assistance. At current interest rates, for example, a locality would benefit financially as much from a zero

interest, 20-year loan covering the entire cost of a project, as it would from a direct grant covering 50 percent of the project's cost. The CRA ensures that both the 50 percent grant and the zero-interest, 20-year loan have the same federal budget cost. In our view, passage of the CRA represented an important step toward more rational budgeting.

Changing the BEA to Lower the Budgetary Effect of an Infrastructure Bank. In order to lower the apparent cost of an Infrastructure Bank, many proponents would like to amend the BEA to allow amortizing certain capital costs over a multi-year period. One approach would establish a capital budget for infrastructure (and perhaps other federal investments). A capital budget would permit the cost of capital assets to be scored in the budget only as the assets depreciated. Your advisors remain deeply split over whether the benefits of capital budgeting outweigh its drawbacks.

Bank proponents have also put forth a second option: either repeal the CRA outright or craft an exemption for the Bank alone, so that the budget would score federal credit subsidies only as they were paid out over the life of a bond. To our knowledge, none of your advisors supports this approach. Even proponents of this second option view it as no more than an imperfect substitute for a capital budget.

Potential Advantages of an Infrastructure Bank. Although it offers no budgetary advantage over direct grants or loans, a Bank could be used to address other concerns about existing federal infrastructure programs. We note that all of the changes listed below could also be accomplished in the context of existing programs. These changes are more likely to be adopted, however, if they are framed as new purposes for new money, rather than as added conditions being attached to existing funds. An Infrastructure Bank could:

- Put both infrastructure outlays and any associated dedicated revenues on the mandatory side of the budget. Under current law, infrastructure outlays are subject to the discretionary caps even when they are supported by dedicated revenue streams. If supported by a dedicated revenue stream such as the gas tax, an Infrastructure Bank could be established as a mandatory program whose outlays were limited only be the balances in the relevant Trust Fund.

- Increase local control over infrastructure spending. A Bank could be used to make loans available on similar terms for all types of infrastructure projects. This would further a trend that began with the passage of ISTEA to give states and localities more control over how federal funds are allocated across different types of infrastructure.

- Target funds for regional economic development. Some portion of Bank loans could be set aside, and/or made available at especially concessionary rates, for projects in economically distressed areas. Bank loans might be combined with funds for retraining and employment programs.

- More financing of public works from those who benefit from public works. The Bank could encourage further acceptance of user-fee financing by making loans available at lower rates for projects that are repaid through user fees.

- Achieve modest economic efficiencies by substituting subsidized taxable bonds for some tax exempt debt. The federal government could subsidize a greater amount of infrastructure through direct interest subsidies than it could by allowing greater use of tax-exempt debt. All of the benefits from direct interest subsidies accrue to borrowers in the form of lower interest costs. The benefits provided by tax-exempt bonds, in contrast, are divided between bond issuers and bond buyers.

Disadvantages of an Infrastructure Bank. An Infrastructure Bank would have two principal limitations:

- Limits on the federal share of project costs. Federal loans would provide less help to states and localities than current grants program. Current infrastructure grant programs cover between 55 percent and 80 percent of a project's cost. At current market interest rates, however, an interest-free loan covering the entire cost of a project would help localities as much as a direct grant covering only 50 percent the project's cost.

- The potential need for new funding. An Infrastructure Bank could be funded either by reprogramming existing infrastructure outlays or taking money from elsewhere in the budget. Bank proponents all hope that the Bank would be funded by a new, dedicated revenue source such as a tax on gas, energy, or consumption. This leaves a dilemma: either redirect existing funds into a program that is somewhat less generous than existing ones, or propose a new tax.

Recommendation. Although an Infrastructure Bank would not necessarily offer an escape from current budget constraints, it would provide an opportunity to redefine the federal role in providing public works. We recommend that your staff develop these options in greater detail.

Approve

Disapprove

Discuss Further

================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Daniel J. Corbett (CORBETT_D) (OMB)

CREATION DATE/TIME:23-FEB-1994 17:28:00.00

SUBJECT: Pena's statement

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
Attached is a wordperfect version of the Pena statement if you
like to take from it directly.
Let me see if I can help on the not funding.

Dan
=================== ATTACHMENT 1 ===================
ATT CREATOR: Daniel J. Corbett (UNKNOWN)

ATT CREATION DATE/TIME:23-FEB-1994 17:22:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -PENA.HAP-

ATT TEXT:
OPENING STATEMENT OF THE HONORABLE FEDERICO PEÑA
SECRETARY OF TRANSPORTATION
BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE ON TRANSPORTATION
FEBRUARY 24, 1994
Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the Department's budget request for Fiscal Year 1995. I would like to take this opportunity to thank the Subcommittee for the very fast response to the emergency re
quirements facing Los Angeles after the earthquake. I give you my assurance that DOT will work closely with California to ensure prompt rebuilding.
I would like to explain how we approached the FY 1995 budget and the priorities that shape our budget request.

We have always been a nation in motion. Americans have moved farther, gone faster, and made more progress in our short history than any other country on earth. Together, the transportation industry represents 17 percent, or about $1 trillion, of our Gros
s Domestic Product. The capital stock of our transportation infrastructure is valued at over $1.4 trillion. As we approach the next century, our transportation system remains critical to the well-being of this nation.

This budget recognizes the importance of transportation to our economy. Several months ago, the President sat down with his Cabinet and senior advisors to begin putting this budget together. When I met with him, the President and I talked about the role
of transportation investment in our economy:

o about the nearly 25,000 quality jobs supported by every $1 billion investment in transportation infrastructure;

- o about the critical role that transportation plays in local and regional economic development; and

- o about the important public commitment of stewardship and fiduciary responsibility to maintain our infrastructure.

The result is a budget for 1995 that sets unprecedented levels for transportation investment in this country. This budget is about investment -- in jobs, infrastructure, safety, technology and most importantly in America's competitive future.

The Challenge

We had to provide for DOT's key investment priorities while meeting budget targets, and achieving our deficit reduction goals. This is the first time discretionary spending in the Federal Budget has been capped at zero growth. Hence, we faced tough choices in formulating this budget.

The Bottom Line

We are asking Congress to provide $39.7 billion in appropriations and obligation limitations for programs administered by the Department of Transportation. This is about a 2 percent increase, $800 million more than the levels enacted in the regular DOT Appropriations Act for FY 1994.

The President made tough choices, and a key priority of his was to invest in transportation infrastructure because it helps grow the economy and create jobs. Moreover, the Department has a public commitment of stewardship, and fiduciary responsibility, to maintain the nation's infrastructure. As an example in the highway area alone, FHWA estimates that about 25 percent of our major highways have poor or mediocre pavement, which increases vehicle operating costs and congestion. Similarly, 20 percent of the highway bridges are rated as structurally deficient. Deferring rehabilitation or reconstruction increases the cost and time required to rebuild.

The Process We Followed

I began the FY 1995 budget process by asking each Administrator and each Assistant Secretary to do a thorough "bottom-up" review to:

- o cut back wherever possible

- o eliminate activities we no longer need to do, and

- o preserve what is essential to DOT's mission.

Our tough budget process has resulted in a number of program cuts and terminations but it has also preserved a strong and growing budget for infrastructure, and R&D which will keep American goods and people moving efficiently, address environmental concerns, and move our transportation system toward the 21st century.

DOT Strategic Plan

DOT's new Strategic Plan, which we recently completed, provides the framework for this budget. I would like to explain how the budget supports the seven goals set out in our Plan.

GOAL 1: Tie America Together:

The first goal in our plan is to develop an effective intermodal transportation system -- to help us meet the challenges of the 21st century global economy by enhancing all our different modes of transportation and their links, allowing all of us to travel at lower cost and with fewer delays. This will involve the development of a National Transportation System (NTS) involving all modes, which is built upon the model of the National Highway System (NHS) we recently announced. The NTS will include components from aviation, highways, intercity bus, intermodal terminals, pipelines, ports and waterways, public transit and railroads. It will be developed in cooperation with transportation industries, users, State and local governments, and

others
affected by transportation services and facilities. The Department will ask those parties, through an outreach effort, to share the insights that they have developed through their ongoing planning and operational experience.
In this budget we are focusing on three modes that need strengthening to be effective players in our emerging intermodal system: the aviation industry, maritime industries and passenger rail service.
For aviation, we propose a 7 percent increase to $2.3 billion for Facilities and Equipment, for major projects to improve and modernize air traffic control systems, such as radars and landing and navigation aids. We also request level funding for
Airport Improvement grants at $1.69 billion to address the capacity, efficiency and safety of our aviation system. AIP grants fund major projects, such as construction and rehabilitation of runways, taxiways, and apron areas.
While the budget does not reflect our proposal to create an Air Traffic Control (ATC) corporation, we are actively working to develop a proposal for consideration later this year. As the Committee knows, FAA's air traffic control system is a unique entity
within the government. It is an operational organization, up and running 24 hours a day, 365 days a year. It is also the only government entity upon which an entire industry is wholly dependent. Put simply, without air traffic control, there is no airl
ine service.
Bound by the federal personnel, procurement, and budgetary constraints as it is today, the air traffic control system simply cannot function as safely, efficiently, and cost-effectively as it should. Restructuring the system into a government corporation
can address those problems. As we put together our detailed proposal, we look forward to working with the Committee to make the air traffic control system work better and cost less.

The maritime industry is important to our nation's security and global competitiveness, and the Budget includes two initiatives to help revitalize this sector of our transportation system. The first is a $1 billion, 10-year new Maritime Security Program,
to help maintain a U.S.-flagged commercial fleet. This proposal will provide subsidies of $2.5 million per vessel in the first three years of the program, and $2 million per vessel for the remainder of the program. This is the first time the President's Budget has incorporated funding for a new maritime assistance program. The second initiative provides funds to leverage $1.5 billion in loans over two years (FY 1994-95) for shipbuilding and shipyard modernization. Also, $3.6 million for
maritime research and development will be focused on intermodal connections to improve efficiency of cargo movement through ports, and environmental protection to reduce ocean pollution.
For passenger rail, we propose a 15 percent increase in Amtrak operating and capital assistance, to $788 million. In addition, we would continue to support the Northeast Corridor Improvement Program at $200 million, and invest $100 million over two
years in a joint venture for redevelopment of New York's Penn Station. We also propose $32.5 million for the Administration's Next Generation High-Speed Rail Program, which I will discuss further in the context of technology development.
The budget also includes $15 million to continue funding for the Bureau of Transportation Statistics (BTS). In FY 1994-95, BTS will be completing studies of cargo flow and passenger travel. This data can help us shape the National Transportation System.
GOAL 2:

Investing in Infrastructure

Because investing in infrastructure is one of the President's key themes and priorities, DOT's budget continues to grow in this area, to a level of $28.2 billion in FY 1995, an increase of about $800 million over the levels enacted in the regular DOT Appro
priations Act for FY 1994. This includes grants to State and local governments and the capital requirements of the Coast Guard and the FAA. The increase in highway funds helps States impacted by NAFTA.
Not only does infrastructure spending account for the predominant portion of DOT's budget -- fully 71 percent -- but DOT's infrastructure budget accounts for over 83 percent of the total Federal budget for infrastructure.
The President demonstrates his special commitment to our Nation's infrastructure by fully funding key programs at

ISTEA levels.

When we're talking about full funding, there has always been a definitional problem about what is meant by this. We're talking about the primary formula programs of ISTEA that affect every State and transit agency, and are the major areas of State and local decision making:

- o core categorical Federal-aid highway grants at $18.332 billion, up 4 percent over FY 1994

- o mass transit formula grants at $2.865 billion, an increase of 19 percent over 1994

We urge you to join us in focusing on these core programs.

The budget does cut transit operating assistance 25 percent, but the capital portion of formula grants increases by 40 percent, to almost $2.3 billion. As a result, every transit agency in America will receive more dollars for transit in this budget. Our focus is on capital assistance because we think it is a more strategic investment. Transit capital assistance will allow modernization of equipment and more replacement of over-age vehicles. Newer vehicles are more efficient and require less maintenance, which in turn lowers operating costs, and are also more accessible and comfortable which can help increase ridership. We also believe that with low inflation and interest rates, transit authorities are experiencing more stable fuel and labor costs and lower debt service. All of these factors should help local areas to accommodate the reduction in operating assistance.

Just to give you an example of the impact of this reduction in operating assistance, Atlanta will receive 18 percent more in formula funds and have to pick up only an additional 1 percent of its operating costs. The Federal share will drop from 3.5 percent to 2.6 percent. In New York City, it is estimated that the reduction in operating assistance equates to a two-cent fare increase. A one-half of one percent expense cut would more than cover this reduction.

I would especially like to note that this budget funds a larger percent overall of all programs covered by ISTEA than ever before -- 94 percent, versus 81 percent in FY 1993. This means that States and local governments will have $3.6 billion more to spend on highways and transit than they did in FY 1993.

GOAL 3:

Promote New Technologies

Research and Development is an area of vital importance to the Nation's economic future and international competitiveness. For example, application of new technology at border crossings can help facilitate the flow of traffic. Within the government overall, $2.7 billion is spent on transportation-related R&D. The Department has been designated as the lead agency in a task force on transportation-related R&D, to ensure coordination of the various agencies and activities and set government-wide priorities for transportation R&D.

DOT's R&D budget would increase by 14 percent to $692 million under this budget. Our program will support modernization of transportation systems. As such, much of what we propose creates opportunities for defense conversion applications.

We propose to spend almost $289 million on IVHS (an increase of 35 percent over FY 1994). This funding will be targeted at operational tests, automated highway system development, and research on IVHS technologies. IVHS will help us meet our objectives of improving the efficiency of the nation's infrastructure, enhancing the environment, and supporting defense conversion efforts.

For Global Positioning Systems, an area in which DOD has invested billions, we request $46 million (up 53 percent) in FAA and Coast Guard to facilitate its application to civilian use and improve our capability of determining the location of planes, ships and surface transportation vehicles. FAA will issue standards in 1995 for precision approach use, leading to Category I precision approach use in 1996. FAA expects to have GPS fully approved for oceanic use in 1996. GPS has already been approved by FAA as a supplemental means of navigation for enroute, terminal and non precision approaches. The FY 1995 request will provide funds for refinement of GPS capabilities, and will also help FAA to determine whether GPS can be safely implemented for Category II and III precision landings.

As mentioned earlier, the budget includes $32.5 million for Next Generation High-Speed Rail. This keeps us moving forward, although it is less than we hoped for, and allows us to establish a strong foundation for how we will proceed in the future. We have a three-part approach for FY 1995:

- o development and demonstration of new technology that could be used on existing infrastructure, such as grade crossing improvements and non-electric locomotives;
- o a feasibility study, which is required by ISTEA, which will help to support future funding decisions for high-speed rail in the national transportation plan; and
- o working with Amtrak in developing next generation high-speed rail equipment and operations, as we are now doing on the Northeast Corridor.

New technologies in Commercial Space Transportation are developing in response to space-based commercial market growth. Commercial space transportation is also key to the national information highway. The budget requests $6.5 million and adds 6 positions (3 FTE) to this area, to ensure the safety of this growing industry.

GOAL 4:

Foster Safe and Secure Transportation

Safety is central to all DOT activities, but some programs are directly aimed at safety issues, such as safety inspections and safety grants. The funding level for these programs is maintained at $1.9 billion, essentially the same level as FY 1994.

However, within this level we are funding Motor Carrier Safety Grants at the ISTEA level of $83 million, a 28 percent increase. Increased funding will help address border trucking issues arising from NAFTA as well as continuing our efforts to improve truck safety. These grants support roadside inspections of trucks and buses and reviews of motor carrier companies.

Most other safety grants are maintained at FY 1994 levels.
Motor vehicle injuries are a major public health problem, representing the primary cause of death for Americans 5-34 years of age. They generate $3.7 billion per year in Federal Medicare and Medicaid costs, and $14.2 billion per year in total health costs
. Several DOT programs address this problem, including NHTSA's highway safety grants, which the budget funds at $151 million. Safety grants help local governments operate programs aimed at reducing traffic crashes, fatalities and injuries. The
programs focus on such areas as speed limit enforcement, increased seat belt use, reduced alcohol and drug

impaired driving, improved police traffic and emergency medical services, and increased pedestrian and bicycle safety. For example, the North
Carolina "Click It or Ticket" program has recently increased seat belt usage from 65 percent to 80 percent in just three months using periodic, highly publicized enforcement efforts, which NHTSA is encouraging other States to use. It is expected to
prevent more than 100 deaths and 3,000 injuries each year. The program is also an excellent example of public/private partnership. NHTSA's funds, along with private funds from the insurance industry, domestic auto companies, and local supporters, are
used to support this State effort.
We have made security a specific goal for DOT and have brought its importance to the attention of all our key managers. We are being assisted in achieving this goal by the Intelligence Community whose help has proven invaluable for security planning and
increasingly assists us in using all DOT resources in a more effective and efficient manner. My Office of Intelligence and Security plays a critical coordination and liaison role ensuring that transportation issues are addressed by the Intelligence Commu
nity. Aviation Security programs, primarily R&D and civil aviation security staff, would be funded at about $100 million, as in FY 1994.
Coast Guard funding will increase 4 percent to $3.74 billion in FY 1995, recognizing its key role in safety, security, environmental protection and other missions. In particular, continued capital investments in replacing aging buoy tenders and building
vessel traffic systems will help ensure safe and efficient vessel operations in key port areas.
The Federal Railroad Administration's safety budget includes funding for the annualization of staffing increases approved in FY 1994. It also includes a small increase in contract funding to develop a rail corridor risk analysis model with software that c
an be used to assess the need for signal, train control, and other safety systems on high-density freight lines and lines used by passenger trains.
An emphasis on safety is more than just increased budgets. You may know that we recently promulgated new alcohol and drug testing rules that call for alcohol testing programs and extension of drug testing programs for more than 7.4 million employees who
perform safety-sensitive functions in transportation industries. We are looking to increase safety belt usage to 75 percent by 1997, vs. the current 66 percent. We are also targeting reducing accidents between modes at intersections. Motorist
fatalities at highway-rail intersections have been decreasing in recent years, and reached a record low of 536 at public grade crossings in 1992, but we believe that we can do even better. These are just a few of the safety initiatives we have underway.
GOAL 5:

Actively Enhance Our Environment
Direct program spending of $519 million on environmental activities remains about level with FY 1994. This includes funds for cleanup of DOT facilities, marine environmental protection, and noise mitigation.
We will also address congestion management. Congestion wastes $39 billion in the 50 largest cities in fuel costs and lost time, and is harmful to air quality. We have two programs targeted to congestion management in this budget:

o congestion mitigation highway funds -- $1.03 billion authorized annually by ISTEA -- should be fully available to States with our full funding proposal; and o we are proposing that 10 percent of formula transit funds that go to cities ($265 million) must support projects to reduce congestion.

In addition, we are continuing to support oil spill response efforts in FY 1995. Coast Guard's budget includes $2.5 million to purchase oil pollution response equipment and $550 thousand for pollution response R&D. RSPA's budget includes $2.5 million to review, approve and analyze public and private sector oil pollution response plans. In addition, we are increasing the focus of RSPA's pipeline program to pipelines which carry liquid, which are more of an environmental risk. Our proposal to provide a 40 percent increase in transit formula capital grants and to continue the rail modernization and bus transit discretionary grants at essentially FY 1994 levels should go a long way to help transit authorities comply with the Clean Air Act.

