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## *Memorandum*

TO: Policy Advisory Council

DATE: February 4, 2015

FR: Matt Maloney, Principal, Programming and Allocations

RE: Cap and Trade Update

MTC has been closely monitoring three State Cap and Trade programs- 1) Affordable Housing and Sustainable Communities (AHSC) Program; 2) Transit and Intercity Rail Capital Program (TIRCP) and 3) Low Carbon Transit Operations Program (LCTOP). This memo provides a brief update on these programs— interested readers should consult the program guidelines linked below for more detailed information. Please also refer to Attachments A and B for additional information on key dates and the Strategic Growth Council’s summary of AHSC’s major eligibility requirements.

MTC has maintained close coordination with our state and regional partners to ensure that final program guidelines respond to the diversity and complexity of the Bay Area’s land use, job center locations, and transportation priorities. MTC has limited formal responsibility over these funding programs, beyond programming authority for the population-based component of the LCTOP and an advisory role with AHSC project evaluation.

The remainder of this memo summarizes these three programs in turn.

### **Affordable Housing and Sustainable Communities (AHSC) Program**

The AHSC Program will provide grants and loans for affordable housing, infill and compact transit-oriented development, and infrastructure connecting these projects to transit. The Strategic Growth Council (SGC) and Department of Housing and Community Development (HCD) are responsible for the overall administration of the program, including project evaluation and the approval of funding awards. The Budget Act of 2014 appropriates \$130 million from the Greenhouse Gas Reduction Fund (GGRF) for the FY2014-15 AHSC Program, and SB 862 apportions 20 percent of the GGRF’s proceeds on an annual basis to the AHSC program beginning in FY2015-16. Final AHSC guidelines were approved on January 20. Please find the final guidelines at: [http://www.sgc.ca.gov/docs/AHSC-FINAL\\_GUIDELINES.pdf](http://www.sgc.ca.gov/docs/AHSC-FINAL_GUIDELINES.pdf)

The AHSC guidelines provide regional agencies with two opportunities to advise project selection. Step 1 includes a review of initial concept applications for support of Sustainable Communities Strategies (SCS) implementation and Step 2 includes a review of full applications, state and MPO consultation, and project recommendations to the SGC. The role for regional agencies is advisory, meaning that SGC retains the ultimate project selection authority. On February 11, MTC staff will present a set of proposed regional principles to the Programming and Allocations Committee for guiding the prioritization of final applications, included as Attachment C.

### Concept Proposals

All applicants must submit a required concept proposal to HCD by February 19. Concept proposals must contain project descriptions, funding amounts, and applicant information, describe GHG reduction strategies, and demonstrate SCS consistency and project readiness. MPOs are invited to review the concept proposals' support of SCS implementation. Given the AHSC program timeline provided by SGC, this process must take place between February 19 and early March. MTC and ABAG will jointly review concept proposals for support of Plan Bay Area. In general, concept proposals should:

- Increase the affordability, affordability and diversity of housing;
- Help further a network of complete communities connected by high-frequency transit; and
- Target investments in Priority Development Areas (PDAs), in keeping with the One Bay Area Grant (OBAG) program.

During this period the State will also perform a review of statutory and programmatic thresholds. On March 11, the State will invite select applicants to submit full applications.

### Final Applications

Final applications are due to HCD on April 15. HCD will score the proposals using multiple criteria under three main scoring elements: GHG reduction, feasibility and readiness, and policy objectives. Between April 15 and early May, MTC, in coordination with ABAG staff will prioritize project proposals using a set of adopted regional principles. The Commission will consider these project recommendations in May and following approval, MTC will submit the priority project to SGC for their consideration. HCD will release staff award recommendations in mid-June, and SGC will consider and approve staff recommendations for awards in late June.

