

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, MARCH 13, 2013
9:00 A.M. - STATE CAPITOL ROOM 447

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ITEMS TO BE HEARD

0521 SECRETARY FOR TRANSPORTATION

ISSUE 1: CREATION OF THE TRANSPORTATION AGENCY

The acting Secretary of Business, Transportation, and Housing will provide an introduction of the new Transportation Agency.

BACKGROUND

Effective July 1, 2013, the Governor's Reorganization Plan No. 2 of 2012 created the Secretary for Transportation. The 2013-14 transportation responsibilities of the Secretary for Business, Transportation, and Housing are merging into this Secretary. The 2011-12 and 2012-13 budget information for transportation responsibilities is displayed in the Secretary for Business, Transportation, and Housing (Organization Code 0520). In addition, the Office of Traffic Safety is merging with this Secretary.

The Transportation Agency develops and coordinates the policies and programs of the State's transportation entities to achieve the State's mobility, safety, and air quality objectives from its transportation system.

The 2013-14 Budget includes \$101.5 million and 58 positions for the Secretary for Transportation. Most of these resources (\$97.4 million and 32 positions) are associated with the activities that were previously performed by the Office of Traffic Safety.

STAFF COMMENTS

The Acting Secretary of Business, Transportation, and Housing, Brian Kelly, will present an overview of the new agency and the Administration's vision for its future.

Staff Recommendation: Informational Item, no action

**0521 SECRETARY FOR TRANSPORTATION
2600 CALIFORNIA TRANSPORTATION COMMISSION
2660 CALTRANS**

ISSUE 1: OVERVIEW OF STATE TRANSPORTATION FUNDING IN 2013

The Legislative Analyst, the Caltrans, and the California Transportation Commission will provide a presentation that frames transportation funding in California.

PANELISTS

- Legislative Analyst's Office
- Caltrans
- California Transportation Commission
- Transportation Agency

BACKGROUND

California has the most complex and highly utilized transportation system in the country, including highways, roads, railways, airports, bridges, seaports, border crossings, and public transit systems. This system continues to grow and increase in complexity, as California's population grows, its economy transforms, and its land use changes. The challenge of meeting the growth needs as well as maintaining the existing systems fall to a unique partnership between the federal government, large regional transportation planning entities, local governments, special districts and the State.

The State of California's role in transportation policy is derived from several of the key functions it serves. The State:

- Owns all State highways and is responsible for maintaining, rebuilding, and expanding these highways.
- Serves as the point of contact and fiscal agent for most federal transportation funds.
- Allocates state funding, including bond funds.
- Programs a portion of state funding for state run-projects.
- Owns the High-Speed Rail Authority and is responsible for constructing, operating, and maintaining the system.
- Administers state-supported intercity rail funding on three corridors and local transit funding for some rural local entities.

NEEDS ASSESSMENT

On October 27, 2011, the California Transportation Commission issued the 2011 Statewide Transportation Needs Assessment. This document paints a picture of State transportation funding needs over the next decade. The report concluded that California would need \$538.1 billion, excluding the development of the High Speed Rail project, but that existing funding sources would provide \$242.4 billion or 45 percent of the need over the same period. The chart below illustrates the needs.

Cost: (\$ billions)	System Preservation	System Expansion and Management	Total
Highways	\$ 79.7	\$86.3	\$165.9
Local Roads	102.9	26.5	129.3
Public Transit	142.4	32.2	174.5
Inter-City Rail	0.2	6.2	6.4
Freight Rail	0.1	22.3	22.4
Seaports	4.6	7.5	12.1
Airports	10.4	5.5	15.9
Land Ports	1	0	1
Intermodal Facilities	0	5.9	5.9
Bike/Pedestrian	0	4.5	4.5
Total	\$341.1	\$197	\$538.1

The California Transportation Commission led a coalition of California's transportation agencies to develop this statewide transportation needs assessment that reflects the multi-modal needs of California's transportation system. The coalition included the executive leadership of several representative agencies, including Caltrans, Metropolitan Planning Organizations (MPOs), urban and rural transportation planning agencies, the California State Association of Counties, the League of California Cities, the California Transit Association, the High Speed Rail Authority, the ports of Los Angeles, Long Beach, and Oakland, the California Association of Port Authorities, and the California Airports Council.

