California’s SB 375 and the Pursuit of Sustainable and Affordable Development

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The Terner Center formulates bold strategies to house families from all walks of life in vibrant, sustainable, and affordable homes and communities. Our focus is on generating constructive, practical strategies for public policy makers and innovative tools for private sector partners to achieve better results for families and communities.

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Acknowledgments

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Introduction

Economic and demographic shifts are putting unprecedented pressure on urban housing markets across the United States, leading to severe housing affordability problems. At the same time, traditional sprawling development patterns are contributing to greenhouse gas emissions and climate change. Solving these problems will require public and private sector innovation, and ultimately, expanding the right kind of housing supply that can address both affordability and sustainability goals.

California’s Sustainable Communities and Climate Protection Act of 2008 (Senate Bill 375) aligns land use and transportation planning to drive development towards transit-accessible places and reduce car dependency. SB 375 is the land use component of California’s wider strategy to reduce greenhouse gas emissions, codified by the 2006 Global Warming Solutions Act (Assembly Bill 32). AB 32 enabled the state to regulate emissions sources and set the aggressive goal of reducing emissions to 1990 levels by 2020. SB 375 requires California Metropolitan Planning Agencies (MPOs) to create a Sustainable Communities Strategy (SCS) as part of the federally-mandated Regional Transportation Plan. SCSs lay out the locations and types of development needed to lower vehicle miles traveled and meet greenhouse gas emission reduction targets.

State and regional attempts to implement SCSs face steep challenges. New development often meets opposition at the local level, and denser infill development needed to meet SCS goals is especially contested. To encourage SCS-consistent housing development, SB 375 aligned the pre-existing Regional Housing Needs Assessment (RHNA) with the SCS. However, SB 375 does not require local plans to be consistent with the SCS, and until recently, there have been few mechanisms to enforce RHNA. To make up for the lack of enforcement, the state and several MPOs have developed funding programs to incentivize SCS-consistent development projects. SB 375 also introduced exemptions from the California Environmental Quality Act (CEQA) review process for projects consistent with the SCS.

SB 375 has now been in place for a decade, and California’s experience implementing SB 375 offers valuable lessons for other states and regions attempting to mitigate climate change through sustainable development. In this study, we assess the implications of SB 375 for housing planning and production. We first lay out the context for SB 375’s housing provisions, including the housing affordability crisis and climate change challenges. We then analyze the strengths and weaknesses of the way that SB 375 alters the planning processes for housing and incentivizes and streamlines housing development. We use both interviews and data analysis to evaluate the progress towards implementation of the SCSs under SB 375. We then provide recommendations to maximize SB 375’s potential to address California’s climate change management and housing affordability needs.
Background

Climate Change and Housing Affordability Crises Converge

High-growth U.S. metropolitan areas face two major crises: accelerating climate change and severe housing affordability problems. Most economically successful cities have been running a deficit of housing construction since the 1980s. The major metropolitan areas in California—Los Angeles, the San Francisco Bay Area and San Diego—are among the most heavily impacted in the country. And the housing that has been produced has not been built in the places where it is most needed, either to alleviate the affordability crisis or to promote compact, transit-accessible development. Insufficient housing construction, in combination with growing housing demand in regions with strong economies, has contributed to skyrocketing housing prices, reduced housing affordability, and longer commute times.

Confronting each of these challenges will require major shifts in development patterns and practices, in seemingly incompatible directions. More housing must be built in order to alleviate housing shortages and improve affordability. Yet U.S. cities mainly rely on sprawling suburban development to expand their housing supply, and this far-flung development encourages increasing reliance on cars for transportation, which in turn increases the greenhouse gas emissions that fuel climate change. Alternatively, car dependence and greenhouse gas emissions can be reduced if more housing is built in central locations near employment opportunities and other amenities, and with easy access to transit. But infill development is expensive, difficult and slow: land for infill projects is usually high-priced and complicated to acquire, infill sites are generally constrained by past uses and surrounding development, infill projects need custom design and construction solutions and neighbors often oppose new construction, leading to costly delays or even rejection of projects. Development consistent with climate change goals may simply cost too much to feasibly build enough to alleviate the housing affordability crisis.

One of the biggest obstacles to both sustainable and affordable development is that many local jurisdictions are reluctant to accommodate growth. This reluctance can stem from concerns over increased burdens on infrastructure and public services and concerns that new development will affect adjacent property values, as well as less benign attitudes toward a potential influx of non-white, lower-class newcomers. When multifamily developments or subsidized affordable housing is involved, especially near single-family homes, resistance increases. Local jurisdictions have tremendous power over land use decisions, and can avoid unwanted development through exclusionary zoning and by delaying, downsizing, or outright denying projects during the entitlement process.

Despite the difficulties and inherent conflicts of addressing the climate change and affordability crises, both require urgent response. The car-dependence and pollution that contribute to global climate change also have direct and immediate negative impacts on the health and wellbeing of residents. And the shortage of affordable housing has direct and severe consequences: people
live far from where they work (which also contributes to climate change), people are displaced from their neighborhoods or move away from the region altogether, people have insufficient money left over for other necessities after paying for housing, people live in poorly-maintained or unsafe housing, and people lose their homes. Aligning land use, transportation, and sustainability is more important than ever as it becomes clear how interrelated these issues are.

Overview of SB 375 and Housing

The Global Warming Solutions Act of 2006 (AB 32) mandated the states to reduce its greenhouse gas emissions down to 1990 levels by 2020. AB 32 enabled the California Air Resources Board to regulate emissions sources including transportation and land use. The passage of SB 375 two years later represented a key shift towards aligning housing development with transportation networks to meet climate change and affordability goals.

SB 375 affects housing planning and policy in California in three main ways. First, SB 375 requires the Metropolitan Planning Agencies (MPOs) to develop a Sustainable Communities Strategy (SCS) as part of their federally-mandated Regional Transportation Plan. The SCS must lay out plans for development patterns that would accommodate projected growth while reducing vehicle miles traveled and thus greenhouse gas emissions. Second, SB 375 aligns the existing Regional Housing Needs Assessment (RHNA) planning process with the SCS, in an effort to encourage local jurisdictions to plan for housing development consistent with the SCS. Third, SB 375 allows for streamlining of the CEQA review process for SCS-consistent development projects.

