



**METROPOLITAN  
TRANSPORTATION  
COMMISSION**

**Agenda Item 5**

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***Memorandum***

TO: Policy Advisory Council

DATE: October 7, 2015

FR: Kenneth Folan, MTC Staff

W.I: 1114

RE: Region's Cap and Trade Framework

Staff seeks Policy Advisory Council input on proposed revisions to the region's Cap and Trade Framework. The proposed revisions will be presented to the Programming and Allocations Committee on October 14, 2015, and are summarized in the attached memorandum and presentation.

After input from the Policy Advisory Council, transit operators and stakeholders, staff intends to return in December 2015 to the Programming and Allocations Committee with recommended revisions to the framework.

**Attachments**

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# Metropolitan Transportation Commission Programming and Allocations Committee

October 14, 2015

Agenda Item 3a

## Cap and Trade Funding Framework Update

**Subject:** A presentation and discussion of proposed revisions to the region's Cap and Trade Funding Framework

**Background:** Adopted in July 2013, Plan Bay Area included a \$3.1 billion reserve from future Cap and Trade revenues over 28 years (through 2040). 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 (then) future legislation. With legislation enacted in 2014, followed by program guidelines and the completion of the first rounds of the various Cap and Trade funding programs, staff is presenting revised alternatives for the framework. Because revenues are higher and there is more certainty about the process, staff proposes revisions to the original framework including added funding.

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. Staff assumes \$2.5 billion in statewide annual funding for FY2015-16 and beyond. This amount is in line with recent auction results and is consistent with the long range plan revenue estimates, but is slightly higher than the enacted FY2015-16 state budget. Using this assumption, Table 1 shows estimated statewide cap and trade revenue by program for the statewide categories for FY2015-16 and beyond. If the recent state legislative negotiations related to a transportation funding package resume, transportation may secure some of the 40% uncommitted funds in FY 2015-16, but this could remain an unknown for several years.

**Table 1: Statewide Cap and Trade Programs, FY2015-16 and Beyond**  
(\$ millions)

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

Table 2 (on the next page) summarizes the current and proposed revised framework.

**Table 2: Summary of MTC Framework by Category, Amount, and State Cap and Trade Category (\$ millions, 2015-2040)**

MTC Framework Category	MTC Framework Adopted Amount (28-years)	MTC Framework Proposed Amount (25-years)	Proposed Bay Area Share of Statewide Program
Core Capacity*	\$875	<b>\$2,000</b>	33% of TIRCP
Transit Operating	\$500	<b>\$1,136</b>	37% of LCTOP (54% of Rev and 19% of Pop-based)
OBAG	\$1,050	<b>\$3,750</b>	30% of AHSC
Climate Initiatives	\$275	<b>TBD</b>	TBD of 40% Uncommitted
Goods Movement	\$450	<b>TBD</b>	TBD of 40% Uncommitted
High Speed Rail	-	<b>TBD</b>	TBD of High Speed Rail
Total	\$3,150	<b>\$6,886</b>	

\* 24-year estimate due to FY2015-16 advanced programming

Additional information for each program is below.

**Program Details:**

**Transit and Intercity Rail Capital Program**

**Background**

The Transit and Intercity Rail Capital Program (TIRCP) is a statewide competitive program to fund capital and operational improvements to modernize California's transit systems and reduce emissions of greenhouse gases. The California State Transportation Agency (CalSTA) is responsible for the overall administration of the program, including project evaluation and the development of a program of projects. The initial funding cycle provided \$24 million in FY2014-15 funds and \$200 million in FY2015-16 funds, for a total of \$224 million.

