Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Sharon A. Barkeloo to Alan B. Rhinesmith and Kenneth Schwartz at 20:38:59.09. Subject: Transit FFGAs. [partial] (1 page)	09/16/1994	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
OPD ([NEXTEA or ISTEA])
OA/Box Number: 250000

FOLDER TITLE:

[09/14/1994 - 01/02/1996]

2015-0463-F
ab1503

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (EXTERNAL MAIL)

CREATOR: CBertram@aol.com@INET@EOPMRX

CREATION DATE/TIME:14-SEP-1994 15:33:48.56

SUBJECT: Lets quit screwing around

TO: deich_m (deich_m@A1@CD) (OPD)
READ:14-SEP-1994 15:33:48.63

TEXT:
I finally figured it out. We are small thinkers.

If you want something really big, lets put together a package to reauthorize ISTEA in the 1996 Budget. Thats where the money is.

You then have a the opportunity to annouce a program that is more than $150 billion dollars over the next 6 years.

You stick in a gas tax increase to keep the HTF going, add some of the reforms we have come up with to increase private interest, propose a budget act amendment to free the trust fund so you can spend what you take in (ala Air Traffic Control Corp. + Every highway guy, transit dweeb, governor, mayor, and authorizing Committee member will love us.), maybe throw a bone to Pena on the NTS -- while cutting down on the time DOT has to screw it up.

Our little Bank isn't going to change anything and won't have much of a political BOOST.

Think about it.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:14-SEP-1994 15:31:00.00

ATT BODYPART TYPE:D

TEXT:
RFC-822-headers:
Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V4.3-10 #6879)
id <01HH3VH5F6HS000BDA@PMDF.EOP.GOV>; Wed, 14 Sep 1994 15:30:17 -0400 (EDT)
Received: by gatekeeper.eop.gov (5.65/fma-120691); id AA06820; Wed,
14 Sep 94 15:30:13 -0400
Received: by mail02.prod.aol.net (1.38.193.5/16.2) id AA13731; Wed,
14 Sep 1994 15:30:12 -0400
X-Mailer: America Online Mailer
================= END ATTACHMENT 1 =================

RECORD TYPE: PRESIDENTIAL (EXTERNAL MAIL)

CREATOR: CBertram@aol.com@INET@EOPMRX

CREATION DATE/TIME:15-SEP-1994 12:42:06.14

SUBJECT: Re: RE: Lets quit screwing ar...

TO: DEICH_M (DEICH_M@A1@CD) (OPD)
READ:15-SEP-1994 12:42:06.21

TEXT:
Not really. THe point is we're just spending the ISTEA money that would get spent anyway, but it sounds real big. While we are at it we do some actual reform.
==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE:15-SEP-1994 09:01:00.00

ATT BODYPART TYPE:D

TEXT:
RFC-822-headers:
Received: from gatekeeper.eop.gov by PMDF.EOP.GOV (PMDF V4.3-10 #6879)
id <01HH4W3D26BK000054@PMDF.EOP.GOV>; Thu, 15 Sep 1994 08:58:12 -0400 (EDT)
Received: by gatekeeper.eop.gov (5.65/fma-120691); id AA10661; Thu,
15 Sep 94 08:58:08 -0400
Received: by mail02.prod.aol.net (1.38.193.5/16.2) id AA27025; Thu,
15 Sep 1994 08:58:07 -0400
X-Mailer: America Online Mailer
================== END ATTACHMENT 1 ==================

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Sharon A. Barkeloo to Alan B. Rhinesmith and Kenneth Schwartz at 20:38:59.09. Subject: Transit FFGAs. [partial] (1 page)	09/16/1994	b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System [Email]
OPD ([NEXTEA or ISTEA])
OA/Box Number: 250000

FOLDER TITLE:

[09/14/1994 - 01/02/1996]

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

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

CREATION DATE/TIME:16-SEP-1994 20:38:59.09

SUBJECT: Transit FFGAs

TO: Alan B. Rhinesmith (RHINESMITH_A) (OMB)
READ:19-SEP-1994 09:45:13.18

TO: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ:17-SEP-1994 08:55:09.95

TO: Michael D. Deich (DEICH_M) (OPD)
READ:17-SEP-1994 10:49:01.84

TEXT:
[redacted] [061]

Since DOT persists in making the argument that they have no choice but to sign the FFGAs that ISTEA tells them to sign, it follows that they should issue all of the FFGAs that ISTEA directs DOT to issue (up to about 38 additional FFGAs). The FFGAs should state that they are being issued in response to a statutory requirement and do not assure that any request for funds will ever be included in Administration budget requests, or appropriated by Congress.
Based on the minimal performance measurement information I have been able to piece together despite the less-than-collegial behavior of FTA and DOT policy officials, I recommend that the 1996 budget request for new starts be roughly the following:

	1996
Los Angeles (No. Hollywood & Mid City)	$160M
New York-Queens	$76M
Portland-Westside	$108M
Atlanta-North	$44M
Baltimore-Light Rail	$41M
New Jersey Urban Core (Secaucus)	$78M
San Jose Tasman	$40M
Chicago-Circulator	$50M
Houston-Regional Bus	$53M
S. Boston-Piers (Central Artery only)	$0-$32M *
Pittsburgh-Busway	$21-$31M *
Dallas-So. Oak Cliff	$0-$34M *

	$671-$747M

* Depending on 1995 conference.

In addition, I recommend that we add the transit new start program to OMB's high risk list based on (1) the fact that it is starting more projects than it has resources to complete in a timely manner, leading to escalating costs and waste of resources; (2) it cannot (or will not) provide decisionmakers in the Executive Branch or on the appropriations committees with adequate information on the cost-effectiveness of projects seeking funds (as evidenced by DOT's response on Los Angeles-East Central), arguably contributing to waste of resources; and (3) forecasts provided by project sponsors to justify the project are often inaccurate, leading to poor information, leading to waste of resources; and (4) it is building some projects that just don't make sense.

That's my recommendation, for what it's worth.

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

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

CREATION DATE/TIME:17-SEP-1994 09:02:53.30

SUBJECT: Transit New Starts

TO: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ:17-SEP-1994 15:49:30.12

CC: Alan B. Rhinesmith (RHINESMITH_A) (OMB)
READ:19-SEP-1994 10:20:45.61

CC: Michael D. Deich (DEICH_M) (OPD)
READ:17-SEP-1994 10:50:44.22

TEXT:
Obviously, Chris, we have considerable frustration building up in Sharon. Not unusual. As an examiner, there are usually many more "defeats" than "victories." Along with Rhino, I will try to calm the waters.
By the way, I agree with Sharon that, taking DOT's argument to its logical conclusion, the clear implication is that we would have to fund all of the ISTEA new starts.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:16-SEP-1994 19:26:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Sharon A. Barkeloo

ATT SUBJECT: Transit FFGAs

ATT TO: Alan B. Rhinesmith (RHINESMITH_A)

ATT TO: Kenneth L. Schwartz (SCHWARTZ_K)

ATT TO: Michael D. Deich (DEICH_M)

TEXT:
With the latest inane missive from Louise Stoll, I have reached my limit. In case anyone is waiting for a suggestion from me as to what we should do next (although it is not at all clear to me that there is much interest in my opinion), I offer the following.
Since DOT persists in making the argument that they have no choice but to sign the FFGAs that ISTEA tells them to sign, it follows that they should issue all of the FFGAs that ISTEA directs DOT to issue (up to about 38 additional FFGAs). The FFGAs should state that they are being issued in response to a statutory requirement and do not assure that any request for funds will ever be included in Administration budget requests, or appropriated by Congress.
Based on the minimal performance measurement information I have

been able to piece together despite the less-than-collegial behavior of FTA and DOT policy officials, I recommend that the 1996 budget request for new starts be roughly the following:

	1996
Los Angeles (No. Hollywood & Mid City)	$160M
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Portland-Westside	$108M
Atlanta-North	$44M
Baltimore-Light Rail	$41M
New Jersey Urban Core (Secaucus)	$78M
San Jose Tasman	$40M
Chicago-Circulator	$50M
Houston-Regional Bus	$53M
S. Boston-Piers (Central Artery only)	$0-$32M *
Pittsburgh-Busway	$21-$31M *
Dallas-So. Oak Cliff	$0-$34M *

	$671-$747M

* Depending on 1995 conference.

In addition, I recommend that we add the transit new start program to OMB's high risk list based on (1) the fact that it is starting more projects than it has resources to complete in a timely manner, leading to escalating costs and waste of resources; (2) it cannot (or will not) provide decisionmakers in the Executive Branch or on the appropriations committees with adequate information on the cost-effectiveness of projects seeking funds (as evidenced by DOT's response on Los Angeles-East Central), arguably contributing to waste of resources; and (3) forecasts provided by project sponsors to justify the project are often inaccurate, leading to poor information, leading to waste of resources; and (4) it is building some projects that just don't make sense.

That's my recommendation, for what it's worth.

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

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: 1994-09-19

Subject: draft talking points for Rivlin/Hatfield phone call

Creator: Sharon A. Barkeloo BARKELOO_S OMB

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

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

CREATION DATE/TIME:20-SEP-1994 09:04:59.71

SUBJECT: Edley talking points for call to Louise Stoll

TO: Michael D. Deich (DEICH_M) (OPD)
READ:20-SEP-1994 09:32:13.55

TEXT:
PRINTER FONT 12_POINT_COURIER
Transit Full Funding Grant Agreements
Talking points for 9/19/94 Call to Louise Stoll

? Green light to issue these six FFGAs, assuming the Department can fund them within its outyear BA and outlay planning targets:

	FFGA Amount
Atlanta-North	$298M
Baltimore-Light Rail extensions	$85M
Chicago-Central Circulator	$250M
New Jersey Urban Core	$412M
Houston Regional Bus	$500M
Pittsburgh Busway to Airport Phase 1	$97M

? Los Angeles - I am disappointed that the Department could not provide better information on the cost-effectiveness of the Los Angeles East Central-to-Lorena segment. I had promised to get back to the Director with some additional analysis, so I still need to talk to her about this project.

[BACKGROUND NOTE TO CHRIS: Although the April 1994 Section 3(j) report to Congress indicated that the entire East/West Corridor project had a $9-$10 cost per new rider trip, that estimate is five years old. A more recent estimate (which has not yet been made public, and would not have to be made public until February 1995) is $26/new rider trip for the East Central Corridor, a 12-station line. The shorter segment we are being asked to commit to fund (the first four stations of the East Central Corridor) is likely to have a cost per new rider trip that is lower than $26. DOT has responded to you that it is unable to estimate how much lower it is. The way we left it with the Director was that we would get back to her with better information on the cost-effectiveness of this project, but that it was probably a political necessity.]

? Boston - political decision.

[NOTE TO CHRIS: A maximum of $32 million is needed to construct the portions of the transitway project that are common elements with the Central Artery project. This $32 million funding need would be reduced by the amount provided in 1995 conference. The House earmarked $48 million for the

South Boston Piers project in 1995, but the Senate provided nothing. This project's estimated $10 cost per new rider trip is based on possibly optimistic assumptions of future development in the South Boston Piers area. The downtown Boston office market was quite strong during the 1980's, leading to interest in developing neglected areas peripheral to the Central Business District (CBD), such as the South Boston Piers area. The timing and intensity of development projected for this area may be uncertain due to: (1) current

high vacancy rates and real estate market trends. Although vacancy rates are coming down in Boston as a whole, they are not declining in the South Boston Piers area. (2) The land in the Piers area is being broken into small parcels and developed into warehouses. (3) The construction of the Central Artery highway project will temporarily cut the Piers area off from the rest of the CBD and turn it into a construction zone for the next 10 years. These three factors suggest that the dense development projected by the MBTA may occur later than the MBTA anticipates, which argues for delaying the transit project.]

? Portland-

Hillsboro - With an estimated cost per new trip of $75, it would be very difficult to justify this extension, and any effort to do so would significantly reduce our credibility. Our General Counsel advises me that the ISTEA earmark is not legally binding. Also, this project is not considered necessary to Congresswoman Furse's re-election.

? Caveats - A green light for the six FFGAs is based on the following:

1) The individual FFGAs should avoid promising year-by-year amounts beyond 1996. Instead, say "up to" certain amounts.

2) The FFGAs should state that the Administration cannot guarantee that the President's Budget will be able to "make the project well" in the event Congress fails to appropriate the requested FFGA amounts. This gives grantees fair warning and gives us more flexibility to deal with budget crises.

3) Finally, I just want to remind you of the need to adhere to the Department's outyear BA and outlay planning targets.

[BACKGROUND NOTE TO CHRIS - The Department's budget request does NOT meet the outyear planning targets. It exceeds the target for outlays by $1 billion in 1997, $800 million in 1998, and $740 million in 1999.]

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

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

CREATION DATE/TIME:20-SEP-1994 14:44:11.73

SUBJECT: Stoll reply to Edley

TO: Michael D. Deich (DEICH_M) (OPD)
READ:20-SEP-1994 15:31:41.18

TEXT:
Louise's reply is inserted into the text of Edley's e-mail message
to her (after the first 3 sentences of Edley's message).
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:20-SEP-1994 11:32:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Christopher F. Edley, Jr

ATT SUBJECT: Stoll reply

ATT TO: Alan B. Rhinesmith (RHINESMITH_A)

ATT TO: Sharon A. Barkeloo (BARKELOO_S)

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)

ATT CC: Margaret R. Shaw (SHAW_M)

TEXT:
somewhat garbled by INTERNET:
================== END ATTACHMENT 1 ==================

=================== ATTACHMENT 2 ===================
ATT CREATION TIME/DATE:20-SEP-1994 11:29:00.00

ATT BODYPART TYPE:E

ATT CREATOR: Stoll

ATT SUBJECT: Re[2]: FFGAs

ATT TO: Edley (EDLEY_C@A1@CD)

TEXT:
It worked.

Tried to return your call last night. Sorry to have missed you.

I am trying to coax better numbers out of FTA re L.A.- will let you know
results later today. Thanks for Boston. The calls made to OMB about Portland

were initiated by Portland's delegation, alerted by Portland's lobbyists, alerted to "trouble" by the grantee after FTA's regional office called the grantee to obtain additional information to assist us in our decision making process here. We are coordinating all grant and FFGA announcements with the White House, via our congressional affairs office,and have put an extra burden of " doing it according to the rules" on the relevant parties. Hopefully there will be no glitches.Cheers. Louise

We are very disappointed in FTA's inability to reestimate the Los Angeles cost per rider. I don't know that Rivlin will be willing to go forward using the stale (and high) $26 figure. Don't you have a capability to guesstimate a new number?

Otherwise, you still have a red light on Portland. Boston answer will be positive -- question is how big, and Alice will decide today.

IT IS CRITICAL THAT ROLLOUT BE COORDINATED WITH WHITE HOUSE. Are you absolutely sure that news of decisions will not leak from FTA? My understanding is that FTA already has gone to Congress (directly or indirectly) to apply pressure on OMB re: Portland. This is high stakes. So what is the plan to control the information?
***

On the broader issue. I suggest we negotiate the content of a memo that will clarify the respective roles and principles regarding new starts. We have a disagreement about the appropriate criteria to be applied to ISTEA projects. We have a disagreement about timing of FFGA decisions in relation to the budget process. We have a disagreement, still it seems, on the applicability of the Executive Order. I'll ask my folks to engage DOT/FTA on the content of such an "understanding." The ad hoc quality of all this is problematic, to say the least.

ciao

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

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

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

CREATION DATE/TIME:26-SEP-1994 11:10:18.69

SUBJECT: SENATE APPROVES HIGHWAY BILL; STAGE SET FOR CONFERENCE WITH

TO: Sharon A. Barkeloo (BARKELOO_S) (OMB)
READ:26-SEP-1994 11:12:45.24

TO: Alice R. Davis (DAVIS_A) (OMB)
READ:26-SEP-1994 13:04:56.97

TO: Alan B. Rhinesmith (RHINESMITH_A) (OMB)
READ:26-SEP-1994 12:02:25.02

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ:26-SEP-1994 12:52:06.14

CC: Michael D. Deich (DEICH_M) (OPD)
READ:26-SEP-1994 12:12:22.44

CC: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ:26-SEP-1994 16:01:11.74

CC: Margaret R. Shaw (SHAW_M) (OMB)
READ:26-SEP-1994 13:19:11.90

CC: CBertram (CBertram@aol.com@INET@EOPMRX)
READ:NOT READ

TEXT:
SENATE APPROVES HIGHWAY BILL; STAGE SET FOR CONFERENCE WITH HOUSE

In an unexpected move, the Senate approved on voice vote Sept. 23 legislation to designate the National Highway System.

The Senate's easy approval of S 1887 now clears the way for a conference with the House, which passed its own NHS bill (HR 4385) earlier this year. Although there are vast differences in the two bills, proponents of the NHS are now encouraged that Congress may succeed in designating the 159,000-mile system before adjourning for the year.

The Senate action came shortly after Environment and Public Works Committee Chairman Max Baucus (D-Mont) was able to win a unanimous consent agreement from lawmakers barring any amendments to the NHS bill when it was brought up on the floor. Baucus repeatedly had said he would not go to conference with the House with anything other than a "clean" NHS bill.

Baucus won the unanimous consent agreement after he convinced Sen. John Danforth (R-Mo) earlier in the week to drop his "hold" against the bill. Danforth had been seeking to attach a highway safety measure to the NHS bill, but reportedly decided to instead amend it onto another bill.

In itself, designation of the NHS is not considered particularly controversial, given that the system is largely made up of existing primary roads, including the interstates. Once approved by Congress, the NHS will be given priority in federal funding decisions.

However, while the Senate legislation simply designates the system, the House measure includes numerous changes to surface transportation policies and a long list of highway demonstration projects. A conference to reconcile the two bills is expected to be contentious, aides said.

Projects Key Issue In Conference

If conferees are able to work out their differences by the time Congress adjourns, lawmakers will have designated the NHS almost a year before the deadline they gave themselves under the Intermodal Surface Transportation Efficiency Act of 1991. Under ISTEA, Congress has until September 1995 to officially designate the system.

However, the Clinton administration and state officials have urged Congress to act as soon as possible on the measure, saying that delaying action until next year increases the chance that the deadline will be missed and billions in highway construction funds will be withheld from the states.

Given that it was brought up under the unanimous consent agreement, the NHS bill did not generate much debate on the Senate floor. However, when it was under consideration in the Environment and Public Works Committee, some lawmakers indicated that they would have liked to have attached their own highway demonstration projects to the bill. In response, Baucus warned members that he would only take a "clean" bill to the floor.

Although Baucus managed to pass the bill without add-ons, few observers believe that senators will not attempt to include their pet projects when the NHS goes to conference. For its part, the House bill already includes about $2 billion in new highway and transit projects.

Among others, Sen. Harry Reid (D-Nev) is said to have highway projects to add to the NHS bill. Meanwhile, Sen. Paul Sarbanes (D-Md), chairman of the Housing and Urban Affairs Subcommittee, is expected to add transit provisions in the conference (178 DER A-8, 9/16/94).

Besides projects, conferees will have to resolve many other issues, including the House bill's inclusion of ISTEA technical corrections. Also on the table will be House provisions that change policies mandating the use of recycled materials in road pavements and that modify rules on motorcycle helmet and seatbelt use.