GOAL 6:

Make Transportation Relevant and Accessible to Users

One way of implementing our theme of "putting people first" is to make our transportation system more relevant and accessible to users. We will use the findings of ten regional hearings held in 1994 on how well ISTEA is being implemented to improve management of our transportation systems.

In support of this goal, capital funding increases are sought for transit and Amtrak to aid compliance with the Americans With Disabilities Act. The FHWA and FTA budgets include $502 million -- funds passed on to States and Metropolitan Planning Organizat ions -- for the transportation planning process, slightly more than in FY 1994, to ensure good project evaluation procedures and public participation.

The FTA request includes $30 million under Discretionary Grants for a new Livable Communities Initiative. This will fund innovative transit projects that support community-based efforts to address such issues as improving access to jobs and training, and local social services. Among its several purposes, the program will be targeted to improve access for residents of distressed communities, and will stimulate greater involvement in the local planning and design process by stakeholders who are not currently participants in the process. This program will likely dovetail with the Administration's Empowerment Zone initiative (involving HUD, HHS, and DOT).

Our wide-ranging consumer information programs increase by about 2 percent, to over $30 million including hotlines on auto safety and printed materials about safety-related issues. The budget does continue the consumer affairs office within the Office of the Secretary, albeit at a reduced level given the dramatic reductions in complaints this office has received in recent years, dropping 33 percent from 687 in September of 1992 to 458 in September of 1993.

GOAL 7:

Transform DOT

Reinventing Government means working better and costing less -- and we are taking it seriously at DOT. Our budget reflects the National Performance Review recommendations, such as increased fees for FAA inspection of foreign repair facilities and reductio n of the Essential Air Service program. We have also included other terminations such as the Local Rail Freight Assistance program and Boat Safety Grants.

DOT's budget also supports the President's goal of reducing civilian employment by 12 percent by 1999. We have targeted middle layers of management and not the front line, customer contact staff. We will achieve a 5 percent reduction from FY 1993 levels by the end of FY 1995 -- ahead of our preliminary projections. We are pleased with the progress Congress has made in moving buyout legislation, and hope that Congress will enact buyout legislation quickly to assist in the reduction process. Witho ut such legislation, we will likely face furloughs and reductions in force in several areas, including FAA.

In summary, through a process of detailed analysis and tough decisions, we have developed a budget that is strong in infrastructure investment and research and development, and geared toward economic growth and job creation. We face a tough budget year

and I look forward to working with the Subcommittee as we go through the appropriations process.

I would be pleased to answer the Subcommittee's questions.

================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael D. Deich (DEICH_M) (OPD)

CREATION DATE/TIME:24-FEB-1994 16:23:00.00

SUBJECT: bank

TO: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ: UNKNOWN

TEXT:
attached is the draft bank memo. please keep in mind that rubin's ideas, and thus the memo, are evolving. I hope we end up with a memo showing that a bank has no intrinsic merit other than "newness," but that newness is something to be highly prized.
=================== ATTACHMENT 1 ===================
ATT CREATOR: Michael D. Deich (UNKNOWN)

ATT CREATION DATE/TIME:24-FEB-1994 16:20:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -bank-

ATT TEXT:

February/March, 1994
INFORMATION
MEMORANDUM FOR THE PRESIDENT
FROM:

SUBJECT:

Initial Thoughts on a Federal Infrastructure Bank

Summary. In our view, support for a federal Infrastructure Bank rests principally on the belief that a Bank could provide substantial new resources to states and localities at little budgetary cost to the federal government. Under current law, however, a
n Infrastructure Bank would provide little or no budgetary advantage over existing direct federal grant or loan programs.

Supporters of an Infrastructure Bank seek not only budgetary advantages, however, but also a number of other goals. These goals range from making federal infrastructure spending more efficient to creating a "demand-side" component to the Administration's
jobs agenda. All of these goals could be pursued by amendments to existing programs. Yet supporters believe that a Bank would provide a clean slate on which new approaches could more easily be written. Unfortunately, this "clean slate" has certain
limitations that make uncertain whether a Bank would be the most effective means towards the goals that supporters seek.

Description of an Infrastructure Bank. Proponents have considered many variations of an Infrastructure Bank. The prototypical Bank would be off-budget, and would be capitalized with an initial grant from the federal government. The Bank would then borrow funds from private markets and provide the proceeds to state and local authorities. The interest and/or principal on the Bank's bonds would be repaid either by the federal government alone, or by the federal, state and local governments together.

Budget Effects of an Infrastructure Bank. Current budget rules preclude putting an Infrastructure Bank "off-budget" in any meaningful way. An Infrastructure Bank therefore would have little or no budget advantage over direct federal grant or loan programs. Proponents of an Infrastructure Bank have assumed that the costs incurred by the federal government would appear in the budget only as the Bank's debt was repaid, thus spreading the Bank's budget burden over the life of its debt. Proponents have assumed, for example, that the cost of repaying a 20-year bond would be stretched out over a twenty year period. In fact, current law requires the present value of the entire federal liability be appropriated and obligated in the year that the liability is incurred. For example, the present value of all payments that will be made over the life of a 20 year bond must be appropriated and obligated in the year that the bond is first issued.

In order to change the budget effects of an Infrastructure Bank, some proponents would like to amend the budget rules and allow capital costs to be spread out over time. The most direct way of accomplishing this goal is to establish a capital budget for infrastructure (and perhaps other federal investments). A capital budget would amortize the cost of capital assets over their estimated useful life, rather than scoring their cost in a single year's budget. Your advisors remain deeply split over whether the benefits of capital budgeting outweigh its drawbacks.

[This paragraph could be an alternative to the previous sentence: "Your advisors remain deeply split over whether the benefits of capital budgeting outweigh its drawbacks. Some believe that the current system imposes a bias against investment, and that the tighter the budget constraints become, the more political forces will tilt budget allocations toward the short-term and against the future. Others argue that public budgeting is fundamentally different from corporate budgeting, and that the accounting conventions are, appropriately, distinct. They fear that capital budgeting would undermine budget discipline without improving the political incentives for the Congress to make effective public investments."]

If a capital budget were adopted, the costs of an Infrastructure Bank would be amortized over the life of its debt. Even with a capital budget, however, a Bank would have no budget advantage over other capital outlay programs. With a capital budget, all infrastructure spending would be amortized, regardless of whether it occurred under existing programs (such as those for highways, etc.) or through a new Infrastructure Bank.

Bank proponents have put forth a second option for limiting the budget effects of an Infrastructure Bank: either repeal outright, or waive for the Infrastructure Bank alone, the Credit Reform Act of 1990 (CRA). The CRA ensures that economically-equivalent subsidies have identical effects on the budget, regardless of whether those subsidies are provided in the form of grants or credit assistance. For example, it now costs the federal government as much to provide a zero-interest, 20-year loan covering the entire cost of a project, as it does to provide a direct grant covering about 50 percent of the project's cost. The CRA therefore requires that both the 50 percent grant and the zero-interest, 20-year loan have the same federal budget cost. Either a repeal or a waiver of the CRA would allow the federal budget to amortize any loans made by the Bank; economically-equivalent grants, however, would continue to be scored in their entirety in the year that they were made. This asymmetry in the budgetary treatment of grants and loans is one of the reasons that none of your advisors now supports either the repeal or the waiver of the CRA.

Other Potential Goals for an Infrastructure Bank. Supporters hope that an Infrastructure Bank would not only provide budget advantages, but also serve as a vehicle for other goals. All of these goals could be pursued through amendments to existing programs. Yet an Infrastructure Bank would provide a clean slate on which new policies could be written, and Bank supporters believe that these new approaches are be more likely to be adopted if they are put forth as part of a new program, rather than as a series of changes to existing programs. Among the goals that have been suggested for an Infrastructure Bank:

1) Put both infrastructure outlays and any associated dedicated revenues on the mandatory side of the budget. Under current law, infrastructure outlays are subject to the caps on discretionary spending, even when the outlays are supported by dedicated revenue streams. If supported by a dedicated revenue stream such as a portion of the motor fuels tax, an Infrastructure Bank could be established as a mandatory program whose outlays were limited only by the balances in the relevant Trust Fund.

2) Target funds for regional economic development. Some portion of Bank loans could be set aside, and/or made available at especially concessionary rates, for projects in economically distressed areas. Bank loans might be combined with funds for retraining and employment programs.

3) Improve the efficiency of federal infrastructure spending by:

- Increasing the financing of public works by those who benefit from public works. The Bank could encourage further acceptance of user-fee financing by making loans available at lower rates for projects that are repaid at least in part through user fees.

- Increasing local control over infrastructure spending. A Bank could be used to make loans available on similar terms for all types of infrastructure projects. This would further a trend that began with the passage of ISTEA to give states and localities more control over how federal funds are allocated across different types of infrastructure.

- Substituting subsidized taxable bonds for some tax-exempt debt. The federal government could subsidize a greater amount of infrastructure through direct interest subsidies than it could by allowing greater use of tax-exempt debt. All of the benefits from direct interest subsidies accrue to borrowers in the form of lower interest costs. The benefits provided by tax-exempt bonds, in contrast, are divided between bond issuers and bond buyers.

4) Increase the "demand-side" component of the Administration's jobs agenda. Some Democrats (especially those in the House) have begun to call for a "jobs bill" to complement the Administration's skill-building initiatives that focus on the "supply-side" of human capital. Providing new resources through an Infrastructure Bank is one approach to a "demand-side" program.

All of the goals listed above could be pursued through amendments to existing programs. The chief virtue of an Infrastructure Bank is that it offers a new venue for achieving these goals.

Disadvantages of an Infrastructure Bank. Establishing an Infrastructure Bank would require overcoming two related political challenges:

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Loans from an Infrastructure Bank would be less generous to states than grants from current infrastructure programs. Existing infrastructure grant programs cover between 55 percent and 80 percent of a project's cost. At current market interest rates, an interest-free loan covering the entire cost of a project would be equivalent to a direct grant covering about 50 percent the project's cost. State and local officials therefore are likely to find Bank lending a poor substitute for current programs, and are likely to be enthusiastic about an Infrastructure Bank only if it is proposed as an additional funding source, not as an alternative to existing grants.

The potential need for new funding. Like any other new program, an Infrastructure Bank could be funded in one of three ways: existing infrastructure outlays could be reprogrammed, a course complicated by the fact that Bank lending would cover a smaller share of project costs than do the grant programs that it would replace; resources could be redirected from elsewhere in the budget; or, as suggested by many Bank proponents, a new, dedicated revenue source such as a tax on gas, energy, or consumption.

================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael D. Deich (DEICH_M) (OPD)

CREATION DATE/TIME:04-APR-1994 10:15:00.00

SUBJECT: istea

TO: Michael T. Schmidt (SCHMIDT_MT) (OPD)
READ: UNKNOWN

TEXT:
i don't have a good source. i would call george macdonald, 366-9603, the ever pleasant, thoughtful and helpful person who worked with us on the executive order. if that doesn't work, please call, and i'll try again.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael T. Schmidt (SCHMIDT_MT) (OPD)

CREATION DATE/TIME:04-APR-1994 10:17:00.00

SUBJECT: RE: istea

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
As always, thank you. I did get some good info from OMB, but I will give George a call on this. I hope you had a great Easter and are well rested for the fun that's in store for us this spring!

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael T. Schmidt (SCHMIDT_MT) (OPD)

CREATION DATE/TIME:05-APR-1994 14:19:00.00

SUBJECT: ISTEA

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
Michael, do you have (or know where I can get) a good 1-3 page talking points or briefing memo on ISTEA - nothing too technical -

- laying out the basics of what the act does and how it is funded?

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Michael D. Deich (DEICH_M) (OPD)

CREATION DATE/TIME:05-APR-1994 14:20:00.00

SUBJECT: RE: ISTEA

TO: Michael T. Schmidt (SCHMIDT_MT) (OPD)
READ: UNKNOWN

TEXT:
call george mcdonald or jane garvey at fhwa. either could help; both are nice to deal with.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Sharon A. Barkeloo (BARKELOO_S) (OMB)

CREATION DATE/TIME:11-APR-1994 14:09:00.00

SUBJECT: Heads up-Louise Stoll's reaction to our position on new start

TO: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ: UNKNOWN

CC: Margaret R. Shaw (SHAW_M) (OMB)
READ: UNKNOWN

CC: Lori L. Victor (VICTOR_L) (OMB)
READ: UNKNOWN

CC: Roger S. Adkins (ADKINS_R) (OMB)
READ: UNKNOWN

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ: UNKNOWN

CC: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
We've heard that Louise Stoll was very upset by the memo we faxed to her from you late Friday on transit new starts. This is a heads up for a phone call you'll probably get from her later today.
Louise believes we are micro-managing the Federal Transit Administration (FTA) when we argue that decisions to issue additional Full Funding Grant Agreements (FFGAs) and Letters of Intent (LOIs) should be made in the context of the 1996 budget process. She argues that FTA says these eight additional projects are worthy of funding and that OST and OMB should not be second-guessing FTA's decisions. She believes Gordon Linton should be free to make these decisions without interference.
Three problems we see with Louise's position:
1) FTA proposes to offset a higher new start funding level with decreases in rail modernization funds for the older rail cities (e.g., Boston, New York, Philadelphia, Chicago) and/or formula capital grants. Neither offset seems to make sense. The older rail cities that receive the bulk of rail modernization funds have a great need for funds and rail modernization projects generally have a good rate of return. Formula capital grants are a Presidential investment priority.
2) Although FTA says it sees no other worthy projects (other than the eight it is proposing for FFGAs/LOIs) that will be ready for funds in the next several years, we see several more projects that will be pressuring for new start funds from 1996-2000. For example: Atlanta-North extension seems to be a cost-effective

project (cost per new trip of $5) that will complete final design in 1996 and will be seeking construction funds in 1996. New Jersey-Hudson River Waterfront, currently in preliminary engineering, seems to be cost-effective ($5 per new trip) and is expected to require $760 million to complete. Los Angeles-MOS-3 is expected to require $500 million more that the amount earmarked for it in ISTEA and will be pressuring for these funds. San Francisco-Airport extension needs $568 million to complete and is seeking a commitment of funds in 1998-2000.
3) We believe that these are big enough decisions that the Director and the President should be involved, rather than leaving them entirely up to Gordon Linton.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)

CREATION DATE/TIME:11-APR-1994 14:15:00.00

SUBJECT: Ready to Stand Tall with OMB?

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
Now you know why I softened our verbiage on the prior drafts.
=================== ATTACHMENT 1 ===================
ATT CREATOR: Sharon A. Barkeloo (BARKELOO_S)

ATT CREATION DATE/TIME:11-APR-1994 13:39:00.00

ATT BODY PART TYPE: B

ATT SUBJECT: Heads up-Louise Stoll's reaction to our position on new start

ATT TO: Christopher F. Edley, Jr (EDLEY_C)
READ: UNKNOWN

ATT CC: Margaret R. Shaw (SHAW_M)
READ: UNKNOWN

ATT CC: Lori L. Victor (VICTOR_L)
READ: UNKNOWN

ATT CC: Roger S. Adkins (ADKINS_R)
READ: UNKNOWN

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)
READ: UNKNOWN

ATT CC: Michael D. Deich (DEICH_M)
READ: UNKNOWN

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================== END ATTACHMENT 1 ==================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Sharon A. Barkeloo (BARKELOO_S) (OMB)

CREATION DATE/TIME:11-APR-1994 14:09:00.00

SUBJECT: Heads up-Louise Stoll's reaction to our position on new start

TO: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ: UNKNOWN

CC: Margaret R. Shaw (SHAW_M) (OMB)
READ: UNKNOWN

CC: Lori L. Victor (VICTOR_L) (OMB)
READ: UNKNOWN

CC: Roger S. Adkins (ADKINS_R) (OMB)
READ: UNKNOWN

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ: UNKNOWN

CC: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
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Three problems we see with Louise's position:
1) FTA proposes to offset a higher new start funding level with decreases in rail modernization funds for the older rail cities (e.g., Boston, New York, Philadelphia, Chicago) and/or formula capital grants. Neither offset seems to make sense. The older rail cities that receive the bulk of rail modernization funds have a great need for funds and rail modernization projects generally have a good rate of return. Formula capital grants are a Presidential investment priority.
2) Although FTA says it sees no other worthy projects (other than the eight it is proposing for FFGAs/LOIs) that will be ready for funds in the next several years, we see several more projects that will be pressuring for new start funds from 1996-2000. For example: Atlanta-North extension seems to be a cost-effective

project (cost per new trip of $5) that will complete final design in 1996 and will be seeking construction funds in 1996. New Jersey-Hudson River Waterfront, currently in preliminary engineering, seems to be cost-effective ($5 per new trip) and is expected to require $760 million to complete. Los Angeles-MOS-3 is expected to require $500 million more that the amount earmarked for it in ISTEA and will be pressuring for these funds. San Francisco-Airport extension needs $568 million to complete and is seeking a commitment of funds in 1998-2000.

3) We believe that these are big enough decisions that the Director and the President should be involved, rather than leaving them entirely up to Gordon Linton.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Brian J. Johnson (JOHNSON_BJ) (OPD)

CREATION DATE/TIME:22-APR-1994 15:44:00.00

SUBJECT: CLINTON URGES WIDE INVOLVEMENT IN ENVIRONMENTAL PROTECTION E

TO: Matthew M. Riordan (RIORDAN_MM) (OPD)
READ: UNKNOWN

TO: Catherine R. Zoi (ZOI_C) (OPD)
READ: UNKNOWN

TO: William W. Stelle (STELLE_W) (OPD)
READ: UNKNOWN

TO: Wesley P. Warren (WARREN_W) (OPD)
READ: UNKNOWN

TO: Linda K. Breggin (BREGGIN_L) (OPD)
READ: UNKNOWN

TO: Keith E. Laughlin (LAUGHLIN_K) (OPD)
READ: UNKNOWN

TO: Daniel P. Blank (BLANK_D) (OPD)
READ: UNKNOWN

TO: Beth A. Viola (VIOLA_B) (OPD)
READ: UNKNOWN

TO: Matthew M. Gentile (GENTILE_M) (OPD)
READ: UNKNOWN

TO: Kathleen A. McGinty (MCGINTY_K) (OPD)
READ: UNKNOWN

TEXT:
CLINTON URGES WIDE INVOLVEMENT IN ENVIRONMENTAL PROTECTION EFFORTS

In his 1994 Earth Day speech, President Clinton April 21 called on individuals and communities to join with the government to protect the environment, stressing that the federal government should be a partner -- rather than an overseer -- in meeting environmental goals.

The Clinton administration revealed few new initiatives for 1994, but stressed the need to continue implementing executive orders, pushing for legislative reform, and working with industry as partners in environmental initiatives.

