



Air Resources Board



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TO: Allison Joe
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FROM: Cynthia Marvin, Chief
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DATE: September 29, 2016

SUBJECT: GREENHOUSE GAS REDUCTION FUND: STRATEGIC GROWTH
COUNCIL REVISED EXPENDITURE RECORD FOR FISCAL YEAR
2015-2016 - AFFORDABLE HOUSING AND SUSTAINABLE
COMMUNITIES PROGRAM

Thank you for submitting the final revised expenditure record (attached) on behalf of the Strategic Growth Council (SGC) on September 26, 2016, to satisfy the requirements of Senate Bill 1018 (Budget and Fiscal Review Committee, Chapter 39, Statutes of 2012) for expenditures from the Greenhouse Gas Reduction Fund (Fund). This revision reflects the actual FY 2015-16 proceeds generated from Cap-and-Trade auctions available to SGC for this Program. We appreciate the iterative consultation process with SGC staff on the development of this record to support expenditures from the Fund for the Affordable Housing and Sustainable Communities Program.

This memorandum documents that Air Resources Board (ARB) staff concurred on September 29, 2016 that the attached record is consistent with the statutory requirements of Government Code Section 16428.9 and with ARB's expectations, as documented in the *Funding Guidelines for Agencies that Administer California Climate Investments*.

The SGC Revised Expenditure Record for the Affordable Housing and Sustainable Communities Program for Fiscal Year 2015-16, along with this memorandum, will be published on the ARB Cap-and-Trade Auction Proceeds website at: www.arb.ca.gov/auctionproceeds.

If you have any questions concerning this memorandum, please contact me at (916) 324-0062 or via email at Cynthia.Marvin@arb.ca.gov.

Attachment

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

Greenhouse Gas Reduction Fund: Expenditure Record

Fiscal Year: 2015-16

Strategic Growth Council
Affordable Housing and Sustainable Communities Program

Revised to Reflect \$365.8 Million Appropriation

The Strategic Growth Council (SGC) prepared a preliminary expenditure record in January 2016 for the \$480,000,000 in Affordable Housing and Sustainable Communities (AHSC) funding based on the Fiscal Year (FY) 2015-16 amount referenced in the budget for FY 2016-17. The actual amount of FY 2015-16 funds was contingent upon State proceeds generated from Cap-and-Trade auctions that occurred during FY 2015-16. The revised expenditure record reflects the actual FY 2015-16 funds available for AHSC of \$365.8 million.

(1) A description of each expenditure proposed to be made by the state agency pursuant to the appropriation

<input type="checkbox"/> Agency that will administer funding	<ul style="list-style-type: none">▪ Strategic Growth Council (SGC or Council), with implementation by the Department of Housing and Community Development (HCD).
<input type="checkbox"/> Amount of proposed expenditure and appropriation reference	<ul style="list-style-type: none">▪ Health and Safety Code Section 39719 (b)(1)(c) provides a continuous appropriation from the Greenhouse Gas Reduction Fund (GGRF) to the SGC for the Affordable Housing and Sustainable Communities (AHSC) program, appropriating twenty percent of the annual proceeds of the fund to the SGC for the AHSC Program. For 2015-16, the actual appropriation for the Program is \$365,827,000 per FY 2015-16 budget expenditures published June 30, 2016.¹▪ \$363,987,000 supports programs as detailed in SB 862 (Chapter 36, Statutes of 2014), which created the broader AHSC program. The Council approved two local assistance programs: the AHSC Program and the Sustainable Agricultural Lands Conservation (SALC) Program, and designated HCD and the California Department of Conservation, respectively, to implement these programs in coordination with the SGC.▪ This Expenditure Record narrative specifically addresses the approximately \$326.7 million in funds (\$321.9 million in

¹ <http://www.ebudget.ca.gov/2016-17/pdf/Enacted/GovernorsBudget/0010/0650RWA.pdf>

Local Assistance and \$4.8 million in administrative costs for the AHSC Program, without the SALC program component). An Expenditure Record for the SALC program is provided separately. Table 1 shows SGC’s FY 2015-16 total GGRF appropriations for both AHSC programs.

