

## CHAPTER 2

## EVOLUTION OF THE FEDERAL ROLE

The evolution of Federal transit assistance is characterized by a short but rapidly changing history. In a little over a dozen years Federal involvement has grown from tentative and small-scale support for demonstration projects to a long-term commitment to provide a major source of funds for all aspects of public transportation operations and improvements. The following account considers four major periods in this history: the early evolution of Federal transit legislation; efforts to expand transit support in the late 1960s; attempts to obtain operating subsidies; and passage of the National Mass Transportation Assistance Act of 1974.

EARLY EVOLUTION OF FEDERAL TRANSIT LEGISLATION

The Federal government became involved in supporting urban mass transit about 15 years ago. As discussed, at that time a severe post-World War II decline in transit patronage was curtailing transit operations throughout the country.

The first serious efforts to enact Federal transit legislation occurred in the late 1950s, stimulated by concern over the future of urban commuter rail services. In 1958, Congress passed the Transportation Act, which was an attempt to help the railroads out of financial difficulties they had experienced since the end of the war. The act gave the Interstate Commerce Commission power to discontinue unprofitable passenger service. This gave rise to legislative pressure from mayors of large cities who could foresee serious consequences from (1) a decrease in commuter services previously provided by the railroads and (2) an increase in city automobile use.<sup>1/</sup>

Despite protransit lobbying by the National League of Cities and U.S. Conference of Mayors, an urban mass transportation bill introduced by Sen. Harrison Williams of New Jersey in 1961 failed to pass. Financial support for mass transit wound up, instead, in the 1961 Housing Act, at the modest level of \$25 million for 2/3 Federal share demonstration projects and an additional \$43 million for low-interest capital improvement loans. In the same act, transit planning became one of the half dozen eligible activities under the comprehensive urban planning program (Section 701) .

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1/ George M. Smerk, Urban Mass Transportation: A Dozen Years of Federal Policy, Indiana University Press, Bloomington and London, 9 1974, p. 36.

The following year, Section 134 <sup>1/</sup> was added to the Highway Act, in recognition that highway planning should be integrated with other transit and land use planning in cities. At this time, 25% of highway funds were being spent on urban highways. Effective in 1965, the act required "continuing, comprehensive and coordinated transportation planning," in cities greater than 50,000 people, as a pre-condition for Federal aid to highway projects.

The 1962 act made no additional funds available for either highway or transit planning. However, it tended to increase the amount of transit planning undertaken and to improve coordination between the system planning studies for the two modes. Actual project and program decisions continued to be made separately by the two Federal agencies involved: the Bureau of Public Roads, then part of the Commerce Department; and the Housing and Home Finance Administration, where transit responsibilities were lodged.

During this period, local officials and the public became aware that balanced planning for urban transportation modes was fruitless in the absence of balanced Federal funding for improvements. Highway planning during this period focused on developing long-range network plans for interstate highways and connecting arterial systems in metropolitan areas to accommodate rapid increases in auto traffic. Funding for the interstate program, in the form of 90% Federal support for specific routes, tended to create an incentive for maximizing traffic estimates in order to have reason to build more of these high-capacity highways. In response, those interested in reducing the scale and impacts of the highway systems to protect the urban environment sought financing for transit facilities that could compete with the interstate highways, particularly for work trips from suburban areas to downtown.

In 1962, a bill initiated by the executive branch to provide \$500 million in capital assistance to transit over a three-year period failed to pass Congress. In the aftermath of this defeat, a growing coalition of major cities, organized labor, the transit industry, the railroads and equipment manufacturers went to work to build support for legislation that became the Urban Mass Transportation Act of 1964 (49 U.S. Code, Section 1601, et seq.) . When it became law in July 1964, this act represented the first Federal commitment to mass transit capital needs. It increased the demonstration program to \$30 million and authorized \$375 million through fiscal year 1967 for capital improvements and demonstrations. The 1964

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1/ Title 23 U.S. Code.

act provided money in the form of capital grants and loans to states and local governments to assist them with traditional, fixed-route transit services. The Federal contribution to a given project was limited to 2/3 of the net project cost.

Between 1966 and 1969, Congress expanded the scope of its interest in transit, reflecting a growing recognition that construction of new facilities and preservation of existing systems were not the only approaches needed to remedy transit's ills. Amendments to the Urban Mass Transportation Act in 1966 (PL-89-562) made technical studies, managerial training programs, and university research projects eligible for assistance. In 1968, Housing and Urban Development Act amendments (PL-90-448) widened the definition of mass transportation to make services other than fixed-route bus and rail projects eligible for Federal funds.

During the same period, Congress took action that put the transit program on an equal basis, in terms of organizational structure, with other Federal transportation programs. In 1966, Congress created the U.S. Department of Transportation (DOT), and, in 1968, the Urban Mass Transit Administration (UMTA). UMTA was lodged in DOT, and the transit program was transferred there from the Department of Housing and Urban Development. Although this move gave transit status as a permanent, independent program -- it was no longer merely an adjunct to the housing program -- the transfer marked the beginning of the program's gradual drift away from comprehensive planning and community development activities, to which it previously had strong ties.

