



**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: September 5, 2014
 FR: Deputy Executive Director, Policy W. I. 1131
 RE: Update on Guideline Development for Cap and Trade Funding

This memo provides a brief overview of the state’s rollout of the new Cap & Trade-funded transportation and affordable housing programs established by SB 862, a FY 2014-15 budget trailer bill. As we noted in our budget summary in July, there are three new programs that provide funding opportunities for local and regional transportation improvements and affordable housing:

Program	FY 2014-15 Statewide Amount	Share of Funds in FY 2015-16 +
The Affordable Housing & Sustainable Communities Program (AHSC)	\$130 million	20%
Transit and Intercity Rail Capital Program	\$25 million	10%
Low Carbon Transit Operations	\$25 million	5%

In August, the Strategic Growth Council held three workshops to help inform its draft guidelines for the AHSC program, while Caltrans and the California State Transportation Agency held joint workshops for the transit programs, as shown Attachment 1. For all three of these programs, the purpose of the workshops was to receive input *prior* to the release of the draft program guidelines.

The tentative schedule for the AHSC program development is as follows:

- Draft guidelines: Mid-September 2014
- Public workshops on the draft guidelines: Three more in October 2014
- Proposed final guidelines released: November 2014
- Guideline adoption: December 2014
- Funding solicitation released: January 2015
- Applications due: April 2014
- Awards announced: June 2014

With respect to the transit programs, CalSTA and Caltrans officials indicated in mid-August that the current schedule is as follows:

- Draft guidelines: Within the next several months
- Final guidelines: Early 2015
- Funds awarded: Before July 1, 2015

Definition of Disadvantaged Communities

As you know, another key issue affecting the implementation of these new programs is how the California Environmental Protection Agency (CalEPA) defines disadvantaged communities (DACs), for the purpose of achieving the legislatively mandated targets to invest a minimum of 10% of Cap & Trade Funds within a DAC and at least 25% of Cap and Trade funds benefiting a DAC. On August 19, CalEPA released a document that contains five different methods for defining DACs, all of which rely on a screening tool known as the CalEnviroScreen2.0 (CES2). In staff's view, none of the proposed methods satisfactorily meets the intent of SB 535 (DeLeon, 2012), which was to identify those communities in California that are most disadvantaged in terms of socioeconomic; factors and/or environmental exposures. Specifically, Health & Safety Code 39711 provides:

(a) The California Environmental Protection Agency shall identify disadvantaged communities for investment opportunities related to this chapter. These communities shall be identified based on geographic, socioeconomic, public health, and environmental hazard criteria, and may include, but are not limited to, **either** of the following:

- (1) Areas disproportionately affected by environmental pollution and other hazards that can lead to negative public health effects, exposure, or environmental degradation.
- (2) Areas with concentrations of people that are of low income, high unemployment, low levels of homeownership, high rent burden, sensitive populations, or low levels of educational attainment.

MTC staff has been working closely with the Bay Area Air Quality Management District on a revised measure that still incorporates 18 of 19 variables in CES2, but combines them in a different manner known as a “product of ranks,” that allows a census tract that scores particularly high on a few variables (such as proportion of low-income households, exposure to diesel particulate matter, high unemployment rate) to still be considered a DAC even if its scores on other variables were relatively low. The revised approach would also add “rent burden” as a new factor (expressly referenced as a potential factor to incorporate in SB 535) as a way to address cost of living differences throughout the state. Attachment 2, prepared by BAAQMD, provides a detailed overview of our shared concerns related to CES2 and their proposed Method 6.

Air Resources Board Guidance on GHG Reduction & How to Assign Project Benefits

SB 862 assigned the California Air Resources Board responsibility for developing funding guidelines for how administering agencies should achieve the DAC targets. On August 22, ARB released “interim guidance” proposing criteria for determining if a project “is located in” or “provides benefit to” a DAC. Attachment 3 includes two pages that focus on how transportation and housing projects would be evaluated. Staff is reaching out to transit operators and our Policy Advisory Council for input on the proposed methodology.

ARB was also charged with developing guidance for state agencies to determine whether or not a proposed expenditure will contribute to “achieving and maintaining greenhouse gas emission reductions.” ARB plans to host additional workshops prior to releasing and finalizing that guidance, which will include metrics to be tracked and reported for investments that benefit DACs and other GHG investments. ARB plans to present those guidelines for board approval in mid-2015.