### Housing-Related Provisions of SB 375

<table>
<thead>
<tr>
<th>Sustainable Communities Strategies: As part of Regional Transportation Plans, MPOs develop Sustainable Communities Strategies, which include plans for development that reduces vehicle miles traveled.</th>
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</thead>
<tbody>
<tr>
<td>Alignment of RHNA &amp; SCSs: MPOs must align Regional Housing Needs Plans with Sustainable Communities Strategies to facilitate housing development in locations that would reduce car dependency.</td>
</tr>
<tr>
<td>CEQA Streamlining: Housing development projects consistent with Sustainable Communities Strategy are eligible for streamlining of the CEQA review process.</td>
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Assessments of SB 375 to Date

SB 375 has earned mixed reviews. In their assessment of the implementation of SB 375, Barbour and Deakin commend the collaborative smart growth planning processes that SB 375 instigated at the state, regional and local levels, while raising concerns that SB 375 lacks adequate incentives or enforcement mechanisms for carrying out the resulting plans. Sciarra and
Mattiuzzi further point out that SB 375 relies mainly on local level action for implementation, yet the law places few requirements on local jurisdictions. And SB 375 attempts to encourage housing development in a hostile political environment: local resistance to new housing development, especially affordable housing, is firmly entrenched, and local property rights activists have pushed back hard against regional planning initiatives.

Mattiuzzi finds that some cities are engaged in collaborative planning processes that raise their likelihood of supporting multifamily housing development, yet other cities’ top priority for implementing the SCS is improving bicycle and pedestrian facilities rather than producing infill development. Many cities lack the technical capacity to take advantage of SCS incentive programs. Similarly, Sciara and Handy find that local governments most often use regional smart growth incentive funds to upgrade their bicycle and pedestrian infrastructure, areas near transit stations, and streetscapes, rather than funding efforts toward infill development. As might be expected under these circumstances, Allred and Chakraborty find little to no change in the types of places where housing was built since the inception of Sacramento’s first regional smart growth plan in 2004. Like others, they question whether largely voluntary regional plans are enough to shift development patterns.

In this study, we examine how SB 375 affects housing planning and production in California. Many of our findings reinforce prior researchers’ assessments of the law. Still, since SB 375 relies on existing housing policies for implementation, evaluating SB 375 in light of housing policies reveals some of the key sticking points which must be addressed to meaningfully shift development to alleviate the climate change and affordability crises.

Research Approach

We used a two-pronged approach to understand the housing provisions of SB 375 and how they work in practice. We conducted interviews with state and MPO officials involved with the design and implementation of SB 375’s housing provisions, and we analyzed data on the programs that resulted from SB 375. For our interviews, we identified key informants at the state and MPO level who are responsible for implementing the housing policies and programs related to SB 375. We focused on the four largest MPOs: the Southern California Association of Governments (SCAG), the Metropolitan Transportation Commission (MTC) and Association of Bay Area Governments (ABAG) in the San Francisco Bay Area, the Sacramento Area Council of Governments (SACOG) and the San Diego Association of Governments (SANDAG). At the state level, we spoke with officials at the Department of Housing and Community Development, the Strategic Growth Council (SGC), and the Governor’s Office of Planning and Research (OPR) and State Clearinghouse. We developed a semi-structured interview guide with questions on SB 375 funding incentive programs, enforcement mechanisms, and approvals streamlining.
At the same time, we analyzed available data to assess the ways in which SB 375’s housing policies and programs have been implemented. We compared the patterns of the RHNA allocations before and after SB 375 to see whether the RHNA allocations showed increasing consistency with SCS and climate change goals. We used reports from both state and MPO incentive programs for information on their funding levels and awards. We also used OPR’s 2016 Annual Planning Survey, which included questions on both SCS consistency and the use of SB 375’s CEQA streamlining measures. We are especially grateful to OPR staff for their assistance in searching for projects that have used SB 375 CEQA streamlining.

It is too early to specifically assess changes in housing production under SB 375, since many of the planning processes and programs are in their early stages. It remains to be seen whether SB 375 will help spur a shift in development patterns to meet climate change and affordability goals. Even if enough time had passed to see results, too many other factors affect development patterns to easily attribute any changes to the influence of SB 375. In this research, we set out to provide a detailed analysis of the way SB 375’s housing provisions work in practice, and how its implementation differs from MPO to MPO, rather than attempting a causal analysis of the impacts of the law. Even with these limitations, this analysis reveals some of the successes and challenges of implementing SB 375’s housing provisions, and leads to recommendations to improve existing policies related to climate change and housing development.

Analysis

SB 375 implementation through RHNA has limited potential to increase infill development in most regions.

The main land use component of SB 375 is implemented through the longstanding Regional Housing Needs Assessment (RHNA) process. In this section, we explain the connection between RHNA and the SCS. We analyze the changes in the locations of the housing needs allocations after SB 375, and find a shift towards more infill development in most regions. Yet until recently, RHNA has lacked enforcement mechanisms to combat exclusionary zoning and NIMBY opposition to infill housing production, limiting the impact of this shift. Figure 1 diagrams the RHNA and Housing Element process, the SCS development process, and how they are integrated under SB 375. The RHNA process involves coordination between state, regional, and local planning agencies to determine how much additional affordable housing is needed in each city to accommodate expected growth. First the California Department of Finance (DOF) produces projections of population growth for each MPO and county in the state. Then the California Department of Housing and Community Development (HCD) works with DOF to develop estimates of the number of housing units needed to accommodate growth in households by income level in each region. Then MPOs undertake a planning process with public input to develop a method to estimate the additional housing needed in each income bracket in each city.
This is where the Sustainable Communities Strategies come in. One of the major mandates of SB 375, SCSs are a new component of federally-mandated Regional Transportation Plans that address land use and transportation together. SCSs are intended to reduce vehicle miles traveled and thus greenhouse gas emissions by encouraging compact, efficient development in transit-accessible places. SCSs are developed by the MPOs to meet regional greenhouse gas reduction goals set by the California Air Resources Board. In response to these targets, MPOs develop a greenhouse gas emissions quantification method—which must be approved by CARB—and then a SC, which must contain strategies sufficient to reach emission reduction targets according to the MPO’s approved quantification method. MPOs work closely with local jurisdictions to develop the SCS. Since the passage of SB 375, the Regional Housing Needs Plan must be consistent with the SCS. In other words, the RHNA must not only accommodate expected growth, it must facilitate growth in places where development is projected to reduce vehicle miles traveled and greenhouse gas emissions.