As part of Earth Day 1994, the White House released a 78-page document summarizing more than 60 environmental issues the administration is currently addressing, from reforming the Safe Drinking Water and Clean Water acts, to preserving global fish stocks, to installing energy efficient light bulbs in the White House. The report documents achieving all sixteen commitments made by the president on Earth Day 1993.

Clinton gave his speech at Meridian Hill Park, a public green space in Northwest Washington that Clinton hailed as a model of community effort to preserve the city's natural resources.

"I'm here today because governments alone cannot save the environment, people and communities must," Clinton told an audience of the Friends of Meridian Hill, several local and national environmental groups, ambassadors, and Hollywood stars Dennis Weaver and Chevy Chase.

Clinton outlined four broad principles of environmental protection: the economy and the environment are inextricably linked; the reinvention of environmental protection through pollution prevention and partnerships with industry; community-based efforts; and global efforts.

Touting the agreement Energy Secretary Hazel O'Leary signed April 20 with 776 utility companies in an effort to reduce greenhouse gases, Clinton said the agreement signifies that "some of our largest industrial polluters are going to clean up their act and clean up our air."

Clinton Call Flexibility A Goal

In reforming the Safe Drinking Water and Clean Water acts, Clinton said the administration is offering different, flexible approaches.

"[R]ather than dictate from Washington, we want to help communities develop their own plans to clean up their own water supplies without a bureaucrat telling them that water problems in Philadelphia are the same as they are in Phoenix, because they're often just not the same," Clinton said.

Through superfund reform, Clinton said, "we want to give you a government that leads by example, not just be command and control."

In a separate event April 21 at which several top administration officials outlined environmental efforts, Energy Secretary Hazel O'Leary echoed Clinton's wish to move away from command and control regimes.

She heralded the agreement signed with the utility industry as a voluntary, flexible approach to meet the goal of reducing greenhouse gas emissions to 1990 levels by 2000.

She acknowledged that some environmental groups are critical of some of the plans the administration has to reduce greenhouse gas emissions. O'Leary said that some critics want regulation rather than voluntary efforts.

But she responded by saying she has not figured out the "cookie cutter" approach to reducing emissions across the board.

The effort to cut greenhouse gas emissions is one way the United States is thinking globally, Clinton said.

"We have to understand the urgency and magnitude of this environmental issue as a global crisis. We have to work to stop famine and stabilize population growth and prevent further environmental degradation," Clinton said. "If we fail, these problems will cause terrorism, tension, and war."

Progress In Meeting Commitments

Most commitments made by the administration in 1993 were achieved, according to the administration report and a review by BNA.

President Clinton pledged in his 1993 Earth Day speech that the United States would sign a treaty to slow the loss of species -- the United Nations Framework Convention on Biological Diversity.

Fulfilling Clinton's promise, U.S. officials signed the treaty in June 1993. To become a full treaty partner, the United States still must ratify the accord, an action that hinges on Senate approval.

At the 1992 Earth Summit, where the treaty was opened for signature, President Bush refused to ink the document, citing concerns that the treaty did not afford adequate protection for patents on products of biotechnology. President Clinton acknowledged that the accord was weak on patent protection but instructed his staff to work with industry to address this issue so the United States could sign the convention.

The administration has sent a draft "statement of interpretation" to the Senate along with the treaty. This statement, describing how the United States views patent protection under the convention, would be deposited with the United Nations along with the instrument of U.S. ratification.

The last hurdle before U.S. ratification of the treaty is a Senate vote giving the administration advice and consent to do so. At a Senate Foreign Relations Committee hearing April 12, senators, State Department officials, and industry representatives spoke out in favor of quick Senate approval of the biodiversity convention.

Greening The White House

A national effort to promote energy efficiency and waste reduction started at the White House. In March 1994, the White House unveiled its model program to expand recycling, save energy, conserve water, reduce volatile organic compounds in its paint shops, and use integrated pest management on the grounds of the White House and the Old Executive Office Building.

The program -- which will take a decade to implement -- will serve as a model for efficiency and waste reduction to the rest of the United States. "If this doesn't ripple out, this effort is for naught," Cathy Zoi, environmental policy chief of staff at the White House, said March 11.

In his 1993 Earth Day speech, Clinton promised a full environmental audit of the White House complex to identify opportunities to reduce waste and water and energy consumption in lighting, heating, and cooling systems. Not only is the plan expected to reduce energy consumption, but to reduce operating costs and pollution, as well.

The American Institute of Architects coordinated the four-phase greening initiative after three environmental audits were conducted of the 18 acres of the White House grounds.

The White House is nearly complete on the first phase, and is beginning the second phase, which includes incorporating demonstration spaces that will serve as models for energy efficient workspaces.

Recycled Products

Another executive order (EO 12873) signed Oct. 20, 1993, requires the federal government to purchase recycled products and set minimum content standards in paper and paper products.

To strengthen the market for recycled goods and create jobs in the recycling and manufacturing of recovered materials, Clinton directed EPA and other agencies to prepare an executive order that would spur an increase of government purchases of recycled goods.

After months of debate on what the minimum recycled content levels should be in paper and paper products, Clinton decided on setting a 20 percent recycled content standard by Dec. 31, 1994, and 30 percent recycled content standard by Dec. 31, 1998, for all government purchases of printing and writing paper.

To implement the executive order, EPA held a hearing on what should constitute environmentally preferable products, and is working on developing guidelines for identifying such products.

Recently EPA established procurement guidelines for federal agencies and designated 21 additional items and recovered material content ranges for those products.

The Clinton executive order called for a federal environmental executive to be named for overseeing implementation of the executive order. Officials told BNA the executive is expected to be named soon.

Alternative Fuel Vehicles

President Clinton's executive order to accelerate the federal government's purchase of alternative fuel vehicles (EO 12844) is beginning to take shape at the local level, a staff member of a task force created to oversee the program told BNA April 20.

In his April 23, 1993, order, Clinton directed that the federal purchase of alternative fuel vehicles go beyond requirements in the Clean Air Act. He created the task force to implement the order and to set a course leading to the widespread use of AFVs by federal, state, and local governments and ultimately private fleets.

In New York City, for example, 385 taxis are targeted for conversion by the end of 1994 to run on compressed natural gas, Tom Henderson, special assistant to Texas Land Commissioner Gary Mauro, told BNA. Mauro chairs the Federal Fleet Conversion Task Force.

New York City has made the most progress of the numerous cities targeted for the program, Henderson said.

"We've spent a lot of time to make New York the prototype of how we'll do things in other areas," Henderson said.

The task force released a report to Clinton Dec. 9, 1993, recommending the federal government to concentrate its vehicle fleet conversions in 38 urban areas.

These areas are divided into three tiers, the first of which would receive funding in 1994. The second and third tiers would receive funds in 1995 and 1996.

"The upshot of the program is turning traditional Washington approaches on their head and working to do things at the local level," Henderson said.

An interim report from the task force released Oct. 8, 1993, said numerous regulatory and technical barriers stood in the way of plans by the federal government to acquire more AFVs.

The task force has been working on ways to overcome these barriers through various workgroups and is developing a plan to convert the vehicles. The task force obtained approval to use congestion mitigation and air quality funds to help pay for the program in local areas. CMAQ funds are allocated under the Intermodal Surface Transportation Efficiency Act.

While the effort is designed to reduce emissions of ozone precursors, carbon monoxide, and air toxics in areas that do not meet federal air quality standards, Energy Secretary Hazel O'Leary said eight urban areas that are in attainment with the ozone standard have agreed to participate in the fleet conversion program as well.

In addition, DOE has committed to buying 11,000 AFVs in 1994; 15,000 in 1995; and nearly 25,000 in 1996, a DOE official said.

TRI Reporting

Clinton also promised -- and delivered -- an executive order aiming to halve by 1999 the amount of toxics released to the environment by federal facilities.

The toxic emissions standards are voluntary, but the Aug. 3, 1993, executive order would require that federal facilities report their chemical emissions on the Toxic Release Inventory.

Industry has been required to report TRI emissions under the Emergency Planning and Community Right-To-Know Act since 1987. Until now, federal facilities have been exempt.

Federal facilities were directed to develop a written pollution prevention plan by Aug. 3, 1994, and begin reporting TRI emissions with 1994 data -- due on July 1, 1995.

Phase-out Of Ozone-Depleting Substances

On April 21, 1993, President Clinton signed an executive order directing federal agencies to change their procurement policies to phase out purchase of ozone-depleting substances earlier than required to by the Clean Air Act. Clinton noted this action in his 1993 Earth Day address.

Section 613 of the Air Clean Act, as amended in 1990, requires EPA to issue a rule requiring federal agencies to change their procurement regulations to phase out purchase of ozone-depleting chemicals and buy environmentally safer alternatives. EPA issued that rule on Oct. 22, 1993.

The executive order (EO 12843), which applied to nearly all parts of the federal government, set a phase-out deadline six months earlier than the EPA rule. The EPA rule applies to the Senate, the House of Representatives, the Architect of the Capitol, the Postal Service, and the Postal Rate Commission.

But while the Clinton administration pushed for a faster phase-out in federal procurement, late in 1993 it asked DuPont to renege on its corporate pledge to halt its U.S. production of chlorofluorocarbons earlier than required.

In March 1993, DuPont announced it would stop manufacturing CFCs at the end of 1994, a year ahead of an international deadline to do so. The Montreal Protocol on Substances that Deplete the Ozone Layer does not require industrialized countries to halt production until the end of 1995.

The administration asked DuPont to continue CFC manufacturing in the United States through 1995. The administration made the request at the behest of U.S. automakers, who said they needed more of the ozone-depleting chemicals to service car and truck air conditioners through 2000.

DuPont said it would honor the administration's request.

Environmentalists strongly criticized the administration for asking DuPont to go back on its promise.

Environmental Justice Reviews Under Way

But environmentalists were pleased when the administration fulfilled its pledge to issue an environmental justice executive order.

In 1993, Clinton asked EPA and the Department of Justice to begin an interagency review of federal, state, and local regulations and enforcement that affect people of color and low-income communities with the goal of formulating an aggressive investigation of the inequities in exposure to environmental hazards. He also called for the federal government to identify examples of communities in which the distributional inequities of environmental decision-making have adversely affected minority or low-income populations.

On Feb. 11, the president issued Executive Order 12898, which called for EPA to head up a task force of 17 agencies and departments that would examine federal policies to make sure they address environmental justice concerns.

However, the task force is off to a slow start. EPA Administrator Carol Browner only recently announced that the first meeting of the task force will be May 9. Under the order the task force has a year to complete its examination of federal policies and another year to implement needed changes.

Green Gross Domestic Product

President Clinton challenged federal agencies to develop a "green gross domestic product" in his 1993 Earth Day address. The Commerce Department's Bureau of Economic Analysis was given the responsibility of developing a system to determine the "value of our natural resources and the environmental costs of our actions."

The green GDP is intended to improve economic statistics that currently ignore the cost of pollution or the value of clean air, Clinton said. Within one year, the Bureau of Labor Analysis was to publish initial estimates of natural resource depletion. After discussion and review, BEA was to augment its regular economic indicator series to include a consistent set of natural resource adjustments.

However, the Commerce Department announced April 19 that its first estimate was not complete, and officials said it would be available May 10.

The first batch of estimates will focus on oil, gas, coal, metals, and other minerals. Separate accounting for the five sectors will show the net effect of the depletion and additions to these resources over the last several decades, according to the bureau.

Over the next few years, BEA officials added, economic changes in renewable natural resources -- lumber, fish livestock, and agriculture -- will be measured, and then changes over time in air and water quality will also be assessed.

The Department of Commerce met the president's request for an interagency strategic plan to increase exports of U.S.-made environmental technologies and to improve competitiveness of these U.S. technologies. In November, the department released the embodiment of the president's request: the "Environmental Technologies Exports: Strategic Framework for U.S. Leadership Report."

The plan lays out an overall strategy to coordinate federal actions to increase exports of U.S. environmental technologies.

National Biological Survey

In April 1993, the president directed Interior Secretary Bruce Babbitt to create a national biological survey. It was formally established Nov. 11, 1993, when the president signed the fiscal 1994 Interior appropriations bill.

Babbitt reorganized survey efforts under one agency to create a coordinated inventory and monitoring program assessing the overall status and trends in the abundance, health, and distribution of plants and animals in natural areas.

The fiscal 1994 appropriation for the NBS is $167.2 million. The fiscal 1995 budget request is $176.8 million.

H. Ronald Pulliam, an educator and research ecologist, is the new director of NBS. F. Eugene Hester, a career civil servant, is the deputy director.

Trudy Harlow, chief of public affairs at NBS, told BNA April 20 that the bureau was established despite the lack of authorizing legislation. Congress appropriated money for the NBS on the condition that Babbitt "proceeded with the authorization process in good faith," Harlow said.

Authorizing legislation (HR 1845) was passed in the House in November 1993. A contentious debate over property rights almost stopped the bill, which passed by a narrow margin.

There currently are two similar Senate bills awaiting action by the Senate Environment and Public Works Committee. S 1008 is sponsored by Sens. Max S. Baucus (D-Mont) and John H. Chafee (R-RI), and S 1110 is sponsored by Sen. Daniel Akaka (D-Hawaii). Harlow said the Senate bills look much like HR 1845 did in its original state. No hearings on the bills have been held so far, according to Harlow, and it is possible that NBS may not be authorized in 1994 due to a busy legislative schedule.

Harlow said the toughest obstacle has been getting a bill through the House and that passing the Senate version should be relatively painless.

Forest Conference

The president promised a year ago to do his best to break the gridlock surrounding the protection of the spotted owl in northwest forests.

The latest attempt came April 14 when the White House asked a federal judge in Seattle to lift a ban on logging in those forests. The plan would allow logging in about one-fourth of the 15 million acres of old-growth forests involved in the dispute, and protect much of the remaining land.

Clinton also seeks to provide $15 billion in aid to communities affected by the reduction in logging.

Since the northern spotted owl was identified in the early 1980s as an indicator species for old growth forest, protection of the owl has fueled a national controversy. In 1989, environmental groups obtained injunctions prohibiting the sale of old-growth timber on lands administered by the Department of Interior's Bureau of Land Management near spotted owl sites.

The president held a forest conference in April 1993. In July, the administration released its proposed forest plan. In August, the draft environmental impact statement for the proposed plan released, with the final EIS released in February.

On April 14, the administration released its record of decision, the finalization of the president's forest plan.

U.S. District Judge William Dwyer, who handed down the 1989 injunctions against logging on the BLM lands, held a conference April 20 with environmentalists and administration representatives to discuss lifting the injunctions on logging. According to Interior spokesman Jim Sanders, Dwyer will rule on a motion to lift the injunction early in the week of April 25.

National Service For The Environment

In keeping with his promise to include environmental service involving young people in a national service program, President Clinton introduced the National and Community Service Trust Act in May 1993. The proposal was enacted Sept. 21, 1993.

The centerpiece of the act is an initiative called AmeriCorps. It builds upon a network of existing national service programs of not-for-profit organizations and states by supporting locally driven projects that meet national standards of performance. Participants receive a limited wage while serving and a post-service award of $4,725 for a full year of service -- or half that amount for part-time service -- to be used for past or present education expenses.

The Corporation for National Community Service administers the national service programs. AmeriCorps programs can be run by not-for-profit organizations or partnerships, institutions of higher learning, local governments, school or police districts, states, Indian tribes, or federal agencies. Together with the corporation, state commissions created under the act will assist programs in recruiting participants, disseminating information about service opportunities, and providing technical assistance to communities organizing service programs.

This strong emphasis on local partnerships and the dependence on the buy-in from local communities has been challenging, according to Helga Butler, a special assistant to EPA's administrator, as it is not the typical, "top-down bureaucratic" program.

Applications from federal and multi-state agencies are due April 29 to CNCS, Butler told BNA April 19. EPA is putting an application package together for the corporation to fund several projects with seed money, she explained. The projects that are approved by the corporation are intended to be self-sufficient in the second, third, or fourth year, she said. The corporation may fund all the projects or may choose from several that EPA proposes. The corporation will respond to EPA's request in June.

The projects are concentrated in low-income areas with environmental justice concerns, Butler said. One project involves public well drinking water assessment and identification of contamination sources along the U.S.-Mexican border, where a high proportion of health problems result from drinking water.

Another proposal includes public school audits and installation of energy-conserving lighting fixtures. Also, EPA is aiming to support several urban stream restoration projects, Butler said.

The official, nationwide kickoff for AmeriCorps programs is scheduled for Sept. 14., she said.

The Agriculture Department also is gearing up for several environmental projects. The department is planning rural and urban projects, both on national forest land and private land, Joel Berg, director of USDA's national service program, told BNA April 19. Because of funding cuts, a tremendous amount of work needs to be done to keep up the national forests, he explained. Some will involve actual work on the lands, and some will involve other areas, such as ecosystem management.

While the department is applying for AmeriCorps funding, Berg said that USDA's budget structure will allow the program's to proceed with or without the extra funding. The real need is the money for educational benefits, he said.

Within the Soil Conservation Service, projects for flood recovery, watershed protection, sustainable agriculture, and water quality are lined up, he said.

The Interior Department also is proposing a host of projects dealing with environmental problems. Sue Kemnitzer, special assistant to the assistant secretary for policy, management, and budget at Interior, said the department's applications for AmeriCorps funds focus on the natural environment. One set of activities includes restoration and repair of habitats -- streams, fisheries, and eradicating exotic plants in national wildlife parks. Another set involves work to improve trails in national wildlife parks, particularly to accommodate persons with disabilities.

A third area of projects Interior is requesting money for involves surveying, monitoring, and mapping natural resources. The projects are focused in regions that are priorities within the department, such as the Everglades, the Pacific Northwest -- particularly areas involving timber and salmon -- the Mississippi floodplain, and the Rio Grande as it relates to the North American Free Trade Agreement.

EPA Budget

Clinton said in 1993 that he would seek more spending on pollution prevention, energy efficiency, solar and renewable energy, environmental restoration, and water treatment. The administration continues to seek more money for the Environmental Protection Agency for fiscal 1995 -- a 5 percent overall increase and 13 percent more for operating programs.

However, the most visible evidence of the administration's commitment came through support for EPA's biggest funding programs: grants and loans for waste water treatment. In addition, the White House sought money for a new revolving loan program for drinking water projects.

The administration, in its fiscal 1993 economic stimulus package, sought $1.2 billion for a new waste water state revolving loan fund, $599 million for a new drinking water state revolving loan fund, and $845 million in capitalization grants for construction of sewage treatment facilities.

Congress provided $1.2 billion for the waste water state revolving loan fund under the fiscal 1994 EPA appropriations bill (HR 2491).

The bill also included a $599 million earmark for the new drinking water state revolving loan fund, pending authorization of the program. To date, Congress has not yet authorized the program.

The Senate may consider a Safe Drinking Water Act rewrite bill (S 2019) that includes an authorization for a $599 million drinking water state revolving loan fund program, a Senate Democratic aide told BNA April 18.

On the House side, two separate, but similar bills (HR 1865 and HR 1701) that would create new drinking water state revolving loan funds remain caught in a turf conflict between two powerful House committees. The House Public Works and Transportation Committee and the Energy and Commerce Committee continue to claim jurisdiction over the new loan fund.

