Item #5

# Joint Regional Planning Partnership/Planners Committee

November 4, 2015

**Cap-and-Trade Update on the Affordable Housing and Sustainable Communities (AHSC) Program**

**Issue:** How is SACOG monitoring and assisting the region in Cycle 2 of the Cap-and-Trade Affordable Housing and Sustainable Communities (AHSC) program?

**Recommendation:** None; this item is for information and discussion.

**Discussion:** Strategic Growth Council (SGC) is preparing to release its call for projects for Cycle 2 of the Affordable Housing & Sustainable Communities (AHSC) Program. The program estimates having $400 million available 2015/16.

The AHSC program focus is to promote projects that:

- Result in the reduction of greenhouse gas emissions and vehicle miles travelled through land use, housing, transportation, and agricultural land preservation practice that support infill and compact development
- Increase accessibility of housing, employment centers and key destinations through low-carbon transportation options such as walking, biking and transit.

Cycle 1 Background:

The State of California's Strategic Growth Council (SGC) awarded almost $122 million in the first round of the Affordable Housing and Sustainable Communities Strategy Program (AHSC) in June of 2015. Statewide, the SGC received 147 concept proposals requesting over $760 million. The SACOG region collectively submitted ten concept proposals. Five projects were shortlisted and invited to submit full applications. Only one project, the city of West Sacramento's Delta Lane Affordable Housing and Grand Gateway Transportation Infrastructure, received funding ($6.731 million, or 5.5% of the total program). Twenty out of the 28 projects awarded in Cycle 1 were located in the Bay Area or the Los Angeles area.

SACOG Approach for Cycle 2:

As part of Cycle 1 the SACOG Board directed staff to actively engage eligible project sponsors and provide technical assistance in the development of proposals. Staff is continuing this engagement as part of Cycle 2. Utilizing the experience and knowledge gained from Cycle 1, SACOG staff has provided comments to SGC on lessons learned with focus on changes to the program guidelines that can help the program to better fulfill its statutory intent and vision. Attachment A is the joint letter submitted to the SGC on October 30, 2015 on the Cycle 2 Draft Program Guidelines. Final Guidelines for Cycle 2 of the program are anticipated to be approved by the SGC in early December and publicly released in January. Upon the release of the guidelines, SACOG will hold a workshop to assist local applicants in understanding the changes between Cycle 1 and Cycle 2, competitive scoring, emission calculations, and general program understanding. Attachment B provides an overview of SGC's timeline for Cycle 2.

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Attachment A

October 30, 2015

Strategic Growth Council
1400 Tenth Street
Sacramento, CA 95814

Dear Members of the Strategic Growth Council:

The purpose of this letter is to present a unified set of recommendations regarding changes to the Council's round 2 Affordable Housing Sustainable Communities (AHSC) Program guidelines. These recommendations represent the shared experience of stakeholders who both believe deeply in the program and the need for changes to fulfill its statutory intent and vision. This letter represents the consensus of lead environmental justice leaders, health advocates and the leaders of the Councils of Governments (COGS).

The AHSC program is a key component of the plan for meeting the Governor's goal of 50% reduction in petroleum and 40% reduction in GHG by 2030. In order to meet these goals, the state must guide development patterns and transportation systems to be more sustainable and reduce vehicle trips, and the guidelines are an important tool to facilitate this change. The guidelines must be as effective as possible in promoting projects that are consistent with SB 375 and transform transportation systems to achieve the Governor's goals. The guidelines should also strive to emphasize projects that maximize air quality, health and environment co-benefits.

First, we want to express our appreciation for many of the changes suggested by the Strategic Growth Council (SGC) in its September 17, 2015 updates memo. Among the improvements we believe are important to maintain in the final round 2 guidelines:

> 1) Not requiring additional transportation infrastructure where extensive infrastructure already exists for TOD project applications.

3) Recognizing the importance of California's rural communities.

4) The inclusion of active transportation, greening, energy efficiency, and renewable energy as scoring criteria for funding. These components should be further incentivized through adjustments to CalEEMod and – where applicable – to CMAQ to ensure their contribution to GHG reductions is accounted for.

5) Clarifying joint and several liability rules, threshold requirements for environmental clearances, and strengthening requirements for no net housing losses for funded projects are all important changes.

6) Recognizing and rewarding projects that achieve deeper affordability through additional scoring. We also request that SGC accelerate the peer review of the Center for Neighborhood Technology's recent research on "Income, Location Efficiency, and VMT: Affordable Housing as a Climate Strategy" in order to incorporate the benefits of deep affordability into the next round of GHG quantification methodologies.

7) Eliminating the jurisdictional cap.

