TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT
DATE: JANUARY 10, 2011
REPORT TYPE: STUDY SESSION
SUBJECT: Update on Sustainable Communities Strategy (SB375) and Regional Housing Needs Allocation (RHNA) Process

RECOMMENDATION:
Staff recommends that the City Council discuss the status of the Sustainable Communities Strategy (SCS) and the Regional Housing Needs Allocation Process (RHNA) and provide comments in anticipation of further actions in February through August.

EXECUTIVE SUMMARY:
This staff report describes Senate Bill 375, the Sustainable Communities Strategy (SCS) and the effect of the law on local governments as well as the Bay Area as a region, and is based largely on information provided by the Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG). The SCS will be developed in partnership with regional agencies, local jurisdictions and Congestion Management Agencies (CMAs), such as the Valley Transportation Authority (VTA), through an iterative process. The regional agencies have acknowledged that input from local jurisdictions with land use authority is essential to create a feasible SCS. The SCS does not, however, alter the authority of jurisdictions over local land use and development decisions.

The purpose of this report is to provide Palo Alto City Council members with an overview of the SCS in relation to local land use policies, transportation implications, and implementation needs, and will address key policy considerations for the City of Palo Alto. The City will provide input to several components of the SCS and RHNA processes in the next 6 months, including: a) the formulation of the regional housing allocation methodology; b) whether to form a subregional housing allocation effort with other Santa Clara County cities; c) characterization of the “place types” in Palo Alto that might accommodate increased development over the next 25 years; and d) response to the Initial Vision Scenario and subsequent iterations to outline the form of development throughout the region.
BACKGROUND:
Senate Bill 375 (SB375) was enacted in 2008 and is considered landmark legislation for California relative to land use, transportation and environmental planning. SB375 is intended to help to implement AB32 (Global Warming Solutions Act), approved in 2006 and requiring actions to reduce greenhouse gas emissions to 1990 levels by 2020 and by 80% below 2005 levels by 2050. While much of AB32 focuses on emissions from stationary sources (industrial facilities) or diesel trucks, SB375 is focused on emissions from automobiles and light trucks and the reduction in vehicle-miles traveled due to more compact land use patterns and potential mode shifts. A summary of the impacts of SB375 has been prepared by the Urban Land Institute (ULI) and is included as Attachment E.

The legislation calls for the development of a Sustainable Communities Strategy (SCS) in all metropolitan regions in California. Within the Bay Area, the law assigns joint responsibility for the SCS to the Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG). These agencies will coordinate with the Bay Area Air Quality Management District (Air District) and the Bay Conservation and Development Commission (BCDC).

The SCS integrates several existing planning processes and is required to accomplish the following objectives:

1. Provide a new 25-year land use strategy for the Bay Area that is realistic and identifies areas to accommodate all of the region’s population, including all income groups;
2. Forecast a land use pattern, which when integrated with the transportation system, reduces greenhouse gas emissions from automobiles and light trucks and is measured against the regional target established by the California Air Resources Board (CARB).

The California Air Resources Board (CARB), in response to the mandates of SB375, has set target GHG emissions from light trucks and passenger vehicles for each of the region’s subject to the provisions of SB375. For the ABAG area, the CARB set targets for a 7% reduction in emissions by 2020 and a 15% reduction in emissions by 2035.

The SCS is also required to be included as part of the Bay Area’s 25-year Regional Transportation Plan (RTP). By federal law, the RTP must be internally consistent and, therefore, the $200+ billion dollars of transportation investments typically included in the RTP must align with and support the SCS land-use pattern. SB375 also requires that an updated eight-year regional housing needs allocation (RHNA) prepared by ABAG is consistent with the SCS. The SCS, RTP and RHNA will be adopted simultaneously in early 2013.

The Council and Planning and Transportation Commission have each conducted study sessions in the past year to better understand the background of SB375, and staff’s Comprehensive Plan Speaker Series included a presentation by ABAG representatives regarding the legislation. In addition, four Councilmembers and the City Manager and Planning Director attended a meeting sponsored by the Santa Clara County Cities Association, also involving an ABAG overview of the objectives and process for developing the Sustainable Communities Strategy.
DISCUSSION:
The goal of the SCS is not only to reduce greenhouse gas emissions, but to build a Bay Area that continues to thrive and prosper under the changing circumstances of the twenty-first century. By directly confronting the challenges associated with population growth, climate change, a new economic reality and an increasing public-health imperative, the SCS is intended to support a Bay Area that is both more livable and more economically competitive on the world stage. A successful SCS will:

- Recognize and support compact, walkable places where residents and workers have access to services and amenities to meet their day-to-day needs;
- Reduce long commutes and decrease reliance on fossil fuels, increasing energy independence and decreasing the region’s carbon consumption;
- Support complete communities that remain livable and affordable for all segments of the population, maintaining the Bay Area as an attractive place to reside, start or continue a business, and create jobs;
- Support a sustainable transportation system and reduce the need for expensive highway and transit expansions, freeing up resources for other more productive public investments;
- Provide increased accessibility and affordability to the most vulnerable populations;
- Conserve water; and
- Decrease our dependence on imported food stocks and their high transport costs.

In recognition of the importance of these other goals, ABAG and MTC will adopt performance targets and indicators that will help inform decisions about land use patterns and transportation investments. These targets and indicators will apply to the SCS and the RTP and will not weigh as heavily as greenhouse gas reduction, but will provide additional criteria for use in comparing the alternative SCS scenarios. The targets are scheduled for adoption by the Joint Policy Committee (ABAG, MTC) in early 2011 and the indicators will be adopted in the spring of 2011.

Planned Development Areas (PDAs)
In many respects the SCS builds upon existing efforts in Bay Area communities to encourage more focused and compact growth while recognizing the unique characteristics and differences of the region’s many varied communities. FOCUS Priority Development Areas (PDAs) are locally-identified and regionally adopted infill development opportunity areas near transit. The City of Palo Alto has identified a PDA for the California Avenue/Park Blvd./Fry’s area around the California Avenue Caltrain station. The PDAs provide a foundation upon which to structure the region’s Sustainable Communities Strategy. PDAs encompass only three percent (3%) of the region’s land area whereas, based upon existing plans, resources, and incentives, the PDAs can collectively accommodate over fifty percent (50%) of the Bay Area’s housing need through 2035.

PDAs have been supported by planning grants, capital funding and technical assistance grants from MTC. The current RTP allocates an average of $60 million a year to PDA incentive-related funding. Future RTPs, consistent with the SCS, will be structured to provide policies and funding
that is supportive of PDAs and potentially other opportunity areas for sustainable development in the region.

In Palo Alto, the California Avenue Area PDA is coterminous with the City’s ongoing Concept Area Plan for that area. City staff has provided input to ABAG regarding both the existing development levels and the potential for growth in housing and employment. The PDA analysis identifies “place types” for different land uses and densities, and the “Transit Neighborhood” place type has been tentatively designated for the California Avenue Area PDA. This plan envisions a broad range of development possibilities, with up to 20-50 units per acre of residential and floor-to-area ratio (FAR) of up to 2.0. These are estimates based on existing Pedestrian-Transit Oriented Development (PTOD) zoning for the area. If the ongoing planning for the area results in increased intensity levels, staff will forward that information to ABAG.

In addition to the City’s PDA for the California Avenue Area, VTA has designated all of the El Camino Real corridor and the University Avenue station area as potential opportunities for further development (“potential PDAs”). Staff has identified the El Camino Corridor as a “Mixed Use Corridor” place type and the University Avenue transit area as a “Transit Town Center” for initial forecasting. Staff has notified ABAG that the City does not consider the San Antonio Avenue transit station to result in a place type with increased development in Palo Alto. Attachment D depicts the concept of “place types” used in the formulation of the SCS.

Partnership with Local Jurisdictions
To be successful, the SCS will require a partnership among regional agencies, local jurisdictions, Congestion Management Agencies (CMAs), transit agencies, and other regional stakeholders. MTC and ABAG are engaged in an exchange of information with County-Corridors Working Groups throughout the Bay Area. These Groups are organized by county, by sub-regions within counties, and by corridors that span counties. They typically include city and county planning directors, CMA staff, and representatives of other key agencies such as transit agencies and public health departments. Working Group members are responsible for providing updates and information to their locally elected policymakers through regular reports like this one and eventually through recommended council or board resolutions that acknowledge and respond to the implications of the SCS for each jurisdiction.

