

Metropolitan Transportation Commission Programming and Allocations Committee

October 8, 2014

Item Number 3a

Cap & Trade Funding Framework Update

Subject: Achieving the Region's Cap and Trade Framework

Background: Plan Bay Area included a \$3.1 billion reserve from future Cap and Trade revenues. In December 2013, MTC approved a Cap and Trade Funding Framework (MTC Resolution No. 4130) establishing a set of investment categories and initial funding amounts in anticipation of future legislation. These categories and amounts are shown below.

Table 1: Regional Cap and Trade Framework

Funding Category	Amount (\$ millions)
Transit Core Capacity Challenge Grants Program	\$875
Transit Operating and Efficiency Program	\$500
One Bay Area Grants (OBAG)	\$1,050
Climate Initiatives	\$275
Goods Movement	\$450
TOTAL	\$3,150

Over the summer, the state approved legislation to establish the statewide programs for Cap & Trade revenue investments. Now that the State has acted, MTC staff is considering how the regional framework fits with the enacted State legislation. The state administering agencies have convened a number of public workshops, but many crucial details remain unknown at this time regarding project eligibility, selection processes, and evaluation metrics. Draft guidelines have not yet been released for many of the programs. Staff provides this item for information, and intends to return to the Commission with recommendations as the various programs take shape.

Overview of State Programs

In June 2014, the FY2014-15 State budget appropriated \$872 million in statewide Cap and Trade funding across various program categories. Additionally, the Legislature also enacted a trailer bill, Senate Bill 862, providing a long-term funding framework by allocating percentages of future funds across similar, but not identical, program categories.

The amount of future revenues to be generated through State Cap and Trade allowance auctions will depend upon allowance price and the number of allowances sold at the auctions. MTC assumes \$2.5 billion in statewide annual funding for FY2015-16 and beyond. This amount represents roughly half of the most optimistic projections contained in the state legislative proposals. Using this assumption, the following table shows estimated statewide cap and trade revenue by program for the statewide categories for FY2015-16 and beyond.

Table 2: Statewide Cap and Trade Programs, FY2015-16 and Beyond (\$ millions)

Statewide Revenue Framework		FY2015-16 and Beyond – Annual Funding
Total Generations	%	\$2,500
Uncommitted Funding	40%	\$1,000
High Speed Rail	25%	\$625
Low Carbon Transit Operations Program	5%	\$125
Transit & Intercity Rail Capital Program	10%	\$250
Affordable Housing and Sustainable Communities Program	20%	\$500

Achieving the Region’s Cap and Trade Framework

Staff proposes the following strategy to deliver the adopted Cap and Trade Funding Framework within the enacted state Cap and Trade program. The table below shows the approved MTC funding framework and amounts, the Cap and Trade target amount, and the State Cap and Trade program best associated with each category.

Table 3: Summary of MTC Framework by Category, Amount, and State Cap and Trade Category (\$ millions)

MTC Framework Category	MTC Framework Adopted Amount *	Cap & Trade Target Amount	Cap & Trade Program and Responsible State Agency
Core Capacity	\$875	\$875	Transit and Intercity Rail Capital Program (CalSTA)
Transit Operating	\$500	\$409	Low Carbon Transit Operations (Revenue based) (Caltrans, CARB)
		\$91	Low Carbon Transit Operations, (Population Based) (Caltrans, CARB)
OBAG	\$1,050	\$1,050	Affordable Housing & Sustainable Communities (SGC/HCD)
Climate Initiatives	\$275	TBD	40% Uncommitted Category (Unknown)
Goods Movement	\$450	TBD	40% Uncommitted Category (Unknown)

**Based on Plan Bay Area assumption of \$3.1 billion in Cap & Trade regional revenues over 25 years*

Staff believes there is an overall alignment between the core capacity, transit operating, and OBAG components of the region’s framework and the associated State Cap and Trade programs. At this point in time, staff

proposes to maintain the existing framework in these three programmatic areas. In upcoming weeks, staff will continue to coordinate with our regional partners on moving the adopted framework forward.

Further details on MTC's proposal to achieve the region's Cap and Trade framework are included in the attachments to this item.