Danforth Finds Another Vehicle

Aides said Danforth had been seeking to attach to the NHS bill other legislation (S 738) that would establish a program of state grants to encourage stricter laws on drunken driving, the licensing of teenage drivers, and repeat traffic offenders. The measure already has passed the Senate but has not been considered by the House.

However, in recent days Danforth reportedly identified the "one call" notification bill (S 2101/HR 4394) as another vehicle for his safety legislation.

The House one-call legislation has been reported from the Energy and Commerce Committee and is now being considered by the Public Works and Transportation Committee. Public Works had a hearing on the bill Sept. 22.

In the Senate, the Commerce, Science, and Transportation Committee held a hearing on S 2101 in August, but so far no other action has occurred on the legislation.

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

CREATOR: Randolph M. Lyon (LYON_R) (OMB)

CREATION DATE/TIME:27-SEP-1994 14:28:48.04

SUBJECT: Infrastructure Financing

TO: Michael D. Deich (DEICH_M) (OPD)
READ:27-SEP-1994 14:33:11.68

CC: Joseph Minarik (MINARIK_J) (OMB)
READ:27-SEP-1994 14:29:25.39

CC: Ahmad Al-Samarrie (ALSAMARRIE_A) (OMB)
READ:27-SEP-1994 14:37:39.87

TEXT:
Attached are responses to the three questions raised in your memo. While these responses reasonably reflect our office's view, they have not been coordinated with all the interested parties within OMB so that they cannot be taken as our agency's position. I have discussed them at some length with Dan Corbett, though, so at least he's aware of them.
================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:27-SEP-1994 13:42:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Randolph M. Lyon

TEXT:

PRINTER FONT 12_POINT_COURIER

MEMORANDUM FOR MICHAEL DEICH
FROM: Randy Lyon
SUBJECT: Infrastructure Investment

(1) What types of infrastructure investments have high returns?
Answer: Certain traffic management practices, such as computerization of traffic signals and highway repair projects may have high returns. However, we have not yet been able to review the studies that support these claims.
o It is not clear how all key factors are handled by these studies. For example, highway repairs can create traffic delays with costs that are significant fractions of construction costs. If these congestion costs are not considered, then the total costs of certain options can be understated; by the same token, longer-lived initial

construction can look more attractive.

o Also, it is not clear that the high payoff options are in fact the highest payoff options. For example, while it may appear beneficial to build all interstates to 40-year lives, it may be even more effective to build only the right-hand lane to this thickness and to restrict trucks to this lane except for passing.

o Certain air-traffic system investments may also be attractive. For example, should efforts to install wind-shear radars be boosted? The financing group has avoided considering direct Federal investments, such as those affecting aviation.

2. Should the initiative be paid for from existing infrastructure funds or new funds?

Answer: The initiative should start with existing infrastructure funds. Finding new funds on either the mandatory or discretionary sides will be difficult, and it is not clear that it will be politically more popular than reducing the waste and low-priority activity in current infrastructure programs.

o The Washington Post on Monday, September 26, lamented the waste in the current highway demonstration projects. More than a quarter of the $352 million in FY 1995 demonstration funds is going to West Virginia. According to Representative Wolf (Washington Post, September 27), more than 30 percent of the demonstration money has gone to West Virginia over the past five years.

o The Safe Drinking Water revolving funds appear at first glance to be a reasonable investment; however, there are serious questions about whether this is an appropriate Federal role. Water can easily be priced so that users pay for the cost of provision. Conversely, there appear to be only three reasons for Federal subsidies: (1) subsidies could help low-income communities; (2) subsidies could offset costs imposed by upstream out-of-state polluters; and (3) Federal clean water regulations may impose costs upon water users that are greater than the benefits they receive, so that the Government has an equity obligation to offset the regulations' costs. It is not clear that the revolving fund program is the most effective approach to handling any of these possible rationales.

o All of the existing high-return activities involving traffic management and interstates could be accommodated within current highway funding. The Government could provide information about computerizing traffic signals to help communities see the potential benefits. If interstates do not receive appropriate priority, this could be addressed within a transportation reauthorization bill or via other mechanisms that do not require new money.

3. If it is impractical to reallocate funds, should new money be gathered for infrastructure projects?

Answer: No.

o The timing is not right for this. New money should only be considered with reforms designed to address inefficiencies; this way the new money could serve as a sweetener to induce reforms. For example, a gasoline tax hike could be considered during an ISTEA reauthorization.

o The types of spending options identified (traffic management and interstates) could be readily addressed through existing programs. If these high-

return or national-

interest
programs cannot be accommodated (e.g., because of inefficiencies at the State and local level), then this is a further compelling argument for reforms, not new funds.

o There are many programs looking for offsets now on the mandatory side. These include: GATT, welfare reform, extensions of expiring provisions (including the research and experimentation tax credit and the targeted jobs tax credit) and, very likely, health care reform. It will be tough to find offsets in all of these cases.

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

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

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

CREATION DATE/TIME:29-SEP-1994 17:59:41.38

SUBJECT: DOT Financing Demos

TO: Michael D. Deich (DEICH_M) (OPD)
READ:29-SEP-1994 18:03:41.32

CC: LAWRENCE J. HAAS (HAAS_L) (OMB)
READ:29-SEP-1994 19:02:25.69

CC: Daniel J. Corbett (CORBETT_D) (OMB)
READ:29-SEP-1994 18:33:07.12

TEXT:
Michael --
May I assume that you will take care of getting DOT an answer on the question of communications strategy?
Thanks.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:28-SEP-1994 22:39:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Daniel J. Corbett

ATT SUBJECT: Innovative Financing Briefing

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

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)

ATT CC: Margaret R. Shaw (SHAW_M)

ATT CC: Alan B. Rhinesmith (RHINESMITH_A)

TEXT:
This note is to follow up on our Innovative Finance Briefing with Jane Garvey from FHWA and John Lieber (OST-Policy), among others. DOT is ready to roll out about 15 or so projects of the 60 projects submitted by the States. The remaining projects need to progress further, and in some cases, pass environmental review. DOT is anxious to have the White House make a decision about White House involvement in any announcement of the projects. If not, the Secretary is more than willing to do it, but wants to do it very soon, because some of the projects sponsors are getting very anxious.
Basically, DOT looked at a variety of their current policies, regulations, and guidance and used their "test and evaluation" authority to waive or exempt from the same. They have guaranteed

me that they are not waiving any statutory requirements, including any budget act constraints.
The kinds of "adjustments or waivers" include a broader definition of a "tolled" facility that can use the Section 1012 Loan authority in ISTEA, allowing private sector funds to act as the match for projects, and increased use of "phased funding" and "advance construction" authorities to help advance projects faster.
After the meeting, Michael Deich's cautioned that, if and when, DOT wants to make some of the waiver changes permanent, we need to carefully review these for their broader implications.
Dan

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

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

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

CREATION DATE/TIME:30-SEP-1994 10:18:48.61

SUBJECT: Are you OK with this version of transit FFGA letter?

TO: Michael D. Deich (DEICH_M) (OPD)
READ:30-SEP-1994 10:19:12.05

TEXT:

PRINTER FONT 12_POINT_COURIER
Honorable Federico Pe?a
Secretary of Transportation
Washington, D.C. 20590
Dear Mr. Secretary:

I would like to share with you some concerns I have about the Federal Transit Administration's (FTA) program to construct new transit systems and extend existing systems, commonly known as "new starts." I am concerned that this program has become oversubscribed and that expectations have been created among new start project sponsors that will be difficult to meet in the current budget environment. I am also interested in ensuring that the new start program does not unnecessarily constrain the President's flexibility in formulating future budgets.

As you know, the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) earmarked more funds for transit new start projects than it authorized. Specifically, ISTEA earmarked $6.1 billion, but only authorized $5.0 billion for this purpose. Subsequent annual appropriations action has worsened this funding shortfall by providing less than the authorized level and by earmarking funds for projects in addition to those earmarked in ISTEA. As an example of how severe the funding shortfall has become, it would require over $7.3 billion in post-1995 Federal funding to complete just the transit new start projects that received earmarks in the 1995 appropriations bill, or are proposed by FTA for Full Funding Grant Agreements (FFGAs). This does not include many additional new starts that are just beginning the project development process.

In addition to the risk of limiting the President's future budget flexibility, the oversubscription of the new start program also risks wasting resources. If more projects are initiated than can be adequately funded, available funds would be rationed among projects, leading, at best, to escalating project costs and, at worst, to unfinished holes in the ground.

I understand that FTA is aware of the oversubscription problem and that FFGAs are one tool FTA is using to manage the problem. Traditionally, FTA has used FFGAs in an attempt to cap the total Federal contribution to project costs, and provide a degree of financial stability to project sponsors. Although the FFGAs are clearly made contingent on the availability of funds, FTA has understandably made every effort to honor these FFGA commitments. For example, in the past, the Executive Branch has viewed FFGAs as a moral commitment to request the funds promised by the FFGAs.

As part of FTA's strategy to manage the new start program, our staffs have recently been discussing the issuance or amendment of nine FFGAs. In the course of these discussions, disagreements have arisen about (1) the nature of the Department of Transportation's (DOT) ability to control the issuance of FFGAs; and (2) the timing of those FFGA decisions in relation to the budget process.

DOT staff has argued that the Department has no choice but to issue the FFGAs that ISTEA directs it to issue. Our General Counsel would not necessarily agree with that interpretation. This is a key issue which should be resolved before we decide how best to proceed.

If it is resolved that DOT has no choice but to issue the ISTEA FFGAs, then it would no longer be possible or desirable to request funding in the President's Budget for all projects that have FFGAs. In other words, the FFGA commitment would be devalued in order to avoid unnecessarily constraining the President's budget flexibility. One way to devalue the FFGA commitment is to state in the FFGA that it is issued in response to statutory direction and does not imply that the funding "promised" by the FFGA will ever be requested by the President or appropriated by Congress. By devaluing FFGAs in this manner, we would fulfill ISTEA requirements (1) without raising false expectations of future Federal funding among new start project sponsors; and (2) while still preserving the President's prerogative to request funding only for those projects that, when compared to all other competing funding priorities, appear to be most justified.

Alternatively, if it is resolved that DOT can control the issuance of FFGAs, then the commitments made in FFGAs would not need to be devalued. Proponents of this view could argue that ISTEA established two processes for funding transit new starts that are not legally binding because they have subsequently been pre-empted by a third process. The first ISTEA process was the section 3(i) criteria, which set forth the means by which new start projects were to be evaluated and selected for funding. The second ISTEA process was the section 3031-3035 project earmarks, which pre-empted the section 3(i) project selection criteria by earmarking all available funds for specific projects. The third and real process for funding new starts is the annual appropriations process, which pre-empts the ISTEA earmarks. Appropriations earmarks are, of course, legally binding, and there should be no intention of impounding funds that have actually been appropriated for projects.

The second disagreement between our staffs relates to the timing of FFGA decisions in relation to the budget process. To the extent FFGAs are a commitment, legal or moral, real or

perceived, on the part of the Executive Branch to provide future Federal funding, they must be made through the budget formulation process. To do anything else would pre-empt the President's prerogative to make such decisions based on his own priorities and in full knowledge of the competing Government-wide funding needs that must be met within the budget caps. Alternatively, if FFGAs are devalued so that they no longer represent any sort of commitment on the part of the Executive Branch, then FFGA decisions could be divorced from the Administration's budget formulation process.

It is the Administration's responsibility to recommend how best to manage the new start program and allocate scarce resources Government-wide. Thus, the Administration's recommendations, as contained each year in the President's Budget and FTA's section 3(j) report to Congress, should be based on the President's infrastructure investment principles (Executive Order 12893) and the priority of new start spending relative to competing funding needs. While I prefer that transit projects recommended for funding in the President's Budget correspond to those projects that have been issued FFGAs, I would not sacrifice the President's prerogative to make budget decisions for this goal.

I think the problem of how to manage the transit new start program warrants our personal attention, and I would appreciate your thoughts on how to proceed. I believe we should work to publicize the oversubscription problem, align the expectations of project sponsors with budget realities, and present a persuasive case to Congress for how this program should be managed. Absent improved management, the new starts program is at high risk for becoming ever more oversubscribed, thereby limiting the President's flexibility and possibly crowding out higher priority spending.

I look forward to discussing this issue with you.

Sincerely,

Alice M. Rivlin
Acting Director

cc:
Official file
DO Records
DO Chron
Mr. Miller (2)
Mr. Damus
Mr. Edley
Mr. Schwartz
Mr. Rhinesmith
Ms. Barkeloo
TCJ Front Office
TCJ:SBARKELOO:sb
9/28/94

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

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

CREATION DATE/TIME:30-SEP-1994 09:09:47.54

SUBJECT: help

TO: Daniel J. Corbett (CORBETT_D) (OMB)
READ:30-SEP-1994 09:32:45.58

TEXT:
Dan:
would you please fix the attached (put in right numbers; add language about BR rather than outlays; whatever help you think it needs)? Thanks.
louise promises language sometime today.
michael
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:30-SEP-1994 09:07:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Michael D. Deich

TEXT:

PRINTER FONT 12_POINT_ROMAN
1. THE ADMINISTRATION'S INFRASTRUCTURE POLICIES TO DATE
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
BUDGET POLICIES. Despite very tight budget caps, the Administration has sought significant spending increases for infrastructure. The Administration's 1995 budget requested outlays for infrastructure totalling $3.1 billion, or 10 percent, more than 1993 spending levels. As shown in TAB A, the Administration's budget requests have especially favored transportation programs: the FY 1995 budget sought a 17 percent increase over FY 1993 outlays (the proposed spending would have supported "full-funding" of both federal-aid highways and formula grants for transit capital spending, and would have provided a 17 percent increase in outlays for aviation). For environmental infrastructure -- wastewater treatment and safe drinking facilities -- Administration 1995 Budget requests were relatively unchanged from 1993 outlay levels. (As part of NAFTA, however, the Administration sought $116 million to capitalize the North American Development Bank, which will be instrumental in providing $2 to $3 billion in environmental infrastructure for the U.S.-Mexico border region.) The Administration sought a decrease in water resource programs (e.g., dams, ports and harbors).
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN

For FY 1995, the Congress adopted about 50 percent [OMB?] of the spending increases sought by the Administration for infrastructure programs. Overall, 1995 spending appropriations were $X billion, or Y percent, higher than FY 1993 levels. Nonetheless, the Administration

did not achieve "full-funding" of ISTEA -- 1995 highway outlays will be
$X billion less than authorized and transit spending will be $Y billion
less than authorized. Similarly, 1995 spending for both wastewater
treatment and for safe drinking water will be only Z percent higher than
in 1993.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
PROGRAMMATIC REFORMS. In 1993 and 1994, the Administration pursued a number of major programmatic reforms of federal infrastructure programs. The most
important of these include:
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Reauthorization of the Safe Drinking Water Act (SDWA). The
Administration proposals would [language from EPA].
?Reauthorization of the Clean Water Act. The Administration proposals
would [language from EPA].
?A proposal to restructure the Federal Aviation Administration as a
public corporation. Legislation will be submitted next year.
None of these proposals has been passed by the Congress. Other
Administration proposals/accomplishments related to infrastructure
programs are noted in TAB B [have list from DOT; NEED LIST from EPA,
BUREC, CORPS].
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
LIKELY INITIATIVES FOR 1995. In addition to further work on the legislation noted above,
the Administration is likely to propose or support a number of more limited
programmatic reforms. These include:
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Reissuing Executive Order 12803, which would facilitate private
investment in infrastructure by allowing states and localities to sell
certain federally-funded public infrastructure facilities and use the
proceeds to make additional public infrastructure investments (see TAB
C).
?Supporting legislation that would allow States to set up revolving
funds using their Federal highway funds;
?[What will be EPA's agenda?]
================= END ATTACHMENT 1 =================

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

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

CREATION DATE/TIME: 5-OCT-1994 13:32:39.34

SUBJECT: RE: memo

TO: Christoph P. Bertram (BERTRAM_C) (OMB)
READ: 5-OCT-1994 15:36:39.20

TEXT:
Chris:
1) FYI, another draft.
2) I share your skepticism about DOT's congestion plan. I wouldn't be surprised if it was just dropped from the memo. Whatever the outcome, I think that it's worth the exercise: it should give us ideas that we want to pursue regardless of whether the larger initiative goes forward.
3) I'd be delighted to lie profusely on your behalf. REmember to use my BIG TITLE.
ciao.
michael
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 5-OCT-1994 13:24:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Michael D. Deich

TEXT:
PRINTER FONT 12_POINT_ROMAN
INFRASTRUCTURE FINANCE WORKING GROUP DISTRIBUTION LIST

Name	Agency	Fax
Mike Cook/Michael Deane	EPA	260-1040
Louise Stoll et al	DOT	366-6031
Jane Garvey/Steve Martin	DOT	366-3244
Jack Donahue	DOL	219-8822
Olena Berg	DOL	219-5526
Dan Corbett	OMB	395-4797
Randy Lyon	OMB	395-1151
Mark Mazur	CEA	395-6809
Brad DeLong/John Greenlees	TRS	622-1294
Mozelle Thompson et al	TRS	622-0265
Mitch Rappaport et al	TRS	622-1772
Michael Deich	NEC	456-2223

September 21, 1994

MEMORANDUM FOR INFRASTRUCTURE FINANCE WORKING GROUP
FROM: Michael Deich

SUBJECT: Discussion Paper / Next Steps

OMB/agency budget reviews will begin the week of the Oct 24. Those reviews will be more productive if they are informed by a Deputies' decision on the issues before our group. Therefore we should plan on having a Deputies meeting by October 21 at the latest. I recognize that this deadline may be hard to meet, but I am confident that we can get there.

Although our group will continue to disagree on policy issues, I trust that we will be able to define the issues that the Deputies need to address; identify the policy options reasonably available to the Deputies; and articulate the arguments for and against each option. I have attached another partial draft for your consideration. I ask that you read the draft in a constructive spirit. Please fax and/or call me by noon Friday with your suggestions for changes in language and/or the larger structure of the memo. I intend to rewrite the draft over the weekend. To make this deadline, I especially need to hear from those who believe that major changes should be made to the draft.

The remaining large holes in the memo will be filled as follows:

? I will provide the missing section on the congestion relief alternative.

? Dan Corbett will fix Section I and Tabs A-D, which have changed little since the last draft. Please take a look at those sections and provide Dan with the info he needs to cleanup the draft.

? I think that the memo would be more helpful to the Deputies if it ended with a section briefly noting agency views on the major issues, e.g., whether to have an initiative, if so, of what kind, etc. Please let me know if you think it would be possible/helpful/worth-the-trouble to include such a section.

TOP ALL

*** DRAFT *** Please do not quote or circulate *** DRAFT ***

At issue in this memo is whether the FY 1996 Budget should include funding for an initiative that would offer a distinctive Clinton Administration approach to funding infrastructure. This memo evaluates options that could support three different approaches to an initiative:

A) broad-based support for public-

sector infrastructure investment;

B) support for limited classes of private-

sector infrastructure
investment;

C) an initiative targetted specifically at improving traffic flows in the most congested areas.

The Working Group is divided on all of the major policy issues raised in this memo, including whether any initiative is warranted; how best to achieve the policy objectives of each option; and how any initiative should be funded.