#### EFFORTS TO EXPAND TRANSIT SUPPORT IN THE LATE 1960s

The 1966 amendments, followed by others in 1968 and 1969, raised the authorizations by \$790 million and extended them through fiscal year 1971. The total commitment, therefore, was \$1.165 billion over six years, for a potential spending average of just less than \$200 million per year. Nevertheless, by the late 1960s there was a growing conviction that the Federal program was too weak to encourage many cities to make major commitments to new systems. Bond issues for new rail system plans developed under the UMTA program failed in 1968 in Los Angeles, Atlanta, and Seattle and again in 1970 in Seattle. Two causes were postulated: (1) the small size of the Federal program (each of these individual area plans was estimated to cost several times the annual national appropriations), and (2) UMTA's inability to make a multiyear commitment.

The Institute for Public Administration, working for UMTA, extrapolated from planning underway at the beginning of the decade to estimate that a total capital expenditure for transit improvements of at least \$35.6 billion and possibly \$41.5 billion,

in current dollars, would be required during the period from 1970 to 1979. <sup>1/</sup> The projections implied that UMTA would be called upon to finance as much as two-thirds of this amount, or up to \$27 billion over the decade.

Congress began to consider two main options for providing this support. One possibility was to open up the Highway Trust Fund, established to finance the Interstate System and other Federal-aid highway programs in 1956, for transit use on a local choice basis. The alternative was to establish a separate transit trust fund.

Early in the Nixon Administration, Secretary of Transportation Volpe endorsed and promoted the transit trust fund plan developed by James D'Orma Braman, then DOT's Assistant Secretary of Environment and Urban Systems. The proposal would have committed Federal automobile excise taxes to the new fund. The National League of Cities-U.S. Conference of Mayors and all the transit interest groups backed the plan and managed to obtain support from prohighway groups, who believed that the alternative was a "raid" on the Highway Trust Fund, which at that time was due to expire in 1972. <sup>2/</sup> However, the Council of Economic Advisors and the Office of Management and Budget blocked the proposal in 1969 by arguing that it would limit the Administration's power to manage the economy.

The compromise worked out among all groups was the 1970 Urban Mass Transportation Assistance Act, which authorized \$3.1 billion over five years and gave UMTA contract authority (i.e. power to obligate future appropriations), and a promise of \$10 billion over 12 years. This meant a verbal commitment to spend about \$850 million per year -- four times the authorizations of preceding years. However, no special fund was established and Congress retained authority for annual appropriations. <sup>3/</sup>

Even so, many transportation Professionals believed the 1970 act would rescue mass transit from the vagaries of the annual budget process. As former Secretary of Transportation Claude S. Brinegar wrote in a November 1974 article ~/, the

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1/ Institute of Public Administration "Estimates of Prospective Capital Investment in Urban Public Transportation" n.d., reprinted in House Appropriations Hearings F.Y. 1973, pp. 618-644.

2/ George M. Smerk, "An Evaluation of Ten Years of Federal Policy in Urban Mass Transportation," Transportation Journal, Winter 1971, p. 46.

3/ Public Law 91-453, 15 October 1970.

4/ Automotive Engineering, Vol. 82, No. 10, November 1974; pp. 57-59, 69.

the \$3.1 billion authorization brought mass transit into the "big leagues" of Federal funding. Early in 1971, however, the Office of Management and Budget (OMB) confirmed the transit industry's fears by setting the capital grant approval ceiling for fiscal year 1971 at, \$269.7 million, plus a \$57 million loan to the Washington Metropolitan Area Transit Authority (WMATA). The figure, obviously, was well below the \$850 million figure the Urban Mass Transit Administration (UMTA) had told Senate and House appropriations committees it could obligate in fiscal year 1971.

#### ATTEMPTS TO OBTAIN OPERATING SUBSIDIES

Meanwhile more and more cities began to feel the need for Federal operating assistance. The impacts of inflation, popular demands to hold the line on fare increases, and rapidly increasing labor costs were keenly felt, particularly in metropolitan areas where there had been recent public takeovers. Spokesmen for these cities argued that operating assistance was needed to permit a necessary public service to continue. In response, Senators Williams and Percy introduced an emergency operating assistance bill in 1971 that would have provided \$75 million a Year for five years to ease operating costs indirectly through payment of interest on loans to support operations. <sup>1/</sup>

The Nixon Administration strongly opposed direct operating assistance during this period. A November 1971 DOT report to Congress presented the spectre of an ever-growing heed or a "bottomless pit" for Federal operating assistance. Operating subsidies were expected to lead to high administrative costs and create incentives for inefficiency on the part of operators. <sup>2/</sup>

The initial alternative to operating assistance proposed by the Nixon Administration was transportation revenue sharing. The proposed plan would have provided approximately \$2 billion per year by 1975, to be given to municipalities on an unrestricted basis for use in urban transportation. <sup>3/</sup> This approach would have provided no special priority for public transportation over other transportation uses.