Each county has established an SCS engagement strategy and the composition of a County/Corridor Working Group according to its needs and ongoing planning structure. The City of Palo Alto Planning Director is working with the Santa Clara County Association of Planning Officials (SCCAPO), primarily composed of planning directors from each city and from Santa Clara County, to address these issues. Other City staff members are involved in working groups of planners and transportation officials coordinated by and supported technically by the Valley Transportation Authority (VTA). The City/County Managers Association and the Santa Clara County Cities Association are also active in reviewing key policy actions related to the SCS. In addition to the County-Corridor Working Groups, a Regional Advisory Working Group (RAWG), composed of local government representatives and key stakeholders throughout the region, provides technical oversight at the regional level. The Planning Director is a participant in those meetings on a monthly basis.
Development of SCS Scenarios
The SCS will be the product of an iterative process that includes a sequence of growth and supportive transportation scenarios. An Initial Vision Scenario will be presented in February 2011, followed by more detailed SCS scenarios that refine the Initial Vision Scenario (Spring and Fall 2011), with a final draft for review in early 2012. The draft project timeline is outlined in more detail in the “Next Steps” section below and a draft schedule of 2011 milestones and opportunities for City input is provided as Attachment A.

Initial Vision Scenario
ABAG and MTC will release an Initial Vision Scenario in February 2011, based in large part on input from local jurisdictions through the county/corridor engagement process and information collected through December 2010. The Vision Scenario will encompass an initial identification of places (place types), policies and strategies for long-term, sustainable development in the Bay Area. Local governments will identify places with potential for sustainable development, including PDAs, transit corridors, and employment areas, as well as infill opportunity areas that lack transit services but offer opportunities for increased walkability and reduced driving.

The Initial Vision Scenario will:
- Incorporate the 25-year regional housing need encompassed in the SCS;
- Provide a preliminary set of housing and employment growth numbers at regional, county, jurisdictional, and sub-jurisdictional levels;
- Be evaluated against the greenhouse gas reduction target as well as the additional performance targets adopted for the SCS.

For Palo Alto, the place types factored into the Vision Scenario will include the California Avenue Area PDA and the El Camino Real corridor and University Avenue transit area, as outlined previously. The intent of this initial Vision Scenario is to show a development pattern “unconstrained” by public service limitations, fiscal, transportation, or other infrastructure.

Detailed Scenarios
By the early spring of 2011, local governments and regional agencies will evaluate the feasibility of achieving the Initial Vision Scenario and will produce a series of Detailed Scenarios for review. The Detailed Scenarios will take into account constraints that might limit development potential, and will identify the infrastructure and resources that can be identified and/or secured to support the scenario. MTC and ABAG expect to release a first round of Detailed Scenarios by July 2011, following multiple discussions and workshops in response to the Initial Vision Scenario. The County/Corridor Working Groups as well as the RAWG will facilitate local input into the scenarios, with the release of a Preferred Scenario by the end of 2011. The analysis of the Detailed Scenarios and Preferred Scenario will evaluate benefits of the land use alternatives in reducing greenhouse gas emissions and vehicle-miles traveled, and will also consider the Performance Targets and Indicators as additional criteria.

Regional Housing Needs Allocation (RHNA)
As described above, the eight-year RHNA must be consistent with the SCS. Planning for affordable housing in the Bay Area is one of the essential tasks of sustainable development. In the SCS, this task becomes integrated with the regional land use strategy, the development of
complete communities and a sustainable transportation system. The county/corridor engagement process will include discussions of RHNA, since both the SCS and RHNA require consideration of housing needs by income group.

The process to update the RHNA will begin in 2011:
- A Housing Methodology Committee for the region will be appointed in January 2011. Meetings will continue through September 2011.
- Cities must determine whether they want to form a sub-regional RHNA group by March 2011. If so, they must follow the same timeline for formulation as the Methodology Committee.
- Local jurisdictions will provide input prior to the adoption of the RHNA methodology by September 2011.
- The final housing numbers for the region will be issued by the State Department of Housing and Community Development (HCD) by September 2011.
- The Draft RHNA will be released by spring 2012.
- ABAG will adopt the Final RHNA by the end of summer 2012.
- Local governments will address the next round of RHNA in their next Housing Element update (2014-2022).

The distribution of housing needs will then inform the Detailed SCS Scenarios.

Councilmember Scharff has been nominated (and has a good likelihood of being appointed) to the RHNA Methodology Committee. The Committee will include 2 staff from cities (San Jose and Morgan Hill) and 2 alternates (Cupertino and Sunnyvale), and a staff member from Santa Clara County. Staff hasn’t heard if any City Managers will be selected. While still not proportional to the County’s population or employment, this is an improvement over the last round of housing review, when only 1 city staff, 1 county staff, and 1 Council member were included across the entire Santa Clara County. The County Planning Directors emphasized the need for increased numbers and diversity across the representatives from this county, including an elected official from north County.

**Regional Transportation Plan (RTP)**

The SCS provides an explicit link between land use choices and the transportation investments in the region. The regional agencies indicate they will work closely with the VTA and other CMAs, transportation agencies and local jurisdictions to define financially constrained transportation priorities in their response to a call for transportation projects in early 2011 and a detailed project assessment that will be completed by July/August 2011. The project assessment will be an essential part of the development of Detailed SCS Scenarios. The RTP will be analyzed through 2012 and released for review by the end of 2012. ABAG is expected to approve the SCS by March 2013, and MTC would follow with adoption of the final RTP and SCS by April 2013.

**Environmental Review**

Regional agencies will prepare one Environmental Impact Report (EIR) for both the SCS and the RTP. This EIR might assist local jurisdictions in streamlining the environmental review process for some of the projects that are consistent with the SCS. Regional agencies are investigating the
scope and strategies for an EIR that could provide the most effective support for local
governments.

Additional Regional Tasks
MTC, ABAG and the Bay Area Air Quality Management District are coordinating the impacts of
CEQA thresholds and guidelines recently approved by the Air District. The Air District is
currently developing tools and mitigation measures related to the CEQA thresholds and
guidelines to assist with development projects in PDAs. The four regional agencies will be
coordinating other key regional planning issues including any adopted climate adaptation-related
policy recommendations or best practices suggested by BCDC.

Palo Alto Role in Developing and Implementing the Sustainable Communities Strategy
The City staff, Planning and Transportation Commission, and Council will be asked to respond
to several key questions over the coming year and beyond, such as (but not limited to):
1. How much housing and employment should/can the City accommodate to provide a
meaningful contribution to smart growth and sustainable development mandates of the
Bay Area and balance new growth opportunities with the existing character of the City of
Palo Alto?
2. Where does the City desire/expect to accommodate new housing and employment within
the next 25 years?
3. What are the key local sustainable development issues/strategies that might be advanced
through the SCS (e.g., type (clean tech) and extent of employment growth, affordable
housing, enhanced commercial revenues, etc.)?
4. What are the primary constraints to providing for sustainable development opportunities
in Palo Alto (e.g., enhanced school facilities, open space, transportation and transit
infrastructure, etc.)? What key investments would be needed?
5. How should Councilmembers, the Planning and Transportation Commission, and staff
participate in this process?

The SCS provides an opportunity for the City of Palo Alto to advance local goals as part of a
coordinated regional framework. The SCS may help connect local concerns—such as new
housing, jobs, and traffic—to regional objectives and resources. As such, it may serve as a
platform for cities and counties to discuss and address a wide spectrum of challenges, including
high housing costs, economic development, affordable and accessible transportation, and public
health, and identify local, regional, and state policies to address them. The bottom line is that the
SCS is likely to reward those cities whose decisions advance not only local goals but also benefit
quality of life beyond their borders—whether to create more affordable housing, new jobs, or
reduce driving.