- Of the total amount appropriated, \$1,840,000 is budgeted to the Office of Planning and Research (OPR) for SGC State administrative costs associated with the broader AHSC program.
- Administrative costs for HCD implementation of the AHSC Program are \$3,001,000 for FY 2015-16.
- A summary of the entire AHSC Program allocations is shown in **Table 1** below.

❑ Estimated amount of expenditures for State agency administrative costs

Table 1 FY 2015-16 Affordable Housing and Sustainable Communities Program Allocations	
TOTAL FY 2015 -16 Funding (Health and Safety Code Section 39719(b)(1)(c))	\$365,827,000
Affordable Housing & Sustainable Communities (AHSC)	\$363,987,000
AHSC State Operations (Item 0650-001-3228)	\$1,840,000
TOTAL FY 2015 -16 Funding	\$365,827,000
Affordable Housing & Sustainable Communities Program	\$363,987,000
Less: AHSC Implementation (HCD State Operations)	\$3,001,000
Less: SALC Local Assistance	\$36,582,690
Less: SALC Implementation (DOC State Operations)	\$2,352,000
Less: SALC CNRA for program support	\$150,000
Total AHSC Funds for Local Assistance	\$321,901,310

❑ If applicable, identify laws or regulations that govern how GGRF funds will be used

- SB 732 (Chapter 13, Statutes of 2008) established the SGC.
- Public Resources Code § 75212 lists the types of project eligible under the AHSC Program.
- AB 1532 (Pérez, Chapter 807, Statutes of 2012), SB 535 (de León, Chapter 830, Statutes of 2012), SB 1018 (Budget and Fiscal Review Committee, Chapter 39, Statutes of 2012), and SB 862 (Committee on Budget and Fiscal Review, Chapter 36, Statutes of 2014) provide the general framework for how the auction proceeds will be administered to further the purposes of AB 32.

<p><input type="checkbox"/> Continuation of existing Expenditure Record</p>	<ul style="list-style-type: none"> ▪ This fiscal year’s appropriation will support a continuing program that will fund the same types of projects that have been previously funded under an existing Expenditure Record (Expenditure Record, Fiscal Year 2014-15, Strategic Growth Council, Affordable Housing & Sustainable Communities Program). ▪ Rural Innovation Project Areas are included as an additional project type under Expenditure Record Fiscal Year 2015-16.
<p><input type="checkbox"/> Project category</p>	<ul style="list-style-type: none"> ▪ Sustainable Communities and Clean Transportation <ul style="list-style-type: none"> ○ Affordable Housing and Sustainable Communities
<p><input type="checkbox"/> Type of projects that will be eligible for funding</p>	<ul style="list-style-type: none"> ▪ Three Project Area types have been defined in the AHSC Program: <ul style="list-style-type: none"> ○ Transit Oriented Development (TOD) Project Areas supporting VMT reduction through fewer or shorter vehicle trips or transportation mode shift to transit use, bicycling or walking by integrating high quality transit and key destinations including affordable housing/mixed-use development; ○ Integrated Connectivity Project (ICP) Project Areas supporting VMT reduction through fewer or shorter vehicle trips or mode shift to transit use, bicycling or walking within areas lacking high quality transit, connecting to affordable housing and key destinations, and still proximate to transit; and ○ Rural Innovation Project Areas (RIPAs) support VMT reduction within rural areas through fewer or shorter vehicle trips or transportation mode shift to transit use, bicycling, or walking and connecting to affordable housing and key destinations, and proximate to transit. ▪ These projects will increase the availability of affordable housing, while at the same time building infrastructure that supports shortened or reduced vehicle trip length or mode shift to transit, bicycling, or walking. These alternatives allow residents easy access to employment centers and key destinations via low-carbon transportation resulting in fewer VMT. Examples include but are not limited to the following: <ul style="list-style-type: none"> ○ Affordable housing adjacent or connected to transit via walkable or bikable pathways; ○ Pedestrian or bicycle infrastructure connecting residential or commercial development to transit, or to a larger transportation network; ○ Construction of complete streets infrastructure allowing pedestrians, bicyclists, and transit sufficient space to operate and enhance safety; and ○ Transit infrastructure improvements which encourage