Based on the direction to prioritize projects that support investment in the Core Capacity Challenge Grant Program, MTC endorsed three projects for the 2015-2016 funds: SFMTA's Expansion of its Light Rail Vehicle Fleet; AC Transit's Re-Opening and Rehabilitation of the Division 3/Richmond Operating Facility; and VTA's BART Berryessa Station Campus Area Project. The following projects were awarded funds by CalSTA: SFMTA Light Rail Vehicles: \$41 million; SMART Rail Car Capacity: \$11 million; Capitol Corridor Travel Time Reduction: \$5 million. The region received roughly 25% of the statewide program, a share we believe we can improve on going forward given the robustness of the region's transit network and demand.

Proposed Revision

Based on the initial funding cycle and Cap and Trade auction proceeds to date, staff is recommending increasing the region's Cap and Trade target amount for the TIRCP category from \$875 million to \$2 billion. This revised estimate assumes \$2.5 billion in annual statewide Cap and Trade proceeds over 24 years, and a 33% Bay Area share of all TIRCP program awards. The 24-year period, as opposed to a 25-year period for the other Cap and Trade programs, is used because the FY2015-16 TIRCP funds have already been awarded.

With the additional \$1.1 billion in projected TIRCP revenue, staff recommends increasing the amounts for most of the identified core capacity projects, assigning an additional \$675 million to the BART to San Jose Phase 2 project, and establishing a \$200 million reserve for future projects, as shown below in Table 3. Staff recommends a substantial augmentation for the BART to San Jose Phase 2 project based on the following:

1. The goal of the TIRCP program is the reduction of greenhouse gases through the modernization of the state's transit system. Based on results of a Plan Bay Area project assessment, the project's greenhouse gas reduction potential was the highest for all transit expansion projects in the region.
2. The project has a proven track record of leveraging local, regional, state and federal funds, including the state's Traffic Congestion Relief Program and the federal New Starts program for the first phase of the extension to Berryessa.
3. Transportation Secretary Brian Kelly has emphasized his agency's interest in funding "transformative" projects. We believe connecting the region's largest city to our major passenger rail network is just such a project.

**Table 3. Adopted and Proposed Transit and Intercity Rail Program (TIRCP) Framework (\$ millions, 24 years)**

<b>TIRCP</b>	<b>Adopted (MTC Res. 4030)</b>	<b>Proposed (24 years)</b>
<b>BART:</b> Train Control	126	250
<b>SFMTA:</b> Fleet Enhance & Expand	400	481
<b>SFMTA:</b> Facilities	67	67
<b>AC Transit:</b> Fleet Expansion	45	90
<b>AC Transit:</b> Facilities	162	162
<b>VTa:</b> BART to San Jose	75	750
<i>Subtotal listed projects</i>	<i>875</i>	<i>1,800</i>
Potential other projects*		200
<b>Projected Revenue</b>		<b>2,000</b>

\*Could be added over time, depending on actual revenues or project needs/timing.

### **Low Carbon Transit Operating Program**

#### Background

The Low Carbon Transit Operating Program (LCTOP) provides operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities. Funding is assigned based on the revenue and population-based State Transit Assistance formula.

Based on a \$500 million Plan Bay Area commitment to support transit operations, the Commission established a framework based on a formula that provides 40% of the funding to three core capacity transit operators (AC Transit, BART, and SFMTA) and 60% to the remaining transit operators. The formula for distribution within the two operator categories is as follows: 50% based on ridership; 25% based on low-income ridership; and 25% based on minority ridership.

#### Proposed Revision

Based on the recently completed FY2014-15 LCTOP funding round and input from transit operators and stakeholders, staff recommends releasing two alternatives for stakeholder input and returning in December with a preferred alternative. The two proposed alternatives are summarized below and detailed in Attachment A. The alternatives below are limited to population-based funds. The operators are expected to receive an estimated \$835 million in revenue-based funds.

