

1 Secure the Future through Critical Regional Infrastructure Investment

CONTEXT AND GOALS

Infrastructure has important implications for a community's vitality. The most recognizable involve the bridges, roads, and transit systems that facilitate the movement of goods and people. Public water systems and flood protection agencies often go unseen, but provide safe and reliable drinking water and keep communities safe. Other types of infrastructure include public buildings such as schools, hospitals, and administrative buildings, and the 21st century infrastructure comprised of the wires and cables that deliver communications services and electricity to homes and businesses. The quality and resilience of this infrastructure is critical to the shared prosperity and economic competitiveness of the region and the state.

A recent California Forward analysis has found that California faces an infrastructure finance requirement of \$853 billion over the coming decade.¹⁶ Of this, \$495 billion can be financed through currently identifiable funds, leaving a deficit conservatively estimated at \$358 billion. This estimate is consistent with earlier findings by the Bay Area Council Economic Institute and the Berggruen Institute on Governance.¹⁷ The greater part of this deficit—nearly \$300 billion—is in transportation, which remains a critical need as the state's population expands and businesses continue to grow. The balance of the deficit is in water and school facilities.

Addressing these challenges in the Bay Area is compounded by three factors: a decline in state and federal investment in transportation, a fragmented local governance system for infrastructure, and the lack of a sufficiently empowered regional authority that can manage and invest in infrastructure on a comprehensive level.

Transportation infrastructure poses particular challenges in the Bay Area, where issues of mobility and congestion are significantly impacting the region's productivity, quality of life, and its competitiveness in attracting and retaining a diverse, high-quality workforce. The challenges to our transportation system are acute. While the region is continuing to attract companies and talented people today, it is also losing people and opportunities due to the confluence of high housing costs with worsening mobility. This poses a choice for residents and would-be residents: pay sky-high housing costs or commute long distances through thickening traffic.

State and federal funding for transportation is closely linked to gasoline taxes. California's gas tax—the nation's fourth highest at 42.35 cents per gallon—has not been raised since 1994. At the national level, the federal gas tax has not been raised since 1993, and would need to be increased over 12 cents per gallon (from 18.4 cents to 30.7 cents) just to restore purchasing power to 1993 levels. In addition to inflation eroding the purchasing power of these taxes, the gas tax is also becoming a less effective mechanism for meeting the state's transportation needs because it will steadily generate less revenue as cars become more fuel efficient and electric vehicles gain in popularity. The California State Transportation Agency estimates that by 2030, as much as half of the state revenue that could have been collected from the gas tax will be lost to fuel efficiency.¹⁸

While the Metropolitan Transportation Commission does have regional authority for transportation planning and disbursement of bridge toll revenues, a growing proportion of the region's transportation funding stems from county-specific sales tax measures. With many infrastructure decisions made on the local level by county transportation agencies and local transit operators, the region suffers from the absence of an integrated regional strategy, the ability to execute on a regional level, and creative alternatives for how infrastructure can be developed and financed. Each is necessary, however, as the region's population and economy continue to grow—with vulnerable populations feeling the greatest pressure—and as public funding from state and federal government fails to keep up.

Challenges to the region's water infrastructure are also rising as the state grapples with a fourth year of drought. California's reservoirs began the 2014–2015 water year at just 36 percent of their capacity,¹⁹ agricultural losses have exceeded \$2 billion,²⁰ and nearly 20,000 jobs have been lost throughout the state.²¹ California's six major water projects average 76 years in age, and each delivers less water today than in the past. Partly due to this aging infrastructure, California's water system loses up to 228 billion gallons annually through leaks alone, more than enough to supply Los Angeles for an entire year.²² Compounding the problem, local and state mechanisms for funding water projects have not kept up with demand.