	<p>increased ridership and mode shift, including safety, wayfinding, bicycle parking and other amenities.</p> <ul style="list-style-type: none"> ▪ In conjunction with capital improvements, programs which encourage or lead to behavior change of riders—including free or subsidized transit passes; bicycle and pedestrian safety and outreach programs; and other programs that encourage mode shift.
<p><input type="checkbox"/> Intended recipients</p>	<ul style="list-style-type: none"> ▪ Eligible recipients must be a: local government (city, county or city/county), public housing authority, redevelopment successor agency, transit agency or operator, regional transportation planning agency, local transportation commission, congestion management agency, joint powers authority, school district, facilities district, university or community college district, private or non-profit developers or program operators.
<p><input type="checkbox"/> Process for selecting projects for funding</p>	<p>Projects will be selected through a competitive process, based on the merits of applications submitted and the proposed use of funds within the identified Project Area. The threshold requirements and application selection criteria focus on the extent to which developments achieve the AHSC Program objectives of reducing GHG emissions, benefiting disadvantaged communities, providing affordable housing, demonstrating project readiness, and meeting other policy considerations. The project selection process is discussed in more detail in the AHSC Final 2015-16 Program Guidelines (AHSC Program Guidelines), available at: https://www.sgc.ca.gov/docs/ADOPTED_FINAL_15-16_AHSC_Guidelines_with_QM.pdf</p>
<p>2) A description of how a proposed expenditure will further the regulatory purposes of Division 25.5 (commencing with Section 38500) of the Health and Safety Code, including, but not limited to, the limit established under Part 3 (commencing with Section 38550) and other applicable requirements of law.</p>	
<p><input type="checkbox"/> How the expenditure is reflected in the three-year Investment Plan and the Scoping Plan</p>	<ul style="list-style-type: none"> ▪ AB 1532 requires that GGRF monies be appropriated in a manner that is consistent with the three-year Investment Plan (Health and Safety Code Section 39718.) <ul style="list-style-type: none"> ○ The 2013 “Cap-and-Trade Auction Proceeds Investment Plan” (Investment Plan) recommends that sustainable communities and clean transportation receive the largest allocation of auction proceeds investments because “[T]he transportation sector is the largest contributor of both GHGs and criteria air pollutants[...].” ○ In addition, Appendix B of the Investment Plan describes and recommends the types of projects that will be funded by expenditures under the AHSC program (e.g., funding to increase transit mode share through focused transit expansion

and ridership programs, transit-oriented development, active transportation, etc.).

- The AHSC Program will support local governments, transportation agencies, and transit agencies in their efforts to better co-locate housing near transit options, connect residents to transit using low-carbon transportation modes, increase transit ridership, and meet the statewide GHG reduction goals. The Program will do this by directly funding affordable housing development, sustainable transportation infrastructure such as transit stations, bike lanes, and sidewalks, other transportation capital projects that support low-carbon transportation modes (such as bicycle parking, shade trees, and transit station and stop improvements), and programs which encourage behavioral changes to support mode shift to low-carbon transportation modes. Therefore, the expenditures covered by this record are consistent with the Investment Plan and align with the priorities expressed in the Plan.
 - The “First Update to the Climate Change Scoping Plan” (Scoping Plan), released in May 2014, identified recommendations for investment in transportation, land use, and housing that supports implementation of Sustainable Communities Strategies including “provision of local assistance for transit, active transportation, and affordable transit-oriented development.” The Scoping Plan also lists types of funding that are consistent with the AHSC program, support the purposes of AB 32 and provide valuable co-benefits. These include:
 - Expansion of established local, regional and state funding programs supporting transit, infrastructure, active transportation (walking/biking), land-use changes, and other projects that prioritize reducing VMT and GHG emissions and are identified in Sustainable Community Strategies or Regional Transportation Plans;
 - Infrastructure investments that are integrated with sustainable community plans, maximize transit trips, and reduce VMT.
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(3) A description of how a proposed expenditure will contribute to achieving and maintaining greenhouse gas emission reductions pursuant to Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