The alternative of tapping the Highway Trust Fund had not been discarded. Since 1968 the range of projects eligible

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1/ "Percy-Williams Measures Reintroduced," Passenger Transportation, Vol. 29, No. 9, February 26, 1971, p. 1.

2/ U.S. DOT, Federal Assistance for Urban Mass Transportation, November, 1971.

3/ I.R.T. Digest, September-October 1972, p. 18.

for Trust Fund support had been widened to include a few activities related to bus transit. In that year, the Federal-Aid Highway Act (PL-90-495) allowed cities with populations exceeding 50,000 to allocate highway funds to fringe parking demonstration projects. This program was based on a 50% Federal share. Federal-Aid Highway Act amendments in 1970 (PL-91-605) made preferential bus lane and fringe parking projects eligible for 50% Federal aid and raised the Federal share for these projects to 70% starting in July 1973.

The Highway Trust Fund issue was addressed more squarely in 1973, when a Federal-Aid Highway Act (PL93-87) was passed that opened the door for transit capital grants from the Highway Trust Fund. The 1973 act provided the option to use all Urban Systems funds (up to \$800 million from the Trust Fund) for transit projects, as well as for highways, and to substitute transit capital projects for urban interstate highways. The same act increased the \$3.1 billion UMTA contract authority to \$6.1 billion and raised the Federal share of transit projects from two-thirds to 80% of "net project costs."

The new law came after more than a decade of effort by local governments who wanted to be able to exercise flexibility of choice among modes of urban transportation. According to Brinegar's article, as of fall 1974 the overall effect of the 1973 legislation had been to siphon off about 20% of otherwise allocated Highway Trust Fund monies to urban mass transit capital projects. By that time, according to Brinegar, Boston, New York, Philadelphia, and St. Louis had diverted \$785 million of their interstate highway system money for mass transit uses.

However, the 1973 Federal-Aid Highway Act stopped short of addressing the operating subsidies issue. Bills for operating assistance passed both houses of Congress late in 1973 but died in conference after strong Administration opposition and promise of a veto. In his 1974 State of the Union Message, President Nixon again advocated special revenue sharing, with augmented funding. ~/

Shortly after this the Administration proposed the Unified Transportation Assistance Program (UTAP), which would have consolidated the highway and transit programs in urbanized areas and provided a common 70% Federal share. Sixteen billion dollars in Federal assistance would have been available through UTAP for fiscal years 1975 through 1980. In the first year,

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1 / "Nixon Offers a Program for Progress," New York Times, January 31, 1974, p. 20.

\$700 million in capital grants would have been disbursed at the discretion of the Secretary and another \$700 million by a formula based on population. The second sum would be available for either capital needs or operating assistance at local option. Another \$1.1 billion would be distributed by formula for capital improvements only. The annual amount would increase by 1980 to \$2.7 billion. 1\ This proposal would have provided much of the additional flexibility desired by transit interests -- local flexibility between highways and transit and between operating subsidies and capital projects.

#### THE NATIONAL MASS TRANSPORTATION ASSISTANCE ACT OF 1974

UTAP was not destined for passage intact. In November 1974, after a long and complex legislative process involving issues of funding levels, allocation formulas, degree of state versus local control, and many others, the compromise National Mass Transportation Assistance Act of 1975 (PL-93-5C3) emerged. Although it draws heavily on the Emergency Commuter Relief Act introduced by Senator Harrison Williams and Congressman Joseph Minish, the act incorporates several aspects of UTAP, including a section of funds to be allocated by formula and a focus on urbanized areas as the planning and funding basis.

The National Mass Transportation Assistance Act of 1974 (PL-93-503) added a \$4.825 billion authorization to the capital program, for total grant authority to date of \$10.925 billion -- \$7.825 billion of it unobligated as of spring 1975. UMTA was instructed to administer these funds on a discretionary basis between 1976 and 1980. Up to \$500 million is reserved for capital assistance to rural transit programs.

The act added a new section (Section 5) to the UMTA Act of 1964 that authorized the allocation of \$3.975 billion to cities in a block sum. The sum is calculated on a formula that takes into consideration both the population and population density of each metropolitan area. The formula grant money can be used either for operating costs, on a 50% Federal share basis, or for capital project costs, on an 80% Federal share basis.

Formula grant provisions in the Act result in an automatic subsidy of elderly and handicapped riders by requiring that these people be charged no more than half the normal fare during off-peak hours. The act also set aside \$20 million in fiscal year 1975 and again in 1976 for a study of the advantages and disadvantages of "no fare" transit systems.

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1/ A Study of Urban Mass Transportation Needs and Financing, U.S. DOT report to Congress, July 1974, p. I-12.

The Secretary is obligated to report back to Congress on this by June 30, 1975. The 1974 act also expanded the definition of facilities eligible for capital grants to include land and property in the vicinity -of the transit corridor that is needed to integrate transit with socially, economically, 'and environmentally sound patterns of land use.

In summary, from small beginnings in a program of demonstrations and loans, the Federal Government's involvement in urban transit has grown into a major financial commitment. While this step represents a major expansion of Federal support for public transit, the findings of the assessment indicate that a number of issues are still outstanding. The major issues among them are discussed in the following sections of this report.