A stimulus package (HR 2118) containing the $845 million the Clinton administration that sought to complete capitalization of an existing state revolving loan fund program was killed following a Republican filibuster in the Senate.

Environmental Aid To Russia

Clinton noted in his 1993 speech that his then-proposed Russian aid package included $38 million to support projects to increase energy efficiency and reduce methane leakage from natural gas systems. These efforts would cut Russia's emissions of two greenhouse effect gases: methane and carbon dioxide.

The foreign operations appropriations law eventually passed by Congress on Sept. 30, 1993 (P.L. 103-87) contained $285 million for "supporting the energy and environment sectors" in the newly independent states of the former Soviet Union. This support, according to the statute, includes programs on nuclear reactor safety and technical assistance to make the energy sector of these nations more efficient and more environmentally sound.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: David C. Childs (CHILDS_D) (OMB)

CREATION DATE/TIME:24-MAY-1994 12:54:00.00

SUBJECT: E.O. 12803 Infrastructure Privatization

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
PRINTER FONT 12_POINT_COURIER

The following draft responds to Chris Edley's request for a memorandum to the Director, et. al., requesting a "go/no go" decision on revising Executive Order 12803. The following draft has been reviewed by Dave Haun and by Ken Schwartz - it has not yet been reviewed by Chris. I would appreciate your comments and edits. I would also appreciate your thoughts regarding the possibility of a wider distribution, if any. We have not yet, for example, shared this draft with Chuck Richards at DOL. Thanks.

MEMORANDUM FOR THE DIRECTOR

ASSISTANT TO THE PRESIDENT
FOR ECONOMIC POLICY, NEC
ASSISTANT TO THE PRESIDENT
FOR DOMESTIC POLICY, DPC
CHAIRPERSON
COUNCIL OF ECONOMIC ADVISORS

FROM: Chris Edley
SUBJECT: Executive Order 12803, "Infrastructure Privatization."

Decision Memorandum

Issue:

How should Executive Order 12803, "Infrastructure Privatization" be revised?

Background:

E.O. 12803 was issued by the previous Administration to permit Federal, state and local governments to leverage public and private sector investments and to use the equity in Federally financed infrastructure for investment in new or expanded public infrastructure. The Order begins a process whereby Federal agencies are asked to remove regulatory and other barriers to State and local infrastructure decisions and permits State and local proceeds to be used for infrastructure, debt or tax relief. It does this, primarily, by changing Federal policies regarding sales recoupment. The Order re-establishes the Federal share of sale proceeds (recoupment) from being calculated based upon the original contribution rate and the market value of the asset to the contribution rate applied to the depreciated value of the asset.

Discussion

Recent conversations with the Department of Transportation, the Environmental Protection Agency, NEC and CEA staff suggest their general support for the Order and the idea of leveraging public infrastructure investment. Concerns for the Order and its scope have, however, been expressed by each of these groups. States

and localities have expressed their interest in the flexibility offered by the Order. Not surprisingly, however, the public employee unions are opposed to the Order. Thus, before the Administration implements the Order, the following policy issues must be resolved.

(1) Are there Federally-financed assets the lease or sale of which should not be encouraged or permitted?

(2) What is the proper level of Federal recoupment and should agencies should be authorized to modify those requirements?

(3) Should States or localities be limited in their use of sale/lease revenues to; (1) general infrastructure, (2) "like" infrastructure or, (3) for infrastructure, tax or debt reduction as provided by the current Order?

(4) What labor protections should be added to the Order, if any, to address public employee union concerns?

(5) What Federal acquisition procedures should be required by the Order to ensure appropriate levels of competition?

(6) Are additional controls necessary to ensure the long-term viability of existing assets and user fees.

Conclusion:

E.O. 12803 encourages private sector participation in public infrastructure investment. The Federal Government could also receive revenues not otherwise expected, as States and localities transfer public assets to the private sector. There are, however, employee concerns and concerns that States and localities not use asset sales to meet operating requirements. The agencies and the private sector also need assurances that the Administration supports the Order, or its replacement, prior to committing resources to develop projects and sales agreements.

Recommendation

It is our recommendation that the Administration undertake a process to revise the Order to address the above concerns. This process would seek input from interested parties, including the agencies, state and local governments, public and private employee groups and the private sector.

Decision

_______ CONCUR Begin an effort to solicit the views of interested parties and revise the Order to address the concerns raised in this memorandum.

_______ OTHER

Attachment 1

EXECUTIVE ORDER 12803 "INFRASTRUCTURE PRIVATIZATION"

REVIEW OF CURRENT POLICY CONCERNS

April 15, 1994

Background

It is generally recognized that American cities are under siege on the environmental, crime, housing and transportation fronts. With so many high priority needs, concerns for the deficit and increasingly limited Federal support for public infrastructure, Federal, State and local decision makers have begun to review existing relationships with the private sector. As noted by the Vice President's National Performance Review, increased competition for the provision of services, under contract or through direct ownership and responsibility, is one alternative solution to meeting our infrastructure requirements in an open and cost effective manner. How, then can the Federal Government contribute to increasing the level of competition exhibited in what are primarily local infrastructure decisions and still meet its obligations to ensure that such mechanisms meet the tests of equity, financial responsibility and efficiency. One approach that has been proposed can be found in Executive Order 12803 "Infrastructure Privatization."

Executive Order 12803 presumes that many of the concerns addressed below will be addressed through agency implementation guidance, regulation or the case-by-case reviews authorized by the Order. Consideration of each of the following issues is necessary prior to committing to implementation of the existing Order or its revision.

Discussion of Issues

(1) Are there Federally-

financed assets the lease or sale of which should not be encouraged or facilitated?

The current Order does not address this question. As a Federalism initiative, the Order assumes that State and local officials are in the best position to determine whether a lease or sale is in their community's best interests. Certain facilities, however, may contribute to national or international concerns. As a matter of policy, it may be that certain large international airports, bridges, or even water treatment plants should remain publicly owned and operated facilities.

Recommendation

Appropriate criteria should be developed for the exclusion of certain national public interest infrastructure assets from the more liberal recoupment and lease/sale provisions of the Order. A revised Executive Order could delegate to the cognizant Federal agencies the authority to identify those national interest public assets.

(2) What is the proper level of Federal recoupment and should

agencies should be authorized to waive Federal recoupment requirements?

E.O. 12803 recognizes that Federal infrastructure grants are awarded to States and localities based upon the public, social or service value of the asset. They are not awarded with any minimum or expected rate of return. The Order re-established the Federal share of sale proceeds (recoupment) at the original contribution rate applied to the depreciated value of the asset. This represented a change from previous rules that established recoupment at the contribution rate applied to the market value of the asset. The change created new financial incentives for States and localities to consider alternative financing approaches, recognized the time frames and surrounding non-Federal investments at or near the asset and, yet, avoided charges of Federal giveaways. In many cases, the assets in question are fully depreciated or already beyond their useful lives.

Recommendation

As noted above, the public interest in the ownership and operation of certain assets may be such that Federal agencies should be authorized to exempt such assets from the more flexible recoupment and sale/lease provisions of the current Order. This does not mean to preclude such sales but, simply permits agencies to withdraw current incentives. Likewise, Federal agencies should be authorized to waive all Federal recoupment requirements. Such authority could be limited to assets that have no effective recoupment value, or where the proposed re-investment value of the sale proceeds are determined sufficient to warrant the Federal waiver.

(3) Should States and localities be limited in how they can use their sale revenues?

The current Order permits States and localities to use lease and sale proceeds for infrastructure, tax and debt reduction. In so doing, the Order acknowledges that infrastructure investment can be achieved through a number of short and long-term investment strategies.

Recommendation

Concern has been expressed for the fungibility of the sale proceeds and the potential use of infrastructure sales to meet operating expenses, under the current Order. The use of funds could, therefore, be limited to; (1) new or expanded infrastructure, (2) new or expanded "like" infrastructure (airport sales revenues could be used only to facilitate airport requirements), (3) new or expanded "common" infrastructure (airports/bridges sale revenues could only be used to meet transportation requirements while waste water and drinking water could only be used for water treatment) or, (4) sales revenues could be limited to use, as authorized by the agency through which the Federal-financing was provided.

(4) Should additional Federal labor protections be imposed on State and local government decisions, as conditions of sale?

The current Order provides no Federal provisions with respect to labor protection or union representation. The employees impacted by the Order are not, generally, Federal employees.

Recommendation

Labor concerns for the current Order are focused on the removal of Federal barriers to the consideration of lease or sale decisions by States and municipalities. In removing these barriers, the Federal Government should expect States and localities to minimize disruptions to the existing labor force. In many respects, these public employees are in place because of Federal regulations on infrastructure ownership and operations. The revised Order could, as a condition of sale, require that existing employees be offered the Right-of-First-Refusal for jobs created by the lease/sale in the company purchasing the asset. Other options include; union representation clauses, placement or no adverse action clauses as conditions of sale.

(5) Are there Federal bidding procedures that should be imposed on State and local governments, in considering the sale of Federally-

financed assets, to ensure appropriate levels of competition?

The current Order places no specific competitive requirements on States or localities in the sale or lease of Federally financed assets.

Recommendation

Federal procurement provisions could be imposed to offset concerns for competitive bidding and to avoid sweatheart deals.

(6) Are additional Federal controls or other oversight requirements necessary to ensure the long-

term viability of existing assets or to ensure that proposed user fees are appropriate.

Private investors will recoup their investment, plus a reasonable rate of return, through a combination of management improvements, operational efficiencies (labor and equipment investments) and changes to existing user fees. Beyond the deference afforded to States and localities in determining their best interests, the current Order requires assurances that existing assets continue to meet their original grant purposes on a reasonable and nondiscriminatory basis.

Recommendation

The current Order does not establish penalties for failure to live up to established operational requirements. There is also concern that States and localities could turn to the Federal Government after having sold an asset to ensure that public services are maintained. Options that could be outlined in a revised order include the reimposition of Federal recoupment requirements placed against the market or sale value of the asset, imposition of Federally mandated minimum user fees, or loss of operational control. The establishment of State or local utility commissions, which are not mandated by the current Order, could also be required as a condition of sale.

Conclusion:

The Administration is attempting to retool America for the future. It recognizes that public infrastructure investment resources are strained and that they are not keeping pace with existing requirements. As a result, the Administration has expressed its support for the development of public-private partnerships. Most recently, this support was expressed in E.O. 12893 "Principles for Federal Infrastructure Investment." As Carl Williams, Assistant Director of CALTRANS, has said: "Our choice is simple, we either find a way to fill our funding gap with private capital or we don't build these projects at all. Doing nothing about all the unmet needs out there is unacceptable politically and morally." (Public Works Financing July/August 1993)

While the greatest movement in infrastructure financing and private investment has been directed toward transportation, through the ISTEA legislation, there are new and re-emerging opportunities. American history is full of "privatized" or volunteer fire services, postal services, roads, water supplies, rail transportation services, bridges and ferry operations. Our telephones, most of our power, the railroads and to some extent the airlines, though considered and regulated as public utilities are largely privately owned and operated. Statutory and regulatory restrictions exist to address asset sales, competition, rate structures, safety requirements and to assure equal and full public access. Some safeguards at the Federal level, however, are appropriate.

Balancing the desires to stimulate national infrastructure investment with concerns for appropriate levels of oversight must also be viewed in terms of Federalism concerns and the demands already being made on States and localities in terms of unfunded Federal mandates. The issue here is whether Executive Order 12803 provides as reasonable balance of these concerns or whether additional controls are necessary.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Sharon A. Barkeloo (BARKELOO_S) (OMB)

CREATION DATE/TIME:20-JUN-1994 12:16:00.00

SUBJECT: E.O. 12893 letter to DOT - OK to send?

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TO: Heather L. Ross (ROSS_H) (OPD)
READ: UNKNOWN

CC: Roger S. Adkins (ADKINS_R) (OMB)
READ: UNKNOWN

CC: Daniel J. Corbett (CORBETT_D) (OMB)
READ: UNKNOWN

TEXT:

PRINTER FONT 12_POINT_ROMAN
Ms. Louise Stoll
Assistant Secretary for Budget and Programs
U.S. Department of Transportation
Washington, D.C. 20590
Dear Louise:

This letter is to thank you for the plan submitted by the Department of Transportation on March 30 in conjunction with Executive Order 12893, "Principles for Federal Infrastructure Investment," and to provide the Department additional guidance. As a whole, the plan submitted by the Department is responsive to the objectives of the Executive order. We are looking forward to receiving the Department's analyses with the FY 1996 budget submissions.

OMB has reviewed the Department's plan, with the National Economic Council staff, to help ensure that the most useful analytic issues are given priority and that appropriate expectations are held for different agencies. We have taken some care in this process, so that our expectations promote comparability across infrastructure programs while also recognizing the differences among these programs. As you know, we believe that greater use of common analytic techniques and assumptions will improve our ability to set priorities for Federal investments based on their contributions to our Nation's economic and social objectives. Our intention is that the analyses produced under the Executive order will begin playing a significant role in the FY 1996 budget deliberations within the Administration, and, we hope, on Capitol Hill.

We would like to emphasize that we recognize the difficulty involved in implementation of certain aspects of the plan, especially the difficulty involved in quantifying and monetizing some benefits and costs. We would like to communicate our desire to be helpful in this area. In particular, as you identify areas where the Department needs assistance or desires an interagency consensus, we would like to draw on the expertise of other agencies in these difficult areas. In some areas, we may find that other agencies' expertise can fill the gap, while in others, we may find that additional research is needed.

Below are some specific comments on areas of the plan that we believe need additional attention.

Highways

? System Level Review -- The plan is clearly headed in the right direction with the new Highway Economic Requirement System (HERS) model incorporating benefit-cost

analysis as its basic framework. We would like to have preliminary HERS analysis available for the 1996 budget process.

? However, we are concerned that the HERS model does not yet incorporate two major components into the analysis: (1) life-cycle cost considerations (e.g., large costs of congestion during periodic maintenance disruptions) and (2) environmental externalities (i.e., air quality impacts, wetlands impact, etc.). FHWA does have plans to address these problems, but we believe these plans need to be accelerated.

? Since it is highly unlikely that these major components could be incorporated quickly into HERS, we would like to see separate analysis that would indicate estimates of the magnitude of the effect of these two components to be available for the 1996 budget process. Furthermore, we believe such analysis should be incorporated into the next version of the Highways Conditions and Performance Report to the Congress due in January 1995.

? Highway Infrastructure Management -- Again, the FHWA plan is moving in the right direction and the items discussed are useful. However, the plan does not focus on an item of major significance -- design standards for highways (i.e., 20-year design standards versus more rigorous design requirements). Many European road systems are built to last longer and withstand heavier payloads. These longer period design standards may also help alleviate congestion caused by road construction. FHWA needs to evaluate whether some of the European practices are appropriate for the United States. We would like to discuss with you an action plan for possibly incorporating these practices into U.S. road construction, particularly on heavily-travelled urban roads.

? Discretionary Programs -- Although the vast majority of the Federal-aid highway programs go out by formula to the States, FHWA does administer the Discretionary Bridge program. Currently, the Discretionary Bridge program ranks projects using a variety of criteria, but not explicit benefit-cost

criteria. Similar to our plans for other discretionary
programs, FHWA should focus the project ranking and selection
on benefit-cost analysis. The Department should develop a
plan to move in this direction.
ISTEA -

-

Major Investment Studies
? Although the new Major Investment Studies (MIS) requirement
is moving in the right direction, we should pursue making
these studies rigorous benefit-cost analyses. The DOT plan
emphasizes a cost-effectiveness criterion rather than cost-
benefit analysis. Furthermore, the plan describes cost-
effectiveness as one criterion among several. To the extent
possible, we should work to incorporate the criteria into a
benefit-cost analysis framework.

NO_BREAKTransit
? Project-

Level Analysis -

Section 3 New Starts -- DOT promised a discussion draft of the revised new starts evaluation policy to NEC/OMB by the
end of May 1994. We understand that OMB and NEC will be
receiving the discussion draft soon. To the extent possible,
this revised new starts policy should address the array of
criteria specified in ISTEA through benefit/cost analysis.
Airports
? The FAA should develop a plan to require airports applying
for any discretionary grant (over 50% of the program) to
submit a benefit-cost analysis with their application. We
would like this requirement to apply to all project types,
not just large capacity projects.
? The FAA should devote its resources toward undertaking a
systems-level analysis of the use of formula grants while
relying on airports to complete analyses of discretionary
grants.
? The FAA should develop a plan on how it will address the
goal: "promote consideration of market-based mechanisms for
managing infrastructure" as well as the goal of encouraing
private sector involvement in financing infrastructure
development. For example, the current plan does not mention
peak period pricing.
Formula Grants (Highways, Transit, Airports)
? Section 2 (d) of the Executive order states that agencies
should encourage the State and local recipients of Federal
grants to implement planning and information management
systems that support the principles in the order. We would
like the Department to compile a summary of the state-of-the-
practice and the state-of-the-art, regarding the use of
benefit-cost analysis. The state-of-the-practice summary
will help to establish a baseline of the current use of

benefit-cost analysis by State and local governments for transportation projects. The state-of-the-art summary should try to identify best practices of both State and local governments and other sources (e.g., academia). We would like to meet with the Department on July 15th to discuss initial findings and develop a further plan of action.

? 1996 Budget Submission -- After reviewing both the state-of-the practice and state-of-the-art, we would like to discuss how we can extend the available analysis for the 1996 budget submission. Specifically, our goal is to provide return on investment calculations for a sample of highway, transit, and airport formula grant projects. In some cases, we expect that currently available analysis will come very close, while in others, we may have to supplement what is available through additional analysis. Our intent is to bring new information to bear on the 1996 budget process and to

determine where additional work is needed for the 1997 budget.

FAA -

Facilities & Equipment

? Maintain the annual Capital Investment Plan (CIP) that documents current and future capital investment requirements or replacement projects.

? Since the CIP is an annual document -- not necessarily reflecting major programmatic changes at the time of the budget submission -- an updated analysis of costs and benefits of both major restructured projects and acquisition projects without benefit-cost analysis should be submitted with the budget request.

Coast Guard

? The major problem that needs to be addressed is the lack of a broad service-wide model to evaluate the interaction of an upgraded component with the whole system. For example, what does GPS mean for the aids to navigation program and how will the new Motorized Lifeboats affect the need for new Patrol Boats? In light of the extreme pressure on appropriations for capital plant, Coast Guard and DOT need to take a very hard look at such issues to help plan for the next five to ten years.

Rail

? The plan appears to address the objectives of the Executive order. FRA's challenge will be to ensure that sufficient information is available for the 1996 budget development process.

Naturally, please let me know if you have any questions or recommendations. Again, thank you for your work to date on this important initiative.

Sincerely,

Christopher F. Edley, Jr.