To prepare this needs assessment, representatives from Caltrans and California's major Metropolitan Planning Organizations (MPOs) conducted surveys of each of the state's 18 MPOs and 26 rural regional transportation planning agencies. The surveys asked each agency to identify system expansion projects, system management projects, and system preservation projects that could be completed over the next ten years. The agencies identified these projects by using the "fiscally constrained" project list for the ten-year period detailed in their most recently adopted Regional Transportation Plan (RTP), and by using other relevant reports and studies, such as the "Local Roads

Study” and the “Public Transit Study.” Supplemental project listings and cost information was also obtained from Caltrans and other transportation providers in certain categories, and this information was compared to the information provided by the MPOs and RTPAs. Revenue estimates contained in the report were produced by Bay Area MTC staff, utilizing information provided by Caltrans and other sources.

The Governor's Budget Summary references the Needs Assessment in its framing of transportation policy discussion for the coming year. The Summary then introduces the concept of a workgroup to consider transportation funding convened by the new Transportation Agency.

WORKGROUP PROPOSED

Beginning in the spring of 2013, the Agency will convene a workgroup consisting of state and local transportation stakeholders to refine the transportation infrastructure needs assessment, explore long-term, pay-as-you-go funding options, and evaluate the most appropriate level of government to deliver high-priority investments to meet the state's infrastructure needs.

STAFF COMMENTS

While the Administration signals that it will begin transportation discussions while budget deliberations are ongoing, it is likely that the findings of this work group would not be projected until long after the budget is passed. The Assembly will need to consider how deliberations during the budget discussions will interface with this stakeholder process.

Because of the visual nature of some of the data presented in this item, the Subcommittee has requested some of the presenters on this panel produce a short hand-out for this section to accompany their presentation. These handouts will be posted on the Assembly Budget Committee website.

The Subcommittee plans to hear the departmental budgets of the Department of Motor Vehicles and the California High Speed Rail Authority on April 10, 2013. These two departments are also part of the proposed Transportation Agency.

The Legislative Analyst Office has made specific recommendations regarding Proposition 1B funding and Project Initiation Documents staffing requests that the Subcommittee also plans to hear at the April 10, 2013 hearing.

POSSIBLE QUESTIONS

When will the transportation stakeholder group begin? Who will be invited to the stakeholder group and when is the process expected to conclude?

How does the implementation of SB 375 dovetail with the future funding of transportation?

How can the stakeholder process compliment the Legislature's role to set policy direction and appropriate funding for transportation?

Staff Recommendation: Informational Item, no Action Necessary

ISSUE 2: OVERVIEW OF DEPARTMENT BUDGETS

This issue focuses on the overall department budgets for Caltrans and the California Transportation Commission to provide a more in-depth understanding of their functions and roles.

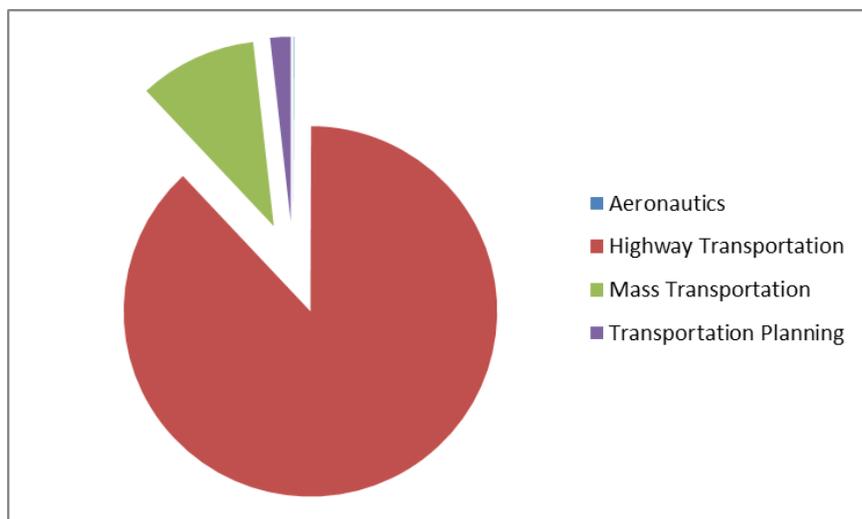
BACKGROUND**Caltrans**

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.