### **Transit and Intercity Rail Capital Program (TIRCP)**

The TIRCP is a statewide competitive transit capital program with wide project eligibility including rail capital projects, intercity and commuter rail projects, rail integration implementation, and bus transit investments. The California State Transportation Agency (CalSTA) is responsible for the overall administration of the program. The TIRCP is appropriated \$25 million of 2014-15 funds, as well as 10 percent of future Cap and Trade auction proceeds deposited into the Greenhouse Gas Reduction Fund. On December 3, CalSTA released draft guidelines for the Transit and Intercity Rail Capital Program (TIRCP). Please find the draft guidelines at:

[http://www.dot.ca.gov/hq/MassTrans/Docs-Pdfs/3228-ggrf/draft.tircp\\_guidelines2014.pdf](http://www.dot.ca.gov/hq/MassTrans/Docs-Pdfs/3228-ggrf/draft.tircp_guidelines2014.pdf)

MTC has been coordinating with our state and regional partners to ensure the guidelines retain maximum flexibility for multi-year funding commitments, given the complexity of many near-term Bay Area transit capital priorities. According to the schedule provided in the draft guidelines, final program guidelines will be released on February 6, and a call for projects will follow on February 9. Project applications are due to Caltrans on April 10 and a list of approved projects will be published on June 30.

MTC's Cap and Trade Framework (MTC Resolution No.4130) includes \$875 million in Cap and Trade funds for the Core Capacity Challenge Grant Program (MTC Resolution No. 4123), a set of key transit infrastructure replacement and enhancements needed to fund future transit expansion. Staff expects to provide more information to the MTC Commission on the alignment between the TIRCP guidelines and the Core Capacity commitment over the upcoming months.

### **Low Carbon Transit Operations Program (LCTOP)**

LCTOP will provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility. According to the guidelines, approved projects will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities. LCTOP is a formulaic program, rather than a competitive program.

The LCTOP is appropriated \$25 million of 2014-15 funds, as well as 5 percent of future Cap and Trade proceeds deposited into the Greenhouse Gas Reduction Fund. Caltrans is responsible for the overall administration of the program. On December 19, Caltrans released final guidelines for the LCTOP. Please find the final guidelines here:

<http://www.dot.ca.gov/hq/MassTrans/Docs-Pdfs/3228-ggrf/lctop.guidelines.2014rev.pdf>

A portion of LCTOP funding is distributed directly to transit operators on a revenue basis, and another portion is distributed to MTC based on the region's share of the statewide population. On January 28, the MTC Commission approved Resolution 4170, which adopts the allocation requests for the FY 2014-15 LCTOP population-based funds. The LCTOP population-based funding level and distribution formula for this fiscal year are \$2.4 million and based on MTC's approved Cap and Trade framework, which includes a \$500 million Transit Operating and Efficiency Program to support a more robust and expanded transit network, anchored by local service. Agencies are required to submit FY 2014-15 LCTOP applications to Caltrans by April 15. Additional input from the Commission will guide the distribution formula for LCTOP in future years.

Attachment A: Upcoming Key Dates

Attachment B: AHSC Program Summary

Attachment C: Proposed Regional Principles for AHSC Project Prioritization

**Attachment A: Cap and Trade- Upcoming Key Dates**

<b>AHSC (Strategic Growth Council)</b>	<b>LCTOP (Caltrans)</b>	<b>TIRCP (CalSTA)</b>
<i>January 20- Final guidelines adopted</i>	<i>December 29- Final guidelines adopted</i>	<i>January 22- Draft guidelines presented to CTC</i>
January 26- SGC releases funding solicitation	February 2- Cycle 1 applications due to Caltrans	February 6- Final guidelines released
February 12- Workshop (Oakland)	April 15- Cycle 2 applications due to Caltrans	February 9- Solicitation for projects
February 19- "Concept Applications" due to SGC	April 15- SCO releases 75% of approved amount of Cycle 1 funds to recipients	April 10- Project Applications due
Late February-Late March- MTC/ABAG Review Concept Applications and Submit Feedback to SGC	June 30- SCO releases approved amount of funds to recipients, including Cycle 2 and remaining 25 percent of Cycle 1 funds	June 30- CalSTA publishes list of approved projects
March 11- SGC invites applicants to submit final application	Sept 1- SCO notifies transit operators of available funds for fiscal year	August 26- Project list presented to CTC
April 15- Full Applications Due to SGC	Nov 1- Agencies submit expenditure proposals to Caltrans	
Late April- Mid May- MTC/ABAG Review Final Applications and Submit Recommendations to SGC	February 15, 2016- SCO releases approved amount of funds to recipients (up to recipient's share of auction proceeds received to date)	
June- Awards Announced	June 30, 2016- SCO releases remaining amount of approved funds to recipients up to remaining amount of share received	