Revenues from local water bills provide approximately 84 percent of the state's annual water investments. These funds are supplemented by intermittent general obligation bond issuance at the state level. For example, the passage of Proposition 1 in 2014 authorized \$7.5 billion in state bonds, but equates to only about 25 percent of one year's spending in the water sector. In the Bay Area, 10 major water agencies maintain and provide the bulk of the region's water infrastructure and supply. This fragmented system with siloed funding has resulted in limited regional coordination for how to best manage and pay for the Bay Area's water infrastructure going forward.

The policy recommendations outlined here target three critical goals:

Create best-in-class infrastructure investment in the region—across all infrastructure categories—to support improved mobility, economic competitiveness, and better security and quality of life for Bay Area residents.

Develop new mechanisms to expedite and accelerate investment in infrastructure critical to regional mobility, including a second transbay tube; BART's extension to growing job and housing centers; Caltrain corridor improvements and extension into downtown San Francisco; and expansion of the regional ferry system to serve more communities in the North, East, and South Bay.

Complete regional, multi-agency projects that improve water supply resilience to drought by creating new water systems, upgrading and linking existing systems, and addressing climate change.

STRATEGIES AND ACTIONS

The decline of state and federal funding for transportation requires a greater local and regional will to fund, finance, and develop infrastructure and essential services. For water infrastructure, more coordinated regional investment actions are needed to act as a link across water agencies and jurisdictions. To maximize the resources available to the region, ensure their efficient use, and comprehensively manage the development of regional infrastructure, the Bay Area requires the following:

Regional organizations with increased authority to prioritize, invest in, and manage infrastructure;

New sources of both traditional and alternative finance to augment public resources.

ACTION 1: Separately, or by augmenting an existing regional body, create a regional infrastructure financing authority, and empower it to play a stronger role in regional transportation finance and planning.

The financing of public infrastructure should be restructured through the creation of an empowered regional planning, finance, and management entity with the abilities to prioritize investments at the regional level, attract and leverage funding from a range of sources, and allocate resources based on integrated regional strategies. Those resources should be accessible to participating regional partners, and should be strategically deployed to support a portfolio of projects, including Enhanced Infrastructure Finance Districts (EIFDs). In this regard, the authority could effectively become a “bond bank,” receiving seed funding and lending to public sector entities looking for capital that may not be available at cost-effective rates in traditional funding markets.

The tools available to the authority should include the ability to go before voters to gain financial support, as well as other methods of traditional public finance, which could include expanding tolling of bridges, highway corridors, and express lanes. The tools should also include authority for design/build and authority to facilitate partnerships that engage private sector capital and management expertise to support regional infrastructure priorities, particularly where a project's life-cycle costs and benefits can be shown to deliver superior value for the public. In this respect, the authority would be similar to the California Infrastructure Bank or the National Infrastructure Bank recently proposed in Washington, D.C., and to organizations such as Partnerships British Columbia in Canada that have developed successful track records of attracting and leveraging private resources.

While not appropriate for every project, when properly structured, alternative procurement methods such as public-private partnerships (P3) have demonstrated their value around the world as sources of project finance and management that can supplement public funds and deliver significantly improved operations and maintenance outcomes, particularly on projects over \$100 million. This occurs through risk transfer/sharing with the private partner and performance contracts that preclude change orders. This model ensures that the private sector partner is accountable for maintenance over the life of the contract (in contrast with public procurements where maintenance is often lacking or deferred).

In the Bay Area, the leading P3 project currently underway is the Presidio Parkway, linking the Golden Gate Bridge with San Francisco through the Presidio. While work will continue into 2016, the Parkway has been essentially delivered on time and on budget; preliminary estimates show it will have saved taxpayers \$178 million and provided critical infrastructure sooner than would have been possible through a traditional public procurement.²³ This contrasts dramatically with other recent, high profile public procurements in the region.

The success of this project and others privately operated and maintained, such as the recently completed Oakland Airport Connector, suggests that a more empowered regional infrastructure body should have the capacity to systematically evaluate the merits of public funding versus private finance in the development of future projects and should serve as a resource in this regard for local jurisdictions in their planning. This could be done by MTC itself or by a special-purpose infrastructure commission with public-private staffing that is linked to MTC and the Association of Bay Area Governments.