TIMELINE AND NEXT STEPS:
The Next Steps below outline and as shown in Attachment A outline the City of Palo Alto’s
expected timeline for key participation and response in the coming year (2011). The City
Council, Planning and Transportation Commission, staff, and the Palo Alto community will be
actively engaged at several points in the SCS and RHNA process over the coming year:
Sustainable Communities Strategy (SCS)

- October/November 2010: Staff input to Planned Development Areas (PDAs) and other “opportunity” areas.
- March/April 2011: Local agency feedback to the Initial Vision Scenario.
- April-August 2011: Release of Detailed SCS Scenarios and local agency input.

Regional Housing Needs Allocation (RHNA)

- January 2011: Appointment of RHNA Methodology Committee.
- March 2011: Determination whether to participate in subregional housing methodology effort.
- February-August 2011: Participation and review of housing methodology (ABAG and/or subregional), including local agency input.

Input to the Initial and Detailed Vision scenarios will encompass multiple reviews by staff, the Planning and Transportation Commission (PTC), and City Council, and the community at large through the hearing process. Response to the proposed RHNA methodology will also require input by staff, the PTC, and Council. In addition, there will be multiple workshops planned at a subregional (countywide) level to review and provide comments on the Vision Scenarios and RHNA methodology during that timeframe. Staff will post and distribute those meeting dates and times as soon as they become available.

DEPARTMENT HEAD:  
CURTIS WILLIAMS  
Director of Planning and Community Environment

CITY MANAGER APPROVAL:  
JAMES KELNE  
City Manager

ATTACHMENTS:
Attachment A: Draft Schedule of City Input for Sustainable Community Strategies and Regional Housing Needs Allocation Process
Attachment B: January 9, 2008 Letter to ABAG Objecting to 2007-2014 RHNA for Palo Alto
Attachment C: Letter from ABAG Outlining Process for Subregional RHNA Determinations
Attachment D: Place Type Description Charts (ABAG/MTC)
Attachment E: “SB375: Impact Analysis Report,” prepared by Urban Land Institute, June 2010
COURTESY COPIES:
Planning and Transportation Commission
Ezra Rapport, Executive Director, Association of Bay Area Governments
Ken Kirkey, Director of Planning, Association of Bay Area Governments
# Sustainable Communities Strategy Planning Process: City of Palo Alto Input (2011)

## Timeline

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<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Description</th>
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<tr>
<td>2010</td>
<td>December</td>
<td>CPA Input on PDA and other &quot;opportunity&quot; areas for initial vision scenarios</td>
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<tr>
<td>2011</td>
<td>January</td>
<td>RHNA Time Line and City of Palo Alto (CPA) Key Engagement Points</td>
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<td>2011</td>
<td>February</td>
<td>CPA Council and Staff feedback on initial vision scenarios</td>
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<td>2011</td>
<td>March</td>
<td>CPA Council and Staff feedback on detailed vision scenarios</td>
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<td>2011</td>
<td>April</td>
<td>MTD/AG Release of Draft SCS Scenarios</td>
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<td>2011</td>
<td>May</td>
<td>CPA review and feedback on preferred SCS Scenarios</td>
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<tr>
<td>2011</td>
<td>June</td>
<td>MTD/AG Approve Preferred SCS Scenario for RHP</td>
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<tr>
<td>2012</td>
<td>January</td>
<td>MTD/AG Approve Preferred SCS Scenario for RHP</td>
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## Key Points

- Approval of draft Regional Housing Needs Allocation Methodology
- CPA review and feedback on draft SCS Scenarios
- CPA review and feedback on preferred SCS Scenarios
- CPA review and feedback on preferred SCS Scenarios
- ABAG Executive Board Adjusts Initial Methodology
- ABAG Regional Planning

## Diagram

[Diagram showing the timeline and key points of the Sustainable Communities Strategy Planning Process]
January 9, 2008

ABAG Executive Board
c/o Henry Gardner, Secretary - Treasurer
Association of Bay Area Governments
P.O. Box 2050
Oakland, CA 94604-2050

Dear Mr. Gardner:

The City of Palo Alto thanks you for providing us with the opportunity to review and comment on the revised Draft Regional Housing Needs Allocation (RHNA), which was adopted by the ABAG Executive Board on November 15, 2007.

The City acknowledges ABAG’s modification to Palo Alto’s RHNA to address the City’s Sphere of Influence circumstance with the County of Santa Clara and Stanford University. However, our City Council, the Planning and Transportation Commission and staff have all determined that the RHNA of 2,860, even after the reduction of 645 units, is completely unachievable in Palo Alto given the lack of available land, the high cost of land acquisition, and the impacts of that amount of growth on the City’s neighborhoods and infrastructure. Setting these requirements that cannot be achieved threatens the credibility and viability of important public institutions and becomes simply an exercise in futility.

Palo Alto has an extensive and long history of leading and implementing affordable housing in an area highly impacted by the high cost of housing. We were the first to implement inclusionary zoning in this region and Palo Alto Housing Corporation was established back in 1970 as a non-profit affordable housing provider. Although the City of Palo Alto has adopted zoning and programs supporting core concepts behind the allocation method such as smart growth, infill development, protection of open space and rural areas, restricting urban sprawl, and transit oriented development, there should be a reasonable expectation of success in meeting goals when assigning allocations to cities.

Factors such as essential infrastructure needs and service requirements also need to be taken into consideration. Many components of the City’s infrastructure are already at capacity and another critical factor is the capacity limitations of the Palo Alto Unified School District. The current school population has already pushed the present facilities beyond capacity so that every elementary school now has multiple portables. Students from an additional 2,860 housing units simply cannot be accommodated with the existing facilities and budget. Given that the school district is at capacity, and there is no available funding to accommodate the increased student population from the allocation, these requirements would amount to an unfunded mandate for Palo Alto.
As staff has indicated previously in transmittals to ABAG, the population and household growth projections for Palo Alto will not be realized and should be adjusted to reflect a population growth rate of approximately 3.0% over the next RHNA period within our jurisdictional boundary. ABAG's Projections 2007 assumes a population growth rate of approximately 7% during the next 7 years in our jurisdictional boundary. Historically, the City of Palo Alto's population has grown only by approximately 4.7% over the last thirty years. We understand that the methodology uses Sphere of Influence population projections but we believe that the population trend within our Sphere of Influence is proportional to the historic jurisdictional boundary population trends. Although the City has experienced a growth rate of approximately 8% during the last seven years, this has been a period when Palo Alto has constructed significant new housing development well in excess of historic averages and that rate cannot be sustained given Palo Alto's limited land availability and redevelopment potential. Therefore, it's very likely that the City's population growth will remain far below ABAG's projections since it will be very difficult for Palo Alto to continue the housing development it has experienced in the last seven years.

During the last RHNA period, the City's population growth was largely attributable to a single development of approximately 1,000 units on the City's only remaining vacant large residential site. This City's housing growth occurred during a temporary period of substantial decline in the market for commercial development and increasing demand for housing. Taking this anomaly and extrapolating this into the future is not appropriate. By using its own overestimated Projections 2007 population numbers, the RHNA methodology compounds this error by assigning a 45% weight to the population projections that ABAG itself created. This logic appears circular in that the driver behind this growth appears to be the mandate from ABAG.

Additionally, the City should receive credit in this RHNA cycle for the 1,036 units that were built during that last RHNA period that exceeded the City's assigned allocation. The City exceeded its above moderate allocation by 1,282 units and its low allocation by 14 units with a deficit of 51 units in the very low category and 208 in the moderate category. Palo Alto has also protected and retained existing units that are more affordable and should receive further credit to offset the City's RHNA requirements.

The City also continues to oppose the inclusion of an additional Transit Oriented Development (TOD) factor in the allocation methodology to the extent that it would disproportionately assign housing to cities like Palo Alto that have shown a commitment to TOD, in effect penalizing cities that have developed smart growth policies. Additional growth requirements for built out cities like Palo Alto should be predominantly TOD housing, not the core ABAG allocation plus TOD housing.

The emphasis of transit use in the methodology is unrealistic at least for Palo Alto. Transit at the University and California Avenue stations is used more efficiently by commuters and not
so efficiently by residents; many more people take transit TO Palo Alto than FROM Palo Alto. A greater concentration of jobs in the vicinity of transit will promote mass transit in Palo Alto more effectively than the concentration of housing. Furthermore, Palo Alto has been assigned additional units based on transit access from the San Antonio Avenue station. However, this station is located in and serves primarily Mountain View, not Palo Alto. Also, Caltrain only services the San Antonio Caltrain station once per hour during rush hours further reducing its TOD effectiveness.