Next Steps

Staff will continue to monitor and participate in the development of the state’s new Cap & Trade funding programs with the goal of creating programs that support the region’s priorities, position our projects to compete on an equal footing with the rest of the state, and leverage our expertise and that of our local partners. Further, staff plans to return to the Programming and Allocations Committee in October to report on alignment between the state’s Cap and Trade programs and guidelines and MTC’s adopted Cap and Trade Framework, MTC Resolution No. 4130.


Alix Bockelman

Legislation Committee
Item 4b
Attachment 1

Cap & Trade Funding Programs: Guideline Development Schedule

Program/Policy	Responsible Agency	Workshops Held to Date	Deadline for Public Comment
Identification of Disadvantaged Communities	California Environmental Protection Agency (CalEPA)	Fresno – August 25 Los Angeles – August 25 Oakland – September 3	September 15
Funding Guidelines for Meeting Disadvantaged Communities Targets	California Air Resources Board (ARB), in consultation with CalEPA	<i>Held in conjunction with above workshops</i>	September 15 (for interim guidelines; subsequent guidelines to be released in 2015)
Transit Capital and Intercity Rail Program	California State Transportation Agency	San Jose – August 21 Sacramento – August 22 Los Angeles – August 27	None — draft program guidelines not yet released
Low Carbon Transit Operations Program	Caltrans, in coordination with ARB	<i>Held in conjunction with above workshops</i>	None — draft program guidelines not yet released
Affordable Housing and Sustainable Communities Program	Strategic Growth Council, in coordination with member agencies “and other state entities, as needed”	Fresno – August 12, 2014 Oakland – August 14, 2014 Los Angeles – August 15, 2014	None — draft program guidelines not yet released

Concerns and Recommendations on CalEnviroScreen Bay Area Air Quality Management District August 26, 2014

How CalEnviroScreen works

- CalEnviroScreen was developed by the Office of Environmental Health Hazard Assessment (OEHHA) at the request of CalEPA as a screening tool to help identify disadvantaged communities.
- The most recent version of the tool, CalEnviroScreen 2.0 (August 2014), includes data on 19 indicators (see table below) for all census tracts in California.¹
- Indicators are divided into two broad groups: a Pollution Burden group, which includes Exposure and Environmental Effects indicators, and a Population Characteristics group, which includes Sensitive Populations and Socioeconomic Factors indicators.
- OEHHA has presented five approaches (Methods 1–5) for combining these indicators to arrive at overall scores. OEHHA has also stated that they will consider other approaches.²
- The approach favored by OEHHA to date (Method 1) ranks each of the 19 indicators and then averages them within each of the two groups (Pollution Burden and Population Characteristics). The two averages are then multiplied to produce an overall score.

Pollution Burden		Population Characteristics	
<i>Exposure Indicators</i>	Ozone Concentrations PM2.5 Concentrations Diesel PM Emissions Drinking Water Quality Pesticide Use Toxic Releases from Facilities Traffic Density	<i>Sensitive Populations Indicators</i>	Children and Elderly Low Birth-Weight Births Asthma Emergency Departmental Visits
<i>Environmental Effects Indicators</i>	Cleanup Sites (1/2) Groundwater Threats (1/2) Hazardous Waste (1/2) Impaired Water Bodies (1/2) Solid Waste Sites and Facilities (1/2)	<i>Socioeconomic Factors Indicators</i>	Educational Attainment Linguistic Isolation Poverty Unemployment
×		= CalEnviroScreen Score	

- CalEPA has proposed that overall scores from the chosen method be compared to a threshold, such that tracts with scores above the threshold will be identified as disadvantaged communities. The top 10%, 15%, 20%, and 25% have been proposed as possible thresholds.

Proposed Use of CalEnviroScreen for Prioritizing Cap-and-Trade Funds

- Under the State’s Global Warming Solutions Act (AB 32), the California Air Resources Board (ARB) sells a portion of the greenhouse gas emissions permits (or “allowances”) at quarterly auctions under the Cap-and-Trade program. The ARB allocates the auction revenues to

¹ For more information on CalEnviroScreen and data sets used for the 19 indicators, see “California Communities Environmental Health Screening Tool, Version 2.0,” August 2014, online at <http://www.oehha.ca.gov/ei/ces2.html>.

² For more on Methods 1-5 for scoring within CalEnviroScreen, see “Approaches to Identifying Disadvantaged Communities,” August 2014, online at <http://www.arb.ca.gov/cc/capandtrade/auctionproceeds/workshops/calepa-approaches-to-identify-disadvantaged-communities-aug2014.pdf>.

projects that support AB 32 objectives.

