



**METROPOLITAN
TRANSPORTATION
COMMISSION**

Agenda Item 3a - REVISED

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Memorandum

TO: Legislation Committee

DATE: January 10, 2014

FR: Deputy Executive Director, Policy

W. I. 1131

RE: FY 2014-15 State Budget Proposal

Overview

The Governor's Budget for FY 2014-15 proposes a \$1.7 billion increase in transportation funding over current levels. This includes the following components:

- \$1.1 billion in Proposition 1B funds and program cost savings.
- \$400 million for transportation from Cap-and-Trade funds, including \$250 million for High Speed Rail (HSR), \$50 million for a new rail modernization program for connectivity to the HSR system, and \$100 million for a Sustainable Communities Strategies grant program to be administered by the Strategic Growth Council.
- \$351 million in early repayment of transportation funds that were loaned to the General Fund in 2001-02 and not due to be repaid until 2020.

Cap-and-Trade Funding

The budget proposes investing \$850 million in Cap-and-Trade funds in FY 2014-15 as shown below.

Program	Amount	Comments
High Speed Rail Authority	\$250 million	Proposed for construction, design & environmental work on initial operating segment in Central Valley
Rail Modernization	\$50 million	Grant program to be overseen by Caltrans to connect existing rail systems to HSR
Sustainable Communities	\$100 million	Grant program to be administered by the Strategic Growth Council
Low Carbon Transportation	\$200 million	Administered by the Air Resources Board
Energy Efficiency & Clean Energy	\$140 million	Variety of programs in Department of General Services, Department of Food & Agriculture & Department of Water Resources
Natural Resources & Waste Diversion	\$110 million	Variety of programs in Department of Forestry & Fire Protection, Cal Recycle & Department of Fish & Wildlife
Total	\$850 million	

\$200 Million Low Carbon Transportation Program Proposed

The budget proposes \$200 million for “low carbon freight and passenger transportation, with a priority for disadvantaged communities.” The investment is designed to support the Administration’s goal to deploy 1.5 million zero-emission vehicles by 2025. The funds would be used to expand existing Air Resources Board programs to provide rebates for zero emission cars and vouchers for hybrid and zero-emission trucks and buses and to provide incentives for demonstration of advanced clean freight technology.

\$100 Million Proposed for New Sustainable Communities Program

Of great interest to MTC is the budget’s proposed investment of \$100 million out of a total of \$850 million in Cap-and-Trade funds in a new Sustainable Communities program that would be administered by the Strategic Growth Council.¹ While the Administration directs 70% of overall Cap-and-Trade funds to transportation only 12% are assigned to Sustainable Communities, which is clearly inadequate given the importance of Senate Bill 375 in helping the state achieve its climate change goals.

Challenge of Forecasting Cap-and-Trade Funding

With respect to the \$850 million proposed in the budget for expenditure of Cap-and-Trade funds, it is important to note that this does not represent a *forecast* of what will be generated from Cap-and-Trade auctions this year; rather it represents a proposed investment amount, comprising a \$100 million repayment of a portion of the \$500 million in Cap-and-Trade funds that were loaned to the General Fund last year, plus \$750 million of funds generated at auction in the future. Given that the Administration cannot predict how much funding will be generated from this program in advance of the auctions, we can infer that \$750 million is well within their low forecast of what will be generated in FY 2014-15.

To the extent that the Legislature adopts a higher *share* for the Sustainable Communities program from the overall Cap-and-Trade program, it will lay the groundwork for the program to receive higher funding levels from future budget appropriations based on auction proceeds in FY 2014-15 and future years.

Program Structure

With regard to the program’s structure, the budget proposes a state-run grant program for the following types of projects:

- transit and transit oriented development that includes low-income housing
- active transportation
- agricultural land preservation
- related planning

This is very different from the approach advocated over the last two years by MTC and the Transportation Coalition for Livable Communities, which ultimately incorporated into AB 574 (Lowenthal) and formed the basis of the Commission’s Cap-and-Trade Funding Framework adopted last month. Under that approach, the state would distribute the Sustainable Communities portion of the funds directly to metropolitan planning organizations on the basis of their share of

¹ The SGC is a cabinet-level agency composed of agency secretaries from the California State Transportation Agency, California Health and Human Services, California Environmental Protection Agency, and the California Natural Resources Agency; the Director of the Governor's Office of Planning and Research; and public member.

the population. MPOs would then administer the funds according to criteria established by the state.

Over the next few weeks, staff will work with our colleagues in the Transportation Coalition for Livable Communities to develop our strategy for receiving a higher share of the funds. In those discussions, staff will recommend the following key changes:

- Increase the share of funding going towards the Sustainable Communities Program
- Pursue the regionally-based approach advanced by the Transportation Coalition for Livable Communities in which funds are distributed to MPOs to select projects, based on guidelines established by the state.
- Expand project eligibility to encompass the range of projects that were proposed by AB 574 (Lowenthal, 2013).
- Seek repayment of the outstanding \$400 million in Cap-and-Trade funds made to the General Fund in FY 2013-14 and direct a significant share of those funds to the Sustainable Communities Program.

Proposition 1B Funding

The budget seeks a \$1.1 billion appropriation of Proposition 1B funds and program cost savings. The largest share of this amount is for public transit with an appropriation request of \$793 million for the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA) — fully appropriating the remaining balance of this program. MTC staff estimates that this will provide approximately \$284 million for Bay Area operators, including \$207 million in revenue-based funds and \$77 million in population-based funds. In addition, the budget proposes \$10 million for local bridge retrofit projects and \$160 million for intercity rail. In addition, the budget proposes using \$113 million in administrative cost savings for new state highway projects.

Loan Repayment Funds Invested Reflect a “Fix-it-First” Policy

The budget proposes to repay \$351 million in loans made in 2001-02 that are not due to be repaid until 2020. The repayment of what were primarily State Highway Account funds is proposed to be invested as follows:

- \$137 million for pavement rehabilitation and maintenance on state highways
- \$100 million to cities and counties for local street and road preservation (providing approximately \$19 million for the Bay Area, as shown in the attachment)
- \$100 million for traffic management mobility projects
- \$9 million for active transportation projects
- \$5 million for environmental mitigation



Ann Flemer