

# HELP *or* HINDRANCE:

WILL SACRAMENTO SUPPORT SMART GROWTH IN THE BAY AREA?

Bay Area Alliance for Sustainable Communities

Bay Area Infrastructure Priorities to 2024

LUNCHEON DIALOGUE

MAY 18, 2004

NOTES

**Facilitator: Nick Bollman, California Center for Regional Leadership**

***Framing of the Day:*** The purpose of today's session is to brief the group on current developments in state infrastructure policy and the impacts of these policies on the ongoing efforts of the Bay Area Alliance.

**Welcome from Amy Dominguez-Arms, The James Irvine Foundation**

**Presenters:**

**I. Ellen Hanak, Research Fellow, Public Policy Institute of California**

### ***California 2025***

- The California 2025 Report, conducted by PPIC in partnership with CCRL, PolicyLink, and others, will address data and public perceptions about important growth challenges and infrastructure needs over the next 20 years, with a focus on public and private investment choices. Results will be released as a report in January 2005 and shared with groups statewide in the spring of 2005.
- The premise of the California 2025 Report is that California hasn't been keeping up with infrastructure spending and investment in many sectors, including schools, water, and transportation. PPIC polling shows that the public is largely unaware of the challenges we face in these areas and the options available.

### ***Water***

- Managing water in California has become more challenging and more difficult over the years. We used to solve problems by building more conveyance systems – a solution that has led to more problems, like inadequate attention to environmental impacts and water quality.
- Population growth is driving greater demand: we will need 2 million acre-feet more supply by 2025. What are the options to respond to the growing challenge of providing clean drinking water to 46 million people? We cannot just build more surface storage to solve this problem.
- How do we fund new capacity? What are the institutional constraints? How will public-private partnerships be structured?
- Improved science has made it possible to detect contaminants in lesser amounts and find more dangerous chemicals. One-third of our drinking-water sources have exceeded standards on one or more contaminants.



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### NOTES (cont.)

- The response of local and regional governments to these contaminants has been to administer more stringent regulations. Pressure on municipal and county governments to manage stormwater runoff, which is increasing with increased amounts of paved surfaces, is growing. How much should the state and federal governments help locals to fund these efforts? Are other options for mitigating stormwater run-off available? Solutions include high-tech cleaning, collaboration with builders, and regional approaches such as watershed management.

#### **II. John Ferrera; Deputy Secretary for Transportation; California Business, Transportation, and Housing Agency**

- In preparing the January transportation budget, the labor, business, government, and stakeholder communities were all consulted on new ideas and tools for transportation funding. The USC Keston Institute has done work to review best practices and innovative transportation funding reform ideas.
- Texas has created the most comprehensive reform package in the country. The current budget proposed by the Governor includes the following transportation reforms:
  - We will use some transportation funds to pay debt service on previous funding.
  - \$300 million of one-time money will pay back “debt” to transportation funds.
  - Gaming tribes could provide up to \$1 billion, and transportation has first claim.
  - The 2005-06 budget year will be extremely challenging – legislators will have pressure to “forgive” the loans from transportation funds – so repayment in this year of part of those funds is critical.
  - Because STP goes through 2007-08, local governments can plan against those funds now that they are restored.
- Secretary McPeak has asked for hard evidence about the economic effects of transportation investment and the return on state transportation investments, so as not to rely solely on anecdotes.
- The Governor’s BTH/Caltrans Performance Improvement Initiative has focused on three areas:
  1. Caltrans reform – improving business-to-business relationships, clear accountability and performance measures, empowering regional officials to make decisions without being second-guessed, instituting professional classes in project management.
  2. A high level of contracting out where the state can to give flexibility to use the full array of tools.
  3. Innovative finance to leverage other public dollars more efficiently, such as HOT lanes and other demand management techniques, or partnerships with private sector that deliver benefits (e.g., fee-based truck lanes). Some issues are still in play. It appears that, for example, the AC Transit budget cut was not intended, and this and other issues will be addressed through the final budget negotiations. BT&H hopes to be moving ahead with a transportation reform package to the Governor by the end of May.
- The Administration is working on an “anti-dumb-growth” agenda. Secretaries McPeak, Tamminen, and Chrisman are leaders in this effort. One consideration that they will focus on is that transit investments without development strategies to promote ridership, connectivity, sufficient housing to accommodate job creation are NOT SMART.

#### **III. Cathy Creswell, Housing and Community Development**

- We need to think about why housing and its benefits are necessary: 1) Important to our economy (retaining business and industry), 2) Critical to California’s people (our ability to create stronger families and communities).
- We have more resources at HCD than ever before, thanks in part to Prop 46, which provides \$2.1 billion for housing at all ranges.

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### NOTES (cont.)

- In the Bay Area, \$140 million has gone to help communities to build housing (2400 units).
- We are trying to make sure that these funds don't only create more housing, but well-sited housing, to improve mobility.
- A Jobs-Housing Balance Improvement Program is rewarding local governments for producing housing where the jobs are. This now has morphed into a workforce housing program to build affordable housing, by providing incentive money that cities can use for infrastructure improvements.
- There is also a multi-family housing program that gives bonus points to developers if they propose projects near transit, near parks, or at higher densities.
- The Department is working on voluntary design guidelines for universal design: communities and builders can make sure that they are building housing now that won't be obsolete in 15 years.
- The most critical area to make a difference on housing supply and location is General Plan Housing Elements. A Housing Element update process creates incentives for moving smart growth from ideas to action. The public participation process facilitates building coalitions and a base of support for development. This process can be used to educate community about the benefits of housing. We would like to see the Housing Element guidelines require plans for longer periods of time, i.e., a 10- to 20-year horizon.