The Governor's Budget proposes \$12.8 billion, including \$83.4 million from the General Fund. This reflects a decrease of \$474.2 million, mostly reflecting less appropriation of bond funds than in the enacted 2012-13 Budget.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	\$83,416	\$83,416	\$83,416	0	0
State Highway Account	3,222,847	3,284,642	3,518,387	233,745	7.1
Public Transportation Account	239,733	338,493	353,516	15,023	4.4
Other Special Funds	298,605	142,296	136,220	(6,076)	(4.3)
Federal Funds	4,720,462	4,482,451	4,602,218	119,767	2.7
Reimbursements	1,150,313	1,167,565	1,798,684	631,119	54.1
Prop 1A Bond Funds	69,850	277,657	76,938	(200,719)	(72.6)
Prop 1B Bond Funds	1,630,829	3,483,983	2,216,908	(1,267,075)	(36.4)
Total Expenditure	\$11,416,055	\$13,260,503	\$12,786,287	(474,216)	(3.6)
Positions	20,095.3	19,803.5	19,773.5	(30)	(0.2)

The bulk of Caltrans funding is spent on highways, with 17,250 positions dedicated to this function. The chart below illustrates Caltrans funding by program:



California Transportation Commission

The California Transportation Commission (CTC) advises and assists the Administration and the Legislature in formulating and evaluating State policies, plans and funding for California's transportation programs.

The Governor's Budget proposes \$28.6 million for the CTC; an increase of about \$125,000 from the current year level funding. CTC has a staff of 19 positions, unchanged from the prior year. Currently the department has authority to fill only 17 of these positions, reflecting the reduced workload from the wind-down of work attributed to Proposition 1B.

State Transit Assistance

State Transit Assistance (STA) provides the budget for the State Transportation Assistance program, which provides funding to regional transportation planning agencies for mass transportation programs. Funding for the State Transit Assistance is allocated by statute and administered by State Controller.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	0	0
State Transportation Fund	396,017	415,173	391,972	(23,201)	(5.6)
Prop 1B Bond Funds	766,971	598,171	479,717	(118,454)	(19.8)
Total Expenditure	\$1,162,988	\$1,013,344	\$871,689	(\$141,655)	(14)
Positions	0	0	0	0	0.0

STAFF COMMENTS

Governor's Budget includes a few minor Budget Change Proposals for Caltrans, which the Subcommittee also plans to hear at the April 10, 2013 hearing.

The directors of Caltrans and the California Transportation Commission will provide overviews of their budgets. The Department of Finance will provide an overview of the State Transit Assistance program.

Staff Recommendation: Informational Item, no action

ISSUE 3: EXTENSION OF THE USE OF STATE HIGHWAY FUNDS FOR GENERAL OBLIGATION BOND INTEREST

One of the “reserve builders” proposed in the Governor’s Budget is to extend the payment of bond debt with State Highway Account funding.

BACKGROUND

The Governor’s Budget proposes to continue to transfer \$67.0 million in special fund revenue to offset transportation debt service costs on a permanent basis. The State Highway Account generates a portion of its revenue from sources other than excise taxes on gasoline, such as rental income and the sale of surplus property. Since 2010-11, this revenue source has been used to offset General Fund debt service costs on specified general obligation transportation bonds. This action was taken as part of the Fuel Tax Swap adopted in that year.

The Fuel Tax Swap provides for a combination of lowering the sales and use tax rate applicable to sales of motor vehicle fuel, excluding aviation gasoline, and simultaneously raising the state excise motor vehicle fuel tax, effective July 1, 2010. Additionally, the Fuel Tax Swap raises the sales tax rate applicable to sales of diesel fuel and simultaneously lowers the state excise tax on diesel fuel, effective July 1, 2011. The State Board of Equalization (BOE) is required to adjust the excise tax rates for both motor vehicle fuel and diesel fuel annually so that the total amount of tax revenue generated is equal to what would have been generated had the sales and use tax and excise tax rates remained unchanged.

STAFF COMMENTS

The Administration will provide an overview of the gas tax swap, which facilitated the use of State Highway Account for debt service.

Staff believes continuing to use these special funds for debt service is appropriate and recommends that the committee ultimately adopt this trailer bill proposal.

Staff Recommendation: Hold open

ISSUE 4: IMPLEMENTATION OF FEDERAL MAP 21

The new federal transportation funding act, MAP-21, provides California with more options for how the State uses federal funds, but provides no additional funding overall.