Once the RHNAs are distributed to the cities, cities are required by longstanding law to update the Housing Element portion of their General Plan to allow the production of sufficient housing in each income category. Cities must produce an inventory of sites where new development...
could be accommodated, and, if necessary, rezone those sites to make development feasible. Housing Elements must be approved by HCD, and rezoning can be reviewed by HCD if a complaint is lodged, or challenged in court. Cities are required to produce an annual report detailing their progress towards meeting RHNA production goals.

Despite the new alignment of RHNA with the SCS at the regional level, there is a catch: SB 375 does not require local Housing Elements to be consistent with the SCS. In addition, there is no clear legal definition of SCS consistency.

Lengthy SCS and RHNA processes will be slow to yield results.

These planning processes take significant time. Figure 2 shows a timeline of the first round of coordination in the SCS and RHNA planning processes implemented by SB 375. SB 375 passed in September 2008, and CARB finalized the regional greenhouse gas emissions reduction targets in April 2010. Then MPOs began to work on their greenhouse gas quantification methods and once their method was approved by CARB, they began to create their SCS. While MPOs were working on their SCS, DOF and HCD sent MPOs their RHNA letter containing the number of new housing units needed to accommodate growth at each income level. Then MPOs developed RHNA methods, which needed approval from HCD. Most MPOs adopted their SCS and their Regional Housing Needs Plan around the same time, since they are required to be consistent. However, once the RHNA is distributed to cities, cities have eighteen months to update their Housing Elements, and three years to rezone. This means that in most MPOs, local plans consistent with the SCS were not required to be in place until a decade after SB 375 passed, only two years before the initial 2020 goal for greenhouse gas emissions reductions set by AB 32.
As part of the new alignment with the SCS, SB 375 lengthened the RHNA and Housing Element cycle period from 5 years to 8 years, so that they are updated every other time the Regional Transportation Plan and SCS are updated.

SB 375 rewards cities in MPOs that update their SCS regularly by extending the period between Housing Element updates from 5 years to 8 years. This aligns the SCS and Housing Element update schedules. The schedule shift also introduces a new penalty, as noncompliant jurisdictions must update their Housing Elements every 4 years instead of every 8 years.

After SB 375, RHNA targeted more housing development with high job proximity.

Our analysis suggests that in most MPOs, the RHNA has shifted towards urban jurisdictions with good job accessibility, in line with the goals for SB 375. Figure 3 shows the share of RHNA awarded to the top 25% of cities in terms of acres with above-median access to jobs within the largest four MPOs, before and after the passage of SB 375. In ABAG, 64% of housing needs allocations were located in the cities with the most job access before SB 375, and that share jumped to 72% after SB 375. In SANDAG the share of allocations in high-job-access cities rose from 71% to 81%, and in SACOG the share rose from 71% to 77%. However, SCAG allocated only 53% of housing needs allocations to high-job-access cities before SB 375, and that share fell
slightly to 51% after SB 375. This difference reflects just how much the implementation of SB 375 can vary from MPO to MPO.

**Figure 3. Share of MPO's Regional Housing Needs Allocated to Cities with Highest Access to Jobs Before and After SB 375**

Percent of RHNA in Top Employment-Accessible Cities

- 4th RHNA Cycle (before SB 375)
- 5th RHNA Cycle (after SB 375)

![Bar chart showing the share of RHNA in top employment-accessible cities before and after SB 375.]

*Source: Authors’ analysis of HCD RHNA data and EPA Smart Location Database employment access data.*

RHNA and SCS encourage collaborative planning but lack enforcement mechanisms to drive development.

Many of the officials we spoke with emphasized that the development of the SCS created new and ongoing collaborations between transportation and housing planners, professionals, and advocates, between local, regional, and state agencies and between developers, advocates, and government officials. These collaborations have extended beyond the SCS process, building productive relationships and expanding the expertise of planning professionals and other stakeholders.

Yet a major weakness of using California’s existing housing planning process to encourage SCS-consistent development is that RHNA had little traction in the first place. Cities often do not comply with the required Housing Element revisions, rezoning and RHNA progress reports, much less actually approving projects. Under SB 375, the main penalty for failing to update Housing Elements on time is to simply require cities to update their Housing Elements more often. Of course, noncompliant jurisdictions can be sued, but few legal challenges have been brought. The recent passage of SB 35 is somewhat of an improvement as it provides for streamlining of the approvals process for housing in jurisdictions that are not on track to meet their RHNA goals. Still, in the absence of enforcement mechanisms for the housing laws on which it is built, SB 375 relies entirely on incentives and jurisdictional good will for implementation.
Incentives for SCS implementation are limited and vary by region.

The state and several MPOs have developed incentive programs for SCS-consistent housing development. The state provides gap funding to encourage sustainable projects. MTC and SANDAG award discretionary funding based in part on housing planning and production. SACOG had a small planning incentive program which has been discontinued, and SCAG has a Transit Oriented Development (TOD) planning incentive program which is not linked with housing goals. The state, MTC, and SANDAG funding programs show promise, but without enforcement mechanisms they are still unlikely to shift development to the extent needed. Jurisdictions which do not want additional development simply do not need to take advantage of incentive programs.