#### **IV. Gary Davis, Legislative Director, Office of Asm. Darrell Steinberg**

- The “fiscalization of land use” is a huge structural problem contributing to current growth patterns. When cities and counties are looking to develop, they wisely try to maximize local revenue. Retail centers yield relatively more revenue than housing or jobs. Under the current system, regions have incentives to compete, not cooperate.
- History of proposals to reform the state-local fiscal system:
  - a. The Speaker's Commission on Regionalism recommended that local governments should get more property tax funds and less sales tax funds – a dollar for dollar “swap” leaving base year revenue neutral. This way, new land-use decisions work toward a more balanced system.
  - b. Asm. Steinberg introduced AB 680, a pilot program for the Sacramento region. Growth in sales tax would be shared on a per capita basis, giving an incentive to cooperate regionally. The bill died in the Senate because cities in other regions saw it as “dangerous.”
  - c. Steinberg and Asm. Campbell introduced a tax swap bill (AB 1221) as a bipartisan proposal with the Chamber of Commerce, Building Industry Assn., and smart-growth groups. But, cities weren't ready to have that discussion without a constitutional protection for their revenues.
  - d. Prop. 57 passed with a “triple flip” – a creative way to create a source of revenue for the deficit bonds. This idea was close to the AB 1221 swap plan, but did not lock in the tax percentages – leaving no impact on the revenue returned to cities.
- There is little trust between local and state government – in the early 1990s, the state took away ERAF revenue from local government, and they are doing it again now.
- The cities and counties have brought a constitutional amendment to the ballot to “protect” their revenues. This proposal would take away Vehicle License Fee revenue from local governments in exchange for property tax funds. Also, taxes and VLF revenue are locked in retroactively to the beginning of this year – negating any budgeted takebacks.
- The deal worked out between the Governor and local governments includes the VLF-property tax swap (gets local governments out of the “backfill”), with the lower VLF and current sales tax rates locked into constitution. This would mean that any reforms geared to change the land-use incentives would have to be written into the state Constitution. We shouldn't put the current broken system into the Constitution.

# Bay Area Infrastructure Priorities to 2024 Luncheon Dialogue NOTES (cont.)

## Responses from Alliance Caucuses:

### A. Environmental Caucus

- We want to see better planning using laws already on the books. It appears that San Diego has done a good job of creating a clear road-map for developers through forward-thinking policies.
- There is a role for the state in promoting better planning. We hope to see a framework from the state that we can debate locally.
- Sustainability and the market: how much is enough? The marketplace has been a good place to determine the real costs of the automobile, as reflected in private choices, e.g., congestion pricing, parking charges.
- There are locations with job surpluses so big that they strain the transportation infrastructure. A focus only on more jobs would just make it worse - they have a responsibility to build the housing that they create the demand for.
- It is very important to focus on all “three Es” in an infill-first strategy: economy, environment, and equity.

### B. Equity Caucus

- How are we defining our communities? People who need the most affordable housing need to be at the table. What will it take to get them up to speed on these issues and make sure that their interests are represented? How do you get these tools into their hands?
- Social equity aspects of planning for housing and transportation are linked to doing a better job of planning regionally.
- The planning piece ties together a lot of what we are talking about – we hope that you can find a way to bring that back into the process.

### C. Business Caucus

- Developer fees from cities have increased due to a lack of tax revenues. We hope that we will see a call for cities to change the ways that they do business by reducing these fees.
- There are needs for overall reform in the housing area as much as transportation.
- Builders really need reform in CEQA, construction defect litigation, and other obstacles to development. Projects in infill areas have so many more obstacles, fees, and opposition.
- A lot of these problems have come because of our economic success in the region, but there is no guarantee that that will continue. Our economy has taken a big hit lately. In a lot of ways right now, we are not a competitive region for investment. We can't do anything we want to unless the regional economic engine is running well.
- What about lowering the vote threshold for transportation and housing?

# Bay Area Infrastructure Priorities to 2024 Luncheon Dialogue NOTES (cont.)

## Panel Replies:

### 1. Ferrera

- We're going to try to make it less hard for you to do the right thing.
- We are well aware that local transit investments go into congestion relief. We really need to restore the people's faith that state government will provide the resources that they have voted for (Prop. 42).
- When we are in an economic downturn, now is the best time to make transportation investments that will take full advantage of our capacity and provide a system of alternatives.
- We must fix all of these problems, not just transportation, and not just by private funding – that is not an equitable solution. But, we can relieve some of the congestion that causes people to have such long commutes.

### 2. Creswell

- If we don't deal with the land-use issues and the "hearts-and-minds" issues, the amount of money available won't matter. But, we have to use our funds effectively and address linkages and needs.
- In our system, state frameworks are supposed to encourage local governments to look at issues like housing fees, but we can't force them.
- We need to figure out better ways of engaging people in the planning level, not just the project level. This helps them to create the communities that they want, and gives developers more certainty.

### 3. Davis

- There is a fundamental mismatch between local government's responsibilities and resources. If local governments are going to have more responsibility to produce housing and transit, provide services, they should have more of an ability to raise the funds. This won't happen until the business community becomes a big supporter of this kind of reform.