Section I of this memorandum provides background on the Administration's infrastructure policies to date. Section II lays out the rationale for a major new infrastructure initiative in FY 1996. Section III evaluates three alternative approaches to an initiative, along with a number of specific policy tools that the Administration might adopt as part of an initiative. Section IV considers the funding issues that would be raised by a new initiative.

I. THE ADMINISTRATION'S INFRASTRUCTURE POLICIES TO DATE
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
I.A. BUDGET POLICIES. Despite very tight budget caps, the Administration has sought significant spending increases for infrastructure. The Administration's 1995 budget requested outlays for infrastructure totalling $3.1 billion, or 10 percent, more than 1993 spending levels. As shown in TAB A, the Administration's budget requests have especially favored transportation programs: the FY 1995 budget sought a 17 percent increase over FY 1993 outlays (the proposed spending would have supported "full-funding" of both federal-aid highways and formula grants for transit capital spending, and would have provided a 17 percent increase in outlays for aviation). For environmental infrastructure -- wastewater treatment and safe drinking facilities --Administration 1995 Budget requests were relatively unchanged from 1993 outlay levels. (As part of NAFTA, however, the Administration sought $116 million to capitalize the North American Development Bank, which will be instrumental in providing $2 to $3 billion in environmental infrastructure for the U.S.-Mexico border region.) The Administration sought a decrease in water resource programs (e.g., dams, ports and harbors).
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
For FY 1995, the Congress adopted about 50 percent [OMB?] of the spending increases sought by the Administration for infrastructure programs. Overall, 1995 spending appropriations were $X billion, or Y percent, higher than FY 1993 levels. Nonetheless, the Administration did not achieve "full-funding" of ISTEA -- 1995 highway outlays will be $X billion less than authorized and transit spending will be $Y billion less than authorized. Similarly, 1995 spending for both wastewater treatment and for safe drinking water will be only Z percent higher than in 1993.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
I.B. PROGRAMMATIC REFORMS. In 1993 and 1994, the Administration pursued a number of major programmatic reforms of federal infrastructure programs. The most important of these include:
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Reauthorization of the Safe Drinking Water Act (SDWA). The Administration proposals would [language from EPA].
?Reauthorization of the Clean Water Act. The Administration proposals would [language from EPA].
?A proposal to restructure the Federal Aviation Administration as a public corporation. Legislation will be submitted next year.
None of these proposals has been passed by the Congress. Other Administration proposals/accomplishments related to infrastructure programs are noted in TAB B [have list from DOT; NEED LIST from EPA, BUREC, CORPS].
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN

I.C. LIKELY INITIATIVES FOR 1995. In addition to further work on the legislation noted above, the Administration is likely to propose or support a number of more limited programmatic reforms. These include:
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Reissuing Executive Order 12803, which would facilitate private investment in infrastructure by allowing states and localities to sell certain federally-funded public infrastructure facilities and use the proceeds to make additional public infrastructure investments (see TAB C).
?Supporting legislation that would allow States to set up revolving funds using their Federal highway funds;
?[What will be EPA's agenda?]

II. RATIONALES FOR A NEW INFRASTRUCTURE INITIATIVE

An FY 1996 infrastructure initiative would be designed to advance the economic and political goals of the Administration in three areas.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
II.A. PROGRAMMATIC REFORM. All agencies agree that existing Federal infrastructure programs could provide better incentives for States and localities to undertake more efficient infrastructure investments. Areas needing improvement include:
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Leveraging federal funds by aligning matching rates with project benefits. Most federal infrastructure programs rely on states and localities to select the projects to be built subject only to broad federal guidelines. States/localities generally pay about 20 percent of the cost on these federally-subsidized projects. Most evidence suggests, however, that states/localities generally capture far more than 20 percent of the benefits from these projects. As a result, states and localities may bear little of the cost of poor decisions. A higher local share of

project costs would increase incentives for state and local managers to build only the most efficient projects. A higher local share also would allow greater "leveraging" of federal funds, so that fewer federal dollars supported a greater amount of local infrastructure investment.
?Pricing. Efficient project selection is also hampered by the inability of infrastructure users -- both actual and potential -- to make known their willingness to pay for new infrastructure facilities. When prices reflect costs, the strength of demand is a clear signal of what should be supplied. But the price of infrastructure rarely reflects its costs, and this valuable source of information about consumer needs is lost. Current excess consumer demand is based on below-cost prices, and therefore cannot be taken as a reliable indicator that services should be expanded.
?Incentives for greater state/local investment. Empirical evidence suggests that a significant portion of federal infrastructure spending simply substitutes for outlays that states and localities would have undertaken in any event. A new federal program could induce a greater amount of state and local investment by lowering the federal share of

project costs, by targetting spending on areas where spillovers are greatest [need examples], and by providing open-ended, rather than capped, subsidies.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
II.B. GREATER TOTAL INVESTMENT. Significant portions of our transportation infrastructure are in poor physical condition and/or are highly congested. Similarly, EPA reports a backlog in the investments mandated by the Clean Water Act and the Safe Drinking Water Act. While some agencies argue that this "infrastructure deficit" could be solved simply through more efficient use of existing resources, other agencies argue that total U.S. infrastructure investment should increase.
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
Evidence about the economic and social returns to further infrastructure investment is mixed. The economic agencies find little evidence that across-the-board increases in infrastructure outlays would increase private sector economic performance. At the same time, all agencies agree that certain classes of infrastructure spending would probably have high social rates of return. The best-available evidence indicates that high-return infrastructure investments include: repair and reconstruction of urban roads and the construction of new capacity in the most congested areas; greater capacity at both airports and in the air traffic control system. EPA's reading of the evidence suggests that additional investment in water facilities also would have high social rates of return. The economic agencies, however, believe that higher rates of return could be found in nonstructural alternatives to water pollution control.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
II.C. POLITICAL CONSIDERATIONS. During the campaign, the President emphasized the role of public investment in economic growth. The Administration has continued to build a public case for the importance of public investment. The 1994 Economic Report of the President, for example, described at some length why "the Administration believes the United States has underinvested in its public infrastructure." During the campaign the President suggested that the

federal government address this underinvestment by spending an additional $20 billion more each year to capitalize a "Rebuild America Fund." Although a plan of this scope is not possible in the current budget environment, a modest initiative still could serve as a "signature" Clinton Administration initiative defining a new federal approach to promoting infrastructure investment. Although the Working Group has done no political vetting of the idea of an FY96 initiative, we would make the following general observations:
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN_ITALIC
Arguments in favor of an initiative

PRINTER FONT 12_POINT_ROMAN
? An initiative could reinforce a number of themes of this Administration:
-promoting economic growth through greater public investment;

-reinventing government, by "leveraging" federal funds with greater contributions from state and local governments and/or the private sector;

-catalyzing state and local efforts to rebuild urban America.

? While the initiatives already proposed by the Administration are important, they are probably regarded more as routine reauthorizations of existing legislation than as signature initiatives of the Clinton Administration.

? Although infrastructure constituencies are generally willing to extend a significant measure of goodwill to the President, they are disappointed by the Administration's inability to deliver the more expansive agenda advocated during the campaign.

? Some pension funds would like to support infrastructure through economically-targetted investments. An initiative could provide the needed policy tools.

PRINTER FONT 12_POINT_ROMAN_ITALIC

Arguments against an initiative

PRINTER FONT 12_POINT_ROMAN

? Although they seek greater funding for infrastructure, the Rebuild America Coalition --the principal umbrella group of infrastructure advocates -- credits the President with preserving and slightly increasing infrastructure spending at a time of severe budget constraints.

? An infrastructure initiative would take budgetary resources and political capital away from other Administration priorities.

? Any infrastructure initiative runs the risk of being characterized as "pork" spending.

III. OPTIONS. The Working Group examined three approaches to an initiative:

A) broad-based support for public-

sector infrastructure investment;

B) support for limited classes of private-

sector infrastructure
investment;

C) an initiative targetted specifically at improving traffic flows in the most congested areas.

For each approach, numerous policy tools were evaluated. A comprehensive list of those options is provided at TAB D. The list includes both options that the Working Group does not support,

and options that the Group supports but consider of minor importance to a larger "initiative." TAB E [from TRS please] explains why the Working Group opposes the many proposals that have been floated for an off-budget "Bank."

HORIZONTAL_PITCH 14

PRINTER FONT 10_POINT_ROMAN

III.A. BROAD-

BASED SUPPORT FOR PUBLIC-

SECTOR INFRASTRUCTURE INVESTMENT

HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
A broad-based initiative would target all transportation and water-supply facilities now eligible for federal aid. A broad-based program would address concerns about underinvestment in "public infrastructure" generally, and would generate the widest support among infrastructure advocates. A broad-based program also could provide a model to be emulated when reauthorizing existing infrastructure programs in FY 1996 and FY 1997. On the other hand, a broad-based initiative would run the greatest risk of being attacked either as unnecessary in a time of fiscal constraint or, worse, as "pork." In addition, a broad-based initiative would be less likely to achieve significant economic efficiencies compared to current law or to a more targetted proposal.

The four options evaluated below are not mutually exclusive, and could be combined in any fashion. The options would have quite similar economic effects; they differ principally in the budgetary costs of providing a given level of subsidy, and in their political complications.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
III.A.1. CREATE A DIRECT LOAN PROGRAM. Under this option, federal agencies would provide below-market loans to States/localities. The loan authority available each year would be allocated to States/localities by formula, just as most infrastructure grants are currently allocated. Loan recipients would control project selection, subject only to federal guidelines. Through these guidelines, the loans could be targetted to as broad or as narrow a set of infrastructure facilities as desired.

HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Matching Rates/"Leveraging" -- Providing loans would be economically equivalent to offering grants with a federal share significantly lower than the 80 percent share in most current grant programs. The subsidy provided by loans would vary with the interest rate charged and the length of the repayment period. Assuming that repayment was limited to 30 years, the loans could be made equivalent to direct grants that provide a maximum of 50 percent of a project's cost. The lower subsidy rate implicit in loans would provide states and localities with incentives to be somewhat more selective in the projects that they choose to build.

Under current law, the budgetary cost of loans would be the same as the budgetary cost of economically-equivalent grants. Because loans would provide a lower subsidy rate, however, they would "leverage" federal funds more than current grant programs: every dollar in federal budget outlays for current grant programs yields about $1.20 in associated total public infrastructure investment; every dollar in federal budget outlays for loans, in contrast, would

be associated with about $2-3 in total infrastructure investment (all of which might be federal loans).

?Pricing -- Compared to existing grants, loans would provide no added economic incentive for states to price infrastructure services more efficiently. At the same time, providing subsidies in the form of loans might make it easier for localities to overcome the political cost of paying for infrastructure through user fees. If better pricing were an important goal of any initiative, however, States/localities could be required to assess direct user charges on any facilities that are financed with the loans.

?Incentives for Greater Investment. Unless the loans were targetted or made open-ended, they would be no more effective than current programs at stimulating new investment

?Political Considerations -- DOT and EPA believe that infrastructure advocates would support this option, but only if it were funded from new resources rather than by reallocating funds authorized for existing infrastructure programs. In addition, state and local support could be tempered by a concern that this proposal represented the first step toward a broader use of loans rather than (higher matching rate) federal grants. And since federal loans would subsititute in part for tax-exempt bond financing, the municipal bond industry might not support this option.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
III.A.2. CAPITALIZE STATE INFRASTRUCTURE BANKS. Under this option, the federal government would capitalize "State Infrastructure Banks" (SIBs). The SIBs would operate much like the State Revolving Funds that the federal government has capitalized for wastewater treatment facilities. SIBs would use federal funds to make below-market loans and to provide loan guarantees and other credit enhancements for local infrastructure projects (alternately, federal grants could be held as a reserve against which SIBs could borrow the funds that they loan). The SIB would control project selection, subject only to federal guidelines. As with Option 1, SIB funds could be targetted as broadly or as narrowly as desired.

HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Matching Rates/"Leveraging" -- Grants could be made to the SIBs with or without a matching contribution from the states. The incentive effects of this option depend, however, principally on the extent to which SIB loans would subsidize local infrastructure. Like direct federal loans, SIB loans could be made equivalent to a direct grant covering up to 50 percent of project costs. Unlike a direct federal loan program, however, a SIB could vary the terms of each loan that it made. The ability of states to tailor SIB loans to local conditions might yield efficiency gains marginally greater than those from direct federal loans.

Grants to SIBs would be scored as a cash outlay in the usual fashion. The amount of SIB lending that could be supported by these grants would depend on how aggressively the SIBs sought to leverage the capitalization grants. If SIBs behaved in the same fashion as most existing wastewater SRFs, they would simply lend out almost all of their capitalization grants,

and each dollar in federal budgetary resources would support little more than one dollar in SIB loans. Past experience also suggests that some SIBs would use capitalization grants as a reserve to support further borrowing, in which case each dollar in federal budget resources could support a larger volume of SIB loans. If SIB grants were conditioned on the SIBs' achieving a certain leveraging ratio for their portfolios, SIB grants would "leverage" federal funds to the same extent as direct federal loans.

?Pricing -- same incentives as with federal loans.

?Incentives for Greater Investment. same incentives as with federal loans.

?Political Considerations -- As above, DOT and EPA believe that support from infrastructure advocates will depend in large measure on whether SIB grants are offered as a supplement to or substitute for existing infrastructure programs. State and local officials would prefer this option to direct loans, for SIBs would give states and localities somewhat greater control. Compared to a direct federal loan program, a SIB might be less likely to generate political credit at the Federal level. A SIB would increase, not threaten, the business of the municipal bond industry.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
III.A.3. CREATE A "TAXABLE INFRASTRUCTURE BOND". Under this option, state and loical governments would receive a direct federal subsidy for a portion of the interest that they pay on taxable bonds issued to support specific infrastructure projects. This subsidy would be a mandatory appropriation in order to allay issuer concerns that the subsidy might not continue for the life of the bond. The total subsidy paid out each year would be capped by limiting the amount of debt eligible for subsidy each year. Any taxable investor currently purchasing taxable debt (e.g., individuals, corporations) should be interested in purchasing these bonds. Taxable bonds could be targetted as broadly or as narrowly as desired.

HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Matching Rates/"Leveraging" -- Depending on the interest rate subsidy provided, taxable bonds could subsidize infrastructure to the same extent as direct federal loans. The efficiency effects of taxable interest rate subsidies would be the same as the efficiency effects of economically-equivalent grants or direct loans. However, the budget cost of taxable bond subsidies would be lower than the cost of providing an equivalent subsidy through direct grants or loans. Unlike loans, which require an up-front appropriation of the present value of the subsidy offered over the life of the loan, the interest subsidy on a taxable bond would only require an appropriation each year equal to the amount of interest paid in that year. Much of the budgetary cost of

taxable bond subsidies therefore would take place outside the budget window. [need to quantify]

?Pricing -- same incentives as with loans and SIB grants.

?Incentives for Greater Investment. same incentives as with loans and SIB grants.

?Political Considerations -- Creation of this bond program would appeal to State and local officials who could issue debt for increased infrastructure investment. In addition, some pension fund managers may view this investment vehicle favorably as it would provide a way to earn taxable returns through investment in public sector infrastructure. The tax-exempt bond industry, however, would certainly oppose the proposal as an attempt to undermine the Federal subsidy for tax-exempt debt. Opposition to a similar proposal in the Carter Administration was fierce. The potential opposition to this proposal could be lessened if (1) taxable bond subsidies were allowed only for activities that cannot now get financing through tax-exempt bonds (i.e., for a limited range of private sector activities), or (2) the interest rate subsidy on taxable bonds were significantly greater than that now provided on tax-exempt bonds.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
III.A.4. CREATE A "TAX-

CREDIT INFRASTRUCTURE BOND". This option would be nearly identical to the taxable bond option in all but its budgetary effects. Under this option, State and local governments would issue taxable bonds to support specific infrastructure projects. The holders of these bonds would receive a subsidy from the Federal government in the form of a non-refundable income tax credit. The total Federal subsidy would be capped by limiting the total amount of tax credit bonds that may be issued by a State. Any taxable investor currently purchasing taxable debt (e.g., individuals, corporations) should be interested in purchasing these bonds. The tax-credit bonds could be targetted as broadly or as narrowly as desired.

HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Matching Rates/"Leveraging" -- Depending on the size of the tax credit provided, tax-credit bonds could subsidize infrastructure to nearly the same extent as direct federal loans or subsidized taxable bonds. The efficiency effects of tax-credit bonds would be nearly identical to those of economically-equivalent subsidies provided through taxable bonds, loans and grants. Tax-credit bonds would have the same as the budgetary cost as taxable bonds, both of which would require fewer budgetary resources than loans or grants to provide a given subsidy. Unlike the options considered thus far, however, tax-credit bonds would show up in the budget not as a direct outlay, but as a revenue loss.

?Pricing -- same incentives as with loans, SIB grants, and taxable bonds.

?Incentives for Greater Investment -- same incentives as with loans, SIB grants, and taxable bonds.

?Political Considerations -- Similar to the taxable bond option. The tax credit bond would appeal to State and local officials who could issue debt for increased infrastructure investment. The tax-exempt bond industry, however, would oppose the proposal as an attempt to undermine the Federal subsidy for tax-exempt debt. As with taxable bonds, the probability of enactment would increase sharply if the bond were limited to activities that cannot now be subsidized through tax-exempt bonds, or if the interest rate subsidy were greater than that now offered through the existing tax-exemption for municipal bonds.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
III.B. SUPPORT FOR LIMITED CLASSES OF PRIVATE-

SECTOR INFRASTRUCTURE INVESTMENT
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
This approach would focus federal resources on a limited set of private-

sector infrastructure investments. Greater private investment in infrastructure could lead to more efficient pricing of infrastructure facilities, thereby giving both private and public managers better information about where and how much new investment is needed. Private investment also could provide rivalry for public providers, resulting in a more rapid adaptation to changes in demand and technology. Finally, greater private investment would free public resources for other needed infrastructure projects.

The public sector now owns about X percent of all roads, airports and mass transit facilities, and about Y percent of all wastewater treatment and drinking water facilities. Limiting an initiative to private investments would do little to address the concerns of those who think that the U.S. has underinvested in public infrastructure. In particular, the subsidies noted below would only be effective at stimulating investment in facilities that are more or less already commercially viable; they would not bring new infrastructure facilities to low-income areas that cannot now afford to invest.

In theory, all of the options noted above could be used to subsidize private investment. The additional options noted below are economically less efficient than those examined above, but they may be politically easier to achieve.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
III.B.1.EXPAND TAX-

EXEMPT BOND SUBSIDIES. State and local governments currently are able to finance public infrastructure projects with bonds that pay interest that is exempt from Federal income tax. This ability is constrained for

projects providing significant benefits to private parties (e.g., through increased profit-making opportunities). In particular, many projects providing substantial benefits to private sector project participants either cannot be financed using tax-exempt debt or else must be allocated a portion of the State private activity volume cap (private activity bond issues are annually limited to the larger of $150 million or $50 per State resident).
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
Under this option, the Administration would seek two changes to tax-exempt bond law:
?raise the volume cap on tax-exempt private activity bonds;
?allow private activity bonds to be issued for highways and intermodal facilities, just as such bonds can already be issued for all other forms of infrastructure.
?Matching Rates/Leveraging" -- The value of tax-exempt financing varies with .... At present, tax-exempt financing provides a subsidy to bond issuers that is economically equivalent to a direct grant for roughly 15-20 percent of a project's costs. Most economists believe that the budgetary cost of subsidies provided through tax-exempt bonds is higher than

the budgetary cost of providing an economically equivalent subsidy through direct spending, i.e., that the benefits of lower interest rates to issuers are smaller than the Federal revenue foregone through the grant of tax-exemption. A rough estimate suggests that tax-exempt bonds provide a subsidy that is worth about 10 percent less than the subsidy that could be provided with an equivalent amount of budgetary resources on the direct spending side of the budget. Raising the volume cap would be a particularly inefficient way to target budget resources new subsidies to highways and intermodal facilities, for in an effort to support private investment in roads, it would allow a greater volume of all private activity bonds.

