



METROPOLITAN
TRANSPORTATION
COMMISSION

Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, CA 94607-4700
TEL 510.817.5700
TDD/TTY 510.817.5769
FAX 510.817.5848
E-MAIL info@mtc.ca.gov
WEB www.mtc.ca.gov

Memorandum

TO: Legislation Committee

DATE: May 2, 2014

FR: Executive Director

W. I. 1131

RE: Senator Steinberg's Cap and Trade Proposal

In mid-April, Senate President Pro Tempore Darrell Steinberg announced his proposal for Cap and Trade (C&T) Funding in FY 2014-15 and over the long-term. This memo is based on the summary provided by Senator Steinberg's office as part of the announcement. No bill language had been released at the time this memo was finalized so there are a number of important unanswered questions that will be key points of negotiation over the next several months as the Legislature considers the proposal.

Significant Funding for Sustainable Communities and Public Transit

The proposal is very favorable towards transportation and housing. Details of the funding proposal are shown below and on Table 1 on page 2 of this memo.

40% for Affordable Housing & Sustainable Communities Implementation

- At least 50 percent reserved for affordable housing in transit oriented developments
- Other eligible categories include "active transportation, transportation efficiency and demand management projects"
- The Strategic Growth Council would distribute the funds to regions and/or state agencies.
- Once funds are distributed, projects would be selected based on competitive greenhouse gas (GHG) performance criteria

30% for Transit capital and operations

- Distributed based on competitive greenhouse gas (GHG) performance criteria
- At least 5 percent reserved for transit connectivity projects
- At least 5 percent reserved for "direct transit assistance to consumers" (such as subsidized transit passes)

20% for High Speed Rail

- Continuously appropriated, as sought by the Governor, so as to be available for bond payments

10% for Complete Streets, including State Highway System preservation

- Eligible projects to include traffic management, road repair, bikeways, retrofit of roads and highways
- Distributed based on competitive greenhouse gas (GHG) performance criteria

How Much Funding Would Be Available?

While it is impossible to predict exactly how much C&T funding will be available because of the nature of the auction system, below we provide an estimate of how much each category could receive based on three revenue scenarios and after the \$610 million "off the top" takedown for the following non-transportation purposes:

- \$200 million for natural resource, water and waste
- \$200 million for a consumer "climate dividend" such as a tax rebate
- \$200 million for electric vehicle deployment
- \$10 million for green banking

With respect to funding levels, it's important to note that there are only estimates available. While Senator Steinberg's proposal identifies a \$5 billion annual funding estimate, other forecast have estimated a low-range of \$2.6 billion and a midpoint of \$3.5 billion for FY 2014-15.

Table 1 Summary of Potential Annual Funding Levels by Program

<i>Dollars in \$1,000s</i>	Steinberg Proposal Forecast	ICFI Midpoint Forecast*	ICFI Low Forecast
Total Cap & Trade Revenue Estimate	\$5,000,000	\$ 3,516,000	\$ 2,637,000
EV, Green Banking, Natural Resource, Water, etc.	\$ 610,000	\$ 610,000	\$ 610,000
Affordable Housing & Sustainable Communities	\$ 1,756,000	\$ 1,162,400	\$ 810,800
Transit	\$ 1,317,000	\$ 871,800	\$ 608,100
High Speed Rail	\$ 878,000	\$ 581,200	\$ 405,400
Complete Streets	\$ 439,000	\$ 290,600	\$ 202,700

*ICF International, *Modeling the Economic Impacts of AB 32 Auction Proceeds Investment Opportunities*, December 2013
<http://www.icfi.com/insights/reports/2013/modeling-economic-impacts-of-ab-32-auction-proceeds-investment-opportunities>

How Does the Proposal Compare to MTC's Cap and Trade Funding Framework?

The Steinberg proposal shares some common features with MTC's funding framework, as shown in Attachment A. The largest share of funds are directed towards public transit, while about 40 percent is focused on implementing SB 375 (Steinberg, 2008), in the case of MTC's framework, primarily through our One Bay Area Grant Program, while in the case of the Steinberg plan, through a new program at least half of which would subsidize construction of affordable housing in transit oriented developments. The key difference is the smallest slice — MTC's plan invests 14 percent in freight related projects while Steinberg's plan invests 10 percent in road repair and complete streets in the State Highway Operation and Protection Program (SHOPP).

As compared to the estimates of C&T funds included in Plan Bay Area, even the low-end revenue forecast for transit funding would provide the Bay Area with more than the \$120 million/year, assuming the region receives at least its 20 percent share of the state's population. Notably, this does not even take into account funding the Bay Area would receive from the broader Affordable Housing/Sustainable Communities pot, which is slated to receive 40 percent overall, providing a bit of a buffer as the proposal makes its way through the legislative process.

Next Steps

An ongoing concern with the proposal is how funds would be distributed and projects selected. Consistent with our adopted Cap and Trade principles, MTC staff will make the case that regional agencies are in a much better position to leverage greater GHG reductions than the Sacramento based Strategic Growth Council because we can incentivize and reward local land use changes in the region's priority development areas as a condition of the funds - as we are doing with OBAG - and ultimately it is the *combination* of transportation investments and land use changes, rather than the transportation projects by themselves, that will yield the greatest long-term GHG benefits.

Cap and Trade funding presents the first major legislative opportunity to secure an ongoing revenue stream to implement the transportation and housing goals of Plan Bay Area. Staff will be actively engaged in negotiations in Sacramento over the coming weeks and keep the committee apprised of any important new developments.



Steve Heminger

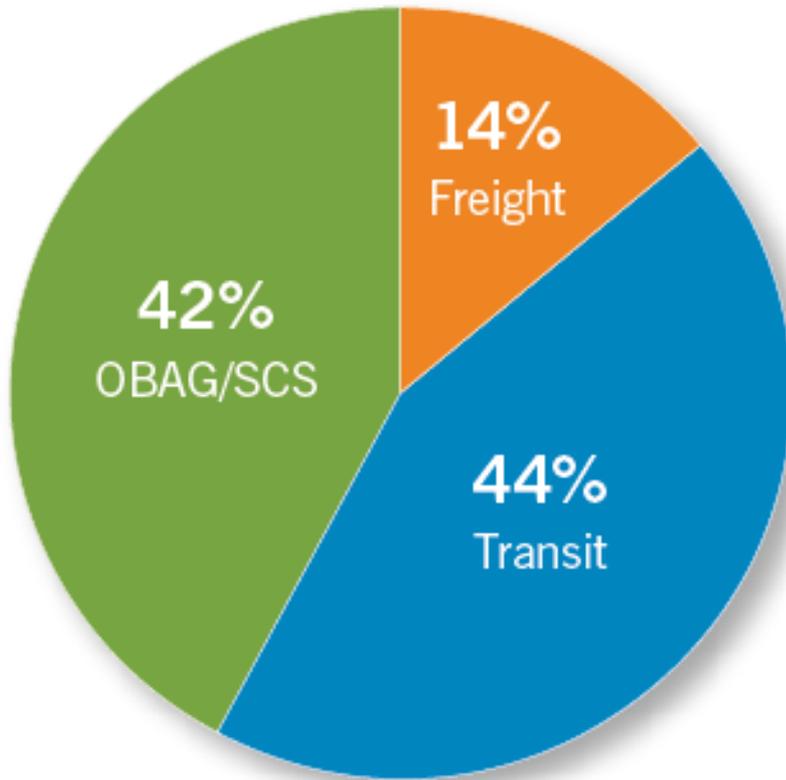
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Cap and Trade Frameworks

MTC

(December 2013)



Steinberg

(April 2014)