Issues:

Disadvantaged Communities Definition: Based on program fact sheets provided by the state agencies, the Transit and Intercity Rail Capital Program, the Low Carbon Transit Operations Program, and the Affordable Housing and Sustainable Communities (AHSC) program must target grants such that various levels of program expenditures will benefit disadvantaged communities. However, there is a significant mismatch between the California Environmental Protection Agency's Cal Enviroscreen model that is being used to define which communities are disadvantaged, compared to MTC's Communities of Concern approach. Additionally, the California Air Resources Board (CARB) is responsible for developing criteria for administering agencies to evaluate benefits to disadvantaged communities across different project types. CARB approved interim guidance on September 18 but full funding guidelines are not scheduled to be approved until mid-2015.

GHG Emission Calculations: By statute, projects must demonstrate how they reduce GHG emissions, subject to methodology and reporting requirements established by CalEPA and CARB. To date, those agencies have not released guidelines on how GHG emissions are to be calculated.

Multi-Year Commitments: The competitive nature of the Transit and Intercity Rail program and of the AHSC program may make multi-year Core Capacity and OBAG commitments challenging. This could be somewhat mitigated if the state administering agencies adopt a multi-year program.

Affordable Housing and Sustainable Communities: The AHSC program will target at least 50% of funding to provide housing opportunities for lower income households. While the program's broad eligibility includes active transportation, transit-oriented development projects and complete streets capital projects, as in OBAG, it is conceivable that much greater than one-half the funds will be prioritized for projects with a strong nexus to housing. Overall, the program is unlikely to mirror the project types or county funding distribution factors used in MTC's OBAG program.

Climate Initiatives and Goods Movement: The MTC framework included \$275 million for the regional Climate Initiatives Program, and \$400 million for a Goods Movement Program. The path for achieving these commitments via the existing state Cap and Trade programs is less clear.

However, there may be opportunities to achieve them by seeking annual funds via the 40% uncommitted portion of Cap and Trade.

High Speed Rail: The statewide program includes a 25% share for High Speed Rail. Given the regional commitment to funding the Caltrain Electrification Program (the 9-Party MOU), which already includes funding from state High Speed Rail bonds (Proposition 1A), the region may consider whether the Cap & Trade High Speed Rail program presents funding opportunities for the Caltrain modernization program.

Fund Estimate: Based on our estimate of \$2.5 billion in annual statewide Cap & Trade Funding, over a 25-year time horizon there could be a surplus programming capacity beyond the commitments in the MTC framework. This would allow for additional categories of projects on additional projects within existing categories to be considered for regional support.

Stakeholder Involvement: In recent weeks, MTC staff have partnered with the other regional agencies to provide comments to the state agencies on disadvantaged communities identification and benefits. Staff has also held preliminary discussions with the region's transit operators and congestion management agencies on the transit and sustainable community elements of their framework. In the coming weeks, staff will continue to coordinate with our regional and local partners on the above issues as the Cap and Trade programs take shape.

We welcome Committee questions and discussion of how to move forward with the Cap and Trade Funding Framework.

Recommendation: None. Information and Discussion only.

Attachments: Attachment A: Presentation Overview of Cap & Trade Funding Framework
Attachment B: Overview of State Cap and Trade Transportation Programs
Resolution 4130 (Information only, no changes recommended)
Resolution 4123 (Information only, no changes recommended)

Achieving the Region's Cap & Trade Framework



Policy Advisory Council

October 8, 2014

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Regional Framework

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- Plan Bay Area included \$3.1 billion in Cap & Trade Revenues over 25 year period
- Framework adopted in December 2013:

Funding Category	Amount (\$ millions)
Transit Core Capacity Challenge Grant Program	875
Transit Operating and Efficiency Program	500
One Bay Area Grants	1,050
Climate Initiatives	275
Goods Movement	450
TOTAL	\$3,150

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Enacted State Programs

- FY2014-15 state budget included \$872 million for Cap & Trade programs
- SB862 established long term framework (FY2015-16 to FY2019-20)
 - Establishes program categories
 - Establishes funding percentages
 - Identifies implementing state agencies
 - Provides preliminary guidance in some program areas

Statewide Cap and Trade Programs: FY2015-16 and Beyond

Statewide Revenue Framework		FY2015-16 and Beyond Annual Funding (\$ millions)	State Agency
Total Generations	%	\$2,500	
Uncommitted Funding	40%	\$1,000	Unknown
High Speed Rail	25%	\$625	HSRA
Low Carbon Transit Operations Program	5%	\$125	Caltrans, CARB
Transit & Intercity Rail Capital Program	10%	\$250	CalSTA
Affordable Housing and Sustainable Communities Program	20%	\$500	SGC/HCD

- Assumes \$2.5 billion in statewide annual funding for FY2015-16 and beyond; actual revenues will be determined based on auctions