#### **Proposed Alternatives for LCTOP – \$302 Million – Population-based Funds**

##### **1. Maintain Existing Framework with remaining funds for regional initiatives**

- \$89 million to existing framework as complement to revenue-based funds and maintain minimum \$500 million commitment
- \$100 million to Transit Performance Initiative (TPI) Investment-like MTC discretionary program, for transit operators
- \$113 million to seamless transit/regional coordination programs (ex: Clipper® 2.0, low-income fares, hub signage and wayfinding, 511, other)

##### **2. 1/3 Distribution to North Counties/ Small Operators, with 1/3 regional program and 1/3 discretionary TPI Investment-like program**

- \$102 million to North Counties/ Small Operators (distributed by population-based formula, as complement to revenue based funds)
- \$100 million to TPI Investment-like MTC discretionary program, for transit operators
- \$100 million to seamless transit/regional coordination programs (ex: Clipper® 2.0, low-income fares, hub signage and wayfinding, 511, other)

Both alternatives above fund customer focused transit improvements. Roughly 1/3 of the funds are directed towards transit operators for a TPI-like regional discretionary program to invest in projects that reduce transit travel times and improve customer experience. Another 1/3 of the funds support a more seamless transit experience by strengthening regional coordination such as the next generation of Clipper, low-income fares, better signage and wayfinding, and traveler information.

Alternative #1 applies the remaining funds to meet the established framework, which is based on percentages of overall, low-income and minority ridership and includes revenue-based funds. However, the annual amounts for some operators under this program are likely to be quite small and may not be most useful given the state guidelines. Alternative #2 reinforces transit operating funds for the North Counties and Small Operators, in balance to the TPI-like program and revenue-based funding which typically have been focused more on larger operators.

#### **Affordable Housing and Sustainable Communities Program**

##### Background

The Affordable Housing and Sustainable Communities program (AHSC) is administered by the Strategic Growth Council, and distributes 20% of the state's Cap and Trade auction proceeds. Under the current program guidelines, Metropolitan Planning Organizations (MPOs) have a role at both stages in the application review process: 1) during the preliminary concept proposal stage, MPOs review proposed projects for support of Sustainable Communities Strategy (SCS) implementation, and 2) during full application review, MPOs consult and provide project recommendations for SGC consideration. For the first round of AHSC, MTC was actively involved in both stages. All concept proposals from the region were confirmed as SCS-supportive by MTC staff, and 13 projects were recommended by the Commission during the full application review, based on approved regional principles. Bay Area awards totaled \$47 million across 11 projects or 39% of statewide funding awarded.

During summer 2015, SGC conducted a review of the first round of AHSC and released draft revised guidelines in mid-September. After several public workshops, SGC expects to approve revised guidelines in the winter. It is likely that several important components of the program will be under consideration for revision. Staff will monitor and participate in these discussions, advocating for a continued role for MPOs, increased transparency in the scoring process, increased technical assistance to applicants, and other pertinent issues that arise. Depending on revisions to the AHSC guidelines, MTC may find itself with a different role in the application review process. Staff may propose an update to the regional principles following the adoption of the program guidelines.

Proposed Revisions

- Increase the region's AHSC target amount from \$1 billion to \$3.75 billion, equal to a 30% share of the total estimated statewide amount available to this program over a 25-year period. This target is consistent with Round One awards for the Bay Area but recognizes that future rounds may provide more funding to other regions.
- Continue to advocate for Bay Area projects in the AHSC program, monitor program and provide technical assistance to potential Bay Area applicants.
- Funding is complementary to OBAG, with focus on affordable housing and Transit Oriented Development transit projects.
- Formalize principles used for FY14-15 program. (Attachment A)

**Climate Initiatives and Goods Movement**

Background

In 2013, MTC staff had anticipated funding being available from Cap and Trade for goods movement and climate initiative-type programs. However, no such programs were identified in the state legislation passed in 2014, although 40% of the funds remain uncommitted (are not assigned to specific categories or uses). Because of this uncertainty, staff proposes some changes in these categories.