**Attachment B: AHSC Program Summary (from AHSC Guidelines)**

<b>Figure 1 AHSC Program Summary</b>		
Project Area Types	Transit Oriented Development (TOD) Project Area	Integrated Connectivity Project (ICP) Project Area
Transit Requirements (All Project Areas) §102	<ul style="list-style-type: none"> <li>▪ <b>MUST</b> include <b>Qualifying Transit</b>, which means a transit line serving the public that is operated by a public entity (directly or via contract), or operated as a grant recipient (or sub-recipient) from a public entity.</li> <li>▪ Qualifying Transit includes various forms of <b>Rail Service, Bus Service and Flexible Transit Service</b>.</li> <li>▪ All Project Areas <b>MUST</b> also include a <b>Transit Station/Stop</b>, which is a designated drop-off and pick-up location served by at least one <b>Qualifying Transit</b> line departing two or more times during <b>Peak Hours</b> (unless it is <b>Flexible Transit Service</b>).</li> </ul>	
Project Area Specific Transit Requirements §102	<ul style="list-style-type: none"> <li>▪ <b>MUST</b> be served by <b>Qualifying High Quality Transit</b></li> <li>▪ Headway frequency of 15 minutes or less during <b>Peak Hours</b></li> <li>▪ Requires dedicated right-of-way or multiple Bus Rapid Transit (BRT) features</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>CANNOT</b> be served by <b>Qualifying High Quality Transit</b></li> </ul>
Required Components §102	<p><b>Project Area MUST</b> include an <b>Affordable Housing Development</b> (funded either through <b>AHSC Program</b> funds or other sources). <b>AHSC Program</b> funds <b>MUST</b> be used for <b>Projects</b> which include an <b>Affordable Housing Development OR Housing-Related Infrastructure Capital Use AND a Transportation-Related Infrastructure Capital Project</b></p>	<p><b>AHSC Program</b> funds must be used for <b>Projects</b> which <b>MUST</b> include at least one (1) <b>Capital Project</b> combined with at least one (1) additional <b>Capital Project, Planning or Program Cost</b></p>
Eligible Uses §103	<p><b>Capital Projects:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Affordable Housing Developments</b></li> <li>▪ <b>Housing-Related Infrastructure</b></li> <li>▪ <b>Transportation-Related Infrastructure</b> (includes Active Transportation and Transit-Related Infrastructure)</li> </ul> <p><b>Planning and Program Costs:</b></p> <ul style="list-style-type: none"> <li>▪ Pre-Development Costs Related to Project Implementation</li> <li>▪ Active Transportation Programs</li> <li>▪ Transit Ridership Programs</li> <li>▪ <b>Criteria Air Pollutant</b> Reduction Programs</li> </ul>	
Affordable Housing Development Requirements §103	<p>Affordable Housing Developments may be:</p> <ul style="list-style-type: none"> <li>▪ New construction</li> <li>▪ Acquisition and <b>Substantial Rehabilitation</b> including preservation of affordable housing at-risk</li> <li>▪ Conversion of one or more nonresidential structures to residential dwelling units</li> </ul>	
Funds Available §106	No less than 40 percent of available funds will be allocated to <b>TOD Project Areas</b>	No less than 30 percent of available funds will be allocated to <b>ICP Project Areas</b>
Project Awards §104	Minimum: \$1 Million Maximum: \$15 Million	Minimum: \$500,000 Maximum: \$8 Million
Statutory Funding Set-asides §106	<ul style="list-style-type: none"> <li>▪ 50 percent of the annual proceeds for the <b>AHSC Program</b> shall be for Affordable Housing (Health &amp; Safety Code § 39719(a)(1)(C))</li> <li>▪ 50 percent of <b>AHSC Program</b> expenditures shall be for projects benefitting <b>Disadvantaged Communities</b> (Public Resources Code § 75214)</li> </ul> <p><i>Note: A single project can address both set-asides above, and are not mutually exclusive.</i></p>	