- Revenues from Cap-and-Trade are projected to be approximately \$15 billion through 2020.
- Additional State legislation—SB 535 (2012) and SB 862 (2014)—directs the State to allocate a portion of the Cap-and-Trade funds toward projects that benefit disadvantaged communities.
- At least 10% of Cap-and-Trade funds must be spent *within* disadvantaged communities and at least 25% must be spent to *benefit* impacted communities.³ Much higher percentages are required for some programs, such as the Affordable Housing and Sustainable Communities Program and the Low Carbon Transit Operations Program.
- CalEnviroScreen has been nominated as the tool that ARB will use to identify disadvantaged communities. However, CalEnviroScreen was not designed for the purposes of SB 535, and critical details have yet to be determined, such as the scoring method and threshold used to determine disadvantage. These will be finalized by the Secretary of CalEPA in September 2014.
- Cap-and-Trade auction proceeds will help to fund projects such as:
 - Improved transit: enhanced bus service, electric commuter rail, and high-speed rail;
 - Zero- and low-emission cars, truck, and freight technology;
 - Housing upgrades and retrofits: energy system upgrades, better insulation, improved lighting, improved water-use efficiency, and urban tree planting; and
 - New affordable housing near transit centers.

Bay Area Air District Concerns

- The Bay Area Air Quality Management District (Air District) strongly supports prioritizing funding to disadvantaged communities. In fact, the Air District has set an example with its Community Air Risk Evaluation (CARE) program, which has prioritized funding for disadvantaged areas over the last six years.

Overlooked Communities

- While supporting the intent of SB 535, the Air District has serious concerns because CalEnviroScreen Methods 1–5 fail to identify many communities known to be disadvantaged. The problem is especially apparent in the Bay Area (see Figure 1 below). Communities with some of the highest poverty rates and greatest health burdens are not identified. For example, current approaches for scoring CalEnviroScreen indicators fail to identify:
 - Bay View/Hunter’s Point in San Francisco,
 - Portions of West Oakland adjacent to the Port of Oakland,
 - Portions of Richmond, and
 - Portions of San Jose.
- CalEnviroScreen Method 1 using a 20% threshold (Figure 1) identifies less than 3% of Bay Area census tracts as disadvantaged. Increasing the threshold to 25% would still only identify 5% of Bay Area census tracts as disadvantaged.

Scoring Approach

- If Methods 1–5 were applied, many census tracts in the Bay Area would not have overall scores in the top 20%, in spite of having serious health burdens that are in the top 20% statewide. This is true, for example, for asthma and low birth weight infants, which are the two health indicators included in CalEnviroScreen. Such communities would not be recognized

³ ARB’s draft Interim Guidance “Investments to Benefit Disadvantaged Communities, Draft for Comment” (August 22, 2014) is available online: <http://www.arb.ca.gov/cc/capandtrade/auctionproceeds/auctionproceeds.htm>

as disadvantaged by the State, and hence would not be prioritized for SB 535 funding and improvements. Yet surely these communities were intended to be included.

- For a census tract to have a top overall score under Methods 1-5, it has to score relatively high across each of CalEnviroScreen's 19 indicators. Areas that rank highest for some indicators, but relatively low for other indicators can be overlooked. Scoring within CalEnviroScreen should ensure that areas with top scores on a few indicators are represented.
- The Air District's concerns on CalEnviroScreen scoring are long standing, as expressed in our May 27, 2014, comment letter on CalEnviroScreen Version 2.
- The Air District's concerns are supported by the May 28, 2014, comment letter submitted to OEHHA by the Public Health Alliance of Southern California, who wrote, "Our analysis suggests that [CalEnviroScreen's] current weighting of variables, such as social determinants of health, under-represents factors strongly associated with public health disadvantage."

