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Subject: Comments on CARB Staff Report – *Proposed Update to the SB 375 Greenhouse Gas Emission Reduction Targets – June 2017*

The above noted organizations and associations appreciate the opportunity to offer the following comments on the third round of the regional greenhouse gas (GhG) reduction target setting process required pursuant to Senate Bill 375 of 2008.

As partners in the state's overall effort to reduce GhG emissions in balance with economic growth and with the commitment to meet realistic regional GhG emission reduction targets, we believe that the CARB- staff recommended 2035 targets are, in most regions, unlikely to be achieved given the fiscal constraints of current regional transportation planning and absent new and meaningful state regulatory reforms that authenticate the commitment of the state to a true state-local partnership.

The cost of moving forward with higher targets -- led by the demand for steep reductions in per capita vehicle miles travelled (VMT) -- in the absence of significant new state regulatory, pricing and funding commitments ensures that the extreme rise in housing costs that has overtaken California and that poses real threats to the state's future economy will only get worse. California is by far the toughest market for working class first-time homebuyers. Likewise, the cost of rental housing is spiraling out of reach for those at the middle and lower-income levels. Despite the presence of Silicon Valley entrepreneurs --- international icons of wealth and technology --- California has the highest adjusted poverty rate of all the states in the U.S.[1]

Setting ever higher statewide GhG reduction targets while simultaneously failing to provide the policy tools or to account for real world conditions and realities is a dangerous road to go down and exposes the perils of regulatory ambition

As noted in the staff report and accompanying appendix, the four largest MPOs submitted a 2035 recommended target of 18 percent reduction in per capita GhG from a 2005 baseline. The joint recommendation was based on "stress tests" unconstrained by revenue realities, market feasibility or other practical concerns. The accompanying caveat was that achieving an 18% reduction was conceivable but only if significant and groundbreaking new state policies were forthcoming. Tellingly, the MPOs were unanimous that the greatest savings would come from non-land use

[1] California is ground zero for high housing prices and chronically low housing supply. This imbalance contributes directly to the state's high rates of poverty and homelessness. According to the California Association of Realtors, the median price of an existing single-family home in California in April 2017 was $536,750. At this price, thousands upon thousands of California families making at or below the state median income of $62,000 are priced completely out of the homebuying market. No wonder that a mere 32 percent of California households can afford to purchase the median priced home. This is not a one-time phenomenon. For sixteen consecutive quarters now the California affordability index has been below 40 percent. This costly disconnect between demand and supply is exacerbated by the disconnect between the ambition to set ever-higher GhG targets and the practical, real world consequences of what it would take to achieve those targets.

intervention techniques such as transportation demand management programs, alternative fuel and vehicle strategies, ZEV penetration, and pricing strategies. [2]

This last point is consistent with what we have understood the case to be in, for example, the Bay Area where an appendix to the *Plan Bay Area 2040* notes:

> *Plan Bay Area 2040 transportation investments and land use development patterns alone will not be sufficient to reach the region's statutory greenhouse gas (GHG) emissions reduction targets. It is anticipated that over 11 percentage points of the Plan's 2035 target will be achieved through climate strategies that are part of MTCs Climate Initiatives Program, such as transportation demand management programs, alternative fuel/vehicle strategies and car sharing.*

Unfortunately, CARBs response was to minimize the MPO recommendation and maintain that based upon the "weight of the evidence" higher targets are within reach. The weighty evidence relied upon was a list of "enhanced strategies" that were unconstrained by fiscal, regulatory or market realities and were largely bereft of quantitative values. CARBs afflatus here underscores the point that despite expressions of seeking balance and of applying proven data and achievement measurements, little of this was in evidence when the top down decision was made.

We encourage CARB to work with the MPOs and come up with revised targets that are both ambitious and empirically achievable.[3]

The CARB staff report notes that " [T]he Scoping Plan Update identifies a reduction in vehicle miles travelled (VMT) as a necessary part of the statewide strategy to achieve California's 2030 statewide emission target. VMT reduction is to be achieved, in part, through more stringent SB 375 targets for 2035 and associated SCS planning."

Specifically, CARB is looking at a per capita VMT reduction of 7.5% by 2030 and a 15% reduction by the year 2050. Additionally, CARB has determined that to meet the 2030 goal of a 40% GhG reduction from 1990 levels, SB 375 and VMT-reduction strategies totaling 25% GhG reduction per capita will be necessary (although the highest proposed targets are set at 21%).

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[2] We note this not because we believe that land use and housing should not be challenged to achieve their fair share of reductions … they should … but to make the point that as MPOs push the envelope to achieve heightened GhG-reduction targets current state housing entitlement laws, policies and financing mechanisms must be significantly reformed if additional reductions from this sector are to be feasible and if costs to consumers are to be a consideration.

[3] On page 17, CARB proposes adjustments to the established 2020 targets to bring them in line with the projected GhG reductions from the most recently adopted SCS. Inherent in this adjustment is the belief that regions are meeting their housing obligations which is not the case. For example, in the 9-county Bay Area, the SB 375 2010-40 housing production performance target calls to produce about 27,000 new housing units annually. Empirical evidence shows that only about 18,000 units annually are being built. Due to this accumulated shortfall, the region must ramp up to about 30,000 new units annually to stay on track. Additionally, ABAG shows that just 54% of the reduced housing production has occurred in Priority Development Areas. The Bay Area is significantly underperforming on its housing goals and a large chunk of the housing that is being built is not going in the locations envisioned by the Plan Bay Area. Nonetheless, the region considers itself "in compliance" with its SB 375 housing and GhG target. This is not to single out the Bay Area (who we believe is attempting in good faith to meet its goals) but rather to make the point that across the state the practice of assuming compliance with SB 375's core housing production target -- for the narrow purpose of running modeling and scenario comparisons to test the sensitivity of potential land use/transportation policies and