PANELISTS

- Brian Annis, Business Transportation and Housing Agency
- Bill Higgins, CalCOG
- Justin Horner, NRDC
- Jessica Peters, Legislative Analyst's Office
- Department of Finance

BACKGROUND

The new federal Surface Transportation Act, MAP-21, signed into law July 6, 2012, represents the most significant overhaul of federal surface transportation policy since the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1991. Since that time, there have been two multi-year transportation acts, the Transportation Efficiency Act for the 21st Century (TEA-21) in 1999 and the Safe, Accountable, Flexible, Efficient Transportation Equity Act-A Legacy for Users (SAFETEA-LU) in 2005. However, both of those measures largely built on the ISTEA framework and neither implemented major structural change.

In contrast, by any measure MAP-21 represents a major structural shift. The measure consolidates the total number of program funding streams from more than 100 to six core programs, and simultaneously increases flexibility in the use of the funding. The Act does **NOT**, however, significantly change the total amount of federal funding available to the state. MAP-21 also requires the Federal Highway Administration (FHWA) to establish various performance measures that will be used to evaluate states' progress toward various goals, such as pavement condition and collision/fatality reduction. However, many of these performance measures are not expected to be available until sometime in 2014.

Under MAP-21, California is slated to receive an estimated \$3.5 billion in total federal apportionments for federal fiscal year (FFY) 2013, which began October 1, 2012. This is approximately equal to the FFY 2012 level and represents nearly 9.5 percent of the national total. In addition, local transit agencies in California will, cumulatively, receive approximately \$1.0 billion in federal apportionments. The state is expected to receive a similar level of apportionments in FFY 2014. However, unlike prior surface transportation bills, which typically cover five or six FFYs, MAP-21 is a two-year bill, meaning that anticipated federal funding levels beyond FFY 2014 are uncertain.

In recent years, revenues into the federal Highway Trust Fund (FHTF)—the primary source of federal transportation funding—have declined to the point that they are insufficient to support existing funding levels. In order to sustain 2012 funding levels in

MAP-21, Congress authorized an \$18.8 billion General Fund augmentation to the FHTF. Should Congress fail to enact a solution to address this structural funding gap, California (along with other states) could face a substantial drop in federal funding as soon as FFY 2015.

Under MAP-21, the six core programs (with FFY 2013 apportionments) include the following:

- National Highway Performance Program (\$1.9 billion). This new program contains elements of several prior programs, including the old Interstate Maintenance, National Highway System and highway bridge programs. Historically, these funds have remained primarily under state control. They represent the primary funding source for State Highway System (SHS) maintenance and rehabilitation.
- Surface Transportation (STP) Program (\$873 million). This flexible program can be used by the state or local agencies to fund virtually any federally eligible transportation improvement. Historically, these funds have been split between state and local control. Under SAFETEA-LU, that split was 62.5 percent local and 37.5 percent state. MAP-21 specifically requires that 15 percent of these funds be spent on 'off system' (non-national highway system) bridges.
- Congestion Mitigation/Air Quality (CMAQ) Program (\$445 million). This program, which is largely unchanged from prior transportation acts, funds projects to meet the requirements of the Clean Air Act. Only certain regions qualify for CMAQ funds based on air quality non-attainment factors. State law subvents all CMAQ funds to local agencies based on formulas prescribed in prior federal law.
- Highway Safety Improvement Program (\$209 million). This program funds improvements to reduce highway fatalities and serious injuries. Project eligibility must be based on data driven criteria. Historically, California has split these funds approximately evenly between state and local projects consistent with intent language in state law.
- Transportation Alternatives (\$72 million). This program resulted from the consolidation of several smaller programs from prior federal bills, including "Transportation Enhancements," Recreational Trails, Safe Routes to School, and other alternative transportation programs. However, the program is roughly 30 percent smaller than the combined size of those programs.
- Metropolitan Planning (\$48 million). This program is administered by Caltrans' Division of Planning and funds are apportioned to Metropolitan Planning Organizations (MPOs) by formula.

**ADMINISTRATION'S IMPLEMENTATION
OF MAP-21**

Historically, federal Surface Transportation Act funding in California has been split between the state and locals with the state receiving approximately 63 percent of overall funding and the locals 37 percent. With the consolidation of funding into six core programs, the Administration, in fall 2012, proposed maintaining this overall split for FFY 2013, in order not to impact ongoing funding for previously programmed projects. The Administration also determined that despite the consolidation, no immediate changes to state law would be required to implement this status quo scenario.

