Agenda Item 2b

METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Legislation Committee DATE: June 6, 2014

FR: Deputy Executive Director, Policy W. I. 1131

RE: FY 2014-15 State Budget

At the time this memo was finalized, the Assembly and Senate had just begun their conference committee to resolve their differences over the FY 2014-15 State Budget. Conferees include Assembly Member Skinner (Chair) and Senator Leno (Vice Chair), along with Senators Hancock, Lara, and Nielsen and Assembly Members Bloom, Gorrell and Weber.

Unfortunately, as shown in Attachment 1, the chambers remain relatively far apart on the details of how to spend Cap and Trade funding, the most significant budget issue affecting transportation this year. Specifically, there are major differences between the Assembly and Senate proposals with respect to FY 2014-15 Cap and Trade spending as well as the question of how the funds should be spent over the long term. While the Senate leadership (led by current Senate President Pro Tempore Steinberg and Senator Kevin De León, incoming Pro Tem) proposes a long-term plan that would include significant funding for public transit, housing and other priorities (see Attachment 2), the Assembly is focused on a short-term, one year proposal, as advocated by the Brown Administration.

An additional concern related to Cap and Trade Funding is how the budget and any longer-term structure will achieve the requirement imposed by SB 535 (De León, 2012) to invest 10 percent of funds within disadvantaged communities (while 25 percent must benefit such communities) . SB 535 required the California Environmental Protection Agency (CalEPA) to adopt a method for defining disadvantaged communities. Unfortunately, the measure they propose, known as the CalEnviroScreen (CES), significantly understates disadvantaged communities in the Bay Area. As you will recall, Plan Bay Area voluntarily commits to achieving these targets for each of the programs within our adopted Cap and Trade Funding Framework with disadvantaged communities defined to correspond with the region's "Communities of Concern," which encompass 1.4 million Bay Area residents.

By contrast, CES identifies only 46 census tracts with 214,000 Bay Area residents (see Attachment 3) within the state's top 20% of disadvantaged communities — equivalent to less than 3 percent of the total statewide population living in disadvantaged communities (7.4 million) and less than 3 percent the Bay Area's total population (7.1 million). Given that the Bay Area houses 13 percent of the state's low-income residents, which rises to 17 percent when cost of living is taken into account, the CalEnviroScreen is clearly a flawed method by which to identify disadvantaged communities when it comes to investing Cap and Trade funds. As such, in addition to advocating for significant funding for public transit, sustainable communities and affordable housing, we are working to inform our delegation and the conference committee

members of the need to allow for a localized definition of disadvantaged communities, such as the "Communities of Concern" definition to ensure the Bay Area receives its fair share of these funds.

Staff will provide an update with the latest state budget developments at your meeting on June 13, just two days before the statutory budget adoption deadline.

Alix Bockelman

AB: RL

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FY 2014-15 State Budget Proposals — Cap & Trade Funding for Transportation & Housing

Governor	Assembly	Senate	Senate Staff recommendation
Total C&T approp: $850 million • $100 million for Sustainable Communities Strategy Grants Administered by SGC • $250 million for High Speed Rail • $50 million Rail Mod. Grants • $200 million for low-emission vehicle rebates Transportation subtotal: $600 m	Total C&T approp: $1,040 million • $400 million for local Sustainable Communities Grants administered by SGC. Broader eligibility than Governor's proposal. Includes: environmental mitigation, carbon farming, forest conservation, low-income home energy assistance program, urban forestry. • $400 million for state GHG reduction activities administered by SGC, such as energy efficiency upgrades, high-speed rail, intercity rail, fire prevention, waste diversion. • $200 million Low Emission Vehicle rebates TBD – minimum $200 m	***No transportation funding approved***	Total C&T approp: $830 million • $300 million for rail modernization, including high-speed rail, transit and intercity rail • $150 million for transit • $100 million for Sustainable Communities • $100 million for low-carbon transportation Transportation subtotal: $650 m
Disadvantaged Communities (DC)			
Final Cap and Trade Investment plan (May 2013) states that a minimum of 10% should be set aside for projects located in DCs. No specific reference to CalEnviroScreen. States that 25% of SCS implementation grants required to "benefit" DCs.	50% of funds shall be allocated "to" disadvantaged communities, *as defined regionally by MPOs.*	No proposal	No proposal

Senator Steinberg & Senator De León's Long-Term Investment Strategy for Cap-and-Trade Revenue

(June 3, 2014)

INTRODUCTION

California has long been an international leader on clean energy and climate efforts through energy efficiency requirements, renewable energy standards, natural resource conservation, and greenhouse gas emission standards for passenger vehicles.