State Incentive Program: Affordable Housing and Sustainable Communities

The Affordable Housing and Sustainable Communities Program (AHSC) provides gap funding grants and loans for development projects that further California’s climate change and affordable housing goals. AHSC was established by statute in 2014 through Senate Bill 862 and is funded by cap and trade funds from the Greenhouse Gas Reduction Fund (GGRF). AHSC is administered by the SGC in partnership with HCD and receives a continuous appropriation of 20% of all cap and trade auction proceeds. As of the fourth round of funding, $886 million had been allocated for grants and administration of AHSC. AHSC is currently the only state-level program that requires SCS consistency as a criteria for applying for funding, though it follows three similar grant and loan programs to encourage sustainable development. According to program administrators, AHSC grew out of an effort to support regional SCS implementation; later in the program’s development other goals were added, such as renewed funding for affordable housing development in the absence of redevelopment funds.

The program has strict eligibility and statutory requirements. 50% of AHSC expenditures must go towards affordable housing development and 50% must go to projects benefiting disadvantaged communities; these constraints frequently overlap leaving funding available for projects that do not meet either criterion. Projects seeking funding must be “shovel-ready,” near existing transit services, meet minimum densities, and can go towards affordable housing developments, housing-related infrastructure, active transportation, transit infrastructure and/or transportation-related amenities. AHSC is also highly competitive: in the first cycle, 147 developers submitted concept applications, 56 were selected to submit full applications, and 28 projects were funded; and in the second cycle, 130 developers submitted concept applications, 86 were selected to submit full applications, and 25 projects were funded.

Because of the rigorous eligibility criteria and fierce competition for AHSC grants, many smaller jurisdictions and developers lack the technical capacity to meet the application requirements. In the second cycle, SGC introduced a technical assistance (TA) pilot project geared towards unsuccessful first cycle applicants from disadvantaged communities. While state-provided TA
has been limited in scope, SGC staff note that they are “seeing more [TA] providers pop up across the state whether they’re SGC-funded or not.” Staff from one TA provider suggested that they would be “worried that if the state did not offer TA, we would have some poorly-conceived projects... AHSC TA is helping projects reach their fullest potential.” HCD staff highlighted that the state is providing a much higher level of TA to AHSC applicants than typical for other HCD programs: “The matchmaking of affordable housing plus transportation in AHSC requires more TA than just affordable housing funding streams or just transportation funding.” According to state staff, the learning curve for AHSC was much higher due to its cross-disciplinary nature. Additionally “the political nature of AHSC and cap-and-trade has put the spotlight on this program. HCD and SGC are aware of that and lots of effort is going into outreach to ensure the program succeeds.” For the third round of funding, $2 million was set aside for the California Climate Investments (CCI) TA Program, including to expand the TA program for AHSC.

Table 1. Affordable Housing and Sustainable Communities Program Funding

<table>
<thead>
<tr>
<th></th>
<th>2014-15 Cycle</th>
<th>2015-16 Cycle</th>
<th>2016-17 Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds Requested</td>
<td>$273m</td>
<td>$773m</td>
<td>$685m</td>
</tr>
<tr>
<td>Funds Awarded</td>
<td>$122m</td>
<td>$289m</td>
<td>$257m</td>
</tr>
<tr>
<td>Full Applications</td>
<td>56</td>
<td>86</td>
<td>54</td>
</tr>
<tr>
<td>Projects Awarded</td>
<td>28</td>
<td>25</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: California Strategic Growth Council

According to state administrators and TA providers, one of AHSC’s major successes has been the program’s ability to build new and enduring partnerships. One TA provider suggested that under redevelopment and other programs, applicants knew the system and could work within their existing structures. But the newness and complex nature of AHSC has changed the game: “It’s incredibly inspiring—the partnerships that [AHSC] has forced so people can get the money they want... it’s been a catalyst to get folks to braid their work together.” The program’s ability to bring together a diverse group of actors across sectors is creating relationships that can persist beyond a single project application.

Additionally, AHSC is pushing local governments to think more critically and strategically about what projects to put forth. State staff explained that “AHSC is helping prioritize what projects local governments pursue. They’re reshuffling their list of priorities based on where they can get funding.” Governments prioritizing AHSC-eligible projects are putting affordable housing developments and transit investments in infill locations first, accelerating projects that will help
the state achieve its climate change goals. One example of this is the City and County of San Francisco. According to one TA provider: “San Francisco is thinking much more carefully about their pipeline of projects and how they would score for gap funding opportunities such as AHSC.” But shifting behavior in terms of how local governments select sites will take time and many jurisdictions see AHSC funds as “Santa Claus money,” far out of their reach because of the difficulty of applying and the competition for scarce funding.

While AHSC may be encouraging developers and local jurisdictions to think more critically about their pipeline of projects, the program has not significantly affected project siting to date. This can be attributed to two factors: (1) Projects must be shovel ready, complete with site control and environmental clearances. Applicants may now be thinking about siting future projects in locations that will score well under AHSC, but those seeking funding in the first few cycles had to put forth an existing project that happened to meet program guidelines, rather than designing a project from the start with AHSC funds in mind. Barring any sweeping changes to program guidelines, this limitation will decrease as time goes on. (2) State staff acknowledge that the AHSC definition of infill is “pretty loose,” requiring only that projects do not result in the loss of agricultural land, while meeting minimum density and transit thresholds that vary based on project type and location. This allows flexibility for awards in places outside the densest urban neighborhoods, but it also limits the program’s ability to influence project siting.

AHSC funding has made a difference for a few projects and communities, yet its impact has been small compared with the magnitude of the housing shortage. The program supported slightly over 6,000 affordable housing units over its first three cycles; just over 1% of the 540,000 new affordable units needed during that period according to HCD’s Statewide Housing Assessment 2025. The comparison highlights one of the main limitations of incentive programs for housing production: they have difficulty keeping up with the volume of new housing needed.

State staff mentioned plans to work more on integrating transportation, land use, and housing in the future to support California’s environmental goals. As outlined in the state’s 2016 Vibrant Communities and Landscapes Vision for California in 2050, state staff are exploring additional state financial incentives and continuing to work on infill barrier removal. SGC’s Transformational Climate Communities program is one way the state is working towards that vision. This GGRF funded program will target $140 million in three disadvantaged communities to “accelerate greenhouse gas reduction and advance local climate action” with the intention of having catalytic impacts.