Achieving the Region's Cap and Trade Framework

- Overall, regional strategy is a reasonable fit with State programs

- Achieving strategy will require:
 - Regional solidarity
 - Working closely with State agencies on guidelines and program development

Achieving the Region's Cap and Trade Framework

MTC Framework Category	MTC Framework Adopted Amount *	Cap & Trade Target Amount	Cap & Trade Program
Core Capacity	\$875	\$875	Transit and Intercity Rail Capital Program
Transit Operating	\$500	\$409	Low Carbon Transit Operations (Revenue based)
		\$91	Low Carbon Transit Operations, (Population Based)
One Bay Area Grant Program (OBAG)	\$1,050	\$1,050	Affordable Housing & Sustainable Communities
Climate Initiatives	\$275	TBD	40% Uncommitted Category
Goods Movement	\$450	TBD	40% Uncommitted Category

Shown in \$ millions.
**Based on Plan Bay Area assumption of \$3.1 B over 25 years from Cap and Trade revenues.*

Core Capacity Challenge Grant Program (CCCGP) ⁷

- **\$7.5 billion** regional commitment to fund key transit capital replacement and rehab needs
- Leverages regional and local funds, including **\$875 million** in Cap and Trade revenue for GHG reduction projects

Agency/Project	MTC Adopted Framework- Cap and Trade funds	Transit Capital Competitive Program 25 Year Total Funding
BART: Train Control	\$126	\$126
SFMTA: Fleet Enhance & Expand	\$400	\$400
SFMTA: Facilities	\$67	\$67
AC Transit: Fleet Expansion	\$45	\$45
AC Transit: Facilities	\$162	\$162
VTA: BART to San Jose Railcars	\$75	\$75
TOTAL	\$875	\$875

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Transit Operating and Efficiency Program ⁸

Core Capacity Operator	40%
AC Transit	\$35
BART	\$54
SFMTA	\$111
Subtotal	\$200
Other Operator	60%
Caltrain	\$35
Golden Gate (w Marin Transit)	\$22
SamTrans	\$44
VTA	\$140
Subtotal	\$241
ACE	\$1.8
CCCTA	\$10.3
ECCTA	\$8.1
Fairfield + Suisun	\$2.9
LAVTA	\$5.4
NCTPA	\$2.5
Santa Rosa	\$9.7
SolTrans	\$4.8
Sonoma County	\$4.3
Union City	\$1.5
Vacaville	\$1.3
WCCTA	\$3.8
WETA	\$2.7
Subtotal	\$59
Total	\$500

Shown in \$ millions

Program

- \$500 million program to support Plan Bay Area goal of a more robust and expanded public transit network, anchored by expanded local service.
- Formula based on ridership, with focus on low-income and minority ridership
- Transit Operating Commitment is funded entirely through Cap and Trade revenues.

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Transit Issue: Annual Amounts and Multi-Year Commitments

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- While FY 2014-15 Cap and Trade funding amounts are known, future year amounts are more speculative and may be volatile
- Small annual funding amounts for the Low-Carbon Transit Operations program could prove challenging
- CCCGP framework is a long-term commitment with a number of large multi-year investments
- Multi-year funding commitments from the state will be vital for predictability and contract administration

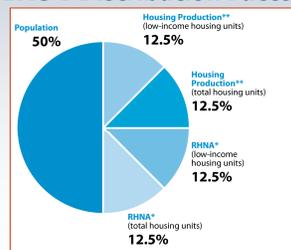
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One Bay Area Grant Program (OBAG)

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- MTC framework includes a \$1,050 million augmentation of OBAG to fund transportation improvements near high quality transit and higher density housing
- Funding distribution based on population and housing factors
- Eligible projects include bike/ped improvements, complete streets, station improvements, streetscape projects, & local streets rehab

OBAG I Distribution Factors



*RHNA 2014-2022
**Housing Production Report 1999-2006, ABAG

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Issue: OBAG and AHSC Alignment

- AHSC draft guidelines' emphasis on affordable housing creates challenges and opportunities for the region.
- **Challenges:**
 - Numerous eligibility requirements limit flexibility for project sponsors
 - May be difficult to implement projects quickly
 - No guarantee OBAG distribution formula can be achieved
 - Regional MPO role still uncertain

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Issue: OBAG and AHSC Alignment