Associate Director for
General Government and Finance

cc: Michael Deich

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Linda L. Lance (LINDA L. LANCE@EOP_OVP@CCGATE@EOPMRX) (DEFAULT)

CREATION DATE/TIME:23-JUN-1994 19:00:00.00

SUBJECT: ANOTHER DOT ISSUE

TO: SEIDMAN_E (SEIDMAN_E@A1@CD) (OPD)
READ: UNKNOWN

TO: WARREN_W (WARREN_W@A1@CD) (OPD)
READ: UNKNOWN

TO: HENRY C. KELLY (HENRY C. KELLY@OSTP@CCGATE@EOPMRX) (DEFAULT)
READ: UNKNOWN

TEXT:
Message Creation Date was at 23-JUN-1994 18:09:00

FYI -- I'VE HEARD FROM CONSUMER GROUPS THAT DOT IS ABOUT TO ISSUE (PROBABLY TOMORROW) A NPRM ON "ROLLOVER" THAT WILL ENGENDER HOWLS FROM THE CONSUMER/SAFETY GROUPS (IF THE CONSUMERS' UNDERSTANDING IS CORRECT). ISTEA REQUIRED THAT DOT UNDERTAKE A RULEMAKING TO DETERMINE WHETHER A STANDARD SHOULD BE ISSUED TO REDUCE THE LIKELIHOOD THAT VEHICLES WILL ROLL OVER. THIS IS A PROBLEM PRIMARILY WITH JEEP-TYPE VEHICLES WITH A HIGH CENTER OF GRAVITY AND SHORT WHEEL BASE. CONSUMERS HAVE LONG BELIVED THAT IT IS POSSIBLE AND APPROPRIATE TO ESTABLISH A MINIMUM WHEELBASE-TO-HEIGHT RATIO THAT WILL PREVENT THE MOST EGREGIOUS DESIGNS. THEY UNDERSTAND DOT'S PROPOSAL WILL BE TO PROVIDE A STICKER ON THE CAR INDICATING ITS RELATIVE PROPENSITY TO ROLL OVER, AS OPPOSED TO A PERFORMANCE STANDARD THAT WOULD PREVENT CERTAIN DESIGNS FROM COMING TO MARKET.

I DON'T KNOW ENOUGH ABOUT THE RECORD TO SAY THAT THIS RESULT IS WRONG, BUT AM CONCERNED THAT DOT ISN'T SCORING ANY POINTS WITH PUBLIC INTEREST, AND THAT THIS COULD BE PORTRAYED AS ANOTHER INSTANCE OF CAVING IN TO THE CAR COMPANIES. DIDN'T WANT TO KEEP THE BAD NEWS TO MYSELF.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Christopher F. Edley, Jr (EDLEY_C) (OMB)

CREATION DATE/TIME:24-JUN-1994 15:31:00.00

SUBJECT: Nat Trans System

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TO: Sylvia M. Mathews (MATHEWS_S) (OPD)
READ: UNKNOWN

TEXT:
Michael -- you and I should talk. I think Corbett is correct.
==================== ATTACHMENT 1 ====================
ATT CREATOR: Daniel J. Corbett (CORBETT_D)

ATT CREATION DATE/TIME:24-JUN-1994 13:31:00.00

ATT BODY PART TYPE: B

ATT SUBJECT: National Transportation System (NTS)

ATT TO: Christopher F. Edley, Jr (EDLEY_C)
READ: UNKNOWN

ATT CC: Roger S. Adkins (ADKINS_R)
READ: UNKNOWN

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)
READ: UNKNOWN

ATT CC: Margaret R. Shaw (SHAW_M)
READ: UNKNOWN

ATT TEXT:
We will forward a copy of the glossy brochure when we receive it. The brochure itself is not a problem. However, it is difficult to say what will result from the NTS process.

As you probably know, the NTS concept is an outgrowth of the NHS concept. The Secretary felt that we needed to follow the NHS with a focus on other modes and therefore a development of an NTS. The NTS is to be the Secretary's crowning achievement.

Our current information is that the Department is looking to make the NTS, the basis for the next Transportation reauthorization, which means that the NTS proposal would replace the ISTEA reauthorization, among others. DOT is looking to have this legislative package completed in the Fall of 1995 and transmitted January 1996.

There is likely to be very significant policy and budget implications, because the process will recommend new programs to

fill current gaps (e.g., intermodal terminals or Border Infrastructure) and/or consolidation of current programs and trust funds (e.g., Surface Transportation Trust Fund).
Given the potential magnitude of this proposal, i.e., replacing all current transportation authorizations, we believe that you need to talk with the Secretary or Mort Downey to communicate the need for DOT to chair an interagency group (including OMB, NEC, CEA) to develop and provide policy guidance for the NTS development.

================== END ATTACHMENT 1 ==================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Alice R. Davis (DAVIS_A) (OMB)

CREATION DATE/TIME:27-JUN-1994 12:17:00.00

SUBJECT: SAP on DOT Approps -- ICC section

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TO: Dorothy Robyn (ROBYN_D) (OPD)
READ: UNKNOWN

CC: Roger S. Adkins (ADKINS_R) (OMB)
READ: UNKNOWN

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ: UNKNOWN

TEXT:
Following is a draft of the SAP commenting to the Senate on the House

-passed DOT Appropriations bill. We are interested in your views on the ICC paragraph. In particular, do you think it is preferable to include this statement, or to be silent?
The Senate is scheduled to mark up the bill on Thursday. We need to get this letter in circulation today.
Thank you.

PRINTER FONT 12_POINT_COURIER
Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510
Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on H.R. 4556, the Department of Transportation and Related Agencies Appropriations Bill, FY 1995, as passed by the House. As you develop the Senate version of the bill, your consideration of the Administration's views would be appreciated.

President's Investment Initiatives

Because the Senate's 602(b) allocation for this bill is higher than that of the House, the Administration urges the Senate to restore full funding for the President's investment initiatives. Specifically, the Administration urges restoration of funds for Federal-aid highways, mass transit formula capital, the Penn Station Redevelopment Project, and the next generation high-speed rail program. The Senate is encouraged to fund the core highway programs of the Intermodal Surface Transportation

Efficiency Act at the authorized levels.

Increased funding for the investment proposals could be achieved, in part, through a reallocation of resources from lower-priority or unrequested programs in the Committee bill. In particular, the Senate is urged to shift funds from Transit New Starts to Formula Capital Grants in order to fund a greater portion of the transit investment proposal. Also, the Senate's 602(b) allocation for this bill is higher than that of the House.

Earmarkings

The Administration objects to the significant amount of unrequested earmarkings in the House-passed bill and Report. Specifically, earmarkings in the FAA Airport Improvement Program, Mass Transit Discretionary Grants, and place-specific highway projects constrain the Department's efforts to ensure that scarce resources are allocated on a cost-effective and equitable basis. The Administration urges the Senate to eliminate these earmarkings.

Other Issues

The Administration urges the Senate to restore the 10-percent transit set-aside for congestion relief. Targeting a portion of the increase in transit formula grants specifically to projects that reduce congestion would focus attention on using transit as a demand management tool for congested highways.

In addition, the Administration urges the Senate to fund fully the request for grants to Amtrak, including the Northeast Corridor Improvement Project. Additional funds are needed as Amtrak struggles to improve its financial standing and customer service.

[Finally, the Administration suggests that the Senate restore funding for the Interstate Commerce Commission. The House amendment, which deleted funding for the ICC without either eliminating or transferring ICC statutory functions could result in serious disruptions in the ICC's regulated entities and in the Federal agencies that would ultimately absorb the ICC's workload. The Administration acknowledges that certain ICC functions are outdated and should either be eliminated or transferred to other Federal agencies. For example, the GAO has found that eliminating the regulation of motor carriers' rates and entry would produce significant budgetary savings and should be considered. The Administration would be pleased to work with the Congress in a review of the ICC's activities.]

The enclosed table provides OMB's preliminary scoring of the bill as passed by the House. We look forward to working with the Senate to address our mutual concerns.

Sincerely,

Leon E. Panetta
Director

Enclosure

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Roger S. Adkins (ADKINS_R) (OMB)

CREATION DATE/TIME:28-JUN-1994 09:58:00.00

SUBJECT: this went to Chris for your lunch today. You may find it use-

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
full.Chris doesnot you have.
=================== ATTACHMENT 1 ===================
ATT CREATOR: Daniel J. Corbett (CORBETT_D)

ATT CREATION DATE/TIME:28-JUN-1994 08:31:00.00

ATT BODY PART TYPE: B

ATT SUBJECT: NTS Questions for Chris's Lunch meeting

ATT TO: Lori L. Victor (VICTOR_L)
READ: UNKNOWN

ATT CC: Desiree Noble Thompson (THOMPSON_D)
READ: UNKNOWN

ATT CC: Roger S. Adkins (ADKINS_R)
READ: UNKNOWN

ATT TEXT:
Attached are the NTS questions.
================== END ATTACHMENT 1 ==================

=================== ATTACHMENT 2 ===================
ATT CREATOR: Daniel J. Corbett (UNKNOWN)

ATT CREATION DATE/TIME:28-JUN-1994 08:31:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -LUNCH.NTS-

ATT TEXT:
g:\fhwa\nhs-bill\lunch.nts
National Transportation System Luncheon Meeting
.

We believe DOT's purpose for this luncheon is to get some guidance of how the Secretary should present the NTS concept to the NEC.
.

We believe this luncheon represents an opportunity to communicate the need for DOT to chair an interagency group (including OMB, NEC, CEA) to develop and provide policy guidance for the NTS development. The Department released the NTS concept to the
Administration after it was too late to make changes and we are concerned that they will do the same with the final NTS plan.

Questions:

Federal Role

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The NTS concept currently lacks a definition of the Federal Role in transportation --- the fatal flaw of the NTS concept. Furthermore, DOT's NTS does not have a practical unifying theme. Is the Federal role equal in all modes or components of Transport
ation? If the final system, includes the NHS (made up of 4% of total road mileage), but 98% of current transit and rail systems, what will it accomplish?

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If the NTS process recommends a consolidation of current programs and Trust Funds, how will the new Federal role be defined? Will the Department use this as an opportunity to refine and focus the Federal role or simply to expand and muddy the respective
roles of the different levels of government?

Funding Expectations

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Fundamentally, doesn't the NTS process raise the expectation of vast new funding mechanisms? Won't any new funding we scrape together for Infrastructure be focused on the Infrastructure Bank, making the NTS a liability for the Administration rather than
an asset? The Department wants to unveil the NTS in January 1996, as part of the 1997 budget.

Project Selection

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One objective of the NTS as stated in the brochure is to "encourage transportation decisionmakers to favor investments that further the interdependence of local, regional and national networks, thus leveraging the benefits of all." Given this Administrat
ion's commitment to making infrastructure investment decisions based on benefit/cost analysis, why would it be necessary to favor intermodal projects over other projects? Why not let the benefits of the projects speak for themselves?

NTS Map

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What criteria are envisioned for selecting the NTS? Will the NTS map have objective criteria? How will the NTS fit with current State and local transportation plans?

Rail & Amtrak Reform

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To what extent will the NTS incorporate Amtrak's current national rail system? Will the focus on a national transportation system mean that reform of Amtrak's system (i.e., contraction to those routes such as the Northeast corridor and California corrido
r) is less likely?

Transit Role

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How would the NTS, which is supposed to include transportation facilities that make important contributions to regional, national and international interests, apply to local transit systems? Would the NTS focus on a few highly congested corridors where t ransit investments yield the greatest benefits? How would you determine where to draw the line so that the NTS encompasses only a small percentage of all transit routes? By contrast, the NHS represents only 4% of total road mileage.

Congressional Earmarking

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Does the NTS simply provide another vehicle for earmarking for the Congress? Will inclusion of a project on the new NTS map simply provide an easily explainable justification for projects that cannot be justified on a benefit-cost basis.

Background

·

The NTS concept is an outgrowth of the NHS concept. The Secretary felt that we needed to follow the NHS with a focus on other modes and therefore a development of an NTS. The NTS is to be the Secretary's crowning achievement.

·

Our current information is that the Department is looking to make the NTS, the basis for the next Transportation reauthorization, which means that the NTS proposal would replace the ISTEA reauthorization, among others. DOT is looking to have this legisla
tive package completed in the Fall of 1995 and transmitted January 1996.

·

There is likely to be very significant policy and budget implications, because the process will recommend new programs to fill current gaps (e.g., intermodal terminals or Border Infrastructure) and/or consolidation of current programs and trust funds (e.g
., Surface Transportation Trust Fund).

================= END ATTACHMENT 2 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Alice R. Davis (DAVIS_A) (OMB)

CREATION DATE/TIME:30-JUN-1994 18:30:00.00

SUBJECT: Conference Call on High-Speed Rail

TO: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ: UNKNOWN

CC: Margaret R. Shaw (SHAW_M) (OMB)
READ: UNKNOWN

CC: Lori L. Victor (VICTOR_L) (OMB)
READ: UNKNOWN

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ: UNKNOWN

CC: Roger S. Adkins (ADKINS_R) (OMB)
READ: UNKNOWN

CC: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

CC: James J. Jukes (JUKES_J) (OMB)
READ: UNKNOWN

CC: James A. Brown (BROWN_JA) (OMB)
READ: UNKNOWN

TEXT:

DOT reports that its meetings with the Hill on the high-speed rail proposal have gone well. Swift, Dingell and Exon have all been enthusiastic. The next step is to meet with Hollings.
Dingell's staff has requested changes, primarily to prevent the bill from being referred to another committee. These include:
- edits to the "Findings" section to focus on existing technologies, rather than on new technologies.
- removal of the section calling for the high-speed rail policy to to conducted on an expedited schedule. (Reference to ISTEA would cause a referral, but we don't need a law for this anyway).
- Removal of the following sentence in the corridor planning section: "An award of Federal planning assistance will not make a corridor intrinsically eligible for any future implementation funds." I think this should be retained, but Jolene said Dingell's staff felt strongly that it should not. She promised that a strong signal would be sent in the high-speed rail policy that the Administration only intends to fund implementation of one or two corridors. Yah right.
- Speed goal is reduced from 150 mph to 125 mph.

- Removal of section requiring Secretary to give high priority to defense conversion efforts. This is to avoid a referral and is not a problem.

The only outstanding issue concerns the definition of high-speed rail. Dingell's staff wants a definition that excludes maglev, meaning no research funds could be used to support maglev research. Senator Exon's staff wants one that will include maglev, so DOT is trying to reach a compromise.

Finally, Dingell's staff does not want a formal transmittal of the new bill, preferring to move the proposal forward on their own.

In my view, none of the above changes warrant holding the proposal up. However, if you would like to object to any item, please call Steve Palmer by COB tomorrow. Also, Katherine intends to call you early tomorrow AM to discuss this and a Maritime issue, as she will be out most of tomorrow and all of next week.

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Daniel J. Corbett (CORBETT_D) (OMB)

CREATION DATE/TIME:13-JUL-1994 16:35:00.00

SUBJECT: Long memo

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
I will fax graphs.
DAn
=================== ATTACHMENT 1 ===================
ATT CREATOR: Daniel J. Corbett (UNKNOWN)

ATT CREATION DATE/TIME:13-JUL-1994 16:29:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -RIVLIN.ND5-

ATT TEXT:

Memorandum for the Deputy Director
Through: Christopher F. Edley Jr.
From: Dan Corbett
Subject: Information ---- Highway Infrastructure Funding Levels
In a meeting on the Infrastructure Bank, you had asked about the appropriate level of highway funding. This memorandum follows up on that request. In addition, this memorandum will briefly discuss efforts to generally improve DOT's analytical
capability, including for the 1996 budget. We believe this is a useful analytical exercise in preparing for the 1996 budget development but also for making decisions regarding a possible National Infrastructure Bank, and for considering the Department's
planned analytical improvements as part of E.O. 12893, "Principles for Federal Infrastructure Investment"
This memorandum will discuss the most widely used analysis of highway funding needs, the Department of Transportation's biannual Highway Conditions and Performance Report to the Congress. It will describe the findings of the most recent report, offer some
critiques of the analysis and briefly describe FHWA efforts to improve the analytical model used. It will also discuss the budget implications using available analysis.
Methodology
The DOT analysis uses a detailed statistical sample of 110,000 road sections in the U.S. This data provides the basis for the input for the analysis. Sample sections include data on pavement condition and performance (e.g., capacity or congestion).
Each sample section is evaluated by the Federal Highway Administration's Highway Performance Modeling System (HPMS) based on characteristics of the road section. If the model detects deficiencies in the road section, including projected deficiencies
based on traffic growth, the model then chooses an appropriate mix of improvements.
The model was reviewed by GAO in 1987. The GAO found that the data used by the model is statistically sound and that the model did produce useful information on the condition and capital investment needs of the nation's highways. The GAO did recommend
that DOT do sensitivity analysis on the various inputs.

Results of Model

Using the HPMS methodology, DOT estimates a current national backlog of road deficiencies of $212 billion. Using a similar methodology for bridges, DOT estimates another $78 billion for a total of $290 billion in highway infrastructure deficiencies. Of the $212 billion in road deficiencies, about $88 billion or 42% is from pavement deficiencies and $124 billion or 58% is from capacity problems (e.g., congestion). The $78 billion bridge figure is analogous to pavement deficiencies, since it is primarily structural deficiencies or other safety improvements. About 24% of the total backlog is on the Interstate System and about 59% of the needs are on roads comparable to a National Highway System.

According to the model, this backlog in all categories will gradually increase since, collectively, the Federal, State, and local governments are not currently investing at a rate to maintain overall conditions and performance.

Comparison of "Need" to Current Spending Levels

Maintaining Conditions and Performance

The capital investment by all levels of government in 1991 for all highways was over $32 billion. According to the DOT analysis, simply maintaining current conditions would require an average annual capital investment for the next 20 years of about $52 billion (or $46 billion for 1992 rising to $58 billion in 2011). The 1992 investment "need" of $46 billion is about $14 billion above the actual 1991 investment level. Assuming that the Federal Government maintained its current 40% share of capital spending, Federal spending would need to increase by about $6 billion in 1991 dollars to cover the Federal share of the $14 billion "gap."

For reference purposes, if this $14 billion gap were funded by increases in gasoline taxes, it would require about an 11-cent increase in gas taxes rising to a 20-cent increase by the year 2011

The current Federal Gas tax is $18.4 cents per gallon. The weighted-average State gasoline tax is close to 19 cents.

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Improving Conditions and Performance

Actually improving current conditions and performance by eliminating the $290 billion backlog

Eliminating the backlog of projects does not mean bringing all highways to "new" or "mint" condition. It would eliminate pavement in "poor" condition and pavements on average would have about 8 to 12 years of remaining design life. Average pavement condition would be 3.5 on a scale of 5.

would require an average annual investment of about $67 billion (or $60 billion in 1992 rising to $75 billion in 2011). The $60 billion figure for 1992 is about $28 billion above the actual 1991 investment level.

Assuming that the Federal Government maintained its 40% share of capital spending, Federal spending would need to increase by about $11 billion in 1991 dollars to cover the Federal share of the $28 billion "gap."

For reference purposes, if this $28 billion gap were funded by increases in gasoline taxes, it would require a 21-cent increase in the gas tax rising to a 33-cent increase by the year 2011.

Attachment 1 summarizes this information in table form.