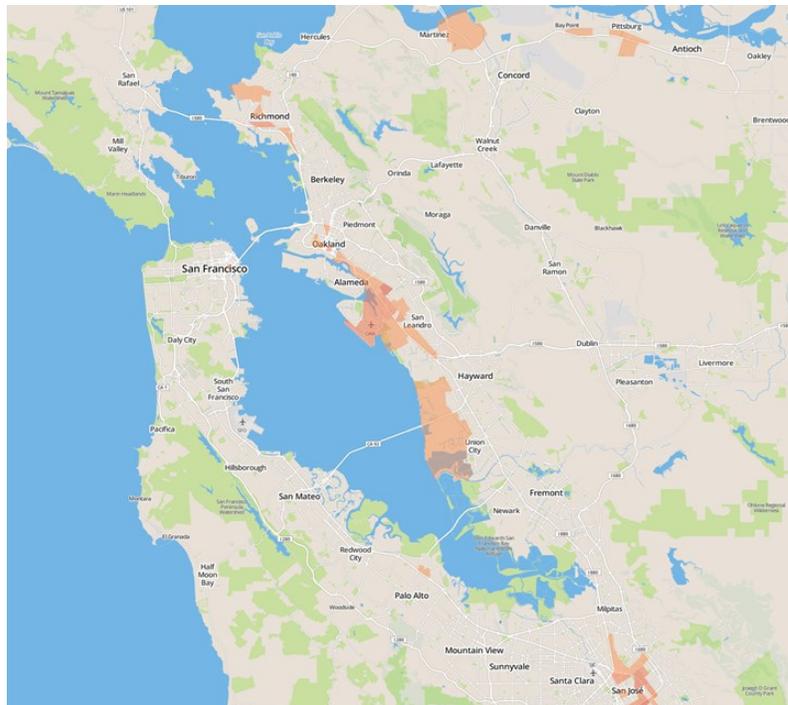


Figure 1. Applying Method 1 with a 20% threshold would result in fewer than 3% of Bay Area census tracts identified as disadvantaged.

Weighting of Indicators and Missing Data

- Methods 1–5 weight the Environmental Effects indicators by a factor of $\frac{1}{2}$. However, there is no scientific justification for weighting the Environmental Effects indicators and not weighting other indicators where information exists to guide the selection of relative weights. For example, many health studies have determined that exposure to diesel PM and proximity to traffic have much greater health impacts than exposure to ozone, yet these Exposure indicators all receive the same weight.
- The Poverty indicator within CalEnviroScreen does not account for significant regional differences in cost of living. Failing to take housing costs and costs of other essentials into consideration biases scores against low-income residents in regions with high living costs. SB

535 specifically mentions rent burden as a factor to consider, yet current indicators do not represent this burden.

- One of the CalEnviroScreen Pollution Burden indicators is Pesticide Use. However, data for this indicator only includes agricultural pesticide use. We know from scientific studies that urban residents—especially in poor, inner-city housing developments—can be exposed to pesticides at levels that can match the highest of those for rural residents. Yet urban areas receive a Pesticide Use score of zero because this indicator is missing data on urban pesticide use.

Air District Proposed Changes to CalEnviroScreen

Proposed Ranking Method

- The Air District has proposed a new method for scoring CalEnviroScreen data (Method 6) called the ranked product method. As in Methods 1–5, sub-scores are calculated for all census tracts from each of the same 19 indicators used in CalEnviroScreen. These values are then simply multiplied together.⁴
- Advantages of this method include:
 - It ensures that communities with high scores on a few indicators will be represented; and
 - It is used within the scientific community to score datasets with many ranked variables.
- Figure 2, compared to Figure 1, shows that Method 6 is more consistent with assessments of health disparities conducted by Bay Area⁵ health agencies and community groups compared to Method 1.

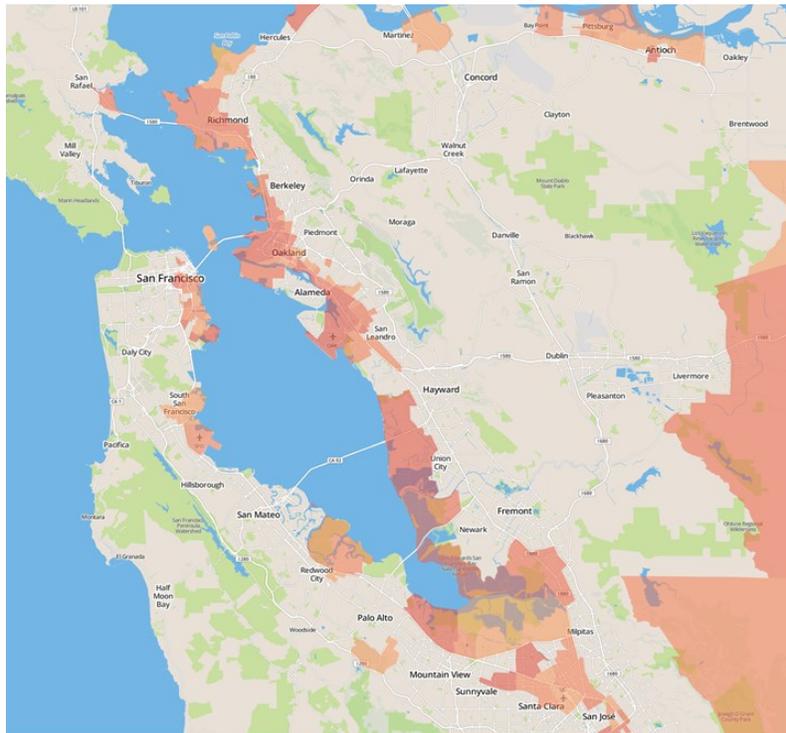


Figure 2. Top 20% of CalEnviroScreen scores from the proposed Method 6.