Recommendations

- Remove reference and funding for Climate Initiatives and Goods Movement, replace with To-Be-Determined Cap and Trade programs from the 40% uncommitted funds.
- Continue to advocate for funding for specific projects or programs as opportunities arise.
  - Climate pilot program evaluation is being finalized. If funding is available, projects could be drawn from the best-performing pilots.
  - Goods Movement Plan and Freight Emission Reduction Plan could serve to guide freight projects.

**High Speed Rail**

Background

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 and both High Speed Rail and Caltrain service into the Transbay Transit Center.

Recommendations

- Continue coordination with High Speed Rail Authority on Bay Area segment and interoperability with existing services
- Continue to advocate for funding for specific projects or programs as opportunities arise

**Issues:**

Staff seeks Committee direction on a revised Cap and Trade framework. Additional input will be gathered from the MTC Policy Advisory Council, partner agencies and interested stakeholders. Based on the Committee direction and additional input, staff intends to present recommendations to this Committee in December.

**Recommendation:** None. Information and discussion only.

**Attachments:** Attachment A: AHSC Program Principles from FY2014-15  
Attachment B: Powerpoint Presentation



## **Regional Principles for Prioritizing Final Applications under the Affordable Housing and Sustainable Communities Program (Approved for FY2014-15)**

### 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. Prioritize projects providing both a greater share and total number of affordable units to address concerns about community stability and displacement. 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. Level of Housing Affordability.** For proposals including an affordable housing development as a capital project, prioritize projects in a manner consistent with the Strategic Growth Council's AHSC scoring criteria, which places the highest priority on rental restricted units for households at lower percentages of Area Median Income.
- 5. 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, projects that support the implementation of the Transit Sustainability Project, and recommendations of the Coordinated Public Transit-Human Services Plan.
- 6. Funding Leverage.** Prioritize projects leveraging other funding sources for local match.
- 7. 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).

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# Cap & Trade Framework



Policy Advisory Council

October 14, 2015

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# 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	
Transit & Intercity Rail Capital Program	10%	\$250	CalSTA
Low Carbon Transit Operations Program	5%	\$125	Caltrans, CARB
Affordable Housing and Sustainable Communities Program	20%	\$500	SGC/HCD
Uncommitted Funding	40%	\$1,000	Unknown
High Speed Rail	25%	\$625	HSRA

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



# Revising the Region's Cap and Trade Framework

- **Staff proposes revising the framework based on:**
  - Higher revenue projections
  - Lessons learned from Round 1 awards
  - Additional program guidance
  
- **Proposed Schedule:**
  - Programing and Allocations Committee direction today
  - October/November - Input from partner agencies, Policy Advisory Council, interested stakeholders
  - Staff recommendation for consideration in December

# Regional Framework

- Plan Bay Area included \$3.1 billion in Cap & Trade Revenues over 25 year period
- Framework adopted in December 2013
- Proposed update to framework in December 2015

MTC Framework Category	MTC Framework Adopted Amount (28 years)	MTC Framework Proposed Amount (25 years)	Proposed Bay Area Share of Statewide Program
Core Capacity*	\$875	\$2,000	33% of TIRCP
Transit Operating	\$500	\$1,136	37% of LCTOP (54% of Rev and 19% of Pop-based)
OBAG	\$1,050	\$3,750	30% of AHSC
Climate Initiatives	\$275	TBD	TBD of 40% Uncommitted
Goods Movement	\$450	TBD	TBD of 40% Uncommitted
High Speed Rail	-	TBD	TBD of High Speed Rail
<b>Total</b>	<b>\$3,150</b>	<b>\$6,886</b>	

\*24-years due to FY2015-16 advanced programming

# Transit and Intercity Rail Capital

- Revenue estimates increased for this discretionary program
- Continue to support investments in the region's Core Capacity Challenge Grant Program – a \$7.5 billion regional commitment to fund key transit capital modernization and rehab needs
  - Increase funding for most core capacity projects
  - Assign an additional \$675 million to the BART to San Jose Phase 2 project
  - Hold \$200 million in reserve for future assignment