Attachment 2 compares 1991 investment spending with the two primary options presented in the DOT report: (1) Maintaining conditions and performance and (2) Improving conditions and performance. As you can see in Attachment 2, total highway spending, if targeted to system preservation only would be adequate to maintain pavement conditions, but not adequate to deal with projected capacity needs (e.g., congestion).

How good is the DOT analysis? What are the problems?

The DOT HPMS model, although comprehensive, has several limitations. It is difficult to quantify the net impact of these limitations. Some of these limitations arguably lead the model to "overestimate" the appropriate level of highway funding while others may lead to an underestimate. Both are discussed below.

What are the reasons that model may overestimate need?

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Current model does not estimate any effects on the environment from highway construction or use. In other words, it is missing the important impacts of highway use on air quality, wetlands, and climate change gases (especially CO2).

.

Current model uses engineering-based triggers to determine deficiencies. These triggers may cause the model to include road repairs on low-volume roads that would not pass a benefit-cost test. Alternatively, some would argue that some of these
low-volume roads provide important access to rural areas, distressed areas, Indian Reservations and Public Lands and should be maintained at a minimum level of quality.

.

Current model estimates capacity needs on a road system that does not include congestion pricing to manage peak-demand. Congestion pricing is likely to lead to smaller capacity needs. However, the current model does include capabilities to reflect
actual travel behavior. For example, travel behavior under congested conditions, such as choosing an alternative travel route or time to commute, is simulated in the model.

What may cause the model to underestimate need

.

The current model includes constraints that recognizes that travel growth will not be satisfied due to prohibitive right-of-way acquisition, social dislocation, environmental considerations or other factors. Included in this constraint is a 12-lane
highway constraint regardless of the actual availability of right-of-way. This total "unmet" travel need is omitted from the total "needs" figures. The current model, in effect, ignores demand of 18,000 lane-miles in the maintain scenario and 43,000
lane-miles in the improve scenario. This is equivalent to annual savings of about $2.5 and $6 billion respectively, in foregone highway construction.

.

The model's travel growth estimate assumes aggressive implementation of traffic management strategies such as ridesharing, congestion pricing, Intelligent-Vehicle Highway System (IVHS) technologies and enhancements to transit service. These "aggressive"
traffic management strategies are equivalent to demand of 34,000 lane-miles or annual savings of $4.8 billion in foregone highway construction. According to DOT, the traffic management program simulated far exceeds any actual program implemented to date
and therefore may underestimate travel growth and, in turn, capacity needs. For example, the simulated travel growth in the model using these assumptions was less than 1.5 percent in urban areas. The national growth rate from 1987-1990 is about 4
percent annually. Furthermore, this 1.5 percent assumption would lead to a transit usage trend that is significantly greater than history would indicate.

.

The model does not include analysis of the life-cycle impacts of highway maintenance such as additional highway congestion caused by highway lanes closed for maintenance. Some believe these "user costs" may be as much as 50% of the cost of construction.

The likely results of such analysis is to build thicker, more durable, highways in areas experiencing significant highway congestion. For example, European highways are generally built to last longer (i.e., closer to 40-year life versus the U.S. 20-year
standard). It is likely that incorporation of this life-cycle analysis would lead to significant cost increases in the short-term, offset by longer term savings in both congestion and construction costs.

Department Plans regarding Highway "needs" Modeling

The Department plans to address these problems with the development of a new Highway Economic Requirements System (HERS) model that will include explicitly benefit-cost analysis. OMB and NEC have received a briefing on the HERS model as part of our

review of the Department's implementation plan under E.O. 12893 (Infrastructure Investment Principles). DOT plans to use the new HERS model in its January 1995 report to Congress. However, some of the above problems will not be addressed in the new
HERS model for several years. For example, the January 1995 report to Congress will not incorporate either the life-cycle cost considerations or the environmental externalities explicitly within the model.
In addition, the Department plans to expand the HERS model to more explicitly include transit options and eventually to development of a multi-modal transportation investment model. Again, both of these efforts are several years from implementation.
Implications of full-funding of ISTEA on Conditions and Performance
It is difficult to exactly determine how a Federal-aid highway program that is funded at the ISTEA authorized levels would impact conditions and performance. Primarily, this is because it is more difficult to project how money will be spent rather than
simply look back at what was actually spent on needs related-projects.
For example, over 900,000 miles of highways are eligible for Federal funding and the decision about where to spend available funding is up to the States. Furthermore, an increasing amount of Federal highway funds is directed at non-highway needs such as
air quality projects, transit
Transit needs are also calculated by the Department. However, to the extent that highway funding is used for transit needs, it does not help with highway needs as defined in this analysis. In other words, DOT's analysis takes into account the proper
distribution of highway and transit needs and funding sources without double counting or undercounting.
, historic preservation, highway research and development (including IVHS), and demonstration projects. For purposes of this analysis, both the
Department and TCJS assume that only 50% of funding for demonstration projects is actually focused on transportation needs.
Using the FHWA HPMS model results, we project that funding of the Federal-aid highway program at the ISTEA authorized levels would fail to maintain conditions and performance for either the Federal-aid eligible system as a whole or for a likely National
Highway System
Note, the current Federal program is not targeted to the 155,000 mile NHS. Currently, about 900,000 miles of highways are eligible for Federal-aid highway assistance out of the 3.9 million total road miles. The 155,000 mile NHS represents about 4% of
total road mileage.
. The analysis assumes that State spending increases at 2% annually in real terms. To the extent that this increase does not occur, the "gap" numbers below would need to be increased. Alternatively, if State spending were greater,
the "gap" would be closed or eliminated.
However, it is important to understand if the entire Federal-aid program were focused only on the 43,000 mile Interstate system, full-funding of ISTEA in 1996 would be adequate to meet the Interstate Needs in the maintain scenario and improve scenarios.
However, this is not the case and ISTEA would need to be totally revised for this to occur.
The "gap" can vary significantly depending on how much is assumed to be targeted towards "needs" versus other purposes such as safety, historic preservation, environmental mitigation (e.g., air quality improvement projects) or road projects that are not
"needs" targeted projects (e.g., inappropriate road expansion). For example, the Surface Transportation Program (STP) includes requirements that 10% (about $400 million) of STP funds be spent on safety projects and separately another 10% must be spent on
transportation enhancement projects such as bike paths, historic preservation, etc. Although some of this spending may go to "needs", a great deal may not.
Using optimistic assumptions, and therefore assuming an unrealistically high (but illustratively useful) degree of targeting towards needs in all programs, the "gap" for maintaining conditions and performance on the Federal-aid highway system would be
about $9 billion in 1996 if ISTEA were fully-funded in 1996. Using a low-degree of targeting towards "needs", the gap is about $13 billion annually. The "gap" figures for the improve scenario, which eliminates the backlog of projects is $23 billion

and $27 billion respectively. It can be argued that the Federal share of the gap figures just given is about half since currently the Federal government provides about 50% of capital spending on the Federal-aid system. Attachment 3 summarizes this information in graphical and table form for the Federal-aid system.

It is possible to extend the above analysis further and to concentrate solely on the National Highway System (NHS). However, this adds another complexity to the analysis, because we now have to assume how much of the total spending by program will be spent on the National Highway System's 155,000 miles versus the 900,000 miles of eligible roads. Using a unrealistically high-degree of targeting towards "needs" and towards the NHS, the "gap" for the National Highway System is about $2.2 billion in 1996, assuming funding at the ISTEA authorized levels. Alternatively, assuming a low-degree of needs targeting and a low-degree of spending on the NHS leads to a gap of about $7 billion annually. The "gap" figures for the improve scenario for the NHS, is $8.5 billion and $13.3 billion respectively. It can be argued that the Federal share of the gap figures for the NHS is about 57% since currently the Federal government provides about 57% of capital spending on the "NHS" system. Attachment 4 summarizes this information in graphical and table form for the National Highway System.

Next Steps for Improving DOT's Analytical Capability

- As part of the review of the agency implementation plans for the President's recent Executive Order 12893, "Principles for Federal Infrastructure Investment", we are strongly encouraging the Department to focus on the weaknesses in the HERS model, including accelerating research plans in these important areas.

- We are asking that the Department include supplemental analysis in the January Report to Congress and to OMB for the 1996 budget, specifically on the effects of environmental externalities and life-cycle cost analysis. We have already begun working in this direction with the Department and EPA.

- We are asking that the Department give OMB preliminary analysis from HERS for the 1996 budget. Note: The Department is currently reluctant to do so.

- OMB and NEC has asked for a thorough review of the HERS model. The current plans are to undertake a three-tiered review. The three parts are:

  - An internal DOT review including staff from other competing modal Administrations (e.g, transit, rail, aviation). OMB staff will also participate.

  - A review by World Bank Staff.

  - A panel of outside experts. Current plans are to have a review of close to 50 experts representing several disciplines.

Conclusion

We hope this information is helpful in preparing for the 1996 budget and informing you of our efforts to improve our analytical capability regarding highways.

Poor highways add as much as 40 percent to the per mile cost of operating vehicles, which translates directly into lost capital productivity. Increased investment to improve the performance of our Nation's highway system would reduce the road user costs
associated with congestion, poor pavements and bridges, and inadequate connectivity to ports, airports, ports of entry and other intermodal transfer facilities.

For memo
What is the 1992 or 1993 comparable number for the 1991 number of $32.1 billion?
Why is Federal spending only $12.8 billion compared to 1991 outlays of $x.x.?
Add in comment about, Federal spending has increased since 1991.
Short-term Q's
How would the total "needs" numbers vary if VMT growth assumptions were varied substantially?
How would congestion pricing affect the overall needs estimates? Can the models be run using varying assumptions of congestion pricing?
Roughly, what percent of the bridge needs should be considered to be analogous to performance needs of highways versus pavement problems? How can we characterize the $78 billion backlog more precisely (e.g., structural problems, updating to standards, per
formance, functional deficiency, etc.).
Factual/Check my \-own information
What is in backlog regarding local roads?
How does the capacity determination work? Is it only a peak-hour problem?
Long-term Q's
What are rough estimates of how separately life-cycle cost analysis (e.g., maintenance congestion costs) and environmental externatlities would affect total needs estimates? The goal is to be able to articulate the relative magnitude of these two
important components.
Please describe the argument for and against the fact that the HPMS model generates needs for improvements that would clearly not be cost effective when taking into consideration extremely low-traffic volume?

Other Q's
What about Federal and State growth in highway capital spending?
Status of Federal Gas tax with State Gas taxes - graph showing both.

What is the comparable figure to the report's $32.1 billion on 1991 for either 1992 or 1993?

What does all this mean for the Federal Budget?
Using the HPMS model results as the best results available, it is still difficult to easily answer the question: What is the proper Federal highway funding level? To answer this question requires a position for the following: (1) the definition of the
Federal role (e.g., what highways do we care about) and (2) our goal for these same highways (e.g., pavement condition). Graph A attempts to show this.
Graph B focuses on Federal spending, thus excluding State and local efforts. Graph B shows that Federal spending, if solely targeted toward a "National Highway System"
The analysis includes a simulation of a 155,000 mile NHS system made up of the Interstate System (44,000 miles), Defense-access highways (18,000 miles), with the remainder consisting primarily of principal arterials. The final National Highway System
has yet to be designated by the Congress. The Administration proposed a 159,000 mile system. ISTEA allows the NHS to be 155,000 miles, plus or minus 15 percent.
would be adequate to maintain conditions on the National Highway System, but would fall
short in the other three scenarios, including addressing the backlog of deficiencies on the National Highway System.

For total highway spending, the Federal role is assumed to be 40% of total capital spending, consistent with current practice. For the National Highway System (NHS) scenario, the Federal role is assumed to be 57% of total capital spending, consistent with
current practice.

================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Christopher F. Edley, Jr (EDLEY_C) (OMB)

CREATION DATE/TIME:14-JUL-1994 11:58:00.00

SUBJECT: Pena: Nat'l Transp System

TO: Sylvia M. Mathews (MATHEWS_S) (OPD)
READ: UNKNOWN

TEXT:
There is confusion among senior DOT officials about exactly what the National Transportation System is supposed to be. And there is some paranoia that OMB may try to derail what they are up to, which is false. We do, of course, want to make sure it is sensible, that it lays the appropriate predicate for ISTEA reauthorization, and that the implicit resource commitments fit with what the President is likely to want to propose in the out years.
I had suggested to the Dputy Secretary and CFO that Pena should have a small discussion with Panetta, Rubin, Rivlin, Gene, George -- to discuss whether the NTS has the makings of a Big Deal for the Administration in terms of priorities and message. What would be useless, in my view, is a song and dance with nothing in need of decision. And the only real thing for decision at that level is the question of priorities and strategy.
Anyway, I just wanted you abreast of the state of play.
Meanwhile, in a "meet & greet" one-on-one, Pena talked with Alice at length about the NTS. She left kind of mystified, and has asked my staff for a briefing on the substance.
ciao
=================== ATTACHMENT 1 ===================
ATT CREATOR: David E. Tornquist (TORNQUIST_D)

ATT CREATION DATE/TIME:14-JUL-1994 10:49:00.00

ATT BODY PART TYPE: B

ATT SUBJECT: NTS Update

ATT TO: Christopher F. Edley, Jr (EDLEY_C)
READ: UNKNOWN

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)
READ: UNKNOWN

ATT CC: Roger S. Adkins (ADKINS_R)
READ: UNKNOWN

ATT CC: Margaret R. Shaw (SHAW_M)
READ: UNKNOWN

ATT CC: Christoph P. Bertram (BERTRAM_C)
READ: UNKNOWN

ATT CC: Alice R. Davis (DAVIS_A)
READ: UNKNOWN

ATT CC: Sharon A. Barkeloo (BARKELOO_S)
READ: UNKNOWN

ATT CC: Daniel J. Corbett (CORBETT_D)
READ: UNKNOWN

ATT CC: Margaret W. DiBari (DIBARI_M)
READ: UNKNOWN

ATT CC: Jeeyang Rhee (RHEE_J)
READ: UNKNOWN

ATT TEXT:
This e-mail follows up on my conversations with Frank Kreusi and his staff regarding the National Transportation System (NTS). As you may recall, on July 5th Roger sent Frank's staff a memo outlining our concerns with the proposed selection criteria for including projects and facilities in the NTS.
(1) According to staff, there is a growing sentiment within the Department that the NTS will provide an excuse to raise the gas tax, bust the caps and increase infrastructure spending. Because of this, Frank's office is having difficulty resisting efforts by the modes to include everything under the sun in the NTS, to ensure increased funding. This includes a desire to include future facilities which have not been approved by the President in his budget, e.g., several high-speed rail corridors. Frank said the NTS is not an effort to bust the caps. However, I am told the issue has been raised with the Secretary and not been ruled out.
(2) The outcome of an internal DOT debate regarding the automatic inclusion of Congressionally-designated facilities will significantly impact the credibility an usefulness of the NTS. DOT currently plans to include all of Amtrak and the Inland Waterway system in the NTS. Amtrak was designated in 1971 and has changed little very since then. The system includes many low-volume, low-priority routes. The Inland Waterway System include, by DOT's assessment, at least 1,000 miles of non-significant waterways that it would include for political reasons. However, DOT acknowledges that including these entire systems makes realistic nationwide planning almost impossible. They are revisiting their earlier decision to include these entire routes.
(3) It was disheartening to be told that Louise Stoll was furious at Kreusi and his staff for sharing any information on the NTS with OMB staff before the Secretary's meeting with Rubin and other WH staff. Her preferred strategy, allegedly, was to bring in OMB staff after getting WH signoff so as to restrict the influence OMB staff could have on the NTS details. She is allegedly blocking Kreusi's staff from following through on our

request to meet with DOT staff to discuss the NTS selection criteria before they are released publicly. While I can't confirm that this is true, Frank and his staff were both agreeable to my request for discussions and its been a week and a half and DOT has not been able yet to commit to scheduling such a meeting.

(4) In the meantime, DOT is continuing ahead with an extensive NTS outreach program involving industry and user groups. I sat in on part of one session. DOT was somewhat vague as to how the NTS would be used and some of the industry/user groups were clear that most, if not all, of the facilities they use needed to be included in the NTS. These ongoing sessions could be creating expectations regarding the NTS, particularly its purpose and its components. Therefore, the timing of OMB;'s discussions with DOT becomes more important, if there is a need to try to modify DOT's course.

We will keep you updated on our staff level discussions with DOT on this issue.

================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Sylvia M. Mathews (MATHEWS_S) (OPD)

CREATION DATE/TIME:18-JUL-1994 08:48:00.00

SUBJECT: NTS

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
Please review the attached memo from Edley and let me know where you think things stand. Is there a meeting with PEna? (yes, I think) When? Who should attend? (I thought it was just Leon and BR, but should it also include Alice? Steph?
Please let me know your thoughts.
Thanks.
=================== ATTACHMENT 1 ===================
ATT CREATOR: Christopher F. Edley, Jr (EDLEY_C)

ATT CREATION DATE/TIME:14-JUL-1994 11:53:00.00

ATT BODY PART TYPE: B

ATT SUBJECT: Pena: Nat'l Transp System

ATT TO: Sylvia M. Mathews (MATHEWS_S)
READ: UNKNOWN

ATT TEXT:
There is confusion among senior DOT officials about exactly what the National Transportation System is supposed to be. And there is some paranoia that OMB may try to derail what they are up to, which is false. We do, of course, want to make sure it is sensible, that it lays the appropriate predicate for ISTEA reauthorization, and that the implicit resource commitments fit with what the President is likely to want to propose in the out years.
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Anyway, I just wanted you abreast of the state of play.
Meanwhile, in a "meet & greet" one-on-one, Pena talked with Alice at length about the NTS. She left kind of mystified, and has asked my staff for a briefing on the substance.
ciao
================== END ATTACHMENT 1 ==================

=================== ATTACHMENT 2 ===================
ATT CREATOR: David E. Tornquist (TORNQUIST_D)

ATT CREATION DATE/TIME:14-JUL-1994 10:49:00.00

ATT BODY PART TYPE: B

ATT SUBJECT: NTS Update

ATT TO: Christopher F. Edley, Jr (EDLEY_C)
READ: UNKNOWN

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)
READ: UNKNOWN

ATT CC: Roger S. Adkins (ADKINS_R)
READ: UNKNOWN

ATT CC: Margaret R. Shaw (SHAW_M)
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ATT CC: Sharon A. Barkeloo (BARKELOO_S)
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READ: UNKNOWN

ATT CC: Margaret W. DiBari (DIBARI_M)
READ: UNKNOWN

ATT CC: Jeeyang Rhee (RHEE_J)
READ: UNKNOWN

ATT TEXT:
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(1) According to staff, there is a growing sentiment within the Department that the NTS will provide an excuse to raise the gas tax, bust the caps and increase infrastructure spending. Because of this, Frank's office is having difficulty resisting efforts by the modes to include everything under the sun in the NTS, to ensure increased funding. This includes a desire to include future facilities which have not been approved by the President in his budget, e.g., several high-speed rail corridors. Frank said the NTS is not an effort to bust the caps. However, I am told the

issue has been raised with the Secretary and not been ruled out.
(2) The outcome of an internal DOT debate regarding the automatic inclusion of Congressionally-designated facilities will significantly impact the credibility an usefulness of the NTS. DOT currently plans to include all of Amtrak and the Inland Waterway system in the NTS. Amtrak was designated in 1971 and has changed little very since then. The system includes many low-volume, low-priority routes. The Inland Waterway System include, by DOT's assessment, at least 1,000 miles of non-significant waterways that it would include for political reasons. However, DOT acknowledges that including these entire systems makes realistic nationwide planning almost impossible. They are revisiting their earlier decision to include these entire routes.
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(4) In the meantime, DOT is continuing ahead with an extensive NTS outreach program involving industry and user groups. I sat in on part of one session. DOT was somewhat vague as to how the NTS would be used and some of the industry/user groups were clear that most, if not all, of the facilities they use needed to be included in the NTS. These ongoing sessions could be creating expectations regarding the NTS, particularly its purpose and its components. Therefore, the timing of OMB;'s discussions with DOT becomes more important, if there is a need to try to modify DOT's course.
We will keep you updated on our staff level discussions with DOT on this issue.
================= END ATTACHMENT 2 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Sharon A. Barkeloo (BARKELOO_S) (OMB)

CREATION DATE/TIME:20-JUL-1994 17:50:00.00

SUBJECT: revised material for APTA meeting

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:
At Roger's suggestion, I've added a 1993 column to the budget table. This shows the large increase (80%) from 1993 to 1994 in formula capital grants as a result of that program being one of the President's investment priorities.
=================== ATTACHMENT 1 ===================
ATT CREATOR: Sharon A. Barkeloo (UNKNOWN)

ATT CREATION DATE/TIME:20-JUL-1994 17:48:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -wexler4.mtg-

ATT TEXT:
Michael-
I talked to Rob Healy, APTA's Executive Director-Government Relations, (898-4111) about APTA's Friday meeting with Robert Rubin. Rob says there is no specific agenda for this meeting - it is one in a series they've been having with DOT, OMB, etc. Rob
says that APTA's internal back-up material for the meeting is basically a variety of arguments for why the Administration should support investment in transit. APTA will make the case to Rubin that public transit investment is vital to reaching several
national goals, including economic growth, making welfare reform work, reinvigorating cities, reducing congestion, and protecting the environment.
Although there is nothing in APTA's internal back-up material about transit operating subsidies, the National Transportation System concept, or E.O. 12893, these are all topics in which APTA has an interest.
In Edley's previous meetings with this group, we've discussed:
1) congestion pricing - they know we're interested in congestion pricing, and they told us they would be interested in discussing it further after the TRB report on congestion pricing was released in June 1994;
2) reverse-commuting/enhanced access to jobs as an antipoverty strategy - APTA recently completed a study of reverse-commuting that was funded by a grant from Ford Foundation. APTA is interested in involving public transit agencies in efforts to increase
access to jobs. APTA sees some efficiencies from administering reverse-commute programs through public transit operators rather than private transit operators.