Despite their inefficiency, tax-exempt subsidies may offer two political advantages. First, tax-exempt bonds subsidize a relatively low share of project costs. Second, the tax subsidies would be scored as revenue losses, rather than direct outlays, which might be attractive in the current budget climate. Unlike direct subsidies, which require an up-front appropriation of the present value of the subsidy being offered, tax-exempt bond subsidies would require budget resources equal to the annual loss from the increased use of tax-exempt debt.
?Pricing -- same as options above.
?Incentives for Greater Investment -- For a given cost to the federal government, tax-exempt bonds provides less subsidy than the options noted above.
?Political Considerations. Loosening the constraints on tax-exempt debt would be politically popular. Taken alone, State and local officials would support this proposal. Unknown how States and localities would view this option compared to direct spending proposals. Participants in the tax-exempt bond industry would support the proposal.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
III.B.2. OTHER TAX SUBSIDIES. Under this option, the Administration would seek to provide

new investment tax credits and accelerated depreciation.
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
III.B.2.a Investment tax credit for infrastructure -- A tax credit would be given to private sector investors in infrastructure projects. In theory the credit could be applied to all infrastructure; in practice, this type of subsidy appears to be a priority only for wastewater treatement projects and drinking water projects. This proposal would essentially reinstate a provision of the tax Code that was repealed in the 1986 Tax Reform Act, but would limit it to investment in selected property.
?Matching Rates/"Leveraging" -- Although a tax credit could equal any specified percentage of the cost of an investment, in practice Congress usually limits these credits to 5-10 percent of project costs. The credit would have the same economic and budget effects as a direct grant of the same amount.
?Pricing -- same incentives as with an equivalent-sized direct grant or loan.

?Incentives for Greater Investment -- The credit would have the same effects as an open-ended grant for 5-10 percent of the project costs. To the extent that these investments are mandated, however, (e.g., some wastewater treatment and drinking water treatment facilities) there would be no increase in the aggregate amount of investment. Instead, the credit would simply change the mix of ownership by making it relatively more attractive to undertake these investments as private facilities rather than public projects.
?Political Considerations -- The political acceptability of the proposal is uncertain. Congress repealed a broader investment credit in 1986 and rejected the Administration's proposal for an investment tax credit in the deliberations surrounding OBRA 1993. However, this proposal should generate some support from affected businesses.
III.B.2.b More accelerated tax depreciation for infrastructure investment -- A more accelerated income tax depreciation schedule would be applied to selected infrastructure property. As with the ITC, this option seems to be of interest only to owners of wastewater or drinking water facilities. The depreciable life of this property would be reduced from the current levels of 15 or 20 years to a shorter period (e.g., 7 or 10 years). This proposal would essentially reinstate a provision of the Tax Code that was repealed in the 1982 Tax Act.
?Matching Rates/"Leveraging" -- More accelerated depreciation would provide a subsidy that was economically equivalent to a direct grant for something less than 5 percent of the amount of project costs. For budget purposes, the proposal would be scored as the annual difference between depreciation deductions under current rules and those under the proposed rules multiplied by the investors' marginal tax rates. Compared to direct grants or loans, therefore, much of the revenue loss would be scored outside of the relevant budget window.
?Pricing -- same incentives as with an equivalent-sized direct grant, loan or ITC.
?Incentives for Greater Investment -- same as with an equivalent direct grant, loan or ITC.
?Political Considerations -- The political acceptability of the proposal is uncertain. Congress repealed similar depreciation treatment

in 1982, arguing that depreciable lives for income tax purposes should be at least somewhat tied to economically useful lives. However, this proposal should generate some support from affected businesses. Congress appears more willing to adopt accelerated depreciation than ITC.

HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
C) TARGETTED CONGESTION RELIEF INITIATIVE. TBA.

HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
IV. SHOULD ANY NEW PROGRAM BE MANDATORY OR DISCRETIONARY?
?A mandatory program would provide less Congressional oversight and afford Congress less control over federal revenues. Moreover, infrastructure facilities are unlike the "entitlements" that traditionally make up mandatory programs.
?On the other hand, a mandatory program would have the virtue of being able to be funded on a PAYGO basis rather than by taking from the discretionary caps, which are fixed in nominal terms through 1998. Moreover, a mandatory program would provide more predictable funding streams, allowing better planning and more efficient resource use at the local level. Finally, Congressional oversight would be maintained through routine oversight hearings and the reauthorization process.

TAB A -

-

PUBLIC INFRASTRUCTURE SPENDING

Table 1
Administration 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

Transportation

#9

#9

#9

#9

#9

$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 / CDBG

#9

.9

#9

.9

#9

#9

.9

#9

$8

#8

Total

#9

31.3

#9

33.9

#9

#9

34.4

#9

$8

The term "infrastructure" refers here transportation, environmental, and water resources facilities. 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 displays government spending on major infrastructure categories in 1990. Spending by all levels of government on all forms of infrastructure totalled $147 billion in 1990. Net of federal grants, state and local governments spent $110 billion, or X percent of this total. Of the $36 billion in federal spending, $22 billion was spent in the form of grants to states and localities (these grants were for highways, transit, wastewater treatment facilities, and airports). Direct federal spending in 1990 totalled $14 billion, nearly all of which was spent on rail, aviation, and water transportation and water resources (i.e., the Army Corps of Engineers and Bureau of Reclamation).

Much of the $110 billion in state and local spending is financed with tax-exempt debt. In 1992, states and localities issued more than $78 billion in infrastructure debt; total outstanding municipal debt was $1.2 trillion at the end of 1992. The federal tax exemption for interest on state and local debt provides a major subsidy to state and local infrastructure spending. In 1993, the revenue loss from tax-exempt debt on infrastructure bonds totalled $X billion.

Table 2

1990 Spending by All Levels of Government 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: NEED TO CHANGE TABLE TO SHOW O&M SEPARATE FROM CAPITAL

TAB B -

-

ADMINISTRATION ACCOMPLISHMENTS IN INFRASTRUCTURE

write-ups on Administration accomplishments. DOT's brief is attached.
==

TAB C -

-

E.O. 12803: PRIVATIZING PUBLIC INFRASTRUCTURE

One page on the issue, noting that the Deputies will shortly get a
separate decision memo dealing solely with this issue.
==

TAB D -

-

OTHER OPTIONS CONSIDERED

Side-by-side of all options considered, including those that the Working Group supports but are not, by themselves, of sufficient weight to be considered part of a major initiative (e.g., the Baucus bill if problems with scoring can be worked out); and those that the Working Group opposes.
===

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

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

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

CREATION DATE/TIME: 5-OCT-1994 09:00:20.40

SUBJECT: This is i:\data\ffgaproc.3 (referred to in earlier e-mail)

TO: Michael D. Deich (DEICH_M) (OPD)
READ: 5-OCT-1994 09:05:02.52

TEXT:

PRINTER FONT 12_POINT_COURIER
Honorable Federico Pe?a
Secretary of Transportation
Washington, D.C. 20590
Dear Mr. Secretary:

I would like to bring to your attention some concerns I have about the Federal Transit Administration's (FTA) program to construct new transit systems and extend existing systems, commonly known as "new starts." I am concerned that this program has become oversubscribed and that expectations have been created among new start project sponsors that will be difficult to meet in the current budget environment. I am also interested in ensuring that the new start program does not unnecessarily constrain the President's flexibility in formulating future budgets.

As you know, the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) earmarked more funds for transit new start projects than it authorized. Specifically, ISTEA earmarked $6.1 billion, but only authorized $5.0 billion for this purpose. Subsequent annual appropriations action has worsened this funding shortfall by providing less than the authorized level and by earmarking funds for projects in addition to those earmarked in ISTEA. As an example of how severe the funding shortfall has become, it would require over $7.3 billion in post-1995 Federal funding to complete just the transit new start projects that received earmarks in the 1995 appropriations bill, or are proposed by FTA for Full Funding Grant Agreements (FFGAs). This does not include many additional new starts that are just beginning the project development process. This $7.3 billion figure compares with approximately $3.2 billion that is in the level-funding baseline for this program over that time period.

In addition to the risk of limiting the President's future budget flexibility, the oversubscription of the new start program also risks wasting resources. If more projects are initiated than can be adequately funded, available funds would be rationed among projects, leading to escalating project costs and, in the worst case, to possibly unfinished and unusable projects.

I understand that FTA is aware of the oversubscription problem and that FFGAs are one tool FTA is using to manage the problem. Traditionally, FTA has used FFGAs in an attempt to cap the total Federal contribution to project costs, and provide a degree of financial certainty to project sponsors. Although the FFGAs are expressly made contingent on the availability of funds, FTA has understandably made every effort to honor these FFGA commitments. In particular, in the past, the Executive Branch has viewed FFGAs as a moral commitment to request the funds promised by the FFGAs.

To the extent FFGAs are a commitment, legal or moral, real or perceived, on the part of the Executive Branch to provide future Federal funding, they must be made through the Administration's budget formulation process. To do anything else would pre-empt the President's prerogative to make such decisions based on his own priorities and in full knowledge of the competing Government-wide funding needs that must be met within the discretionary budget caps. Alternatively, if FFGAs are devalued so that they no longer represent any sort of commitment on the part of the Executive Branch, then FFGA decisions could be divorced from the Administration's budget formulation process. As major policy commitments they would continue, of course, to receive some White House review.

It is the Administration's responsibility to recommend how best to manage the new start program and allocate scarce resources Government-wide. Thus, the Administration's recommendations, as contained each year in the President's Budget and FTA's section 3(j) report to Congress, should be based on the President's infrastructure investment principles (Executive Order 12893) and the priority of new start spending relative to competing funding needs. While I prefer that transit projects recommended for funding in the President's Budget correspond to those projects that have been issued FFGAs, I would not sacrifice the President's prerogative to make budget decisions for this goal.

I think the problem of how to manage the transit new start program warrants our personal attention, and I would appreciate your thoughts on how to proceed. I believe we should work to publicize the oversubscription problem, align the expectations of project sponsors with budget realities, and present a persuasive case to Congress for how this program should be managed. Absent improved management, the new starts program is at high risk for becoming ever more oversubscribed, thereby limiting the President's flexibility and possibly crowding out higher priority spending.

I look forward to discussing this issue with you.

Sincerely,

Alice M. Rivlin
Acting Director

cc:
Official file
DO Records
DO Chron
Mr. Miller (2)
Mr. Damus

Mr. Edley
Mr. Schwartz
Mr. Rhinesmith
Ms. Barkeloo
TCJ Front Office
TCJ:SBARKELOO:sb
10/5/94

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

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

CREATION DATE/TIME: 6-OCT-1994 11:55:30.58

SUBJECT: NHS Dead

TO: Michael D. Deich (DEICH_M) (OPD)
READ: 6-OCT-1994 12:10:51.75

TEXT:
So, we should think about a must-pass NHS bill next year, combined with ISTEA reauthorization and infrastructure bank.
No reason to think small.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 5-OCT-1994 11:28:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Daniel J. Corbett

ATT SUBJECT: NHS Bill

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

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)

ATT CC: Margaret R. Shaw (SHAW_M)

ATT CC: Alan B. Rhinesmith (RHINESMITH_A)

ATT CC: Sharon A. Barkeloo (BARKELOO_S)

ATT CC: Alice R. Davis (DAVIS_A)

TEXT:
It looks like the NHS bill is dead for this session, unless it somehow gets resurrected in the lame-duck session.
The Senate refused to go along with any new exempt demos. They were only willing to have the demos come from within current apportionments (i.e., earmarked).
In particular, Sen. Moynihan was not willing to have the Maglev funding rescinded, which was one of the primary offsets for the new demos.
I will let you know if I hear differently, but DOT staff think it is dead.

Dan

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

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

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

CREATION DATE/TIME:12-OCT-1994 07:20:17.23

SUBJECT: Public Works

TO: Michael D. Deich (DEICH_M) (OPD)
READ:12-OCT-1994 08:11:57.21

TO: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ:12-OCT-1994 09:37:38.89

CC: Alan B. Rhinesmith (RHINESMITH_A) (OMB)
READ:12-OCT-1994 07:45:52.38

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ:12-OCT-1994 08:12:41.59

CC: Margaret R. Shaw (SHAW_M) (OMB)
READ:12-OCT-1994 10:10:18.22

TEXT:
See attached.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:11-OCT-1994 17:06:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Christopher W. Parker

ATT SUBJECT: PUBLIC WORKS PANEL TO CALL FOR WHITE HOUSE INFRASTRUCTURE

ATT TO: Daniel J. Corbett (CORBETT_D)

TEXT:
PUBLIC WORKS PANEL TO CALL FOR WHITE HOUSE INFRASTRUCTURE CONFERENCE

An upcoming report from the House Public Works and Transportation Committee will call for a White House conference to examine the growing backlog of infrastructure needs and how to finance improvements, Rep. Robert Borski (D-Pa) said Oct. 6.

Borski, chairman of the Public Works Investigations and Oversight Subcommittee, said at a hearing that his staff will finalize the report in the next few weeks, drawing information from a series of hearings on infrastructure needs that the subcommittee has held during the past year.

An aide to Borski said the report will be finished soon but may not be released until after the mid-term elections. Among other things, the report is expected to endorse capital budgeting to facilitate investment in transportation and other public works projects.

Borski's subcommittee has held several hearings this year on public investment in infrastructure, focusing in turn on highways, transit, aviation, and other facilities. At the Oct. 6 hearing, Borski received testimony from federal and local officials on the effectiveness of the Intermodal Surface Transportation Efficiency Act (ISTEA) in addressing local needs, particularly in metropolitan areas.

For his part, Philadelphia Mayor Edward Rendell said that even the higher funding made possible by the 1991 act is not enough to stop the decline in public works facilities. "Even with ISTEA, we are not attacking the infrastructure needs of our nation," he told Borski.

Rendell cited public disinvestment in both transportation and other facilities, including water projects. And he said Amtrak has suffered for years from a lack of investment in its capital stock.

More Surface Transportation Funds Being 'Flexed'

The discussion about the inadequacy of public investment in transportation came amid rumors that the Public Works' main infrastructure initiative of the year -- the designation of the 159,000-mile National Highway System (HR 4385) -- would die because of an ongoing squabble of its inclusion of demo projects (see related report in this section).

Rendell and other witnesses said that although ISTEA provided new flexibility in the use of federal transportation dollars, even more discretion may be desirable. Rendell said too often cities do not receive the funding they need to address their transportation needs.

Rendell cited problems with the Metropolitan Planning Organizations that were given an increased role in transportation decision-making under ISTEA. "The MPO basically cannot do anything that the state doesn't want it to do," he said, adding that states still have much of the final say over which projects get funded.

To address the situation, Rendell urged Borski to consider creating special allocations of surface transportation money that would go directly to localities. Such proposals have been promoted by other local officials, who say state governments have too much control over federal highway aid.

"We need to give flex funding directly to cities or metropolitan areas," Rendell said.

'Flexing' Of Funds Said On The Rise

But Transportation Department officials testifying at the hearing said there is increasing use of ISTEA's flexible provisions to help urban areas.

Deputy Federal Highway Administrator Jane Garvey said greater use is being made of the funds available under ISTEA's Surface Transportation Program and the Congestion Mitigation and Air Quality Improvement Program (CMAQ).

According to Garvey, some $600 million in surface transportation funds were flexed to transit in fiscal 1994, up from $469 million during the previous year. Since ISTEA's enactment at the close of 1991, she said, a total of $1.3 billion in these funds have been flexed to transit.

Meanwhile, states are making greater use of the CMAQ funds, Garvey said. For example, she said, the obligation rate for the CMAQ program has steadily risen since ISTEA's enactment, rising from 42 percent in fiscal 1992 to 62 percent in fiscal 1993 to 85 percent last year.

But Garvey also pointed out that highway needs are not being fully met. According to FHWA, the backlog of needed highway improvements now totals $290 billion.

Garvey declined to say whether states should have a veto over the decisions of MPOs. Instead, she said it is important that states participate all through the transportation planning process with MPOs, given ISTEA's emphasis on coordination between local and state governments.

Deputy Federal Transit Administrator Grace Crunican said she does not believe that it is appropriate for states to veto MPO decisions, also citing the act's intent for states to be involved with transportation planning and project selection much earlier in the process.

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

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

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

CREATION DATE/TIME:16-OCT-1994 11:29:52.27

SUBJECT: Program size

TO: Michael D. Deich (DEICH_M) (OPD)
READ:18-OCT-1994 09:16:37.80

TEXT:
Regarding program size....

My rough idea for an initiative is $1 billion per year for 5 years.
This is not based on an analysis of overhead expenses of an SRF, but a sense of what might be credible.
Given a $27 billion per year tax expenditure and a $34 billion grant and discretionary spending, anything less than something with billions per year is just not credible.
If we needed, we could have a program which grows to a billion per year or more in the future, but a credible initiative must be in the billions rather than millions if it is going to be a broad based initiative.
A targeted initiative such as congestion could be much smaller and could only total to $1 billion initiative over the 5 years, although it could also be much larger.
I think these size initaitives could be funded through some combination of the following: ethanol-subsidy phase out, parking cash-out and the various truck taxes that haven't been changed in a while. The combination of these can provide PAYGO offsets of $1 billion annually.
A much larger initiative would probably require a gas tax or oil barrell fee.
A smaller congestion relief/transportation efficiency initiative could probably be paid for by parking cash-out and changes to truck taxes, and maybe the diesel fuel tax, but probably dropp the ethanol-phase out.
If spending cuts are on the table, then I would nominate some of the following: energy power subsidies such as Bonneville Power, limitations on obligations of highway demo projects (no rescissions), discretionary grants generally, FAA grants to reliever airports.
It may be time to put this type of discussion in the memo, but I would want to run the language by Edley before putting it in.
I don't want the near-term discussion to focus on how to pay for the initiative, but I think some of the opposition doesn't believe there are any credible financing ideas out there. I think the above are very credible, but come with political costs. What doesn't?
Hope this is helpful.

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

CREATOR: Joseph Minarik (MINARIK_J) (OMB)

CREATION DATE/TIME:24-OCT-1994 16:19:53.12

SUBJECT: RE: Beneficiary Pays?