The San Francisco Bay Area’s MTC and the One Bay Area Grant Program

In addition to state efforts, MPOs also have discretion to provide incentives for SCS and RHNA compliance by leveraging federal, state and regional dollars. This regional approach allows the MPOs to craft solutions specifically tailored to their region—but this also results in a great deal of variance from MPO to MPO. The bulk of any given MPO’s funding comes from federal transportation sources and that funding must go towards transportation-related planning and
projects; MPOs have to be creative to link housing with their transportation efforts. The largest and most effective MPO programs make transportation funding contingent on housing goals.

MTC’s One Bay Area Grant Program (OBAG) ties regionally-distributed federal transportation funds to housing goals. According to MTC’s OBAG coordinator: “SB 375 really prompted OBAG. The Commission recognized that they would be asked to do more in regards to housing, but that there no money to do that. [OBAG] was an opportunity to incentivize working towards the SB 375 goals.”

In 2012 MTC disbursed the first round of OBAG funding, which made up 40% of MTC’s funding commitments for the following five years. OBAG 1 directed $327 million from 2012-13 to 2016-17 to the nine county Congestion Management Agencies to support projects in any of six transportation improvement categories. The policy framework for OBAG 2 was adopted in November 2015 and allocated $386 million to fund projects from 2017 through 2022.

Under OBAG, each county Congestion Management Agency receives funding based on a distribution formula balancing population with housing planning and production, illustrated below. In OBAG 1, 50% of the funding allocation was based on the county population, and 50% of the funding allocation was based on planning and production of housing. The planning portion measures the total Regional Housing Needs Allocation and the affordable Regional Housing Needs Allocation for each jurisdiction, and the production portion measures the total housing units permitted and the affordable housing units permitted.

While the program remains largely unchanged in OBAG 2, the new guidelines shifted the distribution formula to emphasize production over planning and affordable over market-rate housing: RHNA, the planning side, now makes up 20% of the formula basis, with 12% for RHNA planning for low-income housing units and 8% for total housing units. Housing production has increased in importance to 30% with 18% for low-income housing unit production and 12% for total housing unit production.

**Figure 4. One Bay Area Grant Program Distribution Formula, Cycle 1 versus Cycle 2**

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>RHNA</th>
<th>Permitted Units</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Aff.</td>
</tr>
<tr>
<td>OBAG 1</td>
<td>50%</td>
<td>12.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>OBAG 2</td>
<td>50%</td>
<td>8%</td>
<td>12%</td>
</tr>
</tbody>
</table>

*Source: Metropolitan Transportation Commission*
In addition to tying fund distribution to housing planning and production metrics, OBAG requires recipient jurisdictions to have adopted an HCD-certified Housing Element. Jurisdictions which receive OBAG funds are also required to submit RHNA annual progress reports to HCD by April 1st each year to maintain their funding.

According to MTC staff, OBAG is a “game-changer [for] distributing transportation money based on housing metrics.” Following OBAG, more MTC jurisdictions had HCD-compliant Housing Elements than before. MTC reports that 28 jurisdictions applying for OBAG 1 did not have a certified Housing Element; seven of those jurisdictions had been out of compliance since before the prior 1999-2006 RHNA cycle. Now, each of those 28 jurisdictions have a current compliant Housing Element—“the first major win” of OBAG according to MTC staff.

OBAG 1 also set investment targets for what percentage of each county’s funds had to go towards projects in or within proximate access to Priority Development Areas. According to MTC’s report card on OBAG 1, targeting investments in the Priority Development Areas “[supports] infill growth in areas where there is local commitment to develop more housing along with amenities and services to meet the daily needs of residents in a bicycle and pedestrian-friendly environment served by transit.” 70% of funding in Alameda, Contra Costa, San Mateo, San Francisco and Santa Clara counties and 50% in Marin, Napa, Solano and Sonoma counties were required to go towards Priority Development Area. Every county exceeded their target, with 82% of funds region-wide directed to Priority Development Areas.

Aside from distributing transportation funds to counties, OBAG includes a regional program that funds other MTC activities supporting housing planning and production in the region. Beginning in 2017, OBAG 2 introduced the Naturally Occurring Affordable Housing pilot revolving loan fund. $10 million in MTC funds will be leveraged to create an investment pool of $50 million for “buying apartment buildings to create long-term affordability where displacement risk is high and to secure long-term affordability in currently subsidized units that are set to expire.” These investments will be directed to Priority Development Areas and Transit Priority Areas, consistent with the SCS. This program complements MTC’s existing Transit-Oriented Affordable Housing revolving loan fund for new construction.

OBAG 2 also introduced the 80K by 2020 Challenge, an incentive program for jurisdictions to produce housing at the very low, low, and moderate income levels based on the needs identified in the RHNA for 2014-22. Up to the top 10 jurisdictions producing the most affordable housing by 2020 would split $30 million in transportation funds. Units counting towards the total would have to be in Priority Development Areas or Transit Priority Areas, further incentivizing development in these preferred areas first.

In spite of the success of OBAG 1, there are still issues with the OBAG funding mechanism. There is a limit to how much progress can be made using a solely incentive-based strategy: jurisdictions less reliant on regional transportation funding may simply forgo applying for the funding rather than comply with the program’s requirements. Frequently, it is the jurisdictions that do not want to take on their share of the region’s growth that can most afford to pass on
MTC’s funds: “Some of the wealthier jurisdictions are not participating [in OBAG] so we are not getting the results from them.” During the OBAG 2 policy update, many stakeholders pushed MTC to require local jurisdictions to adopt affordable housing and anti-displacement policies to receive OBAG funding. But MTC was concerned that more requirements would result in lower participation.35

Additionally, the OBAG distribution formula allots funding to each of the nine counties based on the composite of its jurisdictions’ population and housing metric performance. Once the funds are distributed to the county, the Congestion Management Agencies then administer the grant. The Congestion Management Agencies may choose to select projects irrespective of a given jurisdiction’s population and performance: a single city’s planning and production success could be driving the county’s formula distribution, but that city may not reap the benefits of OBAG funding. According to MTC’s OBAG coordinator, this represents a “disconnect,” though some of the Congestion Management Agencies do try to align their funds.