<p>☐ Describe how expenditures will achieve GHG reductions or net GHG benefits</p>	<ul style="list-style-type: none">▪ AHSC projects will reduce GHG emissions by supporting more compact, infill development patterns, encouraging active transportation and transit usage, and reducing passenger VMT. The Program Guidelines describe a variety of approaches for achieving increased ridership including direct siting of affordable housing development, and therefore riders, in close proximity to transit options, as well as encouraging expansion of and connectivity to transit and active transportation options (e.g., new transit service; active transportation improvements that support new or expanded transit service; transit passes/vouchers, etc.).▪ AHSC projects will achieve GHG reductions by increasing accessibility of affordable housing, employment centers, and key destinations via low-carbon transportation, resulting in fewer VMT through shortened or reduced vehicle trip length, and/or mode shift to transit, bicycling, or walking. Connectivity of projects to new or expanded transit service or expanded transit facilities will increase ridership and reduced passenger VMT.
<p>☐ Expected time frame when reductions will be achieved and how expenditure will maintain GHG reductions or net GHG benefits</p>	<hr/> <ul style="list-style-type: none">▪ For FY 2015-16 awards, reductions will begin as early as 2017, upon completion of improvements to pedestrian, bike, and transit infrastructure, and ultimately through completion of affordable housing developments and residential occupancy. GHG reductions from AHSC expenditures will be maintained for the length of the development.<ul style="list-style-type: none">○ For transit-oriented development, mixed-use development, and transit and community improvements associated with housing or other land use development, the project life is assumed to be 30 years from the initial operation of the project.○ For regional transit projects (e.g., new bus service, vanpools) not associated with housing or other land use development, project life is assumed to be the number of years proposed to be funded by AHSC.○ For bicycle paths or lanes not associated with housing or other land use development, the project life is assumed to be 20 years for Class 1 bicycle paths, and 15 years for Class 2 bicycle paths.▪ For pedestrian facilities not associated with housing or other land use development, the project life is assumed to be 20 years.

(4) A description of how the state agency considered the applicability and feasibility of other nongreenhouse gas reduction objectives of Division 25.5 (commencing with Section 38500) of the Health and Safety Code.

- In addition to achieving GHG benefits, these expenditures will address public health and safety, environmental, and economic benefits. In developing AHSC Program guidelines, the extent to which the proposed project addressed co-benefits was evaluated as part of the competitive score. Projects funded by AHSC are expected to result in the following co-benefits:
 - Public Health and Safety Benefits:
 - Reduction of health harms (e.g., asthma) suffered disproportionately by low-income residents/communities due to reduction of air pollutants.
 - Reduction of health harms (e.g., obesity) suffered disproportionately by low-income residents/communities due to the location of the built environment. Active transportation improvements (e.g., bicycling and walking paths connecting to transit stations) will support increased public health benefits.
 - Increased safety through improved transportation and transit infrastructure.
 - Environmental Benefits
 - Improved air quality resulting from cleaner transit vehicles that reduce emissions of local toxic air contaminants and particulate matter.
 - Encourages zero-emission vehicles (ZEV) and infrastructure by allowing ZEVs and infrastructure as allowable costs within the AHSC program.
 - Reduces building energy usage.
 - Economic Benefits:
 - Supports the construction of affordable housing near transit for low-income households, reducing economic costs of housing near transit.
 - Increases economic benefits through reduced transportation costs and improved mobility for transit riders through improved and expanded service.
 - Increases economic development opportunities for communities through improved transportation infrastructure to attract and retain businesses.
 - Increased access to employment through better connectivity of homes and jobs, especially for disadvantaged communities.
- Expected co-benefits, particularly environmental, economic, public health and safety, and climate resiliency
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<p>❑ How the project will support other AB 32 objectives</p>	<ul style="list-style-type: none"> ▪ Projects will complement the State’s efforts to improve air quality and direct public investment toward the most disadvantaged communities in California. ▪ In addition, funded projects will provide an opportunity for small businesses, schools, affordable housing associations, and other community institutions to participate in and benefit from statewide efforts to reduce GHG emissions. <ul style="list-style-type: none"> ○ Consideration of co-benefits as a necessary component of the project provides an opportunity to maximize additional environmental and economic co-benefits for California.
<p>❑ Percentage of total funding that will be expended for projects that are “located within” and “provide benefits to” disadvantaged communities, per the criteria in Volume 2 of ARB’s Funding Guidelines</p>	<ul style="list-style-type: none"> ▪ SB 862 establishes the target of expending 50 percent of the overall AHSC Program funding for projects benefitting disadvantaged communities. ▪ SGC has a minimum target of expending 10 percent of the overall AHSC Program funding for projects located within disadvantaged communities.
<p>❑ Describe the disadvantaged community benefits and explain strategies the agency will use to maximize benefits</p>	<ul style="list-style-type: none"> ▪ Per ARB’s December 21,2015 “Funding Guidelines for Agencies that Administer California Climate Investments” (Funding Guidelines) the AHSC program considers a project as benefitting a disadvantaged community when it meets the criteria identified in the Funding Guidelines to provide a direct, meaningful, and assured benefit to a disadvantaged community, and meaningfully addresses an important community need. ▪ These expenditures will support projects that provide benefits within and to disadvantaged communities as identified by CalEPA. The agency will prioritize projects that meet at least one of the disadvantaged community criteria and demonstrate that the project will meaningfully address an important community need. This will help maximize benefits and support agency efforts to meet, or exceed statutory requirements for expenditures that benefit disadvantaged communities. ▪ AHSC projects will address common needs of disadvantaged communities by bringing jobs and housing closer together through affordable housing in transit oriented development.