ACTION 2: Provide the regional infrastructure financing authority with enhanced power to acquire funding.

As gas tax revenues continue their slow decline, public agencies around the state have looked to other avenues to fill transportation funding gaps. The Bay Area has been particularly successful in creating new revenue streams, as the region's major source of shared transportation infrastructure revenue comes from Regional Measure 2, passed in 2004 to increase bridge tolls by \$1.00. Between 2004 and 2014, the Bay Area Toll Authority has collected annual toll revenue in a range between \$112 million and \$126 million.²⁴ At the county level, sales tax measures have been key to maintaining and expanding transportation systems. For example, Alameda County passed an \$8 billion, 30-year transportation expenditure plan to fund countywide projects through an increased and extended sales tax in 2014. Funding available to the counties through sales tax measures is far larger than that brought in through regional bridge tolls.

Given that many of the Bay Area's key transportation projects in coming decades will cover multiple counties—such as the extension of BART to San Jose, Caltrain corridor improvements, and a new transbay BART tube—a larger level of funding should be available at the regional level that can help to prioritize projects and move them over funding hurdles. A regional gas tax or a large-scale funding mechanism measure, similar to Measure R in Los Angeles, should be put to the voters. It should identify the uses to which the funding would be allocated—including multiple infrastructure and housing categories based on input from regional leaders—and be tied to an implementation design that calls for life-cycle performance, productivity, environmental and user satisfaction, and quality of life considerations.

The success of such a measure will depend on a highly transparent process and require an educational effort with the public to increase awareness of infrastructure needs and of how infrastructure is financed and delivered. Funding, however, should flow from MTC only to local governments that implement best practices in project delivery. This would include analyses of the life-cycle costs and construction timelines of multiple alternative financing and project delivery mechanisms, thereby ensuring the most efficient use of public resources.

Another potential source of funding could stem from a regional user fee on vehicle miles traveled. In 2014, Governor Brown signed a law that set up a commission to study a road usage charge and establish a pilot program by January 1, 2017. Other states have also begun to test usage charges. In 2015, Oregon debuted its pilot program, in which 5,000 volunteers pay 1.5 cents per mile driven and are refunded each month what they paid under the state's 30-cent gasoline tax. Given its confluence of transportation funding needs and the fact that it is home to many companies producing the technologies required to track miles traveled, the Bay Area is well positioned to begin piloting this new user fee model in California.

ACTION 3: Coordinate the design, financing, and building of large-scale water recycling, desalination, and storage infrastructure through a regional entity.

Over the past decade, the Bay Area's water agencies have made strategic investments that have improved regional water supply resilience to drought and earthquakes. Notable projects include the SFPUC Water System Improvement Program, the Santa Clara Valley Water District-City of San Jose Silicon Valley Advanced Water Purification Center, the Los Vaqueros Reservoir expansion, the Freeport Regional Water Facility, regional reliability interties, and others. However, addressing large-scale challenges such as climate change and population growth will require improved regional collaboration. The creation of new water supplies through recycling and desalination, for example, will require new purification, conveyance, and storage infrastructure on a scale most effectively met through a regional approach. Region-wide maintenance initiatives that reduce water losses in the distribution and storage system could also be addressed through this model. The Bay Area's local water agencies should utilize regional coordination—through a Joint Powers Authority with an ability to capture private financing or an Enhanced Infrastructure Financing District to leverage existing revenue streams—to design, finance, and build new capital-intensive regional water assets.

ACTION 4: Support lowering the voter threshold for county infrastructure tax measures to 55 percent.