Palo Alto has promoted smart growth in its Comprehensive Plan policies and its Pedestrian and Transit Oriented Development (PTOD) zoning all in the midst of VTA reducing bus services to Palo Alto neighborhoods and with little or no projected additional funding for transit to support the TOD aspects of RHNA. However, Palo Alto’s diligence and success in implementing smart growth policies appear to have led ABAG to assume that the City has no limit to further intensifying with infill development.

Given the RHNA mandate to provide housing for all income levels, it is impossible for the City to provide the 1,875 units assigned for below market rate income levels. Palo Alto prioritized affordable housing as one of the City’s top five goals and built over 90 percent of the City’s very low and low income housing allocation for the last RHNA cycle. However, the current RHNA methodology uses 2000 Census income distribution data for allocating housing based on affordability, and does not reflect the City’s success in building affordable housing over the last seven years. Instead, the current methodology allocated more affordable housing to Palo Alto compared to the region as a whole.

Additionally, due to the extraordinary cost of land in Palo Alto, all very low and low income rental housing that has been developed recently has required significant City subsidy. The cost of low and very low income projects in Palo Alto are averaging $400,000 to $500,000 per unit. Recently the City has had to subsidize approximately 50% of the project cost for most low income and very low income projects. This is in large part due to the exorbitant land costs in Palo Alto which average $10 million an acre but have been as high as $16 million an acre. In order to develop the assigned 1,234 units of low and very low income housing under current funding conditions, the City would be expected to provide a subsidy of approximately $245 to $310 million, which is clearly unrealistic and unattainable as the City struggles to maintain revenues adequate to support basic services to its residents and businesses. Given state subsidy restrictions, and because of the high land costs in Palo Alto, moderate income units are achieved only through the City’s inclusionary zoning program, which requires 15 – 20% affordability. As a result, approximately 70% of the ABAG allocation would need to be subsidized by Palo Alto. In order to provide the assigned 641 moderate income level units, the City would have to develop 3,205 – 4,272 market rate units. The high cost to the City of providing this housing as well as supporting services and facilities, schools, transit and parks, is an unfunded state mandate. There may also be insufficient water resources available to serve this additional population. Until there is state
Mr. Henry Gardner  
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January 9, 2008

subsidy available for affordable units, identifying adequate sites to meet proposed RHNA housing for lower income levels in communities like Palo Alto will be a paper exercise.

The City requests that you confirm that the job growth anticipated with the proposed Stanford Shopping Center and Medical Facility expansions are included in ABAG’s projections for the City’s job growth for the 2007-2014 period, and the City will not be assigned these jobs a second time in a future RHNA regardless of those projects’ occupancy dates.

Finally, much discussion has occurred about the impact of commute emissions on climate change. Palo Alto has just concluded a comprehensive climate change impact analysis. A significant finding of that report is that 11% of Palo Alto’s CO2 emissions are attributable to trips into Palo Alto. Consequently, the report indicates that even an additional 2,860 units with similar commuting characteristics would impact Palo Alto CO2 emissions by less than 0.1% or 1/1000th Palo Alto’s total CO2.

In closing, the City requests that ABAG revise Palo Alto’s RHNA to reflect a 3% population growth over the seven-year RHNA period, exclude the San Antonio station from our transit factor, adjust the transit factor to eliminate any “double counting” and credit the City with the 1,036 units the City built in excess of our last RHNA assignment. The City also urges ABAG to consider factors such as land costs and availability as well as community needs to provide adequate open space and essential services in developing a realistic RHNA. Given that there was no representative from the 250,000 residents of North Santa Clara County on the Housing Methodology Committee, we were not adequately represented and, therefore, unique factors prevalent in our area were not sufficiently considered in the ABAG allocations. If ABAG adopts more realistic and achievable RHNA allocation goals, this will enable cities to focus on actually providing adequate housing for a diverse population, a goal strongly supported by the City Council and the Palo Alto community.

The City of Palo Alto appreciates your consideration of our appeal of the assigned allocation.

Sincerely,

Larry Klein  
Mayor

cc: Paul Fassinger, ABAG Research Director
MEMO

October 12, 2010

To: Responsible Local Government Representative

From: Paul Fassinger, ABAG Research Director

Re: 2014-22 Regional Housing Need Allocation- Requirements to Form a Subregion

The fifth Regional Housing Needs Determination and Allocation (RHND and RHNA) process for the 2014-2022 planning period is scheduled to begin in January 2011. The Regional Housing Needs Determination and Allocation are mandated by State housing element law (Government Code Section 65588), which requires local governments in California to adopt a general plan for the physical development of the city, city and county, or county. The housing element is one of the seven mandated elements of the local general plan. Within the housing element, cities and counties are to demonstrate how the existing and projected housing needs of all economic segments of the community can be met. The intent of the law is to allow the private market to adequately address housing needs and demand, by requiring local governments to adopt land use plans and regulatory systems which provide opportunities for, and do not unduly constrain, housing development.

As in last RHNA cycle, in this upcoming RHNA period local governments will have the opportunity to form “subregions”. According to state law, at least two or more cities and a county, or counties, may form a subregional entity for the purpose of allocating the subregion’s existing and projected housing need for housing among its members. A subregion may include a single county and each of the cities in that county or any other combination of geographically contiguous local governments. All subregions need to be approved by the adoption of a resolution by each of the local governments in the subregion as well as by the council of governments.

Local governments choosing to form subregions will be responsible for devising the Regional Housing Needs Allocation methodology, which will be used to allocate the 2014-2022 RHNA to its members. ABAG will assign a subregional share of the Bay Area’s total Regional Housing Need Determination to the subregion. The total Regional Need Determination is determined by the State Department of Housing and Community Development. The subregion’s share of the total RHND is to be consistent with the distribution of households assumed for the comparable time period within the Regional Transportation Plan.

Each subregion would also be required to undertake the revision, appeal and final allocation process. The final subregional allocation would be submitted to ABAG for approval by the HCD. In the event the subregion fails to make the allocation or can not complete the allocation process within the state mandated deadlines, ABAG will be required to allocate the subregion’s share of housing to the jurisdictions within the subregion, according to the regionally adopted method.

If there is interest in your community to form a subregion with your neighboring jurisdiction(s) please note the schedule below. The deadline for forming a subregion is March 16, 2011. All members of the proposed subregion will have to have resolution’s confirming their participation in the subregion by this date.
<table>
<thead>
<tr>
<th>Milestones</th>
<th>Completion Date</th>
<th>Subregional Milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update Growth Forecast</td>
<td>December 1, 2011</td>
<td>Deadline for Subregion Formation</td>
</tr>
<tr>
<td>Survey Jurisdictions on RHNA factors</td>
<td>January 1, 2011</td>
<td>Subregions Adopt Proposed Method</td>
</tr>
<tr>
<td>Subregions Inform ABAG of Intention to Form</td>
<td>March 10, 2011</td>
<td>Subregions Adopt Final Method</td>
</tr>
<tr>
<td>Consult with HCD on Determination</td>
<td>July 1, 2011</td>
<td></td>
</tr>
<tr>
<td>Adopt Draft RHNA Method</td>
<td>July 21, 2011</td>
<td></td>
</tr>
<tr>
<td>Final RHNA Method/Public Hearing</td>
<td>September 15, 2011</td>
<td></td>
</tr>
<tr>
<td>HCD Issues Regional Housing Needs Determination</td>
<td>October 1, 2011</td>
<td>Housing Need Assigned Subregions</td>
</tr>
<tr>
<td>Draft RHND Allocation</td>
<td>January 19, 2012</td>
<td>Subregions Make Draft Allocation</td>
</tr>
<tr>
<td>Local Gov't Request for Revisions to RHNA</td>
<td>March 15, 2012</td>
<td>ABAG Reviews Subregion Allocation</td>
</tr>
<tr>
<td>ABAG Responds to Revisions/Appeals Period</td>
<td>May 17, 2012</td>
<td>Local Jurisdictions May Request Revisions</td>
</tr>
<tr>
<td>Begins</td>
<td></td>
<td>Subregion Responds to Revision Request</td>
</tr>
<tr>
<td>Final Date to File Appeal/Public Hearing on Appeals</td>
<td>July 19, 2012</td>
<td>Local Jurisdictions May Appeal</td>
</tr>
<tr>
<td>Proposed Final RHNA Allocation</td>
<td>July 19, 2012</td>
<td>Subregions Make Proposed Final Allocations</td>
</tr>
<tr>
<td>Board Adopts Final RHNA Plan (Public Hearing)</td>
<td>September 20, 2012</td>
<td>Subregion Adopts Final Allocation Plan</td>
</tr>
<tr>
<td>HCD Adopts RHN Plan</td>
<td>October 1, 2012</td>
<td></td>
</tr>
<tr>
<td>Housing Elements Due</td>
<td>September 10, 2014</td>
<td></td>
</tr>
</tbody>
</table>

