

Metropolitan Transportation Commission and Association of Bay Area Governments
Joint MTC ABAG Legislation Committee

March 14, 2025

Agenda Item 3b

Cap and Trade Update and Advocacy Principles

Subject:

Overview of Cap and Trade extension discussions in Sacramento and requested support of the recommended principles to guide MTC and ABAG's advocacy.

Overview:

California's Cap and Trade program is a market-based mechanism to reduce emissions from large greenhouse gas (GHG) emitters by creating an annual cap on the level of allowable statewide emissions which declines over time. The program was established through Assembly Bill (AB) 32 (Nunez, 2006) and renewed from 2020 through 2030 via AB 398 (Garcia, 2017). Cap and Trade generates revenue through the sale of emission allowances. The California Air Resources Board (CARB) hosts quarterly auctions where those allowances are bought and sold; auction proceeds are deposited into the Greenhouse Gas Reduction Fund (GGRF). Over the past four years, annual proceeds have averaged \$4.3 billion. Of these, 60 percent is continuously appropriated to transportation and affordable housing, allocated as follows:

- **California High-Speed Rail: 25 percent**
Funds are directly allocated to the California High Speed Rail Authority.
- **Affordable Housing and Sustainable Communities (AHSC): 20 percent**
Competitive grants for affordable housing and transit access improvements. The program is administered by California's Strategic Growth Council.
- **Transit and Intercity Rail Capital Program (TIRCP): 10 percent**
Competitive grants administered by the California State Transportation Agency for transit and intercity rail capital projects that reduce GHG emissions. GGRF funds are augmented annually by SB 1 funds as well as periodic General Fund appropriations.
- **Low Carbon Transportation Operations Program (LCTOP): 5 percent**
Formula-based funding for GHG-reducing transit operations. Half the funds allocated to MTC for distribution; half to transit operators via a revenue-based formula.

This continuous appropriation was established through SB 862 (2014), a Cap and Trade implementation budget trailer bill. The bill's aim was to direct Cap and Trade resources to clean transportation and sustainable community initiatives in line with SB 375 (Steinberg, 2008), which requires regions to develop sustainable communities strategies (SCS) – Plan Bay Area 2050 in the Bay Area – to meet state climate goals through transportation and land use planning. Other ongoing obligations include five percent (up to \$130 million) for safe and affordable drinking water, offsets for a suspended manufacturing and use tax and a fire prevention fee. The remaining funds are allocated annually through the state budget process, with at least 35 percent of total GGRF revenues required to benefit low-income disadvantaged communities, as defined by the California Environmental Protection Agency's CalEnviroScreen tool.

Cap and Trade in the Bay Area

Cap and Trade funds play an important role in supporting transit and affordable housing in the Bay Area. Since 2015, the Bay Area has secured over \$5 billion from the \$16 billion available under the competitive TIRCP program, AHSC, and LCTOP, with the Bay Area's share averaging between 32 percent and 37 percent, depending on the program. While this exceeds the Bay Area's 20 percent population share, it reflects the Bay Area's high transit usage and strong demand for transit-oriented development.

More recently, SB 125 committed \$5.1 billion statewide for transit funding, including nearly \$1.1 billion for the formula-based Zero-Emission Transit Capital Program (ZETCP), which is primarily funded through the GGRF. Funds are distributed by formula to regional transportation planning agencies (MTC in the Bay Area) and may be used to fund transit operating or zero emission transit capital improvements. The Bay Area's share of ZETCP is 37 percent.

Proposed Principles

The California Legislature has begun discussions on extending the Cap and Trade program beyond 2030. MTC and ABAG included support for extending and expanding the program in the 2025 Joint Advocacy Program, recognizing it as a critical tool for achieving state climate goals and sustaining essential transportation and housing investments. Staff recommends the Commission and ABAG Executive Board adopt the principles in Attachment A to further guide advocacy. We look forward to the Committee's feedback on these proposed principles.

Recommendation:

Support / ABAG Executive Board Approval

Support / Commission Approval

Attachments:

- Attachment A: Draft MTC/ABAG Cap and Trade Advocacy Principles
- Attachment B: Bay Area's Cap and Trade Funding History
- Attachment C: Climate Safe Infrastructure Coalition Cap and Trade Priorities
- Attachment D: California Transit Association Cap and Trade Principles
- Attachment E: Housing, Environmental and Equity Organization Shared Cap and Trade Principles

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