In addition, we are very supportive of the proposal in the October 6, 2015 Staff Report for a new project type for "catalytic projects" to encourage transformative projects that would otherwise not be awarded by the AHSC due to limiting project requirements.

While the above changes represent tangible improvements to the guidelines, there remain at least four additional areas worthy of attention and further modifications; 1) promote intraregional competition and cooperation; 2) adequately incentivize transportation improvements; 3) incentivize and measure innovative projects and components; and 4) evaluate cost-effective GHG reduction without creating unintended consequences.

**1) Promote Intraregional Competition and Cooperation**

<u>Use Regional Targets to Assure Geographic Diversity and Strengthen Support for SB 375 Implementation</u>

We support a modified version of the regional population-based target approach outlined on page 12 and 13 of the Staff Report. Overall, a seven mega-region approach strikes an appropriate balance between geographic certainty and competition. Just like SB 375, the AHSC framework should recognize differences in regional geographies while accounting for state performance objectives. We also think that any geographic targeting should ensure that the best projects are funded and that SGC has the flexibility to meet its other statutory and regulatory goals.

We offer the following three recommendations to supplement the description in the staff report. First, 30% of the funding should be reserved for a state competitive pot with the remaining 70% divided regionally. The regional targets should not be absolute, however. The SGC must retain the flexibility to deviate from the targets to assure that the legal requirements of the program are met, including minimum threshold standards, maximizing GHG reductions, and assuring the disadvantaged communities and housing minimums are met. Second, all of the funds should be allocated each year to the maximum extent possible; if there are not enough worthy projects within a region in a particular year, those funds should be allocated elsewhere. Finally we concur that the targets should overlay the targets for TOD, ICP and RIPA projects.

<u>GHG threshold requirement</u>
As the SGC explores options for geographic distribution it is important to fund projects within the adopted geographies that contribute meaningfully and significantly to GHG reductions, co-benefits, and equity. Projects that do not should not be funded in order to meet geographic distribution goals or targets. As such we request the SCG adopt a threshold to ensure that such projects are ineligible to receive funding.

<u>Policy Basis for Mega-Regional Approach</u>
The seven regions identified in the staff report—Southern California, San Diego, Central Coast, San Joaquin Valley, Bay Area, Sacramento, and North State-Sierra—provide a manageable framework and offer applicants a degree of confidence as they consider investing the time to submit a proposal. This AHSC framework—with the above recommendations- makes sense for a number of reasons:

- *Comparative Baselines for GHG Scoring.* CalEEMod is a limited model that uses a single set of definitions that are not sensitive to regional variations (like typical distance to job center). A mega-region approach could allow projects within a region to compete directly against one another.

- *Consistent With ARB's VISION Model.* This approach squares with Air Resources Board's VISION Model—which calculates GHG and other emissions from transportation and is used (through the EMFAC tool) to quantify emissions in sustainable communities strategies. The Vision Model uses nearly the same geographical seven regions (see Mobile Source Strategy Discussion Draft, 0CT 2015 Page 107). (The difference: the Central Coast is grouped into the North State despite lack of contiguous boundaries, and SCAG is broken into two regions by internal air district boundaries).

- *Parallel to TCAC Regional Boundaries*. The Tax Credit Allocation Committee uses 13 areas across the state to distribute credits. But when boundaries are combined, the lines almost wholly match the seven regions described above. For example, the Bay Area is made up of three TCAC regions (San Francisco, North Bay, South Bay) and the SCAG region is made up of four TCAC regions (LA County, LA City, Orange County, Inland Empire including Imperial County).

- *Consistent with SB 375.* Most importantly, the seven-region framework achieves a policy goal of regional diversity in a framework that is consistent with the regional principles contained in SB 375. For example, even in the case of the grouping the San Joaquin Valley MPOs into one region, SB 375 allows one or more of those MPOs to combine their plans. Similarly, the North State-Sierra region groups the counties where SB 375 does not apply.

## 2) Adequately Incentivize Transportation Improvements

While the revised guidelines allow stand-alone housing projects if they are well-integrated into existing transportation infrastructure, the guidelines do not allow for stand-alone transportation infrastructure to be integrated into existing neighborhoods. Currently, stand-alone first/last mile or Complete Streets projects that are located in a high-quality transit area are not eligible. However, first/last mile projects outside of high quality transit areas are eligible. This means that eligible projects cannot connect *existing* low-income communities to new transit lines in high quality transit areas (e.g. the Expo Line and Crenshaw Line in South LA). Disadvantaged neighborhoods are already suffering from underinvestment, and according to the draft Guidelines, targeted transportation projects that support these communities are ineligible for funding. We recommend expanding eligibility of Integrated Connectivity Projects (ICP) to areas with high-quality transit by redefining the "Project Area Specific Requirements" for ICP projects.