An MTC analysis compared the OBAG formula distribution to the actual grant distribution for the sixteen jurisdictions expected to assume the most growth in housing units according to Plan Bay Area. When taken together, these jurisdictions should have received 56% of OBAG funds based on the formula and ultimately received 50% of funds through the Congestion Management Agency grant process. The level of investment thus appears to be well-aligned. But as MTC’s 2014 Report Card on OBAG points out, by jurisdiction, this trend is less consistent: seven of the sixteen jurisdictions received a higher or equivalent grant share than they should have by formula and nine received a lower share.36

MTC’s OBAG illustrates how an MPO can link the lion’s share of their discretionary funds—federal DOT dollars—to housing objectives without pursuing a new funding stream or exchanging existing dollars. In the Bay Area, this has resulted in more HCD-compliant Housing Elements, and adjustments to the grant guidelines for round two may similarly increase RHNA reporting compliance in the region.

The San Diego Association of Governments and the Smart Growth Incentive Program

SANDAG takes a similar approach to that of the Bay Area. SANDAG’s TransNet Smart Growth Incentive Program (SGIP) was codified in 2004 through a regional half-cent sales tax measure authorized through 2048. While the program predates SB 375, its goals are clearly aligned with and have been strengthened by the statute. Local jurisdictions apply to the SGIP for funds for planning work and capital investments in predetermined “smart growth” areas. Those areas are identified through a collaborative process between local jurisdiction staff and SANDAG using the smart growth place types contained in SANDAG’s Regional Transportation Plan.

To be eligible for the SGIP and SANDAG’s other discretionary funding programs, a jurisdiction must have an HCD-certified Housing Element and submit their RHNA annual progress report to SANDAG by April 1st each year.37 Beyond these eligibility requirements, housing goals
comprise approximately 25% of the criteria used to determine which projects received funding. Weighted equally, jurisdictions can receive points under the following four criteria:

1. Greater RHNA Share Taken
2. Regional Share of Cumulative Total of Lower-Income Units Produced
3. Total Number of Affordable Housing Units
4. Percent of Lower-Income Households

To date, SANDAG has issued three calls for projects for the SGIP distributing a total of $30 million. $280 million for the SGIP is authorized for the 40-year period from 2008 to 2048.

According to SANDAG staff, the SGIP grew out of the 2004 smart-growth-oriented Regional Comprehensive Plan (RCP). At that time, SANDAG’s Board “did not have the appetite for an urban growth boundary” or similar measure to promote consistency with the RCP. Rather they wanted to provide voluntary incentives for jurisdictions to grow in ways envisioned by the RCP. The RCP included a typology of smart growth areas that ultimately formed the basis of eligibility for the SGIP. That typology is not one-size-fits-all: SGIP staff note that SANDAG “wanted to find a way all jurisdictions could participate, to make sure each jurisdiction could find one or two or more places in their city that could work to access this funding.”

Housing criteria also affect the ranking of some transportation projects in the resource constrained Regional Transportation Plan project list. Projects serving smart growth areas can receive additional points, and the four criteria outlined above also apply to some transportation project types, resulting in the prioritization of projects located in key development areas that are open to increasing their share of affordable housing.

SANDAG staff highlighted that future housing projections are shifting heavily towards multifamily units. Regional planning efforts including SANDAG’s Environmental Mitigation Program are working hard to protect existing open space and shift development to areas with existing services and amenities. The region is working to drive transportation investments to where multifamily housing already is or is planned for the future. According to SGIP staff, they’re “starting to see this in... parts of downtown, suburbs, 30 dwelling units per acre in places that 10 years ago had no multifamily. And a lot of this is affordable.”

The SGIP should be commended for its “huge buy-in from local jurisdictions. They’re always looking to be eligible to compete for funds... local jurisdictions are always clamoring for the next round of projects.” This region-wide excitement over the SGIP is due in part to the program’s inclusive nature, with a wide range of smart growth area typologies ensuring that every jurisdiction has a chance at the available funding.

But this accommodating approach has some drawbacks. It is politically difficult, if not infeasible, to build a funding program that is out of reach for some jurisdictions. But every jurisdiction may not be well situated to take on more housing—some suburbs may simply be too far from the urban core in a monocentric region to have access to the employment opportunities
SANDAG’s SGIP and other efforts suffer from the same incentive-based strategy limitations as MTC’s OBAG. If jurisdictions choose not to apply for the funding, SANDAG has no way to ensure their compliance with the program’s requirements or the Regional Transportation Plan’s larger goals.

SANDAG staff also highlighted the limitations of regional planning to provide housing—if the market is not there, the housing will not be built even if local jurisdictions have up-to-date pro-housing plans. One staff member commented: “Now we need the private investment to come in. We hear from a lot of developers that they need more funding to provide the infrastructure needed... the appetite is here [for more housing], we have willing jurisdictions.”

**The Sacramento Area Council of Governments and the Challenge of Small-Scale Incentivization**

The much smaller SACOG region has not been subject to the same skyrocketing prices and overall housing shortages recently faced by the other major metropolitan areas in California. With less development pressure and lower density, more undeveloped land remains within existing communities in the SACOG region for future infill development. Though SACOG does not have comparable fiscal resources to MTC or SANDAG, they have leveraged state funds to provide TA to their jurisdictions for SCS implementation.

SACOG also developed a small incentive program to leverage transportation funding to meet affordable housing goals. Under SACOG’s 2006-2013 RHNA plan, jurisdictions that built additional low or very-low income units beyond their RHNA were given $2,000 per unit towards a federal-funding-eligible transportation project. Very few jurisdictions requested the funds, and a total of 321 units were built across the six-county region. According to SACOG staff the “hassle of the associated paperwork was not worth the drop in the bucket that those funds represented for an average transportation project.” The 2013-2021 Regional Housing Needs Plan notes that the “use of incentives, such as priority for funding or other incentives, for local governments that are willing to accept a higher share than proposed in the draft allocation was briefly discussed” but these incentives did not materialize.