To increase the amount of traditional finance available for regional infrastructure, regional leaders should support lowering the threshold for voter approval of county sales tax measures for transportation and other infrastructure finance from two-thirds to 55 percent, with a guaranteed sunset provision in each measure passed. This will increase the flexibility and opportunity for communities to create new user fees and taxes, with assurances of appropriate oversight for how the funds are used and a requirement that funding and the strategies it supports be periodically reviewed and reapproved.

ACTION 5: Establish a separate environmental review process for infrastructure.

Delays caused by California Environmental Quality Act (CEQA) review and CEQA-related lawsuits unnecessarily impede the delivery of infrastructure that is needed to support mobility and other economic and public policy priorities. A 2012 study by law firm Holland & Knight, LLP found that 36 percent of all CEQA-related litigation involved public works projects.²⁵ These delays can be avoided, and the integrity of the environmental review process maintained, by creating an environmental review process specific to key infrastructure. MTC should also be empowered to produce regional transportation planning documents, similar to the Area Specific Plans being used for housing and other development, which can expedite the environmental review process.

ACTION 6: Plan for resiliency in all infrastructure decisions.

With systems for flood control and transportation in the region extremely balkanized, a correlated strategy that plans simultaneously for both is needed. While partnerships are already being formed to protect infrastructure around flood plains—especially with regard to the BART and highway systems—no formalized regional approach for disaster preparedness or remediation has been established. Because existing regional entities cannot organize efficiently to disperse money in times of disaster, a regional capacity should be established within MTC or the proposed infrastructure investment authority that provides the ability to assemble and disperse funding both for preventative infrastructure measures and after a natural disaster.

 **Change the Math for Housing Development in the Bay Area**

CONTEXT AND GOALS

When the Sustainable Communities and Climate Protection Act (SB 375) was signed into law in 2008, its principal objective was to align regional transportation plans with housing and land use policies, with the end goal of reducing the levels of greenhouse gas (GHG) emissions caused by traffic and congestion. Each Metropolitan Planning Organization (MPO) in the state was tasked with designing a Sustainable Communities Strategy (SCS) that would result in specified GHG reductions, as set by the California Air Resources Board. MPOs have the authority to use various incentives and/or mandates to ensure local compliance with the SCS.

To comply with SB 375, the Metropolitan Transportation Commission and the Association of Bay Area Governments adopted a Sustainable Communities Strategy, Plan Bay Area, in 2013. Plan Bay Area charts a course for facilitating the region's future population growth by planning for more housing and transportation choices within locally identified Priority Development Areas (PDAs). The Bay Area is now two full years into its SCS, and implementation has been slow—especially as it relates to creating more units to affordably house residents across all income levels. The region permitted just half of the housing units needed in the 2007–2014 Regional Housing Needs Allocation (RHNA) cycle, which identifies the total number of new housing units that the Bay Area needs in each city.²⁶ While this RHNA period occurred within a deep recession and followed a Bay Area housing boom, recent housing production has lagged job growth as lenders and developers exhibited caution coming out of the recession.

The region is now outsourcing a portion of its housing obligations to cities in the Central Valley, which are currently experiencing construction booms. This has added to the in-commute of workers from outside the region into the federally designated nine-county Bay Area, from as far away as Stockton, Hollister, and Patterson. Now over 3% of the Bay Area workforce commutes from outside the region.²⁷ Intra-regional commute times are also rising, and data has shown that Bay Area freeway delays due to traffic congestion have increased by nearly 40 percent from 2010 levels.²⁸

While the region's strong economy in recent years has contributed to runaway housing costs, an inability for the Bay Area to increase its housing stock—especially for affordable rental units—has exacerbated a supply and demand mismatch. Plan Bay Area is not properly equipped to address this crisis. The various carrots, sticks, and levers that were supposed to incent sustainable growth are either not being employed or they are not sufficient to combat restrictive planning and zoning standards and resistance to new development at the local level. The target-setting and planning processes of Plan Bay Area also do not sufficiently recognize or consider the many economic factors that drive demand for housing and where it should be situated.