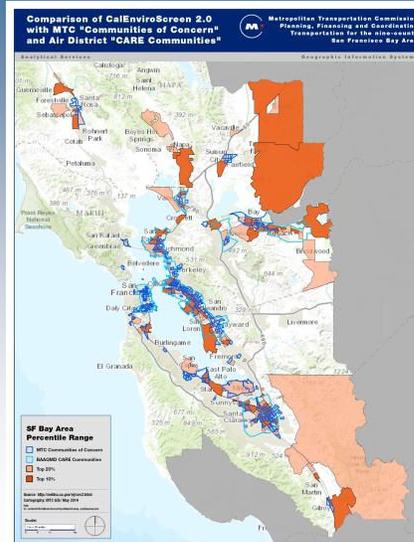
- **Opportunities:**
 - MTC, ABAG, and local agency staff can identify transformative projects
 - Potential to leverage gap financing & grants for the Bay Area Transit-Oriented Affordable Housing Fund (TOAH)
 - Separate Ag Lands component (administered by Natural Resources Agency) may align with the region's Priority Conservation Areas program

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Other Issues- Disadvantaged Communities Definition

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- CalEPA CalEnviroScreen methods exclude many census tracts at risk for poor air quality
- Not much overlap with MTC's Communities of Concern
- Of the top 10 most impoverished census tracts in region, not one is included in CalEPA's "Method 1"
- MTC and regional partners have proposed specific modifications to the criteria



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Other Issues- GHG Calculations

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- By statute, projects must demonstrate how they reduce GHG emissions
- CalEPA and CARB have not yet released guidelines on methodology
- For transit capital projects, region must make the case for the GHG benefits associated with:
 - Fleet modernization
 - Service expansions resulting from facilities improvements, train control

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Stakeholder Involvement

- **MTC is partnering with regional agencies, CMAs, and transit operators on the following:**
 - Comments to state agencies on guideline development
 - Disadvantaged communities definition
 - Achieving regional Cap and Trade transportation commitments

Next Steps

- **Committee feedback**
- **Work with regional partners and state agencies on:**
 - **Guideline development**
 - **Calls for projects**

Attachment B: Cap & Trade Transportation Program Overview Pursuant to SB 862 (Chapter 36, Statutes of 2014)

Program	Who Administers/ Who Selects Projects?	Project Eligibility	Disadvantaged Community Target
<p>Affordable Housing and Sustainable Communities Program</p> <p>20% of Cap & Trade Revenue <i>(at least half dedicated to affordable housing)</i></p>	<p>Strategic Growth Council (in coordination with MPOs and other regional agencies)</p>	<ul style="list-style-type: none"> • Affordable housing that supports infill and compact development • Transit capital and programs “supporting transit ridership” • Active transportation projects (infrastructure & non-infrastructure) • TOD projects • Capital projects that implement complete streets • Projects that reduce GHG emissions by reducing auto trips and VMT • Acquisition of easements or other approaches to protect agricultural lands under threat of development • Planning to support SCS implementation, including local plans • Must be in draft or adopted SCS. • Subject to guidelines to be released in draft 30 days prior to at least two public workshops. 	<p>≥ 50% of funds should benefit DCs</p>

Program	Who Administers/ Who Selects Projects?	Project Eligibility	Disadvantaged Community Target
Transit and Intercity Rail [and Bus] Capital Program 10% of Cap & Trade Revenue	California State Transportation Agency reviews and scores projects & develops program guidelines. California Transportation Commission allocates funds.	<ul style="list-style-type: none"> • Rail capital • Bus rapid transit and other bus investments to increase ridership and reduce GHGs • Service improvements that improve reliability and decrease travel times • Integrated ticketing and scheduling systems, shared-use corridors, related planning efforts and service integration initiatives • Must be consistent with SCS • Subject to guidelines to be released in draft 30 days prior to at least two public workshops. 	$\geq 25\%$ of funds should benefit DCs
Low Carbon Transit Operations Program 5% of Cap & Trade Revenue	Operator (or regional transportation planning agency for population-based funds) must submit project to Caltrans for approval and verification that it qualifies as a GHG reducing project. Controller allocates funds.	Transit capital and operating expenses that enhance transit service and reduce GHG emissions Support new or expanded bus or rail services, or expanded intermodal facilities and equipment, fueling and maintenance for those facilities.	$\geq 50\%$ of funds should benefit DCs
High Speed Rail 25% of Cap & Trade Revenue	High Speed Rail Authority	<ul style="list-style-type: none"> • Acquisition and construction • Environmental review and design • Other capital costs • Repayment of loans made to the authority 	NA