SB 1027

The Administration used existing appropriation authority in the 2012-13 budget to avoid having to appropriate the MAP 21 funds through statute. However, because of the uncertainty regarding the use of these funds, the Assembly pushed to appropriate MAP 21 in a bill, SB 1027, that would appropriate the funds in a way that was consistent with the way the funding went out under SAFETEA-LU. Such an approach would have assured stakeholders and made the funding predictable.

Since it is the Legislature's role to appropriate funds, the Assembly may wish to weigh in as to whether it believes the Legislature should continue to delegate its discretion regarding the use of these federal funds to the Administration.

STAFF COMMENTS

Since it is the Legislature's role to appropriate funds, the Assembly may wish to weigh in as to whether it believes the Legislature should continue to delegate its discretion regarding the use of these federal funds to the Administration.

QUESTIONS

- What is the Administration's plan for appropriating MAP 21 funding in the 2013-14 budget?
- How does the Administration have the authority to appropriate new federal funds for transportation without having statutory authority for that appropriation?
- How has the Administration's actual allocation of funds under MAP 21 differed from the allocations made to programs during the SAFETEA-LU program?

Staff Recommendation: Hold Open

ISSUE 5: ACTIVE TRANSPORTATION PROPOSAL

The Governor's Budget proposes Trailer Bill Language to consolidate five categorical programs into a single "Active Transportation Program."

PANELISTS

- Brian Annis, Business Transportation and Housing Agency
- Deb Hubsmith, Safe Routes to School National Partnership
- Chuck Mills, California ReLeaf
- Doug Houston, California Park and Recreation Society
- Jessica Peters, Legislative Analyst's Office
- Department of Finance

BACKGROUND

The Governor's Budget proposes Trailer Bill Language to consolidate five categorical programs into a single "Active Transportation Program." Active transportation involves the traveler being physically active, such as by biking or walking to a destination. The Administration believes this change will promote and bring additional funding to bicycle and pedestrian projects that support SB 375 goals.

The Administration argues that the current five programs in this area have differing selection criteria and application processes, which reduces the ability of local governments to focus active transportation dollars on the highest priorities for their communities. Consolidating programs and narrowing grant eligibility to active transportation increases funding (to \$134.2 million), and makes bike and pedestrian projects part of the "mainstream" transportation program instead of "alternative." A prominent bike and pedestrian project would be an attractive area for additional investment as new funding opportunities are developed.

The proposed program would direct half of the funding by population to regions, and a large portion of these funds would be programmed at the regional level consistent with state and federal guidelines. The other half of funding would be statewide competitive grants to foster best-practices.

The five programs consolidated in the proposal are:

- Transportation Alternatives Program (TAP) - \$72 million federal program that replaced the Transportation Enhancement Program, which has historically directed only about 54 percent of program funds to active transportation (proportionally about \$39 million for active transportation). Of these amounts, about \$5 million per year has been directed to "recreational trails" grants to local parks.

- Federal Safe Routes to Schools - \$21 million including both capital and education grants.
- State Safe Routes to Schools - \$24 million including only capital programs.
- Environmental Enhancement and Mitigation Program - \$10 million that supports highway landscaping/urban forestry, roadside recreation, and resource lands.
- Bicycle Account Grants - \$7.2 million for bicycle project grants.

The above list summarizes those funding programs that are primarily focused on active transportation - with historic federal Transportation Enhancement funding allocations and current federal funding, the total funding for all 5 programs would be about \$101.2 million. However, many other state and federal programs may fund bike and pedestrian projects, such as the federal Congestion Mitigation and Air Quality program (\$58 million in 2010-11). Road preservation and new capacity projects also are designed under Caltrans' "Complete Streets" policy to incorporate bike and pedestrian facilities as appropriate.

In addition, the budget proposes to reduce the number of staff at Caltrans who administer funds for active transportation projects from eight positions to five positions in 2013–14. Under the proposal, the number of positions would be further reduced to three positions in 2014–15.

Only active transportation projects would be eligible for funding, and the following types of projects would be eligible – with increased weight given to projects that achieve multiple goals:

Eligible Projects

- Development of new bikeways, maintenance and safety improvements on existing bikeways and pedestrian facilities.
- Bike parking at employment centers, park-and-ride lots, transit terminals, and bike-carrying facilities on transit vehicles.
- Environmental mitigation projects such as urban forestry, resources lands, and roadside recreation opportunities, which support active transportation.
- Safe routes to schools and safe routes to transit.
- Educational (non-infrastructure) projects that promote active transportation.