**Draft Dates Subject to Change**

ABAG staff is available to discuss the subregion option with you and to answer any questions you may have. Please contact Christy Riviere at (510)464-7923 or email christyr@abag.ca.gov.
<table>
<thead>
<tr>
<th>Development Guidelines</th>
<th>Regional Center</th>
<th>City Center</th>
<th>Suburban Center</th>
<th>Transit Town Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Mix (New Development) [2]</td>
<td>High rise &amp; mid rise apartments/condos</td>
<td>Mid-rise, low-rise, some high-rise and townhomes</td>
<td>Mid-rise, low-rise, some high-rise and townhomes</td>
<td>Mid-rise, low-rise, townhomes, small lot single family</td>
</tr>
<tr>
<td>Station Area Total Units Target [3]</td>
<td>8,000 - 30,000</td>
<td>5,000 - 15,000</td>
<td>2,500 - 10,000</td>
<td>3,000 - 7,500</td>
</tr>
<tr>
<td>Station Area Total Jobs Target</td>
<td>40,000 - 150,000</td>
<td>5,000 - 30,000</td>
<td>7,500 - 50,000</td>
<td>2,000 - 7,500</td>
</tr>
<tr>
<td>Minimum FAR (New Employment Development)</td>
<td>5.0 FAR</td>
<td>2.5 FAR</td>
<td>4.0 FAR</td>
<td>2.0 FAR</td>
</tr>
</tbody>
</table>

[1] Station Area typically refers to half mile radius around station or roughly 500 acres
[2] See attached building types for more detail on each type.
[3] The MTC TOD Policy corridor housing thresholds—which represent an average for the entire corridor—still apply to Resolution 3434 Transit Expansion projects.
[4] Allowable densities within the 1/2-mile station area should fall within this range and should be planned in response to local conditions, with higher intensities in close proximity to transit and neighborhood-serving retail areas.
<table>
<thead>
<tr>
<th>Districts</th>
<th>Corridor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Urban Neighborhood</strong></td>
<td><strong>Transit Neighborhood</strong></td>
</tr>
<tr>
<td>Mid-rise, low-rise, townhomes</td>
<td>Low-rise, townhomes, some mid-rise and small lot single family</td>
</tr>
<tr>
<td>2,500 - 10,000</td>
<td>1,500 - 4,000</td>
</tr>
<tr>
<td>40 - 100 du/acre</td>
<td>20 - 50 du/acre</td>
</tr>
<tr>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1.0 FAR</td>
<td>1.0 FAR</td>
</tr>
</tbody>
</table>

### Housing Mix
- **(New Development)** [2]
- **Station Area Total Units Target** [3]
- **Net Project Density** (New Housing) [4]
- **Station Area Total Jobs Target**
- **Minimum FAR** (New Employment Development)
About the Urban Land Institute

The mission of the Urban Land Institute (ULI) is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI is committed to:

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the Institute today has more than 29,000 members worldwide, representing the entire spectrum of the land use and development disciplines. ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of the world's most respected and widely quoted sources of objective information on urban planning, growth, and development.

Urban Land Institute and SB 375

Fundamentally, SB 375 is intended to guide more sustainable land use and development decisions through coordination at the state, regional, and local levels. The Urban Land Institute (ULI), an international nonprofit research and education organization, is appropriately positioned to analyze the potential impacts of and evaluate implementation options for this legislation.

ULI, already a thought leader in land use, has issued a number of reports on the importance of better land use decision-making, including Growing Cooler, Moving Cooler, Putting the Pieces Together, and California 2020. Now, with SB 375, ULI seeks to advance the discussion of how best to continue implementing this legal framework by engaging in an analysis and assessment of the legislation. In the context of the state's current economic and fiscal condition, ULI believes that it is an opportune time to analyze and reflect on the impacts that SB 375 will have on California's land use and economic vitality. ULI aims to identify the opportunities and challenges presented by SB 375, and suggest steps to maximize SB 375's benefits as well as educate stakeholders to create cross-industry support essential for its success.
Introduction

Purpose

This report summarizes the findings from a ULI panel that was formed to assess the economic implications of the California Senate Bill 375 (SB 375) and associated implementation recommendations. As the basis of this inquiry, the panel was charged with reviewing available empirical data and studies pertaining to SB 375 and the impacts of the kinds of development that full implementation is likely to produce, especially compact and transit-oriented development. Drawing on this research and its own substantial professional experience, the ULI panel then convened to review and discuss the economic impacts of SB 375 on the state’s economy and make recommendations that would help deliver on the bill’s goals of regional connectivity, policy alignment, efficient provision of infrastructure, and improved environmental quality.

SB 375

SB 375 was signed into law by Governor Schwarzenegger on September 30, 2008. This bill links land use decisions to transportation funding decisions in a way that is unprecedented in California. The vehicle for this coordination is a new regional land use plan called a Sustainable Communities Strategy (SCS). The result is expected to be more rational and coordinated regulation and public funding, which in turn should accelerate the pace at which development consistent with these plans can proceed.

SB 375 requires Regional Transportation Plans (RTPs) to include the SCSs and be internally consistent, and thereby better align transportation, housing, and land use planning as part of plans to reduce transportation emissions. Regions have broad freedom to design SCSs that align those plans and reduce emissions. The SCSs are expected to respond to SB 375 by:

- Promoting compact development patterns located near transit;
- Coordinating between the location of employment and housing;
- Supporting transit use;
- Concentrating economic activities into existing communities; and
- Incorporating a mix of housing types.

This, in turn, is expected to produce:

- Shorter commutes, vehicle miles traveled (VMT) reduction, and congestion relief;
- Reduced greenhouse gases (GHG) emissions and air pollution;
- Less fossil fuel consumption;
- Greater conservation of farmlands and habitat;
- Opportunities for more housing choices for all economic segments of the population including anticipated population and employment growth;
- Reduced infrastructure costs;
- Higher quality of life; and
- Greater certainty for the development community.
Findings and Message

Overarching observations and conclusions that constitute the main findings and messages of this report. They are summarized as follows:

- **Positive Economic Impacts:** could generate progressively increasing public benefits.
- **Role of Public Engagement:** critical in dispelling any misinterpretation of the policy and gaining public support for successful implementation.
- **Alignment of Federal, State, and Local Policy:** help position MPOs to compete for federal funds to offset any costs in developing SCSs.

Benefits

Positive impacts and economic benefits that could materialize if SB 375 is implemented appropriately. These benefits are broadly categorized as:

- **Cohesive Regional Approach:** benefits as a result of SB 375’s intention to formalize consistency and cohesiveness, in land use, transportation, and air quality planning policy, across California.
- **Market and Economy:** benefits as a result of SB 375’s impact on market and economic conditions in California.

Implementation Recommendations

Key implementation items that need to be addressed in order for SB 375 to become a successful and useful regulatory instrument:

- **Transit Certainty:** important considerations in improving the service level and investment necessary to keep pace with the anticipated increase in urban and suburban density.
- **Alignment of Effort and Funding:** policy and government implementation factors critical to the ultimate success of SB 375.
- **CEQA Streamlining:** aspects of CEQA that should be reexamined and refined to promote the types of projects that help achieve SB 375’s goals.