3) National Highway System - APTA opposes the NHS, because it represents a transportation policy that "destroys cities." APTA is curious about how transit would fit in to the proposed NTS.
I've attached back-up material for you on the transit budget and the operating vs. capital issue. Also attached is a list of attendees from APTA. Rob says Rubin knows one of the attendees, Peter Stangl.
Call if you need additional back-up. Also, Rob says he would be happy to talk to you.
-Sharon

Federal Transit Administration
(dollars in millions)

	1993 Enacted	1994 Enacted	1995 Pres.	1995 House	1995 Senate
Formula Capital	898	1,613	2,265	1,790	1,744
Formula Operating	802	802	600	700	730
Other Formula	0	0	0	16	26
Total Formula Grants	1,700	2,415	2,865	2,506	2,500
Discretionary Grants	1,725	1,785	1,517	1,725	1,725
All other	374	383	380	389	380
Total, Transit	3,799	4,583	4,762	4,620	4,605

1995 President's Budget

Formula Grants - The 1995 President's Budget proposed to fully fund Formula Grants at the ISTEA-authorized level of $2.865B, although the mix of funds within this program was proposed to shift somewhat from operating to capital grants. Specifically, within Formula Grants, the limitation on operating assistance would decrease by $202M and formula capital grants would increase by $652M, for a net increase of $450M from 1994 to 1995.

Discretionary Grants - The 1995 Budget proposed to freeze Discretionary Grants at the 1994 level, except that new starts would be decreased by $268M.

1995 Appropriations Action

Formula Grants - Both the House and the Senate have partially accepted the Administration's proposal to cut operating subsidies and increase formula capital grants, but not to the extent proposed by the Administration. The House accepted 50% of our proposed cut in operating subsidies and 27% of our proposed increase in formula capital grants. The Senate accepted 36% of our proposed cut in operating subsidies and 20% of our proposed increase in formula capital grants.

Discretionary Grants - Both the House and the Senate provided about $200M more than our request for Discretionary Grants, with the increase going almost entirely to new starts.

Operating Subsidies

APTA has opposed any decrease in operating subsidies, even if it is accompanied by an even greater increase in capital grants. In light of 1995 appropriations action to date, a decrease in operating subsidies now seems likely. APTA may be reconsidering its position and looking for ways to make a reduction in operating subsidies more palatable, such as: 1) allowing highway funds that are "flexed" to transit to be used for transit operating expenses, as well as transit capital expenses; and 2) redefining what is a "capital" expense versus an "operating" expense in order to allow certain asset maintenance items to be paid out of capital grants, rather than operating grants. (We would likely score increased outlays from a redefinition of capital expenses.)

Attendees from American Public Transit Association

Rod Diridon
Santa Clara County (CA) Transit and
Chairperson, APTA

Richard Simonetta
General Manager, Atlanta MARTA and
Vice Chairperson, APTA

Lou Gambaccini
Chief Operations Officer/General Manager
Southeastern Pennsylvania Transportation Authority (Philadephia) and
Immediate Past Chairman, APTA

Peter Stangl
Chairman, New York MTA and
Vice President for Rail Transit, APTA

Mike Townes
General Manager, Peninsula Transportation District Commission (Hampton Roads, VA) and Vice-President for Government Affairs, APTA
Jack Gilstrap
Executive Vice President, APTA
Anne WexlerChairman, The Wexler Group
================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (RECONSTRUCTED EMAIL)

CREATOR: Roger S. Adkins (ADKINS_R) (OMB)

CREATION DATE/TIME:25-JUL-1994 09:56:00.00

SUBJECT: low key well written paper gone up in flames

TO: Michael D. Deich (DEICH_M) (OPD)
READ: UNKNOWN

TEXT:

=================== ATTACHMENT 1 ===================
ATT CREATOR: Michael D. Deich (DEICH_M)

ATT CREATION DATE/TIME:25-JUL-1994 09:16:00.00

DETERMINED TO BE AN ADMINISTRATIVE MARKING Per E.O. 12958 as amended, Sec. 3.3 (c)
Initials: ACB Date: 01/18/2012

ATT BODY PART TYPE: B

ATT SUBJECT: ~~TOP SECRET~~!! BURN BEFORE READING!!

ATT TO: Roger S. Adkins (ADKINS_R)
READ: UNKNOWN

ATT TO: Daniel J. Corbett (CORBETT_D)
READ: UNKNOWN

ATT TEXT:

================= END ATTACHMENT 1 =================

=================== ATTACHMENT 2 ===================
ATT CREATOR: Michael D. Deich (UNKNOWN)

ATT CREATION DATE/TIME:25-JUL-1994 09:16:00.00

ATT BODY PART TYPE: P

ATT SUBJECT: PC -BINARY- -NTS-

ATT TEXT:

July 24, 1994
MEMORANDUM FOR BOB RUBIN
FROM:

Michael Deich
SUBJECT:

National Transportation System (NTS)

On Tuesday you will meet with Panetta, Peña, Rivlin, Sperling and Stephanopoulos to discuss the Department of Transportation's NTS initiative. The meeting will have two principal purposes:

- DOT would like to get preliminary White House reaction to their view that the NTS should be a major theme during the '96 campaign.

- CEA/DPC/NEC/OMB staff would like DOT to agree that the Administration's NTS proposal should be developed through a collaborative, interagency process rather than by DOT alone.

Background

The 1991 ISTEA required the DOT to define, in cooperation with the States, a National Highway System (NHS). By law, the NHS was to include approximately 155,000 road miles of "national significance."

In December 1993, the Department submitted its NHS proposal for approval by the Congress. At the same time, the Department announced that it would develop a parallel "National Transportation System" that included all transportation facilities of national significance. This move pleased advocates for other transportation modes, such as transit and rail, who fear that the NHS will unduly focus federal transportation funds on highways.

The Department hopes that the NTS not only will identify needed new transportation facilities, but also will focus federal spending on those projects of greatest importance. In addition, the Department is likely to use the NTS as a vehicle for laying out its arguments on behalf of legislative proposals to reauthorize ISTEA and perhaps other transportation programs (these proposals would be submitted in 1996).

Should the NTS be a major theme during the '96 election?

The Department believes that the NTS could be used to demonstrate the Administration's commitment to expanding and redirecting federal transportation spending. Some concerns:

- Increased spending. To the extent that the NTS is seen as a vehicle for increased transportation spending, it should be measured against other possible Administration initiatives designed to accomplish largely the same end (e.g., increasing outlays for existing programs, or proposing an Infrastructure Bank). The memorandum to the NEC Principals that presents options for an Infrastructure Bank will develop the arguments for and against greater infrastructure spending.

- More focused spending. The Department believes that the NTS will be able to identify those transportation projects that would have the greatest social return. If so, the NTS could be presented as a "reinventing government" initiative, in which federal funds are redirected to the most important transportation facilities. To date, however, I have seen little evidence that DOT is eager to make "reinvention" a principal focus of their NTS initiative.

What process should be used to develop the NTS proposal?

Regardless of whether the Administration embraces the NTS as a major campaign theme, developing the NTS proposal raises a number of procedural questions.

- Need for a more collaborative process: Since the NTS could have major implications for the size and nature of the federal role in transportation, DOT should work closely with other Administration staff in developing the proposal. It is my understanding, however, that DOT staff have been discouraged at times from sharing works in progress with CEA-DPC-NEC

OMB staff. This makes for a cumbersome deliberative process. A consensus Administration view could be developed with greater dispatch if

DOT regarded WH staff as resources to be used, rather than obstacles to be overcome. The Secretary should be encouraged to support a free exchange of views at the staff level.

Need to limit expectations: Outside interest groups appear eager to get their projects included in the NTS (presumably on the assumption that projects of "national significance" are more likely to receive future federal funding). DOT should be encouraged to work at limiting the expectations of outside groups. The NTS should not raise expectations that the Administration will propose funding levels greater than those that the President is likely to support.

================= END ATTACHMENT 2 =================

RECORD TYPE: PRESIDENTIAL (ALL-IN-1 MAIL)

CREATOR: Sharon A. Barkeloo (BARKELOO_S) (OMB)

CREATION DATE/TIME:16-AUG-1994 12:30:26.40

SUBJECT: meeting on transit new start criteria

TO: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ:16-AUG-1994 16:12:40.93

CC: Lori L. Victor (VICTOR_L) (OMB)
READ:16-AUG-1994 13:58:37.13

CC: Margaret R. Shaw (SHAW_M) (OMB)
READ:16-AUG-1994 13:05:28.02

CC: Roger S. Adkins (ADKINS_R) (OMB)
READ:16-AUG-1994 12:32:07.77

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ:16-AUG-1994 15:53:59.12

CC: Michael D. Deich (DEICH_M) (OPD)
READ:16-AUG-1994 12:35:56.91

CC: Randolph M. Lyon (LYON_R) (OMB)
READ:22-AUG-1994 08:23:37.42

CC: Daniel J. Corbett (CORBETT_D) (OMB)
READ:16-AUG-1994 22:43:31.09

TEXT:
FYI - We want to make sure you are aware of a meeting that Michael Deich has scheduled for tomorrow at 3pm in room 472 OEOB with Grace Crunican, Deputy Administrator of the Federal Transit Administration (FTA). We think the FTA Administrator, Gordon Linton, may be there, too. Roger and I will be there, but we thought you might be interested in attending. Louise Stoll is sending Gene Conti and George McDonald of her staff.
The purpose of the meeting is to discuss FTA's proposed new method of assessing transit new start projects. Michael Deich is interested in this as it relates the Infrastructure Investment Executive Order.
ISTEA requires DOT to issue guidelines on how it will determine whether proposed new start projects are justified based on mobility improvements, environmental benefits, cost effectiveness, operating efficiencies and local financial commitment.
In response to this ISTEA requirement and the Executive Order, FTA is proposing to evaluate each new start project based on eight different measures, including:
as a measure of cost-effectiveness:
1) the total incremental costs per incremental transit

passenger-trip generated by the proposed investment relative to the no-build alternative;
as measures of mobility improvements:
2) the projected aggregate travel time savings per year anticipated from the new investment, compared with the no-build alternative;
3) the number of zero-car households located within 1/2 mile of boarding points for the proposed investment;
as measures of operating efficiencies:
4) the forecast change in operating cost per vehicle service-hour for that part of the system that will be directly affected by the proposed new investment, compared to the no-build alternative;
5) the forecast change in passengers per vehicle service-hour;
as measures of environmental benefits:
6) the forecast change in criteria pollutant emissions and in greenhouse gas emissions, ascribable to the proposed new investment, compared to the no-build alternative;
7) the forecast change in the consumption of fuels of different types, ascribable to the proposed new investment, compared to the no-build alternative;
as measure of transit supportive existing land use policies and future patterns:
8) the degree to which local land use policies and the development market are likely to foster transit supportive land use, measured in terms of the degree to which local land use policies are supportive of the proposed transit investment, and commitment to these policies.
Although most of these data would be quantified, not all of them would be monetized. They would not be summarized in a benefit/cost ratio. So, in order to rank the proposed projects, you as the decisionmaker would have to weight the various pieces of information provided for each project based on what types of benefits/policies are most important to you.
I think Michael Deich's strategy for the meeting is to accept FTA's proposal as an interim approach, not because he likes it, but in order to make some progress towards benefit/cost analysis. He doesn't want to scare FTA off completely and make no progress. Michael's bottom line is that he wants to make sure that FTA uses these guidelines as a data call to collect the data necessary to do benefit/cost analyses of projects in the future. Michael believes that once the data are available, and greater consensus has been reached on how to value certain non-monetary benefits and costs (e.g., travel time savings, pollution reductions), it will be difficult for FTA is refuse to do benefit/cost analysis.
Roger and I are comfortable with Michael's strategy as a first step towards benefit/cost analysis. Roger's and my objectives are to 1) collect the data necessary for benefit/cost analysis; 2) encourage and train the local project sponsors to use benefit/cost analysis in selecting the locally preferred alternative; and 3) start a process to develop Government-wide (or at least DOT-wide) standard methodologies for valuing non-monetary benefits and costs. For example, within DOT the FAA values an hour of its customers' travel time saved at $42 while FTA values an hour of its customers' travel time saved at $5. DOT is trying to be more

consistent on this, but would like some leadership from OMB and CEA.

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies a responsive email, already made available within another collection.

Collection: 2007-0659-F

Bucket: OPD

Creation Date: 1994-09-13

Subject: Bob Damus on ISTEA transit earmarks

Creator: Sharon A. Barkeloo BARKELOO_S OMB

RECORD TYPE: PRESIDENTIAL (ALL-IN-1 MAIL)

CREATOR: Christoph P. Bertram (BERTRAM_C) (OMB)

CREATION DATE/TIME:13-SEP-1994 10:49:44.54

SUBJECT: MEMO

TO: Michael D. Deich (DEICH_M) (OPD)
READ:13-SEP-1994 13:32:57.11

TO: Daniel J. Corbett (CORBETT_D) (OMB)
READ:13-SEP-1994 11:23:06.08

TEXT:
Attached is the memo. A 1 o'clock phone conference sounds good to
me. Dan will you set it up?
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:13-SEP-1994 10:43:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Christoph P. Bertram

TEXT:
PRINTER FONT 14_POINT_ROMAN
Note to the Home Office
From V. Chris
HORIZONTAL_PITCH 15
PRINTER FONT 12_POINT_ROMAN
Attached is a draft of the Deputies memo as promised. It is complete except for the funding section.
A couple of things to think about and a couple of requests.
1) This idea from the folks out in Oregon about equity interests for Pension Funds. If you have something from them could you send it to me, or give me their number and I will bug them. Maybe check with Agnew. Edley seemed interested -- we need to follow up. (both)
2) What do you think about Edley's idea to exclusively allow new State banks to issue certain types of tax exempt debt? Should we run it by Mitch for a reality check as to political and practical problems? (both)
3) The infrastructure table in the front of the memo is incomplete and I know you sent it out. However does your data call include 94 enacted? (dan)
4) Who is in the Rebuild America Coalition? (dan)
5) Since USDA/RDA finances rural water, do you want to get them involved in this effort? (michael)
6) You should probably bug Steve Martin about this idea of turning the ROW Revolving Fund into a Project Financing Revolving Fund to get around Treasury's concerns with the subordinated debt proposals. (dan)
7) Do we want to put something into the memo about the creation of a federal bank? I think there is some political appeal in doing this even if it isn't a real bank. (both)
8) Just curious, why do advance refundings cost the Federal Government money?? (dan)
9) I couldn't find the cigar advertisement. (michael)

RESET 1

Options Memorandum for: NEC Deputies
Subject: Infrastructure Initiative Options for the 1996 Budget
Date: September 12, 1994

This memo provides background on the status of infrastructure achievements and proposals of the Clinton Administration, delineates the political and programmatic considerations associated with proposing an additional initiative, and describes two different approaches for the 1996 Budget:

A) Stay the Course: Continue the present policy of giving priority to infrastructure programs within the budget and propose some additional minor programmatic reforms. Any major initiative should wait until the 1997 budget and could then be part of a package to reauthorize the highway and transit programs; or,

B) Major Initiative: Propose a major initiative that increases Federal funding and creates a new Federal program to deliver assistance to State and local governments.

I: Infrastructure Policy and the Clinton Administration

Budget, Programmatic, and Legislative Achievements. Infrastructure has been an Administration domestic policy priority since the campaign. The emphasis has been on both increasing federal spending and on improving program delivery.

Despite the very tight budget caps imposed to control the deficit, all Administration budget requests have proposed infrastructure funding increases, although the requested levels have not been enacted in all cases. The most visible initiative has been the consistent requests for "full funding" of the federal highway programs - ISTEA. Despite this emphasis, overall infrastructure spending is likely to be up by only $Xbillion, or Y%, from 1993 to 1995. The table below summarizes funding requests and enacted levels by major infrastructure category.