In 2006, California established the nation's benchmark for greenhouse gas emission reductions with the passage of AB 32, the California Global Warming Solutions Act (Pavley). AB 32 required the State Air Resources Board to develop a scoping plan, including direct regulations, performance-based standards, and market-based mechanisms to achieve this level of greenhouse gas emission reductions.

The State Air Resources Board has implemented a Cap-and-Trade program under the general authority granted under AB 32 to implement market-based mechanisms. But, full pollution reductions cannot be achieved without a long-term strategy for investing the program's revenues effectively and affordably.

SB 535 of 2011 (de Léon) built upon the California climate program by recognizing the disproportionate impacts of greenhouse gases on disadvantaged and low-income communities in California including, for example, higher rates of respiratory illness, hospitalizations, and premature death from inordinately substandard air quality. It requires that 25 percent of cap-and-trade revenues be allocated to disadvantaged communities to reduce pollution.

Through SB 375 of 2008 (Steinberg), the Legislature recognized that without improved land use and transportation policy, California will not be able to achieve the goals of AB 32 because the transportation sector remained the single largest contributor of greenhouse gases of any sector in the State of California.

This long-term investment strategy of Cap-and-Trade revenue is deliberately designed to achieve the objectives of AB 32: a significant reduction in greenhouse gas emissions while mitigating a disproportionate impact of policies' strategy on California's low-income and disadvantaged communities.

Fundamentally, this long-term investment strategy embodies the objectives of cap-and-trade by ensuring that all expenditures are used to achieve maximum reductions in greenhouse gases. This long-term investment strategy is designed to curb human-induced global warming by reducing pollution from traffic and vehicle

trips through retrofitting our communities with more affordable and efficient transit, housing, and land uses. In doing so, this long-term investment strategy will improve public health and help Californians save money with convenient and affordable alternatives to spending more of their family budgets on ever-increasing fuel costs at the pump.

The objectives of this strategy will not be met overnight. It will take time and a long-term commitment to witness the environmental dividends of these investments. That is why it is imperative to act now.

###

FRAMEWORK

All investments must:

- Lead to reductions in greenhouse gas emissions (GHG), consistent with AB 32 (Pavley) of 2006;
- Be subject to a competitive ranking process to ensure those projects providing maximum feasible reductions in greenhouse gases are funded;
- Meet all existing constitutional and statutory requirements for use and allocation of Cap-and-Trade funds, including, but not limited to:
    - California Constitution Article XIII,
    - SB 375 (Steinberg) – The Sustainable Communities and Climate Protection Act of 2008, relating to transit-oriented development,
    - SB 535 (de Léon) – The California Communities Healthy Air Revitalization Trust of 2011, relating to ensuring disadvantaged communities receive at least 25 percent of funds,
    - SB 1018 (Budget and Fiscal Review Committee) of 2012, relating to agencies carefully reporting, documenting, and justifying expenditures of funds to protect against lawsuits.

INVESTMENT STRATEGY

I. A Permanent Source of Funding for Transit (25 percent)

a. ***Purpose:*** Funding for public transportation operators.

b. ***Parameters:***

   i. At least 5 percent of the transit amount would have to be used for direct transit assistance to consumers (could be in the form of passes, additional access, etc.).

c. ***Allocation method:*** Distributed based on GHG performance criteria.

II. A Permanent Source of Funding for Affordable Housing and Sustainable Communities (at least 20 percent)

a. ***Purpose:*** Support regional sustainable communities strategies including investments in affordable housing, transit-oriented development, land use planning, active transportation, high density mixed use development, transportation efficiency, and demand management projects.

b. ***Parameters:*** At least half of these funds (equivalent to at least 10 percent of total allocations) shall be used for affordable housing, centered in transit-oriented development and consistent with GHG reduction strategies.

c. ***Allocation method:*** Distributed through Strategic Growth Council (SGC) to regions. Projects selected based on competitive GHG performance.

III. Low Carbon Transportation (15 percent)

Purpose: Funding a comprehensive vision for cleaning up the state's cars, trucks, buses, and freight movement to meet federally mandated clean air requirements and California's long-term GHG goals. Specifically, providing funding for heavy-duty freight (including independent truckers), electric vehicle programs and rebates, and off-road vehicles, among others. Additionally, establishing programs for low and moderate-income earners.

IV. Energy (13 percent)

Purpose: Energy efficiency and renewable programs for low-income and commercial/industrial users, projects for agricultural energy, green bank funding for both commercial scale technology deployment and clean tech innovation.

V. Natural resources and Waste Diversion (7 percent)

Purpose: Urban forestry and parks in disadvantaged communities. Water efficiency infrastructure projects, forestry and landscape issues, wetland development, waste diversion, and recycling.