TO: Randolph M. Lyon (LYON_R) (OMB)
READ:24-OCT-1994 17:14:02.03

CC: Michael D. Deich (DEICH_M) (OPD)
READ:24-OCT-1994 16:53:33.91

CC: Daniel J. Corbett (CORBETT_D) (OMB)
READ:24-OCT-1994 16:54:05.33

TEXT:
I don't think this is an obvious call, but I know where I would come down upon reflection. Further, I think that this kind of reflection could be good for all concerned.
The object of this process from the beginning was to improve the allocation of infrastructure spending, rather than to increase the amount. Pricing was of the essence. There is some difference of opinion, but Michael seems to believe that the requirement is necessary to get pricing. If the States would do pricing without a requirement, then this concession would be meaningless, and those who are well informed would know that. But if the concession in fact gives something away, then that something is the heart of the initiative. If we are willing to give that much ground even before zero hour, then what does that say about the proposal? Are we acknowledging that this is really an ISTEA expansion in reform's clothing? that no one will buy onto our high ideals, and it is all just a charade?

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

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

CREATION DATE/TIME:31-OCT-1994 12:04:54.76

SUBJECT: just in case

TO: Daniel J. Corbett (CORBETT_D) (OMB)
READ:31-OCT-1994 12:17:23.44

TO: Randolph M. Lyon (LYON_R) (OMB)
READ:31-OCT-1994 12:05:48.27

TEXT:
see attached
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:31-OCT-1994 12:04:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Michael D. Deich

TEXT:

PRINTER FONT 12_POINT_ROMAN
OPTIONS FOR AN FY 1996 INFRASTRUCTURE FINANCING INITIATIVE

During the FY1996 budget process, the Administration will consider whether the budget should include new resources to fund an initiative that would offer a distinctive Clinton Administration approach to infrastructure. Two issues are before the Deputies:

? what option or options should be considered during the budget process?

? does this memorandum adequately reflect the arguments that should be made for and against devoting new resources to an infrastructure initiative?

Section I of this memorandum provides background on the Administration's infrastructure policies to date. Section II describes baseline infrastructure policies for 1995. Section III evaluates the option that the Working Group believes should form the core of any large initiative. Section IV considers four additional policy tools that the Administration might adopt either as a complement to the larger initiative, or as a substitute for it should the Administration wish to pursue a smaller initiative.

I. THE ADMINISTRATION'S INFRASTRUCTURE POLICIES TO DATE
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
A. BUDGET POLICIES. Despite very tight budget caps, the Administration has sought significant spending increases for infrastructure. The Administration's 1995 budget

requested funding for infrastructure totalling $34.0 billion. This represented an 11 percent increase over 1993 spending levels but only a 1 percent increase from the 1994 enacted level.
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?The Administration's budget requests (see TAB A) have especially favored transportation programs: the FY 1995 budget sought an increase of 3 percent over FY 1994 levels and 15 percent over FY 1993 levels. The proposed spending would have supported "full-funding" of both federal-aid highways and formula grants for transit capital spending.
?The Administration's 1995 Budget requests for wastewater treatment and safe drinking facilities were up 7 percent from 1994 levels and up 5 percent from 1993 levels.HORIZONTAL_PITCH 15
PRINTER FONT 9_POINT_ROMAN
As part of NAFTA, the Administration sought $56 million to capitalize the first tranche of the U.S. capital contribution to the North American Development Bank. The NAD Bank will be instrumental in providing $2 to $3 billion in environmental infrastructure for the U.S.-Mexico border region.

PRINTER FONT 12_POINT_ROMAN
The Administration had mixed success with its budget requests. Total 1995 appropriations for infrastructure were $33.2 billion, or almost 9 percent higher than FY 1993 levels. FY1995 appropriations for both wastewater treatment and for safe drinking water were 12 percent higher than in 1993. However, the Administration did not achieve its goal of "full-funding" for ISTEA -- the 1995 highway program level was $1.2 billion less than authorized while transit formula grants were $373 million less than authorized.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
B. PROGRAMMATIC REFORMS. In 1993 and 1994, the Administration pursued a number of programmatic reforms in federal infrastructure programs. Congress enacted none of the changes sought by the Administration. The most important of these efforts included:
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
?Reauthorization of the Safe Drinking Water Act (SDWA) and the Clean Water Act (CWA). The Administration proposals would have created and capitalized a "Drinking Water State Revolving Fund" program and expanded the existing Clean Water State Revolving Fund" program.

?A proposal in the President's 1995 budget to rescind $4.7 billion in "highway demonstration" projects in order to make available enough funds to fully-fund the core highway programs authorized by ISTEA.
?A proposal to restructure the Federal Aviation Administration as a public corporation.
Congress rejected the Administration's proposed reprogramming of highway funds, and did not complete action on the other Administration proposals noted above. A comprehensive list of the Administration's accomplishments related to infrastructure policies can be found at TAB B.

II. BASELINE INFRASTRUCTURE POLICIES FOR 1995

All agencies agree that the Administration should continue to press the general themes established during the last two years. Although the specific legislative strategy would depend on political developments in coming months, in general the Administration would continue to work on behalf of the legislative initiatives noted above. In addition, the Administration would probably propose or support limited programmatic reforms. These include:

?Reissuing Executive Order 12803, which would stimulate private investment in infrastructure by allowing states and localities to sell certain federally-funded public infrastructure facilities and use the proceeds to make additional public infrastructure investments (see TAB C).

?Supporting legislation that would allow States to set up revolving funds using their Federal highway funds;

?Administrative and regulatory actions to improve the Clean Water SRFs.

III. THE CORE PROPOSAL: CAPITALIZE STATE INFRASTRUCTURE BANKS.HORIZONTAL_PITCH 15 PRINTER FONT 9_POINT_ROMAN

A number of proposals have been made to capitalize an off-budget federal infrastructure bank. TAB D discusses why the Working Group opposes the many proposals that have been floated for such a bank. Under this option, the FY1996 Budget would include increased funding to capitalize "State Infrastructure Banks" (SIBs).HORIZONTAL_PITCH 15

All agencies agree that SIBs would be far more efficient than current programs. In principle, SIBs could be funded by reallocating existing infrastructure outlays. This memo assumes, however, that political constraints require SIBs to be funded as a supplement to, not substitute for, existing outlays. Although SIBs could be capitalized at any level, the Working Group believes that funding on the order of $2.5 billion - $5.0 billion over five years would be needed to induce states to form such Banks.

PRINTER FONT 12_POINT_ROMAN

Permissible Use of Funds -- SIBs would be a more flexible version of existing Clean Water State Revolving Funds. SIBs would be allowed to:

? make below-market loans for local public infrastructure investment;

? provide loan guarantees or other credit enhancements for local public infrastructure debt;

? use the federal grants as a reserve against which the SIB would borrow added funds;

? make subordinate loans in local private projects;

? provide development risk insurance for private projects.

? accept funds from state entities;

Leveraging -- The capitalization grants would be leveraged by requiring that the SIB finance infrastructure projects worth a total of four times the amount of the initial federal grants.

Beneficiary Pays -- To reduce local reliance on financing by general taxpayers, some portion of SIB loans would have to be used to construct or repair facilities that were paid for directly by users (dedicated taxes could be used to repay other SIB subsidies). The exact fraction specified in the Administration proposal would be determined after consultation with the Congress.

Pro:

?During the campaign, the President emphasized the role of public investment in economic growth. The Administration has continued to build a public case for the importance of public investment. The 1994 Economic Report of the President, for example, described at some length why "the Administration believes the United States has underinvested in its public infrastructure." Capitalizing SIBs would underscore the importance that this Administration attaches to public investment, and would advance an important part of the President's economic agenda.

?SIB funding would be dramatically more efficient than current federal infrastructure programs. SIBs would "reinvent" federal programs in five principal areas:

(1) SIBs would leverage federal funds far more than do current programs. In most existing infrastructure programs, each dollar in federal spending is associated with $1.25 in total

infrastructure investment. SIBs, in contrast, would be required to leverage federal funds by four-to-one.

(2) Shallow subsidies would provide incentives to fund only the most productive investments. Current federal transportation programs cover an average of 80 percent of project costs. Because of the leveraging requirement, however, SIB loans and credit enhancements would provide subsidies that, on average, were economically equivalent to about 25 percent of project costs. (The SIB would tailor each loan or other subsidy to fit local conditions. SIBs could provide subsidies that were economically equivalent to direct grants ranging from zero up to a maximum of 50 percent of project costs.) The shallow subsidy provided by the SIB would provide states and localities with incentives to be more selective in the projects that they choose to build.

(3) SIBs would give states greater flexibility in the use of federal funds. Compared to current programs, SIBs could better tailor solutions to fit local problems. SIBs would have more discretion over the type of infrastructure to be built, and the depth of the subsidy needed to build it. Greater flexibility would lead to more efficient solutions to local problems.

(4) SIBs would increase the amount of private investment in infrastructure. The vast majority of infrastructure investment is now undertaken by the public sector. SIBs would be allowed to join with private sector firms that wished to investment in infrastructure. The greater private sector investment in infrastructure would result in competition for public providers; greater competition would bring a more rapid adaptation to changes in demand and technology, and would free public resources for other needed infrastructure projects.

(5) SIBs would reduce the need for general taxpayers to fund infrastructure investments. At present, much infrastructure is paid for by taxpayers generally rather than those who use the infrastructure. The shallow subsidy rate provided by SIBs, together with the explicit requirement that beneficiaries pay, would work to channel SIB subsidies to projects that were more likely to be self-supporting. Increased payments by beneficiaries would provide new revenues for further investment and better signals about where and how much new investment was needed.

?This initiative would provide new funding that could be used to support other Administration policies, such as efforts to address problems in urban areas.

Con

?Some believe that the requirements for leveraging and pricing would sharply limit the political appeal of this initiative.
?Undertaking this initiative would divert budgetary resources and political capital from other Administration priorities, such as health care reform or welfare reform.
?The Administration already has sought a limited "reinvention" of federal infrastructure programs through the programmatic reforms undertaken to date. More extensive reinvention efforts could be pursued in the context of routine reauthorizations.

?Although infrastructure spending has fallen short of what the Administration had hoped to achieve, it nonetheless has remained high relative to other priorities -- funding has been preserved and slightly increased at a time of severe budget constraints. Section I showed how the budgetary and programmatic efforts of this Administration have advanced the agenda of those who would invest more -- and more efficiently -- in America's infrastructure. Given the Administration's infrastructure achievements to date, and the severity of existing budget constraints, the limited available resources might be better spent on other Administration priorities.
?Congress might not enact any of the programmatic reforms embodied in this option, but instead use proposed funding simply to increase spending on existing programs. Yet achieving programmatic reform would be one of the most important justifications for undertaking this initiative. Some agencies do not believe that an adequate case has been made for increasing spending on existing infrastructure programs.
?The options considered in this memo would tend to focus spending on projects that can be justified on economic merit alone, and might give less weight to some of the distributional concerns that are reflected in current programs. Specific provisions might need to be added to the SIB proposal in order to address federal concerns about the distribution of SIB subsidies. For example, special provisions might be needed to insure that the subsidies addressed the infrastructure needs of economically troubled areas.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
A UNRESOLVED DESIGN ISSUES. A number of issues remain open: project eligibility criteria; whether the SIBs should provide special treatment for "federal priorities," and whether the program should be mandatory or discretionary.
HORIZONTAL_PITCH 11

PRINTER FONT 12_POINT_ROMAN
1. Project Eligibility -

-

all infrastructure or transportation only. A broad-based initiative would cover all transportation and water-supply facilities now eligible for federal aid. Such a program would address concerns about underinvestment in "public infrastructure" generally, and has the potential to generate the widest support among infrastructure advocates.

On the other hand, a broad-based initiative would run the greatest risk of being attacked as being unnecessary in a time of fiscal constraint. Moreover, unless the SIBs receive substantial resources, environmental advocates may want to focus all available resources on existing Clean Water SRFs, rather than have water projects compete for the same pot of money as transportation projects. Nor would limiting the SIBs to transportation projects necessarily sacrifice the support of environmentalists, for the conditions under which SIB subsidies would be made available are exactly those that environmentalists have championed for some time: relatively low matching rates, greater reliance on beneficiary pays, and increased private sector investment in infrastructure.

2. "Federal Priorities" Window -- SIBs would not be well-suited to address specific federal priorities. If desired, special provisions could be added to achieve various federal priorities. SIBs could be required to allocate a specified portion of subsidies: for projects in designated urban areas; for qualifying congestion relief projects; for projects addressing regional or interstate problems; and/or to make below-market loans to private entities that need to clean

up "brownfields." Adding such provisions would increase the likelihood that the SIBs furthered specific federal goals, but would reduce state flexibility and its attendant benefits.

3. Mandatory or Discretionary. Legislation establishing the SIBs could determine that federal capitalization grants were mandatory spending, discretionary spending, or both:

? A mandatory program could be paid for on a PAYGO basis. In addition, a mandatory program would provide more predictable funding streams, allowing better planning and more efficient resource use at the local level. Congressional oversight would be maintained through routine oversight hearings and the reauthorization process.

? A mandatory program might provide somewhat less Congressional oversight and afford Congress somewhat less control over federal revenues. In addition, designating such a program as "mandatory" would run the risk of opponents charging the Administration with trying to avoid the intent of the Budget Enforcement Act (opponents might charge that the Administration was using artifical categorization in order to use PAYGO offsets to fund spending that otherwise would be capped.)

IV. OTHER OPTIONS. None of the options below could provide an initiative of the scope and magnitude of SIB grants. At the same time, the options that follow might be attractive either as complements to a larger SIB initiative, or as a substitute for it should the Administration wish to pursue a smaller initiative.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
A. CREATE A "TAXABLE INFRASTRUCTURE BOND". SIBs, or perhaps state and local governments generally, would receive a direct federal subsidy for a portion of the interest that they pay on taxable bonds issued to support specific classes of infrastructure projects. Taxable bonds would be attractive to SIBs if (1) the interest subsidy lowered borrowing costs below what they could achieve through tax-exempt borrowing, or (2) it were made available for projects that cannot now get tax-exempt financing, e.g.,

privately-owned roads and intermodal facilities.
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
The taxable bond interest subsidy would be a mandatory appropriation in order to allay issuer concerns that the subsidy might not continue for the life of the bond. The total subsidy paid out each year would be capped by limiting the amount of debt eligible for subsidy each year. The market for taxable bonds would encompass both those investors that currently invest in tax-exempt debt and those that do not now purchase tax-exempt bonds (e.g., pension funds and foreign investors). Bond volume would be allocated to states either on a per capita basis (a la the existing cap on tax-exempt, private activity bonds) or would be auctioned off by some federal entity.
Pro
?Would give SIBs another tool to subsidize state and local infrastructure investment. This option would have none of the economic inefficiencies associated with tax-exempt financing.
?Pension fund managers may support this option, for it would allow them to earn taxable returns on investment in public sector infrastructure.

Con
?All of the objections raised against Option 1 apply equally to this option.
?State and local officials and the tax-exempt bond industry would be likely to oppose the proposal strongly as a threat to the existing Federal subsidy for tax-

exempt debt. Fierce opposition greeted a similar proposal by the Carter Administration. Some of the opposition to this instrument might be blunted by providing direct interest subsidies only for bonds issued by SIBs or only for projects that cannot now receive tax-exempt financing.
?Would divert resources from the basic option.
Other
?Much of the budgetary cost of taxable bond subsidies would take place outside the budget window. Unlike grants, which are scored as an up-front appropriation, the interest subsidy on a taxable bond would only require an appropriation each year equal to the amount of subsidy paid in that year.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
B. CREATE A "TAX-

CREDIT INFRASTRUCTURE BOND". This option would be similar to the taxable bond option in all but its budgetary effects. Under this option, SIBs would issue taxable bonds to support specific infrastructure projects. The holders of these bonds would receive a subsidy from the Federal government in the form of a non-refundable income tax credit (the value of the credit would be included in gross income). The total Federal subsidy would be capped by limiting the total amount of tax credit bonds that may be issued by a State.
HORIZONTAL_PITCH 11
PRINTER FONT 12_POINT_ROMAN
Pros/Cons/Other -- same as taxable bond subsidies except that:

?Budget considerations -- unlike taxable bond subsidies, tax-credits would appear in the budget as a tax reduction rather than as direct spending.
?Political considerations -- Unlike taxable bonds, tax-credit bonds would not enjoy the support of pension funds (who would be unable to invest profitably in tax-credit bonds). On the other hand, tax-credit bonds would not carry the albatross of the words "taxable bond." Some agencies believe, however, that all those who oppose taxable bonds would equally oppose the substantively similar tax-credit bonds.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
C. EXPAND TAX-

EXEMPT BOND SUBSIDIES. State and local governments currently are able to finance public infrastructure projects with bonds that pay interest that
is exempt from Federal income tax. Most infrastructure projects with significant private involvement, however, either cannot be financed with tax-exempt bonds or else can be so financed only if a portion of the relatively scarce State private activity bond volume cap is allocated to the project. Under this option, the Administration would seek to:
HORIZONTAL_PITCH 11

PRINTER FONT 12_POINT_ROMAN
? provide a partial exemption from the state private-activity volume cap for certain infrastructure facilities;
? allow highways and intermodal facilities to be financed with private activity bonds.

Pro
?Tax-exempt bonds provide only a shallow subsidy. The value of tax-exempt financing varies with interest rate levels, individual and corporate income tax rates, and other factors affecting the tax-exempt market. At present, tax-exempt financing provides a subsidy that is economically equivalent to a direct grant for roughly 15-20 percent of a project's costs.
?Because these subsidies generally would benefit private investments, they would lead to facilities paid for by the beneficiaries rather than general taxpayers.
?Easing constraints on tax-exempt debt at the same time that a taxable bond option is proposed might reduce fears that the taxable bond was intended to undermine support for tax-exempt financing.
Con
?All of the objections raised against Option 1 apply equally to this option.
?Most economists believe that tax-exempt financing is inefficient, for the benefits of lower interest rates to issuers are smaller than the Federal revenue foregone through the grant of tax-exemption. A rough estimate suggests that state and local borrowing costs are reduced by about $90 dollars for every $100 in revenue that the federal government loses due to tax-exemption for municipal bonds.
?Would take money from the basic option.
Other
?The tax subsidies would be scored as revenue losses, rather than direct outlays. Unlike direct subsidies, which require an up-front

appropriation of the present value of the subsidy being offered, tax-exempt bond subsidies would require budget resources equal to the annual loss from the increased use of tax-exempt debt during the budget window.
HORIZONTAL_PITCH 14
PRINTER FONT 10_POINT_ROMAN
D. PROVIDE TAX SUBSIDIES FOR PRIVATE ENVIRONMENTAL FACILITIES. The Administration would seek two tax subsidies for private sector investors in wastewater treatment and drinking water facilities:
HORIZONTAL_PITCH 11

PRINTER FONT 12_POINT_ROMAN
? accelerated depreciation (the depreciable life of this property would be reduced from the current levels of 15 or 20 years to a shorter period, e.g., 7 or 10 years).
? contributions in aid of construction (CIAC) -- CIACs are contributions of capital assets or the cash equivalent made to investor-owned water utilities by new customers to reimburse the utility for the cost of improvements needed to serve the customer (e.g., the land developer). Current law includes the value of CIACs in a regulated utility's gross income subject to federal income tax. This option would allow utilities to exclude from gross income the value of CIACs if such contributions were also excluded from the utility's rate base.