## Attachment C:

### Regional Principles for Prioritizing Final Applications under the Affordable Housing and Sustainable Communities Program

#### Overview

The Affordable Housing and Sustainable Communities (AHSC) final guidelines provide regional agencies an opportunity to advise on AHSC project selection. After an initial screening of concept applications for Plan Bay Area supportive elements, MTC staff in coordination with ABAG, will review full applications and make project recommendations to the Commission for approval and transmittal to the Strategic Growth Council (SGC). The role for regional agencies in this process is advisory, meaning that SGC has the ultimate project selection authority.

#### Regional Bid Target

In the final application process, MTC proposes to **cap total regional priorities at 150%-200% of the regional population share of the State**. This is equivalent to roughly **\$35-45 million** for the first year. MTC will apply this cap for final applications, not concept applications, as project scopes and costs are expected to change between the initial concept and final application stages and we want to encourage a significant pool of applications.

#### Project Prioritization Process

MTC staff proposes to conduct a **project prioritization process, in coordination with ABAG staff**, to provide SGC with a set of regional priority projects, based on the following principles. Although these criteria are not “thresholds” that must be achieved, staff will look most favorably on applications achieving most to all of the following elements, which are listed here roughly in rank order of importance:

- 1. Significant Greenhouse Gas Reduction (GHG).** Prioritize projects that demonstrate significant GHG reduction. While the SGC will employ a statewide methodology in the final applications for quantifying GHG benefits, MTC staff also intends to analyze projects using a regional methodology.
- 2. Communities of Concern/Disadvantaged Communities.** Prioritize projects located in or providing benefits to the region’s Communities of Concern as well as CalEPA’s defined Disadvantaged Communities.
- 3. Support Plan Bay Area’s Focused Growth Investment Strategies.** Prioritize ready-to-go TOD projects within Priority Development Areas (PDAs) in high growth jurisdictions and corridors that provide access to jobs and services. Per SGC criteria, TOD projects must be served by “qualifying high quality transit” (headways under 15 minutes during peak times). When applicable, also prioritize projects that provide funds for active Transit Oriented Affordable Housing (TOAH) projects, all of which have a strong nexus to transit and PDAs and have ownership of land for development. Projects that meet the criteria for TOAH and are at the same state of readiness will also be considered favorably. Staff will also consider high-performing Integrated Connectivity Projects (ICPs), which require “qualifying transit” or one route departing two or more times during peak hours.

- 4. Support for the Region's Adopted Transit Priorities.** Prioritize projects that support the Commission's adopted transit priorities. These include the Regional Transit Expansion program of projects (Resolution 3434), Plan Bay Area's Next Generation Transit program, projects under the Core Capacity Challenge Grant program, and projects that support the implementation of the Transit Sustainability Project.
- 5. Funding Leverage.** Prioritize projects leveraging other funding sources for local match.
- 6. OBAG Policy.** When applicable, OBAG's policy requirements should be applied to help determine a project's alignment with the SCS. These requirements include adherence with state and regional Complete Streets policies and General Plan Housing Element adoption and certification. These policies should be applied based on the jurisdiction of where the project is located (rather than whether the local jurisdiction is listed as co-applicant).