The overarching conclusion of the Impact Analysis Report is that SB 375 is consistent with the overall mission of ULI—the development of sustainable, thriving communities. However, a number of critical issues related to implementation need to be addressed to ensure SB 375’s success.
Findings and Message

If implemented well, SB 375 would help California accommodate growth in ways that are economically sound, environmentally responsible, and socially beneficial. As such, SB 375 has the potential to improve the quality of life for Californians, and is one tool that can address a number of problems long associated with sprawl, including traffic congestion, the cost burden of housing, declining air quality, increases in greenhouse gas emissions, and the geographical imbalance between jobs and housing. SB 375 also has the potential to capitalize on relevant federal funding opportunities.

Forward-thinking policy like SB 375 can generate economic benefits that progressively increase over time, and mitigate the impact of growth on natural resources.

SB 375 has potential parallels with the now well-established Title 24 legislation adopted in 1978, which requires improved building energy efficiency. Similar to SB 375 today, Title 24 was met with opposition initially due to myriad concerns, many of which pertained to the anticipated cost burden of compliance. Notwithstanding, the legislation was enacted and has since been credited with shifting the state toward more sustainable building practices and placing California in a national leadership role on energy efficiency policy. Title 24 has steered the state towards having one of the most energy efficient building stocks in the nation, which generate billions of dollars in energy cost savings. Though there are fundamental differences in these policies, namely that Title 24 was designed as a traditional regulation, whereas SB 375 is an incentive-based law, SB 375 could, nonetheless, be seen in a similar light in the future if it fully realizes its potential benefits. The better California does with SB 375 implementation, the greater the benefits will be.

If properly implemented, SB 375 could have a number of positive economic benefits. These potential benefits include:

- Long-term savings in municipal service costs, as the initial higher capital costs of supporting infill development are outweighed by the long-term per capita savings in maintenance costs, municipal services, and infrastructure.
- Increased development certainty, which can ease the cost burden of permitting and facilitate an efficient residential development process;
- More efficient use of public transportation systems due to higher fare recovery;
- Enhanced public health of citizens by offering walkable environments accessible to goods and services, and improved local air quality;
- Reduced development pressure on the state’s agricultural lands; and
- Decreased dependence on fossil fuels, thereby making California less vulnerable to shocks in energy prices.

As the foundation of SB 375 is to strategically link land use and transportation efforts, it is critical that funding exist to develop and operate the necessary transit to support and connect residents to employment, both of which will likely grow in greater concentrations in urban and suburban areas.

Findings and Message continued on page 5
Benefits

SB 375 offers communities incentives to plan for and to develop a more efficient layout and distribution of infrastructure and municipal services while reducing encroachment on valuable agriculture lands and natural habitats. This approach provides a more rational way of creating livable communities that link jobs to housing and accommodate the projected need for 2 million more homes statewide over the next 20 years.

The benefits anticipated from SB 375 and outlined below can be broadly classified into two categories: the cohesive regional approach that will be established as part of the SCS, and its underlying market-based rationale and economic advantages. A cohesive regional framework can create better development certainty, which reduces barriers to the realization of more sustainable land use and development patterns, and can lead to the wide range of possible economic benefits.

These benefits can be best realized if the legislation is implemented thoughtfully and effectively. The ULI panel developed some implementation recommendations that can be found in the subsequent section of this report.

Cohesive Regional Approach

One anticipated benefit of SB 375 is that it provides more consistency, coordination, and clarity to the development process and land use planning. SB 375 provides a framework within which the state and regional authorities can ensure a stable and predictable development environment. Because California's economy is based on numerous strong regional economies, its growth and prosperity depend on the health of those regional economies.

Rationally aligns regional planning, transportation, and environmental policy and funding

SB 375 seeks to harmonize three distinct but related policy areas—regional planning, transportation infrastructure development, and statewide emissions goals—in one comprehensive program. By removing any misaligned or contradictory directives inherent to these regional planning processes that parallel SB 375, SB 375 can reduce the incidence of disjointed decision making processes between the local and regional levels of government. The law builds upon existing regulatory structures and seeks to incentivize compact development through a mix of transportation project funding and process streamlining designed to reduce GHGs, in part through reduction of vehicle travel among California's 23 million licensed drivers. The resulting coordination across geographies and sectors will advance and promote the economic vibrancy and environmental health of California communities. Regional coordination and incentives prescribed under SB 375 are likely to be an improvement over an unelected air resources board setting impact standards for land use and transportation decisions.
**Potentially improves regional and local jobs to housing balance**

In recent years, many areas in California have witnessed a significant growth in residential development, particularly single-family units, that has expanded urban areas considerably and substantially increased commute times. Few, if any, state policies explicitly address the balance between the location of jobs and housing, at either the regional or local level. At the local level, achieving a better jobs-to-housing balance through the promotion of housing diversity and mix of uses would reduce the need for long commutes between residential communities and employment centers. At the regional level, connecting housing-rich areas with jobs-rich areas with the appropriate, cost-effective transportation infrastructure would reduce the need for single-occupancy vehicle commute travel. SB 375 provides an opportunity to pursue these dual objectives to ensure a better balance between employment and housing and more viable transit options for commuters.

There are also potential economic gains for both local governments and households. Local governments could benefit from the reduced cost of housing and infrastructure for compact communities (see Market and Economy section for more details). Households could benefit from a reduction in the cost burden of transportation if transit options are expanded that link residential areas and employment centers. Recent research indicates that transportation expenses tend to be highest in areas that lack transit options. Consequently, total household costs are generally highest in transit-poor, suburban areas, even when housing tends to be more affordable, as demonstrated in the ULI report, *Bay Area Burden*.

**Provides clarification to developers on the desired direction of development**

The SCSs required by SB 375 should provide greater clarity and certainty to developers, and send a powerful signal to the development industry about the state's desired direction for future growth and development. With a framework in place through SB 375, there will be greater certainty in the location and timing of future development. The resulting coordinated regulatory and development funding landscape will accelerate the pace at which developments that comply with regional SCSs can proceed. This is particularly relevant in the case of newly-urbanizing areas. MPOs and their local government members will develop a mutual understanding of community expectations, desired development, and approval processes.

**Initiates needed California Environmental Quality Act (CEQA) reform**

Reforming CEQA to remove barriers to developing compact or transit-oriented communities is a critical success factor for SB 375. However, not only is CEQA reform needed in order for SB 375 to be effective, but implementation of SB 375 is the most likely mechanism through which to successfully enact the much-needed reform. SB 375 includes a number of revisions to CEQA tied to the adoption of SCSs. More fundamental CEQA reform is necessary to achieve the underlying intent of SB 375. The implementation of SB 375 affords an opportunity to further reform CEQA (see Implementation Recommendations section for more details).

**Allows for flexible regional and local solutions – one size does not fit all**

Recognizing that communities in California come in many different forms, layouts, and sizes, SB 375 is flexible and recognizes the existence of diversity across the state. There is no local planning mandate under SB 375, which means cities and counties do not need to amend their general plans or local zoning laws to conform to the SCS. Additionally, the development forecasts and GHG reduction mandates must be "reasonable," which implies a measured and adaptable approach to regional planning.

**Improves efficiency and effectiveness of transit**

California is under pressure to ensure that its transportation infrastructure is meeting its needs resulting from growth. By linking transportation funding to land use decisions, future transit infrastructure will be appropriately targeted to where the need is greatest and where investment is most rational.
Market and Economy

Economically, SB 375 will help the state, communities, and developers meet the shifting market demand for housing, diversify the housing offerings on the market, allocate public resources more efficiently, and ensure a better quality of life.

Accommodates a growing share of housing demand for first-time renters/buyers and empty nesters

California's population has historically grown at a rate faster than the nation and is currently projected to increase from approximately 37 million today to 43 million by 2020 and to 55 million by 2050. As such, it is imperative to apply thoughtful consideration to determining where and how best to accommodate this increasing population. The number and type of housing units delivered to market in California over the past 20 years have not kept up with demand or population growth rates. Due to strong demand, the state has one of the highest-priced housing markets (both for-sale and rental) in the nation, causing a higher percentage of households to allocate a significant portion of their incomes to housing. Compact developments can provide the type of units that appeal to first-time renters and buyers and empty nesters, who are currently underserved.