Pro
?These changes would provide relatively shallow subsidies. The accelerated depreciation, for example, would provide a subsidy that was economically equivalent to a direct grant for something less than 5 percent of the amount of project costs. CIAC would provide a subsidy roughly on the order of 30 percent of capital costs.
?The CIAC change would provide incentives to consolidate small, public systems into larger, private systems. Larger systems may be more likely to comply with EPA regulations.
Con
?These proposals would effectively reinstate provisions of the Tax Code that were repealed in the 1982 Tax Act and the Tax Reform Act of 1986. In 1982, Congress repealed accelerated depreciation for these facilities, arguing that depreciable lives for income tax purposes should be at least somewhat tied to economically useful lives. Similarly, Congress decided in the Tax Reform Act of 1986 that CIACs should be treated for income tax purposes as compensation for a service provided. Supporting a reversal of the 1982 and 1986 decisions would make it more difficult to oppose other exceptions to what the Administration believes is good general tax policy.
?All of the objections raised against Option 1 apply equally to this option.
?Would take money from the basic option.
Other
?The budgetary cost of accelerated depreciation would be equal the annual difference between depreciation deductions under current rules and those under the proposed rules multiplied by the investors' marginal tax rates.
================= END ATTACHMENT 1 =================

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

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

CREATION DATE/TIME:15-NOV-1994 09:38:24.18

SUBJECT: Potential Budget/Policy Initiative

TO: Wesley P. Warren (WARREN_W) (OPD)
READ:17-NOV-1994 21:37:30.43

TEXT:
Chris Edley asked that I pass on the attached paper to you for your comments. We are considering the attached as a 1996 budget/policy initiative.
The paper describes the development of an Air Quality (AQ) incentive grant program within the current Congestion Mitigation and Air Quality (CMAQ) program. CMAQ is one of several programs that are part of the larger Federal-aid highway program in DOT.
We have not shared the attached with either DOT or EPA.
Since we may want to include something like this in our passback, we would like to get comments as soon as possible.
Dan
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:14-NOV-1994 22:59:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Daniel J. Corbett

TEXT:
PRINTER FONT 12_POINT_ROMAN
Potential Program Reform/Initiative

Program: Congestion Management and Air Quality (CMAQ) Program, Department of Transportation, Federal Highway Administration.
Proposal -

-

Air Quality (AQ) Incentive Grant
A demonstration project funded by CMAQ to test the potential of an incentive grant approach to CMAQ. Under this approach, a fraction of CMAQ funds would be set aside and then granted to States on a project-by-project basis according to the expected emissions benefits of the project.
$150 - $250 million would be set-aside from the normal allocation process given to the States. DOT, working with EPA, would develop a "pollution bounty" it is willing to pay for each ton of emissions avoided through a federal-aid project. The values would be based on the cost to control such pollution though regulation, or the projected benefit of avoiding it. Cost of control would put the amounts at about $2,000 - $10,000 per ton of criteria emission reduced.
The justification for moving in this direction is that an AQ incentive grant program would improve the knowledge about transportation control measures and help to ensure that the

CMAQ program gets the most emission reductions for the Federal dollars invested. It offers a better opportunity to test the value of TCM's as a way to improve air quality.
If few claimants emerge for AQ Incentive Grants, we may conclude that the practical potential for TCM's is low. If, on the other hand, many takers come forward, we may say that TCM's have some promise.
Furthermore, this approach encourages innovation and the values can be flexibly adjusted based on the science of air quality benefits and emission reduction strategies.
Background
The CMAQ program is a new program established in 1992 in the Intermodal Surface Transportation Efficiency Act (ISTEA).
The CMAQ program is supposed to help areas reach attainment under the Clean Air Act, meaning that the transportation projects funded by the program should reduce emissions of pollutants.
ISTEA authorized $1 billion in contract authority for CMAQ. This contract authority is distributed to the States based on a formula that is focused on Clean Air Act non-attainment areas in the State. Areas without a non-attainment area receive a minimum apportionment.

In the Federal-aid highway program, of which CMAQ is a part, States control project selection subject to eligibility rules. States use the available "obligation limitation" provided in the annual DOT Appropriations Act against the contract authority that has been apportioned in that year or from balances from previous years. Therefore, it is possible that States could use all or none of the contract authority for a particular program, like CMAQ, in any given year.
Since the CMAQ program is new, States were initially reluctant to obligate CMAQ funds. However, the obligations have increased from $340 million in 1992 to $815 million in 1994.
Performance accomplishments/assessment
? Projects funded by the program are roughly 50% transit projects, 33% traffic flow improvements, 5% Ride sharing, 3% Bike/Pedestrian, and the remaining 8% split between "other" (e.g., including vehicle inspection and maintenance program) and States without attainment areas who do not have to use the funding for emissions reducing projects.
? DOT, along with EPA, is in the midst of a review of the CMAQ program. Although the review is not complete, the program does not appear to be working well from the perspective of achieving significant and/or cost-effective emissions reductions.
- Not all projects submit analysis demonstrating the emissions benefits of projects (e.g., tons per year). Even for the projects that did complete analysis, most projects show reductions of less than 0.2 tons per day.

- The program does not require cost-effectiveness as a criterion, and decisions are not being made on this basis.
- The cost-effectiveness appears to be very low. [The major exception to this appears to be vehicle inspection and maintenance programs which are thought to be a cost-effective method for reducing emissions.]
? The poor success of the program may not be entirely the result of growing pains for a new program. There is growing skepticism that conventional transportation control measures (TCM's) can ever be a cost

-effective strategy to deal with emissions. For example, some studies have shown costs of $50,000 - $100,000 per ton for control of Hydrocarbon emissions compared to EPA estimates of cost-effectiveness of about $2,000 - $10,000 per ton.
? This analysis goes against conventional wisdom about what should be done to reduce vehicle pollutants. It should also be noted that over the past decade, significant

highway vehicle emissions reductions have been achieved for CO, VOCs and

NOx despite a 37% increase in vehicle miles travelled. This trend of reduced automobile emissions in these categories is expected to continue until the year 2000, when there is concern that continually increasing VMT could start to overtake the reduced emissions from the turnover of the fleet to newer vehicles, with better emissions control systems.

? It is also disheartening that no CMAQ-funded transportation measure of any significance has appeared in State Implementation Plans submitted to EPA.

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

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

CREATOR: Margaret R. Shaw (SHAW_M) (OMB)

CREATION DATE/TIME:22-NOV-1994 17:42:06.21

SUBJECT: demo scoring FYI

TO: Michael D. Deich (DEICH_M) (OPD)
READ:22-NOV-1994 17:42:18.47

TEXT:

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:22-NOV-1994 12:59:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Christopher F. Edley, Jr

ATT SUBJECT: HWY Demo scoring

ATT TO: Kenneth L. Schwartz (SCHWARTZ_K)

ATT TO: Richard P. Emery Jr. (EMERY_R)

ATT CC: Daniel J. Corbett (CORBETT_D)

ATT CC: Alan B. Rhinesmith (RHINESMITH_A)

ATT CC: Margaret R. Shaw (SHAW_M)

TEXT:
1. Disco Dan reports no "decision" yet on scoring of demos. What does it take to get a decision? (Inquiring minds want to know.)
2. Can we reclassify prospectively, so as to avoid a downward cap adjustment for reclassification of the demos in the base?
================= END ATTACHMENT 1 =================

=================== ATTACHMENT 2 ===================
ATT CREATION TIME/DATE:22-NOV-1994 09:50:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Daniel J. Corbett

ATT SUBJECT: RE: Interesting statements from House Public Works

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

ATT CC: Alan B. Rhinesmith (RHINESMITH_A)

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)

ATT CC: Margaret R. Shaw (SHAW_M)

ATT CC: Richard P. Emery Jr. (EMERY_R)

TEXT:
You raise an important question.....

We have not made a decision about whether we will redefine all the demo projects as mandatory and make a discretionary cap adjustment.
If we did, we could still propose the separate obligation limitation on demos and get credit for it under the discretionary caps.
So far, it is clear that we want to score any new exempt demos as mandatory. What is not clear is what we will do about the base and how we would treat any recessions of the "old" demos.
The issue of rescission is particularly problematic. Since, we did not score the "old" demos with outlays when they were created, it is hard to argue that they should be scored with outlays savings when they are rescinded.
The NHS bill that passed the House included funding for new demo projects, and "paid" for them with rescissions of other contract authority like Maglev and Congestion Pricing Pilot Contract Authority that wasn't going to spend anyway. Therefore, the bill was not deficit neutral as claimed, although it was BA neutral.
I would recommend that we take the "hard" line and not score any savings from the rescissions, but score PAYGO outlays for any new "exempt" authority regardless of whether it is offset by a rescission. This position does not offer the committee any incentives for rescinding, but who cares, since HPW only wants to rescind if it can replace it with new projects.
In summary, the "old" money would be subject to the old rules and the new money to the new rules.
My "hard" line would mean that HPW would not be able to regenerate failed projects (i.e., projects that are not going forward because of environmental or other problems) into funding for new projects.
This means that HPW would likely be able to spend something less than the $6.2 billion authorized by ISTEA. How much less would depend on how many projects fail to go forward?
A compromise position would let them regenerate up to the $6.2 billion authorized by ISTEA, but no more.
I recommend we start with the "hard line" and compromise to allow regeneration if need be.
Redefining the base to be mandatory would be similar to the "regenerate" position above, because it allows use of the full $6.2 billion by HPW. It might also be simpler to explain, but harder to achieve, because it involves a cap adjustment rather than a scoring change. It is easier to explain because the scoring rule is simply -- spending subject to explicit appropriations control is discretionary, otherwise it is mandatory.

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

=================== ATTACHMENT 3 ===================
ATT CREATION TIME/DATE:22-NOV-1994 08:23:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Christopher F. Edley, Jr

ATT SUBJECT: RE: Interesting statements from House Public Works

ATT TO: Daniel J. Corbett (CORBETT_D)

ATT CC: Alan B. Rhinesmith (RHINESMITH_A)

ATT CC: Kenneth L. Schwartz (SCHWARTZ_K)

ATT CC: Margaret R. Shaw (SHAW_M)

TEXT:
How will our scoring change for demos be affected by the argument
that new demos are funded by rescissions? That is, will the
scoring change retroactively make old demos PAYGO?
If it does, then the 50% ob limit we propose is, uh, awkward.
================= END ATTACHMENT 3 =================

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

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

CREATION DATE/TIME: 7-DEC-1994 12:03:29.91

SUBJECT: per your request

TO: Michael D. Deich (DEICH_M) (OPD)
READ: 7-DEC-1994 12:04:49.67

TEXT:
The savings relative to passback for the transit option we just discussed are as follows:

(dollars in millions)

	1996	1997	1998	1999	2000	5-Yr. Total
Disc. BA	-2160	-1295	-1295	-1146	-1095	-6991
Disc. OL	-63	-309	-712	-1097	-1340	-3521

The attached e-mail message describes the option.

Regarding your other idea of reauthorizing ISTEA to create a consolidated Surface Transportation Trust Fund:
The general fund savings from terminating FTA completely beginning in 1996 would be as follows (again, savings are relative to Passback:

(dollars in millions)

	1996	1997	1998	1999	2000	5-yr. Total
Disc. BA	-2155	-1295	-1295	-1146	-1095	-6987
Disc. OL	-474	-818	-1123	-1209	-1322	-4945

The trust fund savings (relative to Passback) from terminating FTA completely beginning in 1996 would be as follows:

(dollars in millions)

	1996	1997	1998	1999	2000	5-yr. total
Mand. BA	-2786	-3645	-3645	-3645	-3645	-17366
Disc. OL	-89	-662	-1523	-2280	-2958	-7513

If you used these trust fund savings (along with some highway savings) to create a new, consolidated Surface Transportation Trust Fund (STTF), I think we would just have to think about what types of things the new STTF would fund, figure out a spend-out rate, and make sure that the resulting outlay stream from the new STFF does not exceed the highway and transit Trust Fund outlay stream in Passback.

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 6-DEC-1994 11:21:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Sharon A. Barkeloo

ATT SUBJECT: Less drastic option for transit - for your review

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

ATT TO: Kenneth L. Schwartz (SCHWARTZ_K)

ATT CC: Margaret R. Shaw (SHAW_M)

ATT CC: Alan B. Rhinesmith (RHINESMITH_A)

TEXT:
We have priced out another, less drastic, option for transit -- but have not yet put it into MAX. (The option currently in MAX is to phase out all transit programs over 4 years.)
Here's our new idea:
1) set the total FTA program level at $3.3B annually. This is about the amount of gas taxes we take in to the Mass Transit Account of the Highway Trust Fund, plus interest earned, each year.
2) focus the $3.3B on Formula Capital Grants. This means zero out Discretionary Grants (and all that nasty pork). The argument here is that major capital investments (e.g., new starts) would be funded through a combination of transit formula grants, SIBs and/or the bond market.
Rather than go cold turkey on transit operating subsidies, I phased them out over 3 years and redirected the savings to formula capital grants.
The 5-year savings from this $3.3B transit program level option are $7B in BA and $3.5B in outlays.
If we kept transit at this $3.3B program level, rather than phasing out all transit programs over 4 years, our 5-year savings in MAX for the option titled "Narrow Federal Role in Transportation but add SIBS" would be $8.2 billion in BA and $5.7 billion in outlays. This compares to 5-year savings of $6.9B in BA and $8.8B in outlays currently in MAX.
Please let us know if you prefer this new option.
================= END ATTACHMENT 1 =================

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

CREATOR: Elgie Holstein (HOLSTEIN_E) (OPD)

CREATION DATE/TIME:18-JAN-1995 14:41:16.99

SUBJECT: NGA Economic & Community Development Resolution

TO: David J. Lane (LANE_D) (OPD)
READ:18-JAN-1995 16:59:24.39

TEXT:
PRINTER FONT 12_POINT_COURIER
January 18, 1995

MEMORANDUM TO DAVID LANE
FROM: ELGIE HOLSTEIN
RE: NGA Policy Resolutions

The policy resolutions of the state and local government organizations are usually a mix of specifics and generalities, so that they can respond to a wide range of proposals advanced by Congress and the Administration. Accordingly, it can sometimes be difficult to assess precisely how draft policies fit with Administration positions. Following are our comments about some potentially troublesome portions of the draft amendments to the NGA's Economic and Community Development resolution (EDC-18).
18.2-A
Full funding of ISTEA is highly unlikely. It has not been fully funded to date, and, given current budget realities, it is unlikely that the Administration will support full funding.
18.2-C
"Changes in federal law to increase flexibility in the use of tax-exempt financing" in infrastructure is likely to mean higher costs to the Treasury. Accordingly, the Administration would be opposed. Specifically, the Administration would oppose increasing state IDB volume caps.
18.2-F
I assume the Administration will support an extension of the R&D tax credit, but I don't know if we will be supporting a permanent extension. I've asked for Tom K's input.
18.2-G
The recommendations for consolidation of federal grant and loan programs, including federal job training programs, refer to consistency with NGA policy, and to the "Governors Principles to Ensure Workforce Excellence." The details of those other policies and principles are not provided. In general, however, the Administration is planning to propose consolidations that involve both less funding to the states and less reliance on them for administration of education and training programs, e.g. vouchers to individuals and large block grants to local governments.
[Peter Yu should look at the farm bill/rural development section

-- first bullet of "G"]

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

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

CREATION DATE/TIME:30-JAN-1995 13:30:22.15

SUBJECT: reinvent

TO: David E. Tornquist (TORNQUIST_D) (OMB)
READ:30-JAN-1995 14:04:04.98

TEXT:
let me know if this is helpful. i'll call for update wehn i return from mtg.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:30-JAN-1995 13:29:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Michael D. Deich

TEXT:

PRINTER FONT 12_POINT_ROMAN
MEMORANDUM FOR THE CHIEF OF STAFF
FROM: Alice M. Rivlin
Bowman Cutter
SUBJECT: Department of Transportation (DOT) Reinvention Legislative Strategy -DECISION REQUIRED

Secretary Pe?a must decide in the next day or so how to roll out the Administration's proposals for restructuring DOT. The nature of that rollout will depend to a large extent on the priority that the Administration wishes to assign the reinvention. This memo asks your guidance on the level of priority you think should be accorded the DOT restructuring, and the extent of Presidential/White House involvement that DOT should expect for their proposal.

Reinvention Proposal

The reinvention proposal includes two parts: restructuring grant programs and reorganizing the Department.

Restructuring Grants. The Administration proposal would shift the focus of federal grants from individual modes (highways, air, etc.) to transportation generally, and would give states and localities the greater flexibility that they need to pursue solutions that best meet local needs. Separate programs for highway, transit, intercity passenger rail, intercity bus, and airport capital programs would be consolidated into three broad programs: unified transportation block grants, State Infrastructure Banks (SIBs) and discretionary grants (see Attachment A for a description).

The consolidated program would be financed with existing highway fuel taxes and aviation ticket taxes. These taxes would not be raised. Although states could use the consolidated grants to finance both aviation and surface transportation programs, separate trust fund accounts at the national level would ensure that -- for the nation as a whole --revenues from aviation taxes would be used only for aviation related spending, and highway fuel taxes would be used only for surface transportation spending.

Reorganizing the Department. Two plans are under consideration -- one mode-based, the other mission-based. Both plans would leave the Coast Guard intact and both would transfer to a government corporation the air traffic control functions now performed by the FAA. The Secretary appears to favor a mode-based approach, with separate administrations for air transportation, surface transportation, and maritime affairs. Under a mission-based plan, the Department would be organized into separate administrations for

infrastructure investment, for safety, and for the Coast Guard.

The reinvention proposal would save $1.7 billion in budgetary resources ($671 million in outlays) in 1996 and $X.Y billion in budget resources ($6.4 billion in outlays) over five years. The Department plans to have the reinvention specifications completed by February 6. The actual legislation will be completed by early March. The Air Traffic Service Corporation legislation will be finished earlier, likely before a February 14 hearing on the subject.

Congressional and Interest Group Reaction

After numerous outreach sessions, the Administration has found no allies for its proposals. In general, groups oppose restructuring grant programs (at least at this time) and are largely indifferent to restructuring the Department's bureacracy.

The proposal for grant restructuring has led members of Congress, State and local interests, and groups representing different transportation modes all to rally around the status quo. Whatever their objections to current law, groups regard the status quo as the devil they know. ISTEA, in particular, is seen as a delicate balancing of interests -- among States, between states and localities, between highway and transit interests -- that was achieved only after lengthy debate and close votes in Congress. Barring some crisis or action-forcing event, no group wishes to reopen any allocation-related issues in advance of ISTEA's scheduled expiration at the end of FY97. At present, however, most transportation groups believe that the budget cuts required for FY '96 will be relatively manageable, and will be distributed proportionately across interest groups. While none would be happy with this outcome, they all enjoy the predictability and familiarity of current law.

In contrast to current law, the Administration's reinvention proposal is rife with uncertainty. The greater flexibility that would be given to grant recipients, for example, creates uncertainty about how resources would be divided amongst the different types of transportation. In addition, the consolidated grants would change both the locus of decisionmaking -- states, cities, Metropolitan Planning Organizations, and local airport authorities all would see changes in their authority over the use of federal funds -- and the amount of transportation funds that each entity receives from the federal government. The Administration is unlikely to find much support for its proposals until it can spell out in rather exacting detail who would win, and by how much, under the new programs.

The key Transportation Committees are preoccupied with their own agendas, which include: Clean Water, the National Highway System (NHS) designation, Pipeline Safety Authorization, wetlands legislation, and Amtrak authorization. Chairman Shuster's top priority is taking the Aviation and Highway Trust Funds off-budget. The air traffic control corporation proposal currently is being driven by the Budget Committee. Finally, there is no legislation which forces consideration of the reinvention proposal. Therefore, it will need to be forced upon the Committees' agendas.