Selection Criteria among Eligible Projects

- Potential for increasing bike and pedestrian trips, especially among students.
- Potential for reducing injuries and fatalities among bicyclists and pedestrians, and identification of hazards.
- Sustainable community elements such as: adoption of a bicycle transportation plan; local public participation in project development; identification of walking and biking routes to schools, transit and community centers; disadvantaged communities benefit; and potential for reducing greenhouse gas emissions.
- Cost effectiveness of the project and demonstrated need of the applicant.

LAO ANALYSIS AND RECOMMENDATION
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Governor's Proposal a Step in Right Direction but Raises Concerns. Given the multiple potential benefits that could be achieved from active transportation, we find that the Governor's proposal to consolidate various programs into a single program focused on active transportation is a step in the right direction. This is because such consolidation would allow the state to maintain a more comprehensive and coordinated approach towards increasing active transportation. We have, however, identified three concerns with certain aspects of the proposal:

- ***Allows Use of Funds for Non-Active Transportation.*** Although the Governor's proposal is intended to focus existing program funds on active transportation projects, the proposed budget trailer legislation would continue to allow funds to be used for non-active transportation projects (such as urban forestry projects and roadside recreation). While such projects may have merit, they would not necessarily improve and facilitate active transportation. Given the relatively small amount of funding proposed in the Governor's Budget for the active transportation program, we find that the program could more effectively and efficiently achieve its active transportation goals by focusing exclusively on improving bicycle and pedestrian safety and increasing the use of active transportation modes by travelers in the state.
- ***Does Not Specify Size of Funded Grants.*** In addition, the Governor's proposed trailer bill legislation does not specify the size of individual grants that communities could apply for, thus leaving that decision to the CTC. The small grant amounts provided under the current program make it difficult for communities to pursue larger scale and more comprehensive active transportation projects, which tend to be more expensive. While achieving a geographic balance with the use of transportation funds is an important consideration, funding small unconnected projects is unlikely to result in significantly increasing the number of people choosing an active transportation mode. For example, studies have found that communities need to develop well-

connected networks of bicycle and pedestrian infrastructure that lead to destinations, such as places of employment, schools, and shopping centers to encourage active transportation. Given that the Governor's proposal does not specify specific grant amounts, it is unclear whether the grants will be sufficient to support the costs of such large-scale projects.

- **Does Not Shift Staff Resources With Workload.** While the proposal would shift some of the responsibilities for administering the active transportation program from Caltrans to the CTC, the proposed budget does not request any additional resources for CTC to carry out these increased responsibilities.

LAO Recommendations. In view of the above concerns, we recommend modifying the Governor's proposal in order to address these concerns. First, we recommend that the Legislature amend the proposed budget trailer legislation to require that the statewide competitive grant portion of the new program be used to fund larger community-wide projects. We also recommend that the program be authorized only to fund those projects that would (1) directly improve bicycle and pedestrian safety, or (2) potentially increase the number of trips taken by bicycling or walking. In order to ensure that the new active transportation program is administered effectively, it may be necessary to provide the CTC with additional staff resources. Thus, we recommend the CTC report at spring budget hearings regarding the level of resources it will need to help administer the new active transportation program. To the extent that the CTC will need additional staff resources, the Legislature could shift a portion of the proposed reduction in positions at Caltrans to CTC.

STAFF COMMENTS

The overall direction of this Administration's proposal has merit, but given that the funding proposed is flat compared to current funding levels, the Subcommittee may wish to consider either modifying the proposal to ensure existing programs have some minimum level of funding or delaying adoption of the new funding mechanism until additional funding seem imminent. In addition, the Subcommittee could further modify this proposal to exclude one or more of the proposals considered to be "active transportation" from the new larger program, such as an environmental mitigation.

The Subcommittee may also wish to consider the future role of the Legislature in transportation funding when it considers this proposal. The Administration's proposal is in line with SB 375, by providing locals with flexible funding to meet broad goals. However, in providing such flexibility, the Legislature loses discretion to direct funding and cannot guarantee or protect specific programs or priorities. As State policy moves towards more local control and flexibility, the Subcommittee could consider when it is appropriate for the Legislature to retain its voice and direction in transportation funding.

Staff Recommendation: Hold Open