⁴ Percentiles are expressed as ranks, with number one being the top. Top 20% tracts have combined scores close to one.

⁵ Statewide scores are available on request.

Other Near-Term Recommendations

- Increase relative weights for Diesel PM Emissions indicators and Traffic Density indicators or remove ½ weights from Environmental Effects indicators.
- Supplement the Poverty indicator with a cost-of-living adjustment, and/or include a Housing Affordability indicator to take into account substantial cost-of-living differences with respect to housing affordability, namely the share of “rent burdened households,” which the Census Bureau defines as the percent of households that spend over 50% of their income on rent.
- Supplement the Pesticide Use indicator with urban pesticide exposure data, or drop the Pesticide Use indicator altogether.
- Set the threshold for determining disadvantage at the top 30%, rather than the top 20% or 25%. This will reduce the risk of overlooking disadvantaged communities.
- State agencies should form regional Investment Boards with representation from disadvantaged community members to help prioritize projects within their communities.

Longer-Term Recommendations

- To improve the allocation of Cap-and-Trade funding within disadvantaged communities in future years, it will be crucial for CalEPA to develop a formal process and a schedule for making improvements to CalEnviroScreen.
- The review process should include explicit comparisons between CalEnviroScreen and measures of public health disadvantage.



Investments to Benefit Disadvantaged Communities Senate Bill 535 (De León, Chapter 830, Statutes of 2012)

Cap-and-Trade Auction Proceeds **Interim Guidance to Agencies Administering Greenhouse Gas Reduction Fund Monies**

DRAFT FOR COMMENT

Release Date: August 22, 2014
Comments Due: September 15, 2014
Board Consideration: September 18, 2014

California Environmental Protection Agency
 **Air Resources Board**

APPENDIX 1

This Appendix contains draft criteria that agencies will use to determine whether a project is located within or provides benefits to a disadvantaged community.

Much of the criteria in this Appendix are based on a project being located within the boundaries of a disadvantaged community or a specified distance from the boundary of a disadvantaged community. Maps that identify the census tract boundaries of disadvantaged communities will be available on the CalEnviroScreen 2.0 website (<http://oehha.ca.gov/ej/ces2.html>) after the Secretary for Environmental Protection finalizes the identifications of those communities in September 2014.

To support implementation of the criteria in the final Interim Guidance, ARB expects to post on the program website (<http://www.arb.ca.gov/auctionproceeds>) supplemental maps that show: the disadvantaged community census tracts with a ½ mile extended zone around the tract boundary, ZIP codes containing one or more census tracts identified as a disadvantaged community, and a list of impacted corridors.

The criteria in this Appendix are to be used in a two-step process to evaluate each project.

Step 1 – Located Within: First, agencies should find the appropriate table for their project type and evaluate the project to see if it meets the criteria for being located within a disadvantaged community. If the project meets the located within criteria, which also requires the project to provide benefits to a disadvantaged community, the funding can be counted toward the SB 535 targets and no further evaluation is needed.

Step 2 – Provides Benefits To: If the project does not meet the criteria for “located within,” agencies should move to this second step and evaluate whether the project meets the criteria for providing benefits to one or more disadvantaged communities.

Please note that agencies can use their GGRF appropriations to fund projects that do not meet the criteria in this Appendix; however, only the subset of projects that meet the criteria in this Appendix will be credited toward achieving the SB 535 targets for investments in disadvantaged communities.

This Appendix contains draft criteria tables for the project types listed below. These tables are a starting point for public review and further discussion with administering agencies. ARB staff may propose amendments to modify or remove existing criteria, or to add new criteria if there are significant benefits to disadvantaged communities that can be reasonably assured.

1-1 Low-Carbon Transit Projects: Projects will achieve GHG reductions by reducing passenger vehicle miles travelled through incentives, infrastructure, or operational improvements (e.g., providing better bus connections to intercity rail, encouraging people to shift from cars to mass transit).

