MEMORANDUM

TO: **Interested Parties**
FROM: **Eric Haley, Moderator of the Self-Help Counties Coalition, Bob McCleary (Contra Costa TA), and Michael Evanhoe (Santa Clara VTA, retired)**
DATE: **April 15, 2005**
RE: **"Rescue Transportation" Proposal – Status Report**

This memorandum provides an update on the status of the Rescue Transportation proposal Coalition members are advancing as a potential voter initiative for the November 2006 statewide ballot. The problem is well known – the diversion of over $5 billion in transportation funding to address the State's General Fund deficits has wreaked havoc and created a degree of chaos in the operations, protection and expansion of the state and local transportation systems. The proposal consists of constitutional and statutory changes intended to achieve the following objectives:

1. Stop the diversion of transportation revenues to the state's General Fund;
2. Enhance the predictability and stability of transportation revenues to restore the efficiency, effectiveness, and credibility of transportation project delivery;
3. By restoring funding flows to pre-diversion levels, allow greater investment in the protection and operation of the existing transportation system;
4. For Caltrans, enhance the operating environment, reduce uncertainties and political influences, and encourage stable and professional leadership; and
5. Periodically review the trends in costs for operating, maintaining, and expanding the existing system as appropriate with the level of revenues generated by existing sources, and suggest warranted adjustments to the Legislature.

Proposed Constitutional and Statutory Changes

As discussions have proceeded since the Self-Help Coalition first put its "Rescue Transportation" proposal forward, we have received input from a range of sources and the proposal has evolved into a sharper focus. We have also determined that there is a need to finally resolve the commitment to the project list contained in the Transportation Congestion Relief Program (TCRP) in 2000 legislation, so that both sponsors of those projects and the balance of the transportation community can have firm expectations on the level of revenues available for their future purposes. To address the above objectives and reconcile the commitment to the balance of the TCRP project list, the proposal would:

1. **Firewall Transportation Funds.** The proposal would constitutionally protect transportation funds by prohibiting any loans or diversions for other purposes, thereby increasing the stability, predictability, effectiveness and credibility of transportation funding. It would also facilitate greater investment in the protection, operation and expansion of the existing system.
2. **Enhance Caltrans Operating Environment.** The institutional framework within which Caltrans must work is fraught with inefficiencies. The proposal would:

    2.1. Remove Caltrans from the uncertainties of annual legislative approval of its budget, to the California Transportation Commission (CTC), based on the State Transportation Improvement Program and the State Highway Operations and Protection Program (SHOPP) adopted by the CTC; the CTC budget would be reviewed by the Legislature.

    2.2. Change the budget from an annual to a biennial (two-year) cycle; this alone would create tremendous efficiencies for the Department. The budget would also be adopted in the spring of even-numbered years, to provide a greater degree of certainty for the peak summer season of project delivery.

2.3. End oversight and authority of the Departments of Finance and General Services with respect to Department operations. Instead, the CTC would be responsible for detailed oversight of Caltrans' budget, contracts, and expenditures, and would determine what level of authority to delegate to the Director.

2.4. The CTC would consult with the Department of Personnel Administration (DPA) and the State Personnel Board (SPB) regarding personnel issues, would explicitly have the authority to retain the Director of the Department and determine his or her compensation, and would have an equal say with DPA and SPB in the determination of career executive assignment (CEA) positions within Caltrans. This is intended to promote greater continuity and facilitate continued professionalism within the top administrative positions at Caltrans, regardless of changes in the state administration.

3. **Balancing TCRP Project Funding with the Needs of the STIP, Local Streets and Roads, and Transit.** As a result of the State's financial crisis, TCRP project allocations were halted at approximately $1.5 billion, leaving a $3.3139 billion of project allocations waiting for future transfers of sales tax on gasoline revenues to transportation. While Section 7104 of the Revenue and Taxation Code specifies a timetable for transfer of these funds, the transfers were delayed in both FY 2003-04 and FY 2004-05 to later years. At the same time, STIP projects have been deferred two to five years, with bleak prospects for the 2006 STIP, and local streets and roads allocations from this same source are not slated to be restored until FY 2008-09. Transit funds have also been loaned to the State's General Fund. To balance these competing demands, the proposal would firewall transportation funds beginning with the FY 2007-08 budget year, and:

3.1. Assign $330 million per year to TCRP projects, until the $3.3139 billion balance is reduced to zero, noting that any repayments authorized by legislation separate from this act would augment the annual allocation amount, thereby reducing the time period to achieve the full allocation to below 10 years;

3.2. Assign the balance of revenues from the Transportation Investment Fund (TIF) that exceeds the TCRP transfer according to the previously agreed-upon distribution: 40 percent to the STIP, 40 percent to local streets and roads, and 20 percent to transit (of which one-half is for the STIP); and

3.3. Eliminate the Deferred Investment Fund in Section 7105 of the Revenue and Taxation Code, and the requirement for payback of principal and interest on previous loans to the State's General Fund. Payback would be left to the discretion of the Legislature, in order to reduce the likelihood of opposition from various groups that would be concerned about the impact of those provisions upon the General Fund in the future.

4. **Transportation Financing: Biennial Report and Revenue Needs.** The proposal requires the CTC to conduct a review every six years, beginning in 2009, regarding the adequacy of transportation revenues to preserve the existing system and provide necessary expansion. The report would address the state highway and intercity rail system, preservation and critical expansion of the local streets and roads system, and the capital needs to sustain and expand local transit systems in the short and long term. The CTC would report its results to the Administration and the Legislature and recommend, as necessary, potential adjustments to the State's revenue sources to address long-term unmet maintenance and rehabilitation needs for the State Highway System, local streets and roads, and transit capital needs.

The Coalition looks forward to working with you to put together a viable strategy for advancing critically needed reforms. We would appreciate continuing input as we move forward towards our goal to see Rescue Transportation placed on the November 2004 ballot. Your comments can be sent to Mr. McCleary at rmccleary-7@ccta.net.