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- The adopted 2015-16 AHSC Program Guidelines maximize benefits to disadvantaged communities by using a scoring criteria that focuses on policy objectives to develop successful sustainable communities, including ensuring that affordable housing developments proposed serve lower- and moderate-income households, that proposed projects have significant community benefits and engagement opportunities, and discourage business and economic displacement.
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(5) A description of how the state agency will document the result achieved from the expenditure to comply with Division 25.5 (commencing with Section 35800) of the Health and Safety Code.

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| <ul style="list-style-type: none"> ❑ How the agency will track and report progress to make sure projects are implemented per GGRF requirements | <ul style="list-style-type: none"> ▪ HCD, as the implementing agency, will require funding recipients to maintain records and provide quarterly status reports in accordance with the grant agreement. In addition, the agency will conduct periodic reviews of selected projects. If a funding recipient does not perform in accordance with program requirements, the recipient will be subject to the remedies for non-performance, as identified in the program guidelines. |
| <ul style="list-style-type: none"> ❑ Approach that will be used to document net GHG reductions before and after project completion. Include citations for references that support methodology | <p>SGC worked closely with ARB to develop the GHG quantification methodologies (http://www.arb.ca.gov/cc/capandtrade/auctionproceeds/sgc_ahsc_gm_15-16.pdf) that will be used to estimate GHG reductions for projects. For FY 2014-15 and 15-16 of the AHSC Program, quantification of GHG reductions focused on strategies that reduce VMT.</p> <ul style="list-style-type: none"> ▪ The quantification methodology estimates GHG emissions reductions based on project-level models and tools that are supported by empirical literature and are publicly available. The methodology uses currently available tools to estimate the changes in VMT and GHG emission reductions based on specific land use and transportation characteristics of the proposed project. These tools include specific components of the “California Emissions Estimator Model” (CalEEMod) and calculation methodologies based on the “Methods to Find the Cost-Effectiveness of Funding Air Quality Projects for Evaluating Motor Vehicle Registration Fee Projects and Congestion Mitigation and Air Quality Improvement Projects” (CMAQ Methods). ▪ Both tools provide a uniform methodology to quantify VMT and GHG emission reductions from individual project proposals based on established modeling techniques. |
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<p>□ Type of information that will be collected to document project results, as described in ARB guidelines</p>	<ul style="list-style-type: none"> ▪ SGC will collect any necessary project data and outcomes including data to document GHG emissions reductions in accordance with ARB's Funding Guidelines, quantification methodology, and other guidance.
<p>□ How the agency will report on program status</p>	<ul style="list-style-type: none"> ▪ The agency will provide regular updates on expenditures, project status, project location, and benefits in reports prepared according to Volume 3 ARB's Funding Guidelines. At a minimum, the reports will include expenditure amounts, current estimates of GHG emission reductions, and information on other applicable co-benefits.