**The Southern California Association of Governments and the Limits of Regional Governance**

While the other three large MPOs have taken steps to incentivize housing production in conjunction with the SCS, SCAG does not view this as their role. SCAG staff noted that the MPO “does not have the implementation funding that the Congestion Management Agencies would have” and that SCAG’s role is “more policy-making: how do we get our elected officials to think regionally. While the SCS is important, a lot of elected officials are not as concerned with the SCS.” SCAG does offer a sizeable Sustainable Planning Grant program which incentivizes
planning for transit-oriented development in support of the Regional Transportation Plan/SCS, but the program does not directly incentivize housing planning or production.41

SCAG staff also said that the huge variety in community types across the six-county region make it challenging to design programs or requirements that can apply region-wide. This is in part due to the inherent jurisdictional layout of the region. The City of Los Angeles is far larger than the many smaller cities in the SCAG region, and implementing a program with a distribution formula similar to OBAG would result in many small cities losing their transportation funding altogether. SACOG suffers from a similar imbalance, with the city of Sacramento as the regional heavyweight for both population and employment. Both MTC and SANDAG are better organized for regional governance, which helps explain their success in implementing SCS incentive programs.

CEQA Streamlining to Enable SCS Implementation

While the alignment of RHNA with the SCS is primarily a planning requirement, SB 375 includes provisions intended to streamline the approvals process for projects that are consistent with the SCS.

Under CEQA, development projects that require discretionary approval must undergo an environmental review process, which provides an opportunity for legal challenges which can effectively delay or even derail projects. Though intended to reduce harmful environmental impacts from development, CEQA lawsuits disproportionately affect infill projects consistent with SB 375’s goals. In an analysis of CEQA lawsuits in the SCAG region over the past three years, Hernandez, Friedman, and DeHerrera found that over two thirds of the proposed housing units that faced legal challenges were in Transit Priority Areas and High Quality Transit Corridors.42 Lawmakers recognized that the CEQA review process could serve as a barrier to SCS implementation, and added CEQA streamlining provisions to SB 375.

SB 375 offers three main types of CEQA streamlining: (1) full exemption, (2) a Sustainable Communities Environmental Assessment instead of a full Environmental Impact Report (EIR), or (3) a Limited EIR instead of a full EIR. To qualify for full CEQA exemption under SB 375, projects must meet a set of stringent criteria. Projects must be consistent with the SCS, with at least half of their square footage devoted to residential uses, at least 20 units per acre, and located within half a mile of a major transit stop or high-quality transit corridor to qualify as a Transit Priority Project. To qualify for full CEQA exemption, projects must also be energy- and water-efficient, use existing infrastructure, cannot be located in open space, wetlands, wildlife habitat or an earthquake fault zone and cannot be at risk of wildfire, nearby explosions, public health exposure, landslides or floods. Projects seeking full exemption must not have any impact on protected species or historical resources, reduce affordable housing units in the project area, or conflict with industrial uses nearby. Project sites must be under eight acres, and the projects must be under 200 housing units, with no single building over 75,000 square feet, and provide some deed-restricted affordable housing or pay in-lieu fees or provide public open space.
Despite their exemption from CEQA review, Transit Priority Projects must undergo a preliminary endangerment assessment to ensure all these criteria are met, and the city or county must hold a public hearing to determine whether a project is eligible for the CEQA exemption.

To use the Sustainable Communities Environmental Assessment or Limited EIR, projects must also be Transit Priority Projects. The Sustainable Communities Environmental Assessment is similar to a full EIR, except that it does not need to address growth and traffic impacts already covered by the SCS, or provide a reduced density alternative. Projects that are at least 75% residential and consistent with the SCS but not Transit Priority Projects are also eligible to submit a reduced EIR. It should be noted that the Sustainable Communities Environmental Assessment and Limited EIR options can only be used at the discretion of the lead agency, either the city or the county in unincorporated places.

**Limited Use of SB 375 CEQA Streamlining Provisions**

SACOG staff designed their 2012 SCS to enable key upcoming projects to take advantage of SB 375 CEQA streamlining because they had identified CEQA litigation as a key barrier to implementing their regional plans. SACOG staff also said that designing the SCS to accommodate specific projects is important to enable CEQA streamlining: “You cannot use the SB 375 provisions unless a project is consistent with the SCS, there’s a linkage you need to make between the project and the SCS. I do not think that linkage is easy to make unless you did it intentionally up front.” A U.S. Department of Housing and Urban Development Sustainable Communities Initiative grant helped fund a pilot project supporting SB 375 streamlining efforts for a select number of transit priority projects located in Transit Priority Areas in the SACOG region. But in 2012 and 2013 when this work was happening, the housing market still had not recovered in much of the Sacramento region and the projects selected by SACOG to participate in CEQA streamlining were no longer viable. SACOG’s efforts got far enough along to result in a sample environmental document that could be used by projects seeking SB 375 CEQA streamlining.

Only a single project in Daly City has successfully utilized the SB 375 CEQA streamlining provisions, according to the OPR’s State Clearinghouse database of CEQA documents. When California city planners were asked whether the Transit Priorities Project CEQA streamlining exemption had been used in their city, 83% said no, 11% did not know, and only 6% said yes. Similarly, when asked about the use of Sustainable Communities Environmental Assessments, 83% of planners responded that this measure had not been used in their city, 13% did not know, and only 4% said yes.43 There was a great deal of overlap between Transit Priority Project and the Sustainable Communities Environmental Assessment use, and only 21 cities total used at least one of these CEQA streamlining measures.