DRAFT CRITERIA TO EVALUATE PROJECTS

Potential administering agencies: CalSTA/CTC and Caltrans/Local Transit Agencies

Step 1 – Located Within: Evaluate the project to see if it meets at least one of the following criteria for being located in a DAC census tract* and provides a desirable benefit to a DAC.

Project must meet at least one of the following criteria focused on increasing transit service or improving transit access for DAC residents, or reducing air pollution in a DAC:

- A. Project provides improved transit or intercity rail service for stations/stops in a DAC (e.g., new transit lines, more frequent service, rapid bus service for DAC residents).
- B. Project provides transit incentives to residents with a physical address in a DAC (e.g. vouchers, reduced fares).
- C. Project improves transit connectivity at stations/stops in a DAC (e.g. network/fare integration, better links between transit and active transportation).
- D. Project improves connectivity between travel modes for vehicles or equipment that service stations/stops in a DAC (e.g., bicycle racks on bus or rail).
- E. Project creates or improves infrastructure or equipment that reduces air pollution at a station/stop in a DAC (e.g., auxiliary power, charging stations).
- F. Project creates or improves infrastructure or equipment that reduces air pollution on regular routes that are primarily within a DAC (e.g., rail electrification, zero-emission bus).

Step 2 – Provides Benefits To: If the project does not meet the above criteria for “located within,” evaluate the project to see if it meets at least one of the following criteria for providing a desirable benefit to a DAC.

Project must meet at least one of the following criteria focused on increasing transit service or improving transit access for DAC residents, or reducing air pollution in a DAC:

- A. Project provides improved local bus transit service for riders using stations/stops within ½ mile of a DAC (e.g., more frequent service, rapid bus service).
- B. Project improves local bus transit connectivity for riders using stations/stops within ½ mile of a DAC (e.g., better links to active transportation, bicycle racks on local bus).
- C. Project provides improved intercity rail (and related feeder bus service), commuter bus or rail transit service for riders using stations/stops in a ZIP code that contains a DAC census tract (e.g., new lines, express bus service).
- D. Project provides improved intercity rail (and related feeder bus service), commuter bus or rail transit connectivity for riders using stations/stops in a ZIP code that contains a DAC census tract (e.g., network/fare integration, better links between local bus and intercity rail, bicycle racks on rail).
- E. Project will increase intercity rail (and related feeder bus service), commuter bus or rail transit ridership, with at least 25% of new riders from DACs.
- F. Project includes recruitment, agreements, policies or other approaches that result in at least 25% of project work hours performed by residents of a DAC.
- G. Project includes recruitment, agreements, policies or other approaches that result in at least 10% of project work hours performed by residents of a DAC participating in job training programs which lead to industry-recognized credentials or certifications.

* For maps of DAC census tracts, refer to <http://oehha.ca.gov/ej/ces2.html>

1-2 Affordable Housing and Sustainable Communities Projects: Projects will achieve GHG reductions by reducing vehicle miles travelled (e.g., increasing accessibility of housing, employment centers, and key destinations via low-carbon transportation options such as walking, biking, and transit).

DRAFT CRITERIA TO EVALUATE PROJECTS

Potential administering agencies: SGC

Step 1 – Located Within: Evaluate the project to see if it meets at least one of the following criteria for being located in a DAC census tract* and provides a desirable benefit to a DAC.

Project must meet the following criteria focused on reducing passenger vehicle miles travelled, while addressing housing needs and other regional planning objectives for DAC residents:

- A. A majority (50%+) of the project is within one or more DACs and reduces vehicle miles travelled, and the project is designed to avoid displacement of DAC residents and businesses.

Step 2 – Provides Benefits To: If the project does not meet the above criteria for “located within,” evaluate the project to see if it meets at least one of the following criteria for providing a desirable benefit to a DAC.

Project must meet at least one of the following criteria focused on reducing passenger vehicle miles travelled, while addressing housing needs and other regional planning objectives for DAC residents:

- A. Project is within ½ mile of a DAC and reduces vehicles miles travelled, and is designed to avoid displacement of DAC residents and businesses.
- B. Project includes recruitment, agreements, policies or other approaches that result in at least 25% of project work hours performed by residents of a DAC.
- C. Project includes recruitment, agreements, policies or other approaches that result in at least 10% of project work hours performed by residents of a DAC participating in job training programs which lead to industry-recognized credentials or certifications.

* For maps of DAC census tracts, refer to <http://oehha.ca.gov/ej/ces2.html>