Table 1
Budget Requests and Enacted Levels
for Major Infrastructure Categories
($ in billions)

#8

#9

1993

#9

1994

Request

#9

1994
Enacted

#9

1995
Request

#9

1995
Likely
Enacted

$8

#8

Highways

#9

18.0

#9

20.3

#9

#9

20.3

#9

$8

#8

Transit (capital)

#9

2.6

#9

3.3

#9

#9

3.8

#9

$8

#8

Railroads

#9

.4

#9

.4

#9

#9

.5

#9

$8

#8

Air Transport

#9

7.1

#9

7.5

#9

#9

8.3

#9

$8

#8

Water Treatment and
Supply

#9

3.3

#9

3.1

#9

#9

3.3

#9

$8

#8

Water Resource
Development

#9

2.2

#9

2.1

#9

#9

1.6

#9

$8

#8

Other

#9

.9

#9

.9

#9

#9

.9

#9

$8

#8

Total

#9

31.3

#9

33.9

#9

#9

34.4

#9

$8

The most prominent effort to improve the management of programs was the issuance of E.O. 12893 on Infrastructure Investment Principles. This is a ground

-breaking attempt to improve the evaluation
of federally financed projects through the rigorous application of cost benefit analysis.

Pending Administration Initiatives. In addition to the accomplishments described above, the Administration has a number of efforts underway to improve infrastructure programs and funding.

Currently pending on Capitol hill are major pieces of legislation including the Clean Water Act (CWA) reauthorization, the Safe Drinking Water Act (SDWA) reauthorization, and the National Highway System (NHS) designation bill. Since it appears unlikely that any of these will pass this year, they will have to be reintroduced and acted upon in the next Congress. Another major initiative growing out of the National Performance Review has been the proposal to restructure the Federal Aviation Administration into a corporation. Although the concept has been unveiled, legislation has not yet been transmitted.

There are also various efforts underway in the agencies. The Department of Transportation (DOT) has embarked on an ambitious course in a number of areas, including an process to create a national transportation systems (NTS), an effort to develop innovative uses of existing programs, and an aggressive campaign to create congestion pricing demonstration projects. The Secretary of Transportation has pledged to develop legislation to define the NTS in 1995. Much work remains to be done to develop this concept in time.

Finally, although not due during this Presidential term, the Administration must develop a proposal to reauthorize of the highway, transit and transportation safety programs. A bill will have to be transmitted by early 1997 in order to be passed by October 1997 or most of the funding ceases. Issues that must be decided by the Administration in preparing a proposal include gas tax levels, funding levels, program structure, and match ratios. Many of these issues will be very contentious and were hard fought during the last several authorization cycles. DAN TO SUPPLY HTF IMPLICATIONS. HOW MUCH WILL GAS TAX HAVE TO BE INCREASED IN ORDER TO SUSTAIN ISTEA LEVELS PAST 1997
OR TO INCREASE LEVELS BY $1 BILLION PER YEAR. THIS COULD BE A VERY IMPORTANT FACTOR IN DECIDING
WHEN AND BY HOW MUCH WE SHOULD PROPOSE A TAX INCREASE FOR THE BANK.

II: Background on Infrastructure Financing

The term "infrastructure" is often used as a synonym for the stock of publicly

-owned
non

-military physical capital-

-highways,schools, dams, police stations, etc. However, most
discussions of infrastructure policy refer, either implicitly or explicitly, to a narrower
definition consisting primarily of transportation, environmental, and water resources structures.
This definition corresponds to the role of infrastructure in supporting the national civilian
economy, and also to the areas in which the federal government plays the largest role in project
selection and funding.

Table 2
Government Spending for Infrastructure - 1990
($ in billions)

#8

#9

Total

#9

Federal

#9

State and
Local

#9

% of S&L
through Debt

$8

#8

Highways

#9

62

#9

15

#9

48

#9

$8

#8

Transit (capital)

#9

18

#9

4

#9

14

#9

$8

#8

Railroads

#9

1

#9

1

#9

0

#9

$8

#8

Air Transport

#9

13

#9

?

#9

?

#9

$8

#8

Water Treatment and
Supply

#9

#9

#9

#9

$8

#8

Water Resource
Development

#9

#9

#9

#9

$8

#8

Other

#9

#9

#9

#9

$8

#8

Total

#9

#9

#9

#9

$8

NOTE: THIS IS GREENLEES' TABLE - IT SEEMS TO MIX OPERATING WITH CAPITAL, I WILL WORK ON THIS

Table 2 displays government spending on major infrastructure categories in 1990. As the table shows, state and local governments have the predominant responsibility for government capital spending.

III: Assessing the Political and Programmatic Need for an Infrastructure Initiative.

Political : A political judgement must be made on the need for an initiative in addition to the accomplishments and likely achievements outlined above.

Expectations for major proposals in this area are high. They were created first by the campaign pledge to spend $20 billion a year and by more recent Presidential statements indicating that capital investment will be a priority in the future despite the tough budget situation. Failure to put forth an ambitious agenda could be problematic. On the other hand, a positive reception by Governors, mayors, and Congress would go a long way towards cancelling out the pledge as a liability. As can be seen from Table 1, overall spending on infrastructure has increased very little since FY 1993. Simply relying on the budget process is unlikely to yield a big enough initiative.

There are also political dangers associated with the creations of an initiative. As was seen in the debate on the stimulus package, capital spending can often be easily recast as pork and proposing additional spending may call into question this Administration's commitment to deficit reduction. A proposal that is too unorthodox could possibly generate fierce opposition.

Finally, an assessment must be made that an initiative is important enough, vis-a-vis other Administration priorities over the next two years, to merit the attention and effort required to launch and promote it. The initiative does have the potential of tieing into other priorities such as urban policy, jobs, and promoting longer term economic growth.

The need for better spending. There is agreement that the problems facing the Nation's infrastructure are not just the result of insufficient spending but also are caused by poor and inefficient use of the funds that are available. These problems are partially due to the fact that

few sectors of the economy are as dominated by the public sector as is the provision of infrastructure. The lack of market mechanisms and competition has resulted in a slowness to adapt to changing situations, a reluctance to introduce new financing techniques, and a lack of technological progress. Pricing or proper life-cycle costs analysis are rarely employed.

Equally problematic are some of the incentives arising from current Federal infrastructure programs which can lead to sub-optimal decisions in project selection. For example, the high federal match rate on some grants means that the decision maker (i.e., the State or locality) does not bear much of the cost of poor decisions. Examples include projects that are of the wrong scale and projects with considerable cost overruns or delays. A more equitable distribution of the cost sharing between various levels of government should help improve project selection.

Another problem is that the State and local perspective does not always consider national or regional benefits when making investments decisions and may lead to under

-investment regarding
important national or regional objectives (e.g., International Border Crossings).

The use of debt financing does introduce some market discipline, although the market is usually more concerned with the ability of the borrower to repay than it is with the use of the funds. A shortcoming of the markets is that they attract virtually no international or pension fund capital. This is because the tax exemption is of no use to such investors since they are not are subject to taxation in this country. Attracting some of this capital into the infrastructure debt markets could lower borrowing costs since there would be higher demand for such debt. It is unclear how much these costs would drop, however, and if the savings would result in additional funding for infrastructure.

Another impediment to better spending are the Federal rules governing the use of tax-exempt financing for certain classes of projects when a non-governmental entity is involved. Debt for bridges, roads, and intermodal facilities cannot be issued as tax exempt Public Activity Bonds. Other projects, such as transit or wastewater treatment plants, are treated more liberally. There are no good public policy for such unequal treatment. Considering that roads and bridges are one of areas most in need of additional financing, the current policy seems short-sighted

Finally, most economist agree that the subsidy provided for tax-exempt bonds is generally inefficient. In other words, the subsidy costs to the Federal government in terms of foregone revenue is more than what the subsidy is worth to the borrower. It is also possible that some of the rule changes included in the 1986 Tax Reform Act may have too severely limited the ability of State and local governments to borrow for their needs.

The need for greater total investment. There is little consensus about the extent and effect of the investment shortfall in infrastructure. In the late 1980's several important economic studies suggested that investments in infrastructure were historically responsible for large increases in national output. More recent work, also by respected researchers, resulted in much lower returns from infrastructure investment. The thesis of this more recent research is that

additional public investment would be likely to have little or no effect on national economic growth.

We do have some solid data available by infrastructure category, however.. For example, the most recent DOT study estimated that the Nation has a current backlog of road and bridges deficiencies totalling $290 billion. To simply maintain current conditions and performance on all roads and bridges would cost $46 billion in 1992; this is $14 billion more than the actual 1991 investment level of $32 billion from all sources. Covering this gap through a gas tax would cost an additional 11 cents per gallon rising to 20 cents by 2011. This study does not include an analysis that considers the economic returns of such projects, it is purely an engineering study. However, a special study commissioned of DOT seems to show that ....[Fill in from Dan on B/C ratios on projects from DOT] Airport???

In the case of water treatment plants, needs are driven by Federal mandates and the Clean Water Act, which appears to have strong public support. The needs appear weaker, however, when viewed from a benefit-cost perspective. This results both because treatment plants may not be the most cost-effective approaches to pollution control (given the large role of non-point sources, such as agricultural runoff) and because the public's willingness to pay for clean water is limited.

In summary, review of the needs issue suggests that any initiative should promote investment in high-return investments that are not currently being undertaken. There may be little gain to the national economy if we simply expand marginal low-return investments that are not subject to economic or similar scrutiny. There are a number of ways to promote this objective, including explicit targeting of Federal dollars to specific types of projects; increased reliance on user-charges and private-sector financing; and development of appropriate incentives for effective use of Federal aid by state and local decision

-makers.

IV: Options
OPTION A -

Continue Current Policy with Minor Programmatic Reform: Under this option the administration would simply continue to make funding for existing infrastructure programs a priority within the budget. Some limited programmatic reforms would also be included. They would include DOT proposals on innovative financing and reissuing Executive Order 12803 to facilitate infrastructure privatization.

[POSSIBLE SUBOPTION - If you believe that having an initiative is politically less important and that enactment is unlikely, then you can focus on passing the environmental infrastructure bills in

1995 and then release a major highway reauthorization bill in 1996 that is crafted to appeal to the constituency and receive credit from Governors, Mayors, etc. This means that the bill would have less of the programmatic reform proposals that we may like than if it were released in after the election. The bill would concentrate on more funding. It could include a

Bank however financed by a gas tax increase tacked on to the increase needed to keep the HTF liquid.]

Political Considerations. This option has no value in terms of fulfilling the infrastructure pledge. On the plus side, it does not significantly compete with any other major domestic policy initiative for political attention, nor would it invite criticism of political opportunism or opposition to new untried program structures.

Impact on Program Reform. Option has very limited impact.

Impact on Increased Funding. This alternative does nothing for increased spending since budget caps will make any increase virtually impossible.

OPTION B -

Develop a Major Financing Initiative for the 1996 Budget.

There are a wide variety of ways in which an initiative could be structured. Some of the most promising components of an initiative are listed below and are evaluated in terms of political appeal, their impact on program reform, and the likelihood they will actually increase spending.

a) Direct Formula Loan Program

Under a Federal direct loan program for infrastructure projects loans would have a role similar to the current municipal debt markets. In order to be attractive the loans would have to be subsidized to the point that they can compete with tax-exempt bonds. A straight forward way to run this program would be to allocate Federal loan authority to the States by formula and have them manage the loans. The states would receive applications for projects, evaluate them, negotiate loan terms, and then manage the repayment. Some combination of the State and the entity (a city or authority or even private entity) undertaking the project would be responsible for repayment. Federal project selection and chances for pork are therefore minimized.

Political Considerations. Since these loans would be subsidized there might be considerable support from Governors and Mayors who would be the beneficiaries of lower borrowing costs. However, if there is a perception that loans are a first step towards eliminating or reducing traditional grants, then there could be opposition. The municipal bond industry would be opposed since they would lose business. Since the costs of loans are scored in the budget as the present value of the subsidy and not as the value of the loan, the budget cost is relatively low.

Impact on Program Reform. Since the subsidy value of a loan is less than of grants with an 80% federal match and since it must be repaid, project selection is likely to be somewhat better. To the extent that loans are an alternative to liberalizing tax-exempt rules, then loans are a more cost-effective use of the Federal subsidy.

Impact on Increased Funding. Spending will be increased under this option to the extent that the loans are subsidized to be cheaper than tax-exempt bonds.

b) Capitalizing State Revolving Funds

These funds have been successfully used in the wastewater treatment program since the 1980's when the Federal Government began phasing out project-specific grants for wastewater treatment and replaced them with grants that capitalize State Revolving Funds (SRFs). EPA has contributed over $6 billion to set up SRFs in all 50 States.

There is no reason that SRFs could not be applied more broadly for infrastructure projects. Under such a program, the Federal Government would help capitalize a State Revolving Fund for Infrastructure from which local governments and authorities would borrow money for projects. The loans from the SRF can be repaid from project revenues or broader sources such as local option taxes. The mechanics are not much different from the direct loan option except that the repayment accrues to the SRF not the Federal government. Furthermore, since the loan is originating from the

SRF, not the Federal government, such a program would not be scored under Credit Reform. The grants for capitalization would be simple up front appropriations which would be relatively expensive compared to some other options.

Although SRFs are often described as "self-sustaining" this is only true as long as the repayments are sufficient to offset the effects of inflation and defaults. If the SRF makes loans at below market rates or for risky projects, the value of its capitalization will drop over time.

[SHOULD WE PUT BAUCUS OPTION IN HERE WHILE WE ARE AT IT???]

Political Considerations. State control eliminates the need for a Federal entity with expertise in evaluating projects. Such a proposal is likely to generate less political credit at the Federal level compared to some of the others considered. State and locals are likely to like SRFs since it gives them a new source of funding that they control.

Impact on Program Reform. Project selection is likely to be improved. However, there are fewer levers through which the funds can be directed at national or regional priorities.

Impact on Increased Funding. SRFs could foster increased amounts of infrastructure investment as they encourage States to seek greater leverage;

c) Taxable Bonds

These would be a type of bond paying taxable interest whose issuer would receive a rebate from the Federal government for a portion of the interest paid. The interest rate paid would generally be equal the taxable rate for debt of similar risk and maturity. If the goal is to increase the projects undertaken then the rebate could be for more than the difference between taxable and tax-exempt rates. The taxable bond might be attractive to tax-exempt entities such as pension funds.

Political Considerations. Pension fund, and perhaps union, support for this initiative may be politically useful. Resistance from Governors, mayors, and the municipal bond industry is likely to be fierce as they will see this as the first step towards eliminating the tax exempt status of municipal borrowing. A similar proposal in during the Carter Administration found not political support.

Impact on Program Reform. Depending on size of the rebate and the universe of projects this is targeted at, impact could be positive.

Impact on Increased Funding. Spending would be increased to the extent that such borrowing does not simply substitute for tax exempt borrowing.

d) Tax Credit Bonds

This is very similar to the taxable bond, differing only in that the Federal subsidy is delivered to the holder. These would be new bonds paying taxable interest whose holder would receive a rebate (in the form of a tax credit) from the Federal government for a portion of the interest paid. A tax-credit bond would not be attractive to tax-exempt entities since they have no tax payments against which to use a credit.

Political Considerations. Resistance from Governors, mayors, and the municipal bond industry is likely to be fierce as they will see this as the first step towards eliminating the tax exempt status of municipal borrowing. Very little support other than from PhD Econ Heads.

Impact on Program Reform. Depending on size of rebate and the universe of projects this is targeted at, impact could be positive.

Impact on Increased Funding. Spending would be increased to the extent that such borrowing does not simply substitute for tax exempt borrowing.

e) Changes to Tax Exempt Rules

These proposals have taken a variety of forms, but the goal of each is to permit greater private involvement in municipal infrastructure financed with tax-exempt bonds with fewer restrictions. Each of the proposals would remove or liberalize some of the restrictions in current tax law on the issuance of tax-exempt private activity bonds for infrastructure. These restrictions include limits on private use, limits on the volume of private activity bonds, limits on the types of facilities that can be financed, requirements that facilities be municipally owned, limits on advance refundings, treatment of interest on these bonds as a preference item for purposes of the alternative minimum tax ("AMT"), limits on deductions to banks investing in tax-exempt bonds, and arbitrage limits on investing amounts borrowed in tax-exempt financings.

Political Considerations. Changes to the tax-exempt bond rules would be greeted extremely favorably by State and local governments as well as by the members of Congress interested in changing these rules. Such changes in and of themselves, however, would not be sufficient to be considered a major initiative.

Impact on Program Reform. The increased private sector participation in project selection and finance is likely to be positive. Such financing can be accessed without Federal involvement. Eliminates the arbitrary and inconsistent private activity limitations.

Impact on Increased Funding. There would be some increase.

f) Loan Guarantees Provided through a Government Sponsored Enterprise (GSE)

The concept most often described under this option is to create a new off-budget Government Sponsored Enterprise that would transform the existing College Construction Loan Insurance Association (Connie Lee). This Infrastructure Government Sponsored Enterprise (IGSE) would be authorized to provide bond insurance on State and local government borrowing to enhance its valuation in the private marketplace.

Whereas Connie Lee currently provides insurance primarily to higher education facility bonds rated below the third highest rating of nationally recognized statistical rating agencies (Triple B), the IGSE would be authorized to insure and reinsure all infrastructure-related bonds that are rated Triple B and below. In addition, IGSE would be authorized to insure bonds rated above Triple-B if such obligations have been declined for coverage by all other primary insurers of infrastructure bonds.

Political Considerations. Would probably be favorably received since there are similar proposals in Congress and the concept was supported by the Infrastructure Investment Commission. The creation of a large contingent liability would call into question the Administration commitment to fiscal prudence and sound management.

Impact on Program Reform. Since this primarily benefits poorly rated projects, the overall program improvements would be minimal. The overall effect could possibly be negative since poor projects could now receive financing.

Impact on Increased Funding. Likely to be very minor.

---) Program Cost Matrix

[dan insert]

V: Paying for the Initiative

Discretionary vs. Mandatory

Direct Spending vs. Tax Expenditures

1) If you want $100 M to $200 M then you need...
2) If you want $1 B to $5 B then you need...

HORIZONTAL_PITCH 19

PRINTER FONT 10_POINT_ROMAN

3) If you want $5 B to $10 B then you need...

HORIZONTAL_PITCH 15

PRINTER FONT 12_POINT_ROMAN

TAB - Background on Infrastructure Spending.

Direct federal spending accounts for only $14 billion of the $147 billion spending total, and this is concentrated in the relatively small categories of rail, air, and water transportation and water resources (i.e., the Army Corps of Engineers and Bureau of Reclamation). Highway and mass transit formula grants make up the bulk of the $22 billion of indirect federal spending. State and local spending was $133 billion in 1990, or $110 billion net of the federal grants and loans. The water supply and wastewater treatment categories are almost entirely a state and local responsibility. Environmental Protection Agency grants to capitalize state revolving funds for wastewater treatment make up the largest source of federal spending in these categories.

States and municipalities generally raise their funds by issuing long term debt. In 1992, municipal issuers sold more than $78 billion in infrastructure debt, out of a total of $235 billion in municipal debt. Total outstanding municipal debt was $1.2 trillion at the end of 1992. The federal government also provides a major subsidy to infrastructure spending through the tax exemption given to interest on various forms of state and local debt. In 1993, the revenue loss from exclusion of interest on public purpose debt issues was approximately $12 billion, and the total revenue loss,including for private

-activity issues, was about $19 billion .Of course, this tax expenditure for municipal bond interest acts as a subsidy to all state and local capital expenditures, not just the categories in Table 1.

================ END ATTACHMENT 1 ================