VI. A Permanent Source of Funding for High-Speed Rail (not more than 15 percent)

Purpose: Ongoing source for construction and operations of high-speed rail.

VII. A Permanent Source of Funding for Inter-City Rail (5 percent)

Purpose: Ongoing source for new or existing inter-city rail with distribution of funds based on GHG performance criteria, in addition to achieving other policy objectives such as expanding and improving rail service to increase ridership.

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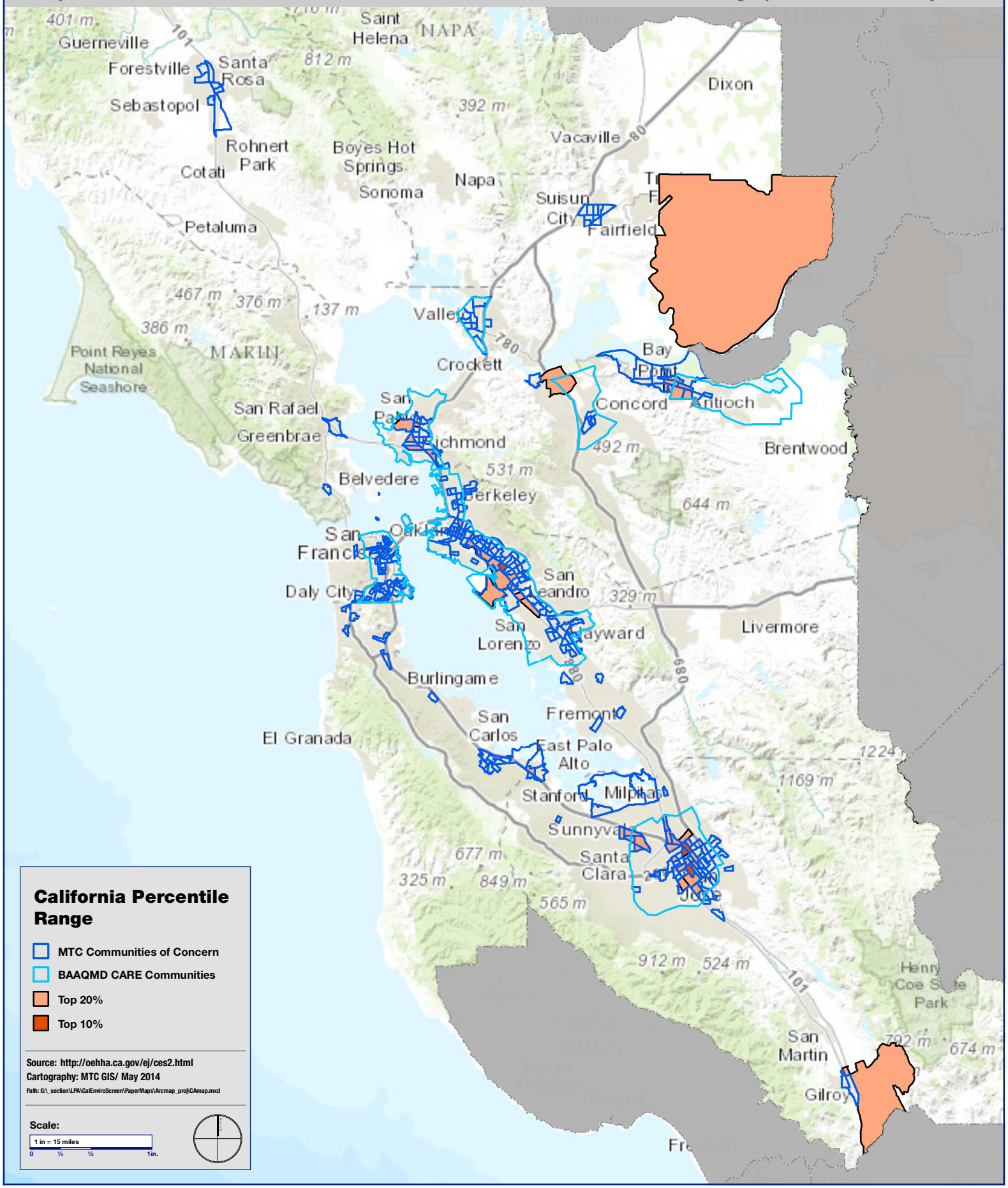
Comparison of CalEnviroScreen 2.0 with MTC "Communities of Concern" and Air District "CARE Communities"

Metropolitan Transportation Commission
Planning , Financing and Coordinating
Transportation for the nine-county
San Francisco Bay Area

Analytical Services

Geographic Information Systems