Strives to create a wider range of housing choices, and maintain a balance between infill and greenfield development

SB 375 will not restrict or prevent the wide range of housing choices that currently exists in California. Attached multifamily units can coexist alongside detached single-family units, and these options will continue to exist under SB 375. With a greater balance between infill and greenfield developments, SB 375 could ultimately lead to more sites for development, not fewer, thereby balancing housing supply and demand.

Although the panel expects the SCSs to increase certain types of development—specifically more compact and transit-friendly communities—nothing in the legislation precludes or discourages a wide variety of development options. SB 375 will not prevent households from continuing to make their own decisions on the type and location of housing to occupy.

SB 375 will allow for a realignment of development priorities by better balancing the amount of infill and greenfield developments in California. Policies encouraging compact development have proven effective at redirecting development away from valuable agricultural and open space, primarily by increasing the cost of development beyond metropolitan or growth areas. Benefits include positive net revenues to local governments through the reduction of per capita service costs, increased property values, and sustained agricultural economies.

Improves allocation of transportation funds according to density and need

The allocation of both state and federal transportation funds often seems haphazard and has been criticized for being skewed away from public transit funding. Funding allocations do not seem to be contingent on population, density, or local needs, which result in public funding inefficiencies. The new priorities in transportation funding allocations under SB 375 will ensure more rational transit and infrastructure development and maintenance, especially given the scarce public funding available.
Positions the state and regional governments to be more competitive for federal resources

With increased coordination, the state and regional governments will be more competitive for federal resources. Approximately $15 to $20 billion in federal, state, and local transportation funding flows to California each year, and is of great importance to regional and local governments for the funding of critical transportation capital improvements. SB 375 builds on existing law, specifically the Regional Transportation Plan (RTP) that MPOs prepare every four years. Under SB 375, transportation funding decisions are tied to the RTP and California Air Resources Board (CARB)-approved SCS.

Leads to healthier communities

Land use and transportation patterns have a significant impact on public health. Many communities in California have been built to accommodate the automobile, and recent research about the dominant car-centric model and the lack of physical exercise during driving, as well as transportation-related air pollution (specifically ground-level ozone and particulate matter), connects it to respiratory illnesses, cardiovascular diseases, obesity, and traffic-related fatalities. These impacts are less prevalent in denser, more compact areas that accommodate public transportation, bicycling, walking, or other less polluting modes of transportation. An Active Living Research study of 33 California cities confirmed that the obesity rate among adults who drove the most was 27 percent, which is about three times higher than the obesity rate among those who drove the least (9.5 percent).

Preserves and enhances higher quality of life through more efficient municipal services and infrastructure in the long term

Broadly speaking, municipal service costs tend to increase with dispersed development outside existing urban boundaries, and are reduced with compact, planned development within existing urban boundaries. Substantial research finds that compact development produces a multitude of benefits: lower public financing, infrastructure development, and operating costs; improved economic performance; and improved fiscal performance for local municipalities. ULI also recognizes infrastructure expansion in existing urban areas can be more complex, more expensive, and more difficult to finance than conventional greenfield development, but the marginal increase in costs is outweighed by the long-term municipal savings generated over the life of the infrastructure. In other words, compact development can be fiscally positive, but the state needs to improve the means by which municipalities can finance improvements in existing urban areas.
Implementation Recommendations

Transit Certainty

If communities successfully guide growth to areas targeted by SCSs, they are also likely to need more transportation choices, particularly public transportation. Though California already has an extensive network of public transit – buses, trains, light rail, shuttles – the coverage and efficiency of these services must keep pace with the anticipated increase in urban and suburban density. Improving the service levels and ongoing investment in transit capital improvements and operations creates transit certainty, a critical factor for supporting the growth of compact communities.

Assure sustainable capital and operations transit funding to match desired growth pattern

Maintaining sufficient levels of access to public transit will require redoubling the effort to procure a reliable, long-term source of funding for public transit capital investments and operations. Currently, transit funding is generated through taxes at all levels of government – federal: a portion of the Highway Trust Fund generated through fuel excise tax; state: fuel tax, sales tax, Public Transportation Account, and Proposition 1B bonds; and local: sales tax measures, transit fares, and general funds. Though these sources have supported the continued development and expansion of the public transit system throughout California, additional sources will likely need to be leveraged in order to support the level of investment needed to match anticipated future land use development patterns.
**Broaden funding and financing mechanisms to provide a steady and growing source of funding for transit capital improvements and operations**

As mentioned above, the funds for transit capital investments and operations must be reliable over the long term and adequate to meet the anticipated growth in demand for services. The current system of funding public transit has created unintended fluctuations in annual budgets that inhibit the effective long-term planning of investment in capital and operations. This has resulted in reductions in service levels and coverage. To account for this inherent volatility, public transit funding streams should be broadened and diversified through the employment of new funding and financing strategies. Various financing tools could be leveraged, which include, but are not limited to: tax increment financing for transit districts/station areas, congestion pricing, vehicle-miles-traveled (VMT) fees, variable parking pricing, fuel taxes, the use of public-private partnerships, and value capture financing. Though not all of these approaches will have uniform applicability across the state, they, along with other alternatives, should be considered to ensure transit funding for the future. Additionally, public transit agencies need not rely solely on their own operations to supply users with transit alternatives. There are also ample opportunities to partner with private transit operators to supplement the existing system where gaps are identified.

**Modernize information gathering and data analysis tools and leverage the state’s innovation economy to further develop an efficient and cost effective transit system**

Improvements to transit service, especially in the form of increased safety, improved on-time performance, improved customer service, and ease of making a connection, can help make transit a better alternative to these users. Transit agencies are often confronted with difficult budgetary and technical constraints that prevent them from selecting and applying technology to solve operational problems and improve customer service, and thus could benefit from a systematic approach to the identification of problems and application of affordable and effective technological solutions.

Though there are a number of simple technological solutions that appeal to transit users such as smart phone transit applications, a more comprehensive transit management system is likely necessary for transit agencies. Models already exist that can be built upon, such as the Efficient Deployment of Advanced Public Transportation Systems (EDAPTS) Smart Transit System. This system was researched, developed, and tested by California Polytechnic State University, San Luis Obispo, and is currently operational in the city, providing a variety of user and administrative services on a daily basis:

- Vehicle tracking and positional information in the dispatch center and on the Internet;
- Schedule adherence and time to depart information to drivers, dispatch, and administrative personnel;
- Silent alarm notification from bus to dispatch center for on-board emergencies, and dispatch center emergency management software for processing requests;
- Real-time transit pass validation during boarding;
- Roadside message signs that display minutes until arrival for buses;
- Data collection for route performance and boarding data collection to aid management and planning; and
- Synchronized system time for drivers and dispatch using GPS time base.

Additionally, numerous technology companies in California have created their own sophisticated transit systems. Public transit agencies can learn from the private sector and the private sector can have better coordination with the public sector.
Alignment of Policy and Funding

While SB 375 moves the state in the right direction through aligning land use, transportation, and air quality planning under a regional framework, a number of other policy and government implementation factors will ultimately drive the success of SB 375. Below are six alignment issues that should be considered for the successful implementation of SB 375.

Public policy needs to align across federal, state, regional, and local levels

The existing regulatory framework across federal, state, regional, and local levels contains inherent conflicts and contradictory directives, such as designated infill priority development areas conflicting with flood zones, environmental guidelines regarding proximity of housing to freeways, or school location and configuration guidelines that favor low density environments. These state guidelines are often considered separately from larger regional land use and transportation policies and confuse local jurisdictions on how to comply with multiple policy directions.

More important are policies that prescribe the allocation of tax revenue to local jurisdictions, which encourage cities and counties to build more retail and hotels to increase local retail sales and transient occupancy tax revenues. Often called the “fiscalization of land use,” local governments frequently have fiscal disincentives to build more housing close to employment. Shifts in state fiscal policy that place greater importance on balancing infill housing with employment tied to population growth and less importance on the point of sale would incentivize cities to participate in SB 375’s SCSs and accommodate the housing envisioned in priority development areas.