<b>TIRCP Projects</b> (in \$million, 24 years)	<b>Adopted</b> (MTC Res. 4030)	<b>Proposed</b>
<b>BART:</b> Train Control	\$126	\$ 250
<b>SFMTA:</b> Fleet Enhance & Expand	\$400	\$ 481
<b>SFMTA:</b> Facilities	\$ 67	\$ 67
<b>AC Transit:</b> Fleet Expansion	\$ 45	\$ 90
<b>AC Transit:</b> Facilities	\$162	\$ 162
<b>VTA:</b> BART to San Jose	\$ 75	\$ 750
Subtotal listed projects	\$875	\$1,800
Potential other projects*		\$ 200
<b>Projected Revenue</b>		<b>\$2,000</b>

\*Could be added over time, depending on actual revenues or project needs/timing.

# Transit and Intercity Rail Capital

- **Funding increases align with TIRCP program goals of reducing greenhouse gases and modernizing state's transit system:**
  - **BART to San Jose:** Completes major link in regional rail network, providing strong GHG-reducing transit option
  - **BART Train Control:** Modernizes system, enhancing BART capacity, reliability, and safety
  - **Fleet Expansions:** Provides new vehicles allowing for service expansions for **SF Muni** and **AC Transit**





# Low Carbon Transit Operating Program

- Current MTC approved framework is \$500 million
- Formula program for state:

Estimated LCTOP Revenue-based funds:	\$ 835 million
Estimated LCTOP Population-based funds:	\$ 302 million
Total Estimated LCTOP Funding:	\$1,136 million

- **Proposal:**
  - \$835 million revenue-based distributions to operators (formula)
  - \$302 million population-based fund distribution

# Low Carbon Transit Operating Program

## \$302 million population-based fund distribution options:

- **Option 1: Maintain existing framework**
  - \$89 million to existing framework
  - \$100 million to TPI-like MTC discretionary program
  - \$113 million to seamless transit/regional coordination programs
- **Option 2: Reinforce transit operating funds**
  - \$102 million to North Counties/Small Operators
  - \$100 million to TPI-like MTC discretionary program
  - \$100 million to seamless transit/regional coordination programs
- Invest approx. **1/3** of funding to transit operators via formula, and
- Invest approx. **2/3** of funding in customer focused transit improvements



# Affordable Housing and Sustainable Communities Program

- Tied to One Bay Area Grant Program in current MTC framework
- Bay Area could receive estimated \$3.7 billion from AHSC over 25 years, statewide discretionary program
- Draft revised guidelines currently out for comment, some significant program changes
- Proposal:
  - Continue to advocate for Bay Area projects and provide assistance to potential Bay Area applicants
  - Focus on affordable housing and Transit-Oriented Development-related transportation projects
  - Formalize MTC principles used for FY14-15 program



# Climate Initiatives and Goods Movement

- Current MTC framework includes these categories as placeholders, however, no corresponding state programs were enacted.
- 40% of state Cap and Trade funding remains “uncommitted”
- Proposal:
  - Remove reference and funding for Climate Initiatives and Goods movement, replace with TBD
  - Continue to advocate for funding for specific projects or programs as opportunities arise
    - Potential guides will be Climate Pilot Program, Goods Movement Plan, and Freight Emission Reduction Plan



# High Speed Rail

- **25% of state Cap and Trade funding for High Speed Rail**
- **High Speed Rail Authority is part of the 9-party agreement to fund the Caltrain Electrification Program through High Speed Rail bonds (Prop 1A)**
- **Proposal:**
  - Continue coordination with High Speed Rail Authority on Bay Area segment and interoperability with existing services
  - Continue to advocate for funding for specific projects or programs as opportunities arise

# Next Steps

## Proposed Schedule:

- Programing and Allocations Committee direction today
- October/November — Input from partner agencies, Policy Advisory Council, interested stakeholders
- Staff recommendation for consideration in December