In addition, we have concerns that the draft Guidelines do not allow for the full range of projects intended by the AHSC enabling legislation (SB 862, 2014) which lists the projects eligible for funding and includes a broad category of "*Other projects or programs designed to reduce greenhouse gas emissions and other criteria air pollutants by reducing automobile trips and vehicle miles traveled within a community."* We recommend that the Guidelines ensure that a wide variety of projects and programs are competitive, especially those that are shown to be most effective at reducing vehicle miles traveled and improving mobility, including parking management, carshare and bikeshare projects, and transportation pricing pilots.

Finally, the amendments to the draft Guidelines do not include needed changes related to the "project readiness" needed for innovative transportation projects. Environmental review is still a pre-requisite for funding. Because transportation projects are often public assets that are programmed in advance—it's very difficult to reach the level of readiness needed.

The Guidelines should consider a process where applicants can seek funding on transportation projects that may need two to four years to get to completion. Such scoring would have to review the funding plan and uncertainties associated with the project and combine it with a "use it or lose it" provision to help assure delivery timelines are met. One advantage of this approach is that it is more likely to result in real leverage of other funding toward innovative projects. Some transportation planning agencies, for example, would likely find ways to commit federal and state transportation funding sources—and even local sales tax dollars—in order to create a competitive proposal.

## 3) Incentivize and Measure Innovative Projects and Components

The Guidelines make considerable progress on a number of issues in order to catalyze projects that more fully address the GHG, equity, and co-benefit goals of the AHSC program. We appreciate the changes staff has made and wish to commend them for their efforts to respond to and incorporate the feedback from stakeholders in the wake of the first round of awards. The following comments and suggestions reflect those changes and additional suggestions we offer for consideration.

*Deep affordability*
As mentioned earlier we are supportive of the increase in points for affordability from six to 10. We expect this to result in more projects in the pipeline that are more deeply affordable resulting in projects that spur higher levels of transit ridership and biking and walking.

At the same time the research from both the Center for Neighborhood Technology, "Income, Location Efficiency, and VMT: Affordable Housing as a Climate Strategy", as well as research from TransForm and the California Housing Partnership Corporation demonstrates that the GHG reductions stemming from affordability are substantially more robust than is currently incorporated into the current AHSC quantification methodologies.

We appreciate SGC's commitment to put together a blind peer review of the research and request that it be accelerated in order to provide updated the methodologies for the next round of funding

*Displacement*
We commend staff for strengthening the physical displacement threshold requirements in the Guidelines as well as the inclusion of scoring for economic displacement policies. Jointly these inclusions will play a critical role in ensuring these investments produce long-term sustainable GHG reductions and lasting and equitable impacts in communities.

*Active transportation, greening, energy efficiency, and renewable energy*
The inclusion of scoring for these priorities as supplemental strategies is a welcome addition that will promote projects that achieve greater integration and further the goals of the program. At the same time there is still an opportunity to measure their GHG reductions, which is not currently possible under the current quantification method. While the updated modeling framework is not yet available we would like to state our support for adjustments that would reflect the GHG impacts of their inclusion as well as incorporate them in the scoring of the GHG component.

## 4) Evaluate Cost-effective GHG Reduction without Creating Unintended Consequences

The Council's revised Guidelines recognize the importance of valuing total GHG's reduced as a result of the overall project. The Guidelines, however, keep from the first round a reduced score for total project GHG reductions divided by the AHSC dollars requested, which measures funding leverage, rather than GHG reduction. Funding leverage is an important criterion, but it is already rewarded by 5 points in the scoring criteria. In effect, the draft Guidelines reward leverage twice. In addition, this latter test creates an unintended effect of rewarding projects that request less funding, rather than reward projects with the most cost-effective GHG reductions. We recommend replacing the current formula of "Total GHG reduction of project / Amount of AHSC funding requested" with the formula: "Total GHG reduction of project / Total cost of project."

Thank you very much for your time and hard work. We look forward to your response and continuing our work together. Please contact Corey Brown, Attorney at Resources Legacy Fund, with any follow up. He can be reached at (916) 442-5057 or cbrown@resourceslegacyfund.org.


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# 2015-15 Proposed Program Timeline

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| Stakeholder Meetings on 2015-2016 Draft Guidelines | Late October 2015 |
| Comments due on Draft Guidelines | October 30, 2015 |
| Revision of Guidelines | Late Fall/Early Winter 2015 |
| Final Guidelines presented to Council for Approval | December 2015 |
| Release of 2015-2016 Notice of Funding Availability | January 2016 |
| Concept Applications Due | February 2016 |
| Full Applications Due | April 2016 |
| Awards Announced | July/August 2016 |