Land use policies need to align with demographic forces and market trends

As stated in the identified benefits, current and projected demographic trends indicate a proportional decrease in the share of households with children, an increase in young households entering their early household formation period, and older empty nesters that are considering smaller housing options. Based on these demographic trends, SB 375 appears to facilitate the development of housing suited for both young households and empty nesters. Still, housing demand is not entirely dependent on age or household size but is an amalgamation of buyer preferences and socioeconomic characteristics that constantly change. It is the charge of SB 375 to facilitate housing that provides
a broad range of choices able to accommodate the state’s growing housing needs and not to distort prices so as to make certain preferences unattainable. While certain SCSs may elect to encourage more compact housing options, they should not entirely preclude the development of other housing types.

Alignment should produce a transparent approvals process for public- and private-sector players

SB 375 should result in more certainty to the development community as to where development should occur and the type of development that is encouraged. The path to the development approval process should also be easily comprehensible in order to create more certainty. The SCS should provide clarity on how local jurisdictions are or are not conforming to the SCS. The extent to which general plans will need to be updated and corresponding changes to zoning required varies among different cities and counties. For SCSs to work as envisioned, local jurisdictions will require additional planning and land use resources from the state to make appropriate changes to their general plans. One potential solution is to increase the Vehicle License Fee, which would help to finance planning and zoning changes that conform to the SCS.

Alignment should take into account multiple development priorities to ensure that communities have sufficient public services

Housing development alone will not create better air quality and regional connectivity. Housing development, employment, schools, transportation, parks, and other infrastructure must be connected to provide a high quality of life. State funding priorities need to take into account that SB 375 redirects future growth towards existing urban areas, and while transportation funds will be linked to the SCS, so should other infrastructure investments such as monies for sewer, water, schools, and parks. It also requires an alignment of other community facility siting and configuration guidelines, such as for schools.

Funding must be aligned across varying levels of governance and across various priorities

While the potential long-term savings that can be realized under more compact infill development is recognized, the ULI panel also acknowledges the more complex and often more expensive process – on a per new unit basis – of financing infrastructure expansion in existing communities. The state’s fiscal deficit has resulted in the extraction of what has historically been city and county monies, such as tax increment dollars and transportation funds, which further hinders local jurisdictions from accommodating infill development. This sends the wrong message to local jurisdictions who are attempting to implement SB 375’s purpose, but at the same time have limited resources to create the livable communities envisioned.

MPOs should coordinate regional modeling

In order to develop and evaluate SCSs, MPOs will rely heavily on regional travel demand models. These models, and MPO staffing to support them, vary widely in sophistication across the state. The Strategic Growth Council allocated $12M in funding for improvements to MPO data and modeling specifically in support of SB 375, as the first round of Proposition 84 planning grants. The California Air Resources Board (CARB) has funded research in GHG reduction potential for various transportation/land use policies as part of SB 375 as well. In part due to this additional support, limitations of MPOs regional transportation models need not be an excuse for delaying implementation of SB 375. Models and data need to be progressively improved over time as a means to compare and track each region’s performance.

The largest MPOs have begun a process of coordinating policy scenarios, model capability and sensitivity, and key performance metrics as a way of ensuring some level of consistency in target setting, and ultimately, implementation of SB 375. This coordination effort should be expanded to include all MPOs in the state. This sort of coordination will result in a more uniform travel model that generates comparable estimates of vehicle miles traveled, greenhouse gases, criteria pollutants, and congestion across MPOs.

In addition to modeling, MPOs and the state will require coordination to share information, best practices, and develop systems that implement the intent of SB 375. State oversight agencies, MPO boards, and staff should have designated formal times during which to discuss how they can better achieve regional connectivity, improved air quality, and housing affordability. The state should be an active participant in these discussions in order to adjust the regulatory process and minimize administrative and reporting obstacles associated with developing a successful SCS.

Cross-MPO coordination will also be critical for connected metropolitan regions, where housing centers in one MPO are linked to employment centers in another. For example, residents in the Sacramento region under SACOG have work commutes to job centers in the Bay Area, under ABAG’s authority. These connections should only increase with the construction of high-speed rail.
CEQA Streamlining

Requirements of the California Environmental Quality Act (CEQA) should be reexamined and refined to promote specific land use and transportation projects that help achieve SB 375's desired outcomes. Such refinements can be designed to reduce the burden of excessive documentation while providing desired environmental protection, and fostering development of urban growth patterns and transportation systems that reduce carbon emissions.

Streamlining CEQA for this purpose begins with the program environmental impact report (program EIR) prepared for the RTP/SCS for a metropolitan region to make it a more useful foundation for specific land use and transportation projects.
Useful Life of the RTP/SCS Program EIR

The RTP itself and the RTP/SCS program EIR will be prepared every four years under SB 375 and federal transportation law. CEQA should recognize the validity of the RTP/SCS program EIR for a four-year period to deflect legal challenges based on claims that the program EIR analyses are out of date and no longer valid. Establishing this certainty for a four-year period is consistent with another CEQA streamlining provision for the Master EIR, which has a minimum five-year useful life.

Tiering with the RTP/SCS Program EIR

The RTP/SCS program EIR could leverage ‘tiering’ under CEQA more effectively than it currently does. The concept of tiering allows use of program EIR analyses with later EIRs and mitigated negative declarations (MNDs) on more specific projects. By incorporating the general analyses contained in the program EIR by reference, later EIRs or MNDs can concentrate on issues of the specific projects at hand.

Currently, the use of tiering under CEQA is limited to program EIRs and later EIRs or MNDs for specific projects prepared by the same agency (the ‘lead agency’), but tiering under SB 375 should be broadened to fit the planning approach created by SB 375. Since MPO Boards consist of representatives from their local member agencies (cities and counties in a region), CEQA should allow decision makers within those cities and counties to use the MPO-approved RTP/SCS program EIR as a first-tier EIR supporting later EIRs or MNDs for specific projects within their jurisdictions.

Clarity of RTP/SCS Program EIR Requirements

The provisions in SB 375 related to the RTP/SCS program EIR need to be expanded to provide clarity on content requirements. The contents of RTP program EIRs have been well established over several decades of experience, but the addition of the SCS as a part of the RTP complicates the analyses by including a new land use component. Development of more specific content requirements like those contained in the CEQA sections pertaining to Master EIRs and Projects Consistent with a Community Plan or Zoning would be helpful and provide a greater level of certainty for both decision makers and stakeholders.

Other suggested
streamlining approaches include:

Refine Criteria for Transit Priority Projects

Criteria for a CEQA exemption or streamlining for Transit Priority Projects (TPPs) should be further refined to ensure that projects consistent with the purposes of SB 375 get the greatest relief from excessive CEQA documentation. The current exemption and streamlining criteria are limiting and exclude some projects that can help regions achieve GHG reduction targets. For example, the current limitation of 200 residential units for a TPP exemption may prevent an otherwise acceptable 250-unit project from moving ahead due to CEQA time and cost requirements. Similarly, the eight-acre maximum area for a TPP is unnecessarily limiting. Refinement of these and other criteria, consistent with both the intent of CEQA and SB 375, represents an opportunity to meet goals for GHG reduction without sacrificing overall environmental quality in California’s communities and regions.

Expand TPP Exemption and Streamlining to Commercial/Industrial Projects

The CEQA exemption and streamlining provisions of SB 375 should be expanded to include projects that offer employment opportunities. For example, VMT and GHG emissions associated with commuting to jobs can be reduced by promoting commercial and industrial development served by transit. Such projects represent one end of a work trip and should be encouraged by reducing the CEQA documentation burden in the same way SB 375 does for primarily residential projects.
Conclusion

SB 375 is consistent with the overall mission of ULI and what it has long advocated—the development of sustainable thriving communities that provide a framework for connecting people to places, respect environmental realities locally and globally, and compete effectively for economic vitality.

The potential benefits of SB 375 implementation begin with its promise to create a cohesive regional framework by interlinking land use, transportation, and air quality planning policy across California. If this vision is sufficiently realized, it would be economically advantageous in a number of ways, including addressing the disequilibrium in market demand, further developing the regional economy and employment base, and increasing fiscal efficiency.

However, a number of critical issues related to implementation need to be addressed to ensure SB 375's success. Key implementation items include: greater transit certainty, in that appropriate investment and improvement in service level need to keep pace with the anticipated increase in density; the necessary alignment and coordination of government policy and funding; and further CEQA streamlining to promote the type of projects that help achieve SB 375's goals.
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Literature Review

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