Why such limited use? One of the responses to the Annual Planning Survey says it best: “Overly complicated exemptions that don’t fit most projects.” Staff at all MPOs we studied mentioned interest from jurisdictions in CEQA streamlining, but could not think of examples. One MPO staff member noted that many CEQA consultants see SB 375’s streamlining provisions as too
complicated, and prefer other CEQA streamlining opportunities. Many project developers may also feel that SB 375 streamlining just is not worth the amount of effort: while CEQA streamlining under SB 375 allows projects to avoid consideration of factors already covered by the SCS, in most cases it does not remove the notification and hearing requirements attached to CEQA certification. Couple minimal benefits of streamlining with the convoluted requirements, and SB 375’s CEQA streamlining provisions are little more than a cautionary tale for lawmakers interested in CEQA reform.

Conclusion

Alignment of Housing and Transportation Goals

SB 375 represents a solid move towards integrating the planning processes for transportation and housing in California. In our interviews, we found consensus that the process of working on the SCS and RHNA together led to new and ongoing collaborations between professionals in the transportation and housing fields, between the private, non-profit, and public sectors, and between planning agencies at the local, regional, and state levels. We also found that after SB 375, the RHNAs seem to be better-aligned with the goal of reducing vehicle miles traveled. Still, these advances in the planning process and increased collaboration are unlikely to noticeably shift development patterns in the face of barriers to redevelopment in urban areas (including the high and rising cost of construction and local opposition to building new housing), and with only limited incentives.

Need for More Enforcement

SB 375 includes little in the way of enforcement mechanisms. Regional enforcement of the SCSs is especially difficult, as MPOs depend on their constituent jurisdictions for legitimacy and power. It is not surprising that the CEQA streamlining provisions of SB 375 have seen little use, since they are convoluted and rife with loopholes that allow local jurisdictions to delay or deny even SCS-consistent projects.

Incentives without enforcement and the weak influence of state and regional governments over local land use decisions mean that jurisdictions that are unwilling to approve new developments are free to proceed as before. Each local jurisdiction’s technical capacity and political climate determines the extent to which the law is implemented. Even for jurisdictions that would like to encourage more infill development, progress may come slowly. SB 375 alters already-slow planning processes, and in many places within California the provisions of SB 375 have barely begun to be implemented a decade later.

Current RHNA and Housing Element law require only planning on the part of local jurisdictions, with weak accountability mechanisms. SB 35, passed in fall 2017, mandates
additional data collection and transparency around the RHNA process, and allows certain limited types of housing projects to be approved without discretionary review in jurisdictions that have not met their RHNA goals. Strengthening RHNA would go a long way towards strengthening the impact of SB 375, since SB 375 depends on RHNA to implement the SCSs. Still, additional enforcement will be needed to ensure that SB 375 and related housing laws are fully implemented.

Need for More Incentives

The scarcity of public funding to incentivize housing production limits the potential of SB 375 to promote sustainable development. AHSC is now the only state program to encourage SCS-consistent development. AHSC is funded by California’s cap-and-trade program, which was extended through 2030 a year ago. While this funding source is now relatively secure, AHSC has not funded anywhere near the volume of housing units needed to meet demand. We urge lawmakers to invest in the implementation of SB 375 by finding additional long-term funding sources for incentive programs like AHSC.

Even without public investments in housing, state and regional governments can use existing resources to gain leverage to implement the SCSs. MTC’s One Bay Area Grant program directs transportation funding towards local jurisdictions that are compliant with RHNA and Housing Element law and making progress towards SCS goals. Other MPOs and even the state and federal government could replicate this strategy, gaining leverage by tying transportation funding to local compliance with existing housing laws.

Need for More Capacity

SB 375 has built capacity among regional stakeholders who worked on the SCS or funding program applications together, but the incentive programs also require capacity at the local level in order to compete for funds. In line with previous findings, we heard in our interviews that many smaller jurisdictions lack the technical capacity to take advantage of incentive programs that entail competitive application processes. The dissolution of California’s redevelopment agencies also removed a key source of funding, expertise, and local leadership to facilitate much-needed sustainable and affordable development projects.

A small but meaningful step would be to give local jurisdictions additional technical assistance to implement their regional SCS and take advantage of existing incentive programs under SB 375. The Strategic Growth Council’s technical assistance program for AHSC has been widely popular with cities. Technical assistance could be extended to include other aspects of SB 375, in tandem with a campaign to promote awareness of SB 375 programs and policies among local leaders and stakeholders. This would build on the progress already made through collaboration between the transportation and housing fields, public, private, and nonprofit sectors, and levels of government during the development of the SCSs.
Need for More Accountability

As researchers, we feel an acute need for better data to evaluate the impact of SB 375, RHNA, and Housing Element law, to identify the factors that facilitate or impede development, and to inform policy discussions going forward. SB 35 strengthens and broadens RHNA reporting requirements, a crucial step towards local accountability. Still, we would caution that improving data collection will not be easy, either politically or practically. Local jurisdictions have already identified the need for technical assistance to collect and report data as required by existing RHNA and Housing Element law, and many regional governments need more capacity to manage and analyze this data.

Looking Ahead

Our analysis points to broader lessons for planners and policymakers addressing climate change and the affordable housing crisis. Policies that alter planning processes without either enforcing or sufficiently incentivizing production of housing may be agonizingly slow to yield results and will likely fall short of what is needed to shift development patterns. Laws designed to shape the incentives and constraints for private development ultimately depend on market conditions. However, changes to planning processes can encourage collaboration and capacity-building among planning officials, developers, and advocates that may lead to future benefits.

It is encouraging that California policymakers are addressing the problems of housing affordability and climate change together, both in passing SB 375 a decade ago and in more recent legislation. Though SB 375 has to date made far stronger impacts on planning processes than on actual development, it lays the groundwork for a statewide shift in development patterns. To the extent that SB 375 relies on existing housing law for implementation, increased funding, facilitation and enforcement of RHNA and Housing Element law would activate the provisions of SB 375 and spark more sustainable, affordable development.

Endnotes

5 Ibid.
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24 Metropolitan Transportation Commission. (n.d.) OneBayArea Grant Program Brochure.

25 Ibid.
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29 Metropolitan Transportation Commission. (n.d.) OneBayArea Grant Program Brochure.
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