Options

The Administration can either (1) ratchet up the commitment and effort behind the proposal, under the assumption that the overall reinvention principle is important (Class A), or (2) ratchet down the effort under the assumption that enacting the proposal next year, rather than this year, is acceptable (Class B).

Under the Class A option, the proposal would be highlighted in Presidential speeches and remarks. DOT would prepared detailed legislation and negotiate to have it included in the must-pass NHS designation bill. A Secretarial veto threat would be issued if need be. However, if the NHS bill is not passed by the end of this fiscal year, States will lose up to $6 billion in highway funds.

Under the Class B option, a broader legislative package would be released, but the Secretary would not engage in detailed negotiations in search of political support this year. The Administration would use the next six to nine months to lay out its future direction for transportation. This would be the foundation for seeking enactment next year.

Discussion

The Class A option, if successful, permits the Administration to take credit for a major departmental reorganization and a change to "business as usual". However, it could potentially alienate many interest groups and Members of Congress in the process.

The Class B option would permit the Administration concentrate on, and take credit for, several legislative items this year, including the NHS designation, Amtrak reauthorization, and air traffic services bill. As budget realities become better understood, the block grant proposal will generate more support. Also, budget exigencies are likely to force an early ISTEA reauthorization. This could result in both greater support for the proposal and a legislative vehicle for its enactment.

Recommendation

_____ Make DOT reinvention a Class A priority. Develop a legislative strategy based on Presidential involvement and possible veto threat.

_____ Make DOT reinvention a Class B priority. Publicly release a proposal, and lay the ground work for Congressional consideration next year.

_____ Other.

Attachment A

Department of Transportation Reinvention Proposal

Restructuring infrastructure grants

Over 30 separate, categorical programs will be consolidated into three broader, flexible programs. The three new programs are:

? A unified transportation block grant, funded at $10 billion, would be available to fund highway, transit, passenger rail and airport capital projects. Funds would be allocated by formula to States, with a set-aside for urbanized areas. The Governor is the recipient of all funds, but the Metropolitan Planning Organizations (MPOs) are strengthened.

? State Infrastructure Banks, capitalized with $2 billion, would permit jurisdictions to leverage public and private resources for investment in any type of infrastructure. SIBs would also encourage more business-like investment strategies, such as user fee financing.

? Discretionary grants, funded at $1 billion, would be available to finance projects or regional or national interest that are not addressed through other mechanisms.

Additional funds will be requested separately to complete existing multi-year funding commitments for specific airport and transit projects (approximately $1 billion in 1996). Another $8 billion per year will be dedicated to rehabilitation and repair of the 155,000 mile National Highway System through a continuing separate program.

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

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

CREATOR: David E. Tornquist (TORNQUIST_D) (OMB)

CREATION DATE/TIME:30-JAN-1995 11:14:00.49

SUBJECT: Latest Version of Rivlin/Cutter Memo

TO: Michael D. Deich (DEICH_M) (OPD)
READ:30-JAN-1995 11:27:29.10

TEXT:

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:30-JAN-1995 11:13:00.00

ATT BODYPART TYPE:p

ATT CREATOR: David E. Tornquist

TEXT:

PRINTER FONT 12_POINT_COURIER
MEMORANDUM FOR THE CHIEF OF STAFF
FROM: Alice M. Rivlin
Bowman Cutter
SUBJECT: Department of Transportation (DOT) Reinvention Legislative Strategy - DECISION REQUIRED

This memorandum requests your decision regarding the level of effort that should expend on the DOT reinvention proposal.

Reinvention Proposal

The reinvention proposal includes two parts: restructuring infrastructure grant programs and reorganizing the Department.

Restructuring Infrastructure Grants. Separate highway, transit, passenger rail, intercity bus, and airport capital programs would be consolidated into three broad programs. These are a unified transportation block grant, State Infrastructure Banks (SIBs) and discretionary grants (see Attachment A for a description). Consolidation will increase flexibility and emphasize local decisionmaking.

Financing remains through existing highway fuel taxes and aviation ticket taxes. These taxes would not be raised. While highway and aviation taxes would be kept separate, eligibility for both would be expanded. The Governor would be the recipient of all funds, but the Metropolitan Planning Organization (MPO) function is strengthened. Set-asides would ensure that localities receive their "fair share".

Reorganizing the Department. Two plans are under consideration, one mission-based and one modally-based. Both leave the Coast Guard intact and assume air traffic control functions performed by the FAA will be corporatized. The mission-based plan organizes the remaining into a safety and an infrastructure and investment administration. The modally-based plan organizes them into an air and a surface administration.

The reinvention proposal saves $1.7 billion in budgetary resources in 1996 ($671 million in outlays) and $6.4 billion over 5 years. The Department plans to have the reinvention legislative specifications completed by February 6. The actual legislation will be completed by early March. The Air Traffic Service Corporation legislation will be finished earlier, likely before a February 14 hearing on the subject.

Congressional and Interest Group Reaction

After numerous outreach sessions, no outright supporters for the reinvention proposal have emerged. Reactions range from its a good idea, but now is not the time to pursue it, to vehement opposition.

Key issues raised are: broadening the range of projects eligible for funding from the Trust Funds, potential loss of identity for some modes, State involvement in what previously were local decisions (e.g., transit and capital), and protection of rural interests within States.

The key Transportation Committees are preoccupied with their own agendas, which include: Clean Water, the National Highway System (NHS) designation, Pipeline Safety Authorization, wetlands legislation, and Amtrak authorization. Chairman Shuster's top priority is taking the Aviation and Highway Trust Funds off-budget. The air traffic control corporation proposal currently is being driven by the Budget Committee. Finally, there is no legislation which forces consideration of the reinvention proposal. Therefore, it will need to be forced upon the Committees' agendas.

Options

The Administration can either (1) ratchet up the commitment and effort behind the proposal, under the assumption that the overall reinvention principle is important (Class A), or (2) ratchet down the effort under the assumption that enacting the proposal next year, rather than this year, is acceptable (Class B).

Under the Class A option, the proposal would be highlighted in Presidential speeches and remarks. DOT would prepared detailed legislation and negotiate to have it included in the must-pass NHS designation bill. A Secretarial veto threat would be issued if need be. However, if the NHS bill is not passed by the end of this fiscal year, States will lose up to $6 billion in highway funds.

Under the Class B option, a broader legislative package would be released, but the Secretary would not engage in detailed negotiations in search of political support this year. The Administration would use the next six to nine months to lay out its future direction for transportation. This would be the foundation for seeking enactment next year.

Discussion

The Class A option, if successful, permits the

Administration to take credit for a major departmental reorganization and a change to "business as usual". However, it could potentially alienate many interest groups and Members of

Congress in the process.

The Class B option would permit the Administration concentrate on, and take credit for, several legislative items this year, including the NHS designation, Amtrak reauthorization, and air traffic services bill. As budget realities become better understood, the block grant proposal will generate more support. Also, budget exigencies are likely to force an early ISTEA reauthorization. This could result in both greater support for the proposal and a legislative vehicle for its enactment.

Recommendation

_____ Make DOT reinvention a Class A priority. Develop a legislative strategy based on Presidential involvement and possible veto threat.

_____ Make DOT reinvention a Class B priority. Publicly release a proposal, and lay the ground work for Congressional consideration next year.

_____ Other.

Attachment A

Department of Transportation Reinvention Proposal

Restructuring infrastructure grants

Over 30 separate, categorical programs will be consolidated into three broader, flexible programs. The three new programs are:

? A unified transportation block grant, funded at $10 billion, would be available to fund highway, transit, passenger rail and airport capital projects. Funds would be allocated by formula to States, with a set-aside for urbanized areas. The Governor is the recipient of all funds, but the Metropolitan Planning Organizations (MPOs) are strengthened.

? State Infrastructure Banks, capitalized with $2 billion, would permit jurisdictions to leverage public and private resources for investment in any type of infrastructure. SIBs would also encourage more business-like investment strategies, such as user fee financing.

? Discretionary grants, funded at $1 billion, would be available to finance projects or regional or national interest that are not addressed through other mechanisms.

Additional funds will be requested separately to complete existing multi-year funding commitments for specific airport and transit projects (approximately $1 billion in 1996). Another $8 billion per year will be dedicated to rehabilitation and repair of the 155,000 mile National Highway System through a continuing separate program.

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

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

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

CREATION DATE/TIME:31-JAN-1995 11:30:05.33

SUBJECT: budget prebrief

TO: Christopher F. Edley, Jr (EDLEY_C) (OMB)
READ:31-JAN-1995 14:12:09.82

TEXT:
Chris:
what are the plans for giving Dems a preview of the DOT budget? Given the complexity of the restructuring, I think that the sooner we can sit down and explain the plan at some length, the more likely that we could control damage.
I just had an interesting visit from Alex Washburn, Moynihan's infrastructure guy. We agreed that the reinvention was exactly what Moynihan has advocated for years -- more leveraging of federal dollars through increased public/private projects; greater flexibility to states/localities in how money is spent in order to increase efficiency and intermodalism. On the other hand, Alex says Moynihan is adamant about not opening ISTEA prematurely. Alex is now trying to reach Bill Cunningham, Moynihan's new AA, to ask whether Moynihan would be willing to embrace the principles of restructuring, applaud the Administration
f

or thinking ahead, but close by saying that while discussions about NEXTEA are fine, ISTEA should be allowed to run its course. He will try to get back to me before 4:30 today.
I think we should push hard to get endorsements of our general goals. That kind of moral victory might allow the Administration to fight for the highground of ideas even if we need to wait for others to catch up w/us before anything is actually enacted.
Michael.
PS: Alex had the impression that most people on the Hill thought that the DOT box shuffle was simply a way for the Admin to keep busy and look as if it were doing something. Could Rivlin push Pena to focus more on substance than on form?

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

CREATOR: Larry D. Magid (MAGID_L) (OMB)

CREATION DATE/TIME: 1-JUN-1995 14:01:14.72

SUBJECT: Thanks for lunch.

TO: Ellen S. Seidman (SEIDMAN_E) (OPD)
READ: 1-JUN-1995 15:56:22.24

TEXT:
As always, good to talk with you over lunch. I will let you know if I learn anything about opportunities at Interior or Justice.
If you do see George Frampton in an appropriate setting, feel free to mention my interest in Parks.
As far as Car Talk report writing goes, just give me some notice as to what work needs to be done when, and I would be happy to draft scenarios, or whatever else needs to be done.
Meanwhile, I will do some research into intermodal facilities and ISTEA.
See you at 2,
Larry

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

CREATOR: Paul R. Dimond (DIMOND_P) (OPD)

CREATION DATE/TIME:18-JUL-1995 20:27:59.58

SUBJECT: Mayors

TO: Kumiki S. Gibson (Kumiki S. Gibson@EOP_OVP@CCGATE@EOPMRX)
READ:NOT READ

TEXT:
K.G.
A copy of my note to Marcia Hale FYI. The only thing on here that I didn't mention to you was the item number 4, realting to some EZ/EC type process (sounded like they had been talking to Edley on MEZ, although they seemed much less hung up on any particular form or label). In my opinion, this was definitiely least important of issues raised and maybe was just another way of talking about their whole approach to economic development in general. I'm not sure how to handle the Crime Bill point; they clearly like Dole's approach, but didn't want to ditch the President either, were hoping for some sort of compromise, which I have no idea whether this has any chance.
Let me know if you have any questions.
Dimond
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:18-JUL-1995 19:19:00.00

ATT BODYPART TYPE:B

ATT CREATOR: Paul R. Dimond

ATT SUBJECT: Conference of Mayors Meeting

ATT TO: Marcia L. Hale (HALE_M)

ATT CC: William R. Daley (DALEY_W)

ATT CC: Gene B. Sperling (SPERLING_G)

TEXT:
Marcia,
For two reasons, I recommend that the Vice-President focus on the larger budget issues with the 15-20 mayors in Austin on Sunday rather than "oregon style performance partnerships":

1. The Mayors are not all that much interested in talking about Oregon-style performance partnerships, period. It would take a great deal more staff-to-staff work to even begin to turn this into a fruitful discssion.

2. The Conference of Mayor representatives do not get the nature and the extent of the budget battle that is going to go on. They are proceeding from the assumption (false) that they should worry more about what they should be doing after the dust settles on Congress dismantling the budget. After some discussion, they began to see that the President had an alternative budget, one that was defensible, and that the Republicans didn't have 34 votes to override

with respect to appropriation bills and budget reconciliation. The V.P. needs to discuss this at the meeting on Sunday.
The mayors are not intersted appearing t have their tin cups out there asking for more dollars, and they do want to talk about new, joint initiatives with the Admionistration to counter the open invitation from Dole (on a different crime bill) and Gingrich (on eliminating all federal barriers, limits restrictions on local discretion and initiative). As a result, the V.P.'s budget discussion does need to be placed in the context of joint Administration mayor initiatives that will enable cities to expand business, jobs and economic development and become engines of regional growth: examples could include

1. V.P., Secretaries Rubin, Cisneros, Brown joining with mayors who want to leverage federal CD Bank and EDA Funding, coordinated with SBA one-stop shops, to secure five and ten-fold matches from banks, thrifts, insurance companies, and other financial firms to form local CD Bank.[This has a specific budget implication: House Appropriation Committee, like FY95 Rescission, zeros out CDBank funding.]

2. G.I. Bill for America's Workers, (a) including local School-to-Work partnerships for inner city youth with firms, colleges, schools, community-based organizations and national service and (b) one-stop career cetners to connect people who want to find new or better jobs with employer job openings and providers of skills that will be rewarded in the marketplace. Wnat to work closely with Reich and Riley, and the Hill to implement, make sure there is a local voice and participation as provided in McKeon bill. [House and Senate want to cut funding 20-30%, while even NGA joined in demanding NO cuts in education and training funding for youth and adults.]

3. A process for figuring out how to coordinate ISTEA, environmental protection, even clean drinking water (which mayors fear they are going to be made object of Administration abuse) with sustainable, economic development.[Again, there is a budget implication here.]

4. A process for figuring out how to do another round of EZ/ECs, or some interagency program, built around object of helping cities work with suburbs to become engines of local economic growth.

A couple of Heads-ups:First, Mayors still strongly support Crime Bill, but they are being romanced by Dole who proposes a much more flexible grant to localities, which is very attractive to mayors; you need to check with Bruce Reed about status of this and how to respond. Second, some mayors want to talk about targeted tax credit for business development or welfare-to-work, apparently on the grounds that if Repuiblicans are talking about over $250 billion and we're talking about over $50 billion in tax cuts, they want to get a piece of the tax incentive pie: but the size and object of the tax cut is what will decimate medicare, medicaid,food stamps and EITC, while piling all of the cumulative discretionary budget misery on elderly and poor so that rich folks can pay lower taxes. This is an example of why the VP must bring the larger budget message home to the mayors THIS weekend.
You may want to confimr with Bill Daley (and with Tom Cochran), but I know that Bruce Katz concurs strongly with my assessment of the importance of this approach with the Mayors. And Bruce will be with the Mayors on Saturday softening them up for this message from the VP.
The format for the VP is a 60-minute closed, no tie working dialogue with 15-20 mayors, followed by 15 minutes with the press.
Dimond
================= END ATTACHMENT 1 =================

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

CREATOR: Ellen S. Seidman (SEIDMAN_E) (OPD)

CREATION DATE/TIME: 8-AUG-1995 14:11:25.36

SUBJECT: RE: ISTEA Meeting

TO: Gay L. Joshlyn (JOSHLYN_G) (OPD)
READ: 8-AUG-1995 14:18:04.84

TO: Michael D. Deich (DEICH_M) (OPD)
READ: 8-AUG-1995 14:30:53.24

TEXT:
Obviously I didn't read the note real well; I thought Michael was scheduling the meeting. Does he want me to come? If not, that's fine. If he want me to, would he have any objection to my trying to get it moved? Also, as he and I discussed, I'd like to make sure that we don't leave CEQ out of this issue, even though it's obviously not necessary that they be at every meeting. Ellen

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

CREATOR: Ellen S. Seidman (SEIDMAN_E) (OPD)

CREATION DATE/TIME:10-AUG-1995 08:50:31.89

SUBJECT: RE: Ready When You Are

TO: Wendy J. Einhellig (EINHELLIG_W) (OPD)
READ:10-AUG-1995 09:01:35.54

TEXT:
The ISTEA meeting got changed to noon, so I'm not going, but I am going over to Treasury for a FHLB meeting instead. Ellen

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

CREATOR: Wendy J. Einhellig (EINHELLIG_W) (OPD)

CREATION DATE/TIME:10-AUG-1995 08:09:42.84

SUBJECT: Ready When You Are

TO: Ellen S. Seidman (SEIDMAN_E) (OPD)
READ:10-AUG-1995 08:49:58.88

TEXT:
I'm here and ready to talk whenever you are. I changed the time and place on the clearance for the Car Talk group today and is the 3:30-4:30 today the ISTEA meeting? w

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

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

CREATION DATE/TIME:11-AUG-1995 08:51:27.15

SUBJECT: istea/nhs sap

TO: Dapper Dan the Man (CORBETT_D) (OMB)
READ:11-AUG-1995 09:24:39.74

TO: David E. Tornquist (TORNQUIST_D) (OMB)
READ:11-AUG-1995 09:11:27.20

TEXT:
Dan:
Given DOT's internal bickering, we might be able to get closure on an ISTEA/NHS SAP more quickly if the WH takes the lead. Of course, the previous sentence was merely a thinly veiled statement that, once again, I want you to do my job. Would you please draft a one or two paragraph statement that we could throw over the transom to our friends at DOT? I bet we'd be able to reach a quick, unoffical agreement and then sell it fairly easily to the bombthrowers. Let me know.
Michael

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

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

CREATION DATE/TIME:11-AUG-1995 11:12:20.75

SUBJECT: RE: istea/nhs sap

TO: Michael D. Deich (DEICH_M) (OPD)
READ:11-AUG-1995 11:24:24.91

CC: David E. Tornquist (TORNQUIST_D) (OMB)
READ:11-AUG-1995 11:12:30.48

TEXT:
We will draft something and send it to you.
Dan

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

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

CREATION DATE/TIME:11-AUG-1995 17:26:56.24

SUBJECT: Wordperfect document - draft SAP language

TO: Michael D. Deich (DEICH_M) (OPD)
READ:11-AUG-1995 17:47:54.68

TEXT:

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:11-AUG-1995 17:26:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Daniel J. Corbett

TEXT:
PRINTER FONT 12_POINT_ROMAN
Draft SAP language.

Section ____ would create a ?trigger? provision to force early reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1996. The provision would sequester authorized FY 1997 contract authority and obligation authority for Federal

-aid highway, safety, motor carrier, and transit programs until August 1, 1997.
The Administration [strongly] opposes this provision. The Administration supports legislation that would reform the Department?s program as proposed in the 1996 President?s budget. We do not support an early reauthorization to create new winners and losers among the States by changing the existing formulas. Furthermore, we oppose the "trigger" mechanism as a way to bring about early reauthorization because it would create a crisis atmosphere that is unproductive.
================= END ATTACHMENT 1 =================

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

CREATOR: Paul A. Deegan (DEEGAN_P) (OPD)

CREATION DATE/TIME:11-AUG-1995 19:05:30.22

SUBJECT: Weekly Report

TO: Julia E. Chamovitz (CHAMOVITZ_J) (OPD)
READ:14-AUG-1995 13:10:18.23

TO: Michael D. Deich (DEICH_M) (OPD)
READ:14-AUG-1995 08:30:14.14

TO: Paul R. Dimond (DIMOND_P) (OPD)
READ: 5-SEP-1995 08:46:17.73

TO: Wendy J. Einhellig (EINHELLIG_W) (OPD)
READ:16-AUG-1995 08:07:47.52

TO: Michael B. Froman (FROMAN_M) (OPD)
READ:14-AUG-1995 09:10:25.76

TO: Daniel D. Heath (HEATH_D) (OMB)
READ:14-AUG-1995 09:19:19.28

TO: Elgie Holstein (HOLSTEIN_E) (OPD)
READ:11-AUG-1995 19:31:18.36

TO: Gay L. Joshlyn (JOSHLYN_G) (OPD)
READ:14-AUG-1995 08:22:56.24

TO: Thomas A. Kalil (KALIL_T) Autoforward to: Remote Addressee (
tkalil@arpa.mil@inet) (OPD)
READ:NOT READ

TO: Robert D. Kyle (KYLE_R) (OPD)
READ:NOT READ

TO: David J. Lane (LANE_D) (OPD)
READ:11-AUG-1995 19:19:55.10

TO: Elisabeth L. Lindemuth (LINDEMUTH_E) (OPD)
READ:14-AUG-1995 09:13:07.35

TO: Sonyia Matthews (MATTHEWS_S) (OPD)
READ:14-AUG-1995 11:10:12.21

TO: Elena R. Mccoy (MCCOY_ER) (OPD)
READ:11-AUG-1995 19:08:19.61

TO: Elaine M. Mitsler (MITSLER_E) (NSC)
READ:14-AUG-1995 07:55:23.14

TO: Thomas O'Donnell (ODONNELL_T) (OPD)
READ:NOT READ

TO: Dorothy Robyn (ROBYN_D) (OPD)
READ:13-AUG-1995 10:28:53.79

TO: Ellen S. Seidman (SEIDMAN_E) Autoforward to: Wendy J. Einhellig (EINHELLIG_W) (OPD)
READ:16-AUG-1995 08:07:47.52

TO: Gene B. Sperling (SPERLING_G) Autoforward to: Elena R. Mccoy (MCCOY_ER) (PDONE)
READ:11-AUG-1995 19:08:19.61

TO: FAX (94569280,NEC Staff, 227) (TLXA1MAIL_\F:94569280\C:NEC Staff, 227
READ:NOT READ

TO: FAX (94569290,NEC Staff, 365) (TLXA1MAIL_\F:94569290\C:NEC Staff, 365
READ:NOT READ

TO: FAX (93956853, Lael Brainard) (TLXA1MAIL_\F:93956853\C:Lael Brainard)
READ:NOT READ

TO: Laura D. Tyson (TYSON_L) Autoforward to: Thomas O'Donnell (ODONNELL_T) (OPD)
READ:NOT READ

TO: Helen C. Walsh (WALSH_H) (OPD)
READ:14-AUG-1995 14:11:40.33

TO: Dena B. Weinstein (WEINSTEIN_D) (OPD)
READ:11-AUG-1995 19:20:47.71

TO: Marilyn E. Wilson (WILSON_M) (WHO)
READ:NOT READ

TO: Remote Addressee (mmazur@rurdev.usda.gov@INET)
READ:NOT READ

TEXT:

PRINTER FONT 12_POINT_ROMAN
August 11, 1995

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: LAURA D'ANDREA TYSON

SUBJECT: NEC STAFF WEEKLY REPORT

The following is an update on NEC initiatives and policy development efforts:
PRINTER FONT 12_POINT_ROMAN_ITALIC
Tax Issues: NEC Principals met with the President on Monday to discuss pension simplification and broader tax issues. A determination was made to continue to develop legislative support for the pension simplification proposal that has already been announced. In addition, NEC and Treasury will jointly coordinate a background series on tax issues. In general, the attendees at these sessions will be NEC Principals or their designees. The first session of the series is scheduled for early next week and will provide background information on the US tax system as well as current economic and political rationales for tax reform. Future sessions will focus on the particular proposals advanced by Members of Congress.

FAA Reform: NEC, OMB and DOT staff worked with bipartisan Commerce Committee staff to find acceptable language on personnel, procurement and budget reforms. Work is continuing with a goal of reaching agreement on a bill sometime in the first half of September.
Intelsat Restructuring: Bo Cutter made further calls to EU and South American Telecom and Finance Ministers to discuss INTELSAT restructuring. To date, all parties have agreed to support the U.S. position at the INTELSAT Assembly of Parties to be held at the end of August.
ISTEA Reauthorization: An interagency group has begun to consider legislative and political strategy for possible action next year on reauthorizing ISTEA.
Technology Budget: Dr. Tyson briefed over 300 representatives of high technology companies and universities on the impact of Republican budget cuts on R&D. During August, NEC staff will work on follow

-up activities, such as analyzing the impact of

these cuts, contacting editorial boards, and planning potential Presidential and Vice

-Presidential events.

Encryption: NEC staff will work with OSTP and NSC to build industry and public support for the Administration's new encryption policy. A meeting with the Software Publishers' Association and the American Electronics Association is scheduled for August 17th. The new policy will include lifting export controls on commercial key escrow products which meet certain requirements.
Superfund: The NEC and CEQ led an interagency meeting on

Superfund, including a review of communications needs and opportunities. The group will coordinate the Administration's response to Congressional Superfund reauthorization proposals, which are expected to be introduced in legislative form sometime after the recess.
Oil Imports Study: The NEC is leading an effort to resolve interagency differences over a DOE

-drafted study examining the costs and benefits of oil imports. The study was promised as part of the Administration's Oil and Gas Initiative.
Reform of Export Subsidies for Agriculture: The public comment period has ended for the Administration's proposals to restructure USDA's Export Enhancement Program (EEP). NEC staff is leading the interagency effort to analyze the results, and is conducting staff

-level meetings to prepare the policy decisions for the NEC Deputies in September.

G.I. Bill for America's Workers: Senator Dole included Senator Kassebaum's G.I. Bill for America's Workers in his Welfare Bill for Senate action this week. The bill authorizes the states to use federal education and training funds for high school students, dislocated and disadvantaged workers to finance welfare reform. The bill does not require the states to incorporate the centerpiece of the President's proposal -- Skill Grants for Dislocated Workers to inject more choice and competition into adult training and education. We are working closely inside the WH with those concerned about welfare reform. The result in the Senate on the workforce issues is particularly important at this time: The bi

-partisan CAREERS bill reported out of House Education Committee -- which requires the states to incorporate Skill Grants to build a market

-driven approach -- is being challenged by many House Republicans who want to join the Senate in vesting discretion on such issue in the governors.

Activities of the Assistant to the President

LAURA D'ANDREA TYSON

Week of August 7, 1995
PRINTER FONT 12_POINT_ROMAN
Internal: Met to discuss tax issues, securities litigation and

international trade issues. Continued meetings on international trade issues, budget scenarios, and candidates for the Federal Reserve. Met with CIA Director Deutch to discuss intelligence

issues.
External: Spoke to three separate groups of businessmen

-and
women regarding the Administration's economic policies. Met with Clyde Prestowitz and with Felix Rohatyn.
PRINTER FONT 12_POINT_ROMAN_ITALIC
Week of August 14, 1995
PRINTER FONT 12_POINT_ROMAN
Internal: Will meet with CEA and Treasury Department to discuss Federal Reserve candidates, will meet with CIA Director Deutch to discuss intelligence issues. Will meet with Chairman Greenspan and with Secretary Christopher. Will meet to discuss health care reform and endgame scenarios. Will begin to plan for the fall economic conference.
External: Will interview with NHK network, Bloomberg News, and Business Week. Will headline a Clinton

-Gore Reelection Committee
event in New York.

PRINTER FONT 12_POINT_ROMAN_ITALIC
Activities of the Deputy Assistants to the President

BO CUTTER
Week of August 7, 1995
PRINTER FONT 12_POINT_ROMAN
Internal: Continuation of work on the budget; Russian HEU; various international economic issues; rural credit; light truck CAFE; intelligence issues; APEC; and Mexico.

External: Meetings on commercial remote sensing and UK civilian aviation; telephone calls to various international officials regarding Intelsat.
Speaking engagements: None.
Press: Ken Karube, JiJi Press, re: framework talks.

PRINTER FONT 12_POINT_ROMAN_ITALIC
Week of August 14, 1995
PRINTER FONT 12_POINT_ROMAN
Internal: On vacation.
External: On vacation.
PRINTER FONT 12_POINT_ROMAN_ITALIC
GENE SPERLING
Week of August 7, 1995

PRINTER FONT 12_POINT_ROMAN
Internal: Continued work on budget. Worked on preparation for environment event. Prepared talking points for NPR radio address. Worked on preparation/strategy for the United We Stand event. Drafted Q&A for POTUS press conference. Continued work on education. Attended meetings with Cabinet and President on

budget strategy.
External: Traveled to Dallas for USWA event. CNN interview with National Economic Adviser Tyson on Medicare.
PRINTER FONT 12_POINT_ROMAN_ITALIC
Week of August 14, 1995

PRINTER FONT 12_POINT_ROMAN
Internal: Continue work on the budget, urban policy, health care and education.
External: None.

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

CREATOR: Gay L. Joshlyn (JOSHLYN_G) (OPD)

CREATION DATE/TIME:14-AUG-1995 09:50:53.56

SUBJECT: ISTEA/NHS Meeting Tomorrow

TO: Michael D. Deich (DEICH_M) (OPD)
READ:14-AUG-1995 09:51:17.29

TEXT:
There will be an ISTEA/NHS meeting tomorrow in Bob Litan's office at 11:00 am. The attendees will be: Gene Conti, Steve Palmer, Ken Schwartz, & Sharon Barkeloo. POC-Diane Limo 5-3120. I put this on your calendar.
Gay

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

CREATOR: Sheryll D. Cashin (CASHIN_S) (OPD)

CREATION DATE/TIME:28-SEP-1995 15:01:31.22

SUBJECT: DOT's Targeted Demonstrations for EZ/EC

TO: Remote Addressee (Howard_Glaser@hud.gov@INET)
READ:NOT READ

TO: Remote Addressee (abrown@rurdev.usda.gov@INET)
READ:NOT READ

TO: FAX (94017420,Alvin Brown) (TLXA1MAIL_\F:94017420\C:Alvin Brown\ )
READ:NOT READ

TEXT:
DOT wants to make five grants of $50,000 each to support five small scale demo projects in EZ/ECs. The $50,000 would be TA/planning money to help the communities procure/implement ISTEA funds to complete physical improvement projects in/near transportation nodes. The DOT folks and I met with Ann Weidel, Pam Swain, and Sharon Colbert this week. DOT had on their own identified eligible projects from 10 EZ/ECs. They asked for the task force's help in identifying which of these projects were real, i.e. in the benchmarks and ready to go. Ann and Sharon said they would get back to DOT (Judith Burrell) and me next week and then we would talk to you guys about how to move forward with the identified communities. I am alerting you now because I want to be sure the task force comes through next week and that we make this project happen. DOT's intention is to fund projects that would be COMPLETED by Sept. 96. This is precisely the kind of physical change we want to foster over the next year.
Thanks.

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

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

CREATION DATE/TIME:10-OCT-1995 17:44:52.17

SUBJECT: infra bank; per your request

TO: Randolph M. Lyon (LYON_R) (OMB)
READ:11-OCT-1995 10:10:19.80

TO: Joseph Minarik (MINARIK_J) (OMB)
READ:10-OCT-1995 17:47:45.43

TEXT:
hope this is helpful.
=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE:10-OCT-1995 17:44:00.00

ATT BODYPART TYPE:p

ATT CREATOR: Michael D. Deich

TEXT:

PRINTER FONT 12_POINT_ROMAN
August 8, 1995

MEMORANDUM FOR LAURA TYSON
FROM: Michael Deich
SUBJECT: Background for meeting with Felix Rohatyn

Rohatyn states that he fully supports the President's plan to balance the budget in ten years. He argues, however, that the social costs of a balanced budget will be too high unless annual GDP growth reaches 3

-3.5 percent instead of the roughly 2.5
percent assumed in consensus forecasts. To achieve this higher growth rate, Rohatyn calls for the creation of a new trust fund to be "owned by the states" and therefore off

-budget. The Trust
Fund would be receive revenue from 4.3 cents of the current gas tax; the $4.3 billion annual budget shortfall would be made up in some unspecified manner during reconciliation. Rohatyn anticipates that the Trust Fund would issue $10

-15 billion
annually in 30- or 40

-year bonds backed by future gas tax

receipts. This proposal is a variation on a theme that Rohatyn has played for some time (see attachment).
Macroeconomic consequences. In terms of its macroeconomic effects, this proposal would be much like any other fiscal stimulus of $10

-15 billion per year. If the Fed believes that potential GDP growth is about 2.5 percent per year, it presumably would raise interest rates in order to offset the stimulus, and real growth would not reach Rohatyn's desired 3.0

-3.5 percent.
In his memo, however, Rohatyn argues that government borrowing of $10

-15 billion would not affect markets, and seems to imply that the Fed might ignore the stimulus, in which case increased growth is at least theoretically possible. My understanding, however, is that the Administration generally agrees that potential GDP growth really is around 2.5 percent, so the proposed stimulus would only accelerate inflation.

The best case that can be made for this proposal is to assume that the returns to infrastructure investment exceed the average rate of return on private investment. Many high

-return
infrastructure projects surely exist. In practice, however, federal programs have had limited success targetting high

-return

projects. As Mark Mazur noted in his memo of last week, an interagency review concluded that there was no credible evidence supporting the claim that public infrastructure investment, on average, has a social rate of return greater than that of the private investment that would be displaced under the Rohatyn plan. Even if one believed that infrastructure did have a higher return than private investment, however, the sums involved in this proposal are too small to increase potential GDP growth by more than a few tenths of a percentage point, rather than the .5

-1.0 percentage points that Rohatyn seeks.
Political Complications: (1) This proposal would cost $4.3 billion per year. Rohatyn's suggestion that the money be found during reconciliation would be more helpful if it were more specific; (2) in essence, this would create the functional equivalent of a capital budget for a narrow sector of the federal budget. The Administration rejected this course during its consideration last year of various capital budget proposals; (3) OMB's preliminary judgment is that scoring the Trust Fund off

-budget would require a waiver of the BEA.

An Administration Alternative. The President's FY 1996 Budget proposed transferring $2 billion per year from the Highway Trust Fund to new State Infrastructure Banks (SIBs). The SIBs would be required to "leverage" their federal grants through some combination of borrowing, user fees, and state funds. The SIBs would be able to use federal grants as a reserve fund against which they could borrow further monies for infrastructure investment. In contrast to the Rohatyn proposal, SIBs would not be able to borrow against future federal grants. Funding issues aside, the Administration's proposal is similar to the Rohatyn proposal.

Last week, the Senate Appropriation Committee approved $250 million for SIBs and authorized states to use up to 10 percent of their federal highway apportionment to fund a SIB. The House has not included this provision in its bill. You might solicit Rohatyn's support for getting some type of SIB established this year. Although a far cry from the expansive program envisioned by Rohatyn, the Senate bill would be an important first step that could easily be expanded if, as Rep. Schuster desires, ISTEA is reauthorized next year.

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

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

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

CREATION DATE/TIME:15-NOV-1995 10:57:15.64

SUBJECT: RE: National Highway System Bill

TO: Robert E. Litan (LITAN_R) (OMB)
READ:15-NOV-1995 14:50:37.73

CC: Kenneth L. Schwartz (SCHWARTZ_K) (OMB)
READ:15-NOV-1995 10:59:18.12

CC: Karin L. Kizer (KIZER_K) (OMB)
READ:15-NOV-1995 11:24:21.30

CC: Charles E. Kieffer (KIEFFER_C) (OMB)
READ:15-NOV-1995 11:07:24.59

CC: Charles S. Konigsberg (KONIGSBERG_C) (OMB)
READ:15-NOV-1995 12:48:26.22

CC: Lisa Kountoupes (KOUNTOUPES_L) (OMB)
READ:15-NOV-1995 11:55:39.62

CC: David E. Tornquist (TORNQUIST_D) (OMB)
READ:15-NOV-1995 11:00:29.99

CC: Mikey Deich (DEICH_M) (OPD)
READ:20-NOV-1995 08:20:07.93

TEXT:
Ken's e-mail emphasized the budget aspects of the bill, which turned out relatively well for us, except for elimination of the congestion pricing funding.
However, we pretty much lost on the major safety provisions in the bill, which DOT feels will have a horrible impact, both in terms of fatalities and injuries, and eventually through increased medical costs. DOT was interested in vetoing the bill because of the safety provisions. They backed off of the veto recommendation after consultation with White House Legislative Affairs earlier in the process.
Below is a summary of the major safety provisions in the bill:
- Consistent with the House version, the National Speed Limit will be repealed. The Senate version had kept a National Speed Limit for trucks.
- An ISTEA provision that "penalizes" states for not having motorcycle helmet laws is repealed. The ISTEA provision requires States without motorcycle helmet laws to transfer a percentage of their highway construction funds to highway safety programs. There are about 3,000 motorcycle fatalities each year and thousands of injuries. A great deal of the cost of these

accidents is passed onto Federal insurance programs such as Medicaid, unemployment compensation, etc.

- A version of the so-called "Frito Lay" amendment is retained. This provision would exempt a large percentage of commercial vehicles and operators from safety requirements related to driver qualifications, operator fatigue and hours of service, drug and alcohol use and vehicle safety standards.

One budgetary issue not included in Ken's e-mail is the fact that no funding is provided for a replacement for the Wilson Bridge. The bridge has urgent and significant structural and capacity problems. The bridge is the only federally-owned bridge on the Interstate system, although it is jointly operated by Maryland, Virginia and the District. A new Wilson Bridge will cost about $1 billion. This may become a 1997 budget issue because of the bridge's urgent needs and because it will be argued that the Federal ownership of the bridge translates into Federal responsibility for replacement of the facility. At this point, Sen. Warner is the primary advocate of addressing the bridge problem.

We hear that the conference report may be filed today and that the bill will be taken up at the end of this week or early next week.

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

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

CREATION DATE/TIME:29-DEC-1995 10:35:49.55

SUBJECT: Transit position on ISTEA reauthorization

TO: Michael D. Deich (DEICH_M) (OPD)
READ: 2-JAN-1996 07:45:10.60

TEXT:
I wrote a memo to you and Bob Litan last week summarizing the meeting we had with transit representatives that you could not attend. I am trying to figure out if the memo ever got out while I was on leave. Did you receive a copy?

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

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

CREATION DATE/TIME: 2-JAN-1996 07:47:43.88

SUBJECT: RE: Transit position on ISTEA reauthorization

TO: Sharon A. Barkeloo (BARKELOO_S) (OMB)
READ: 2-JAN-1996 09:35:21.51

TEXT:
Sharon:
thanks. the memo was sent but i've beeen awol for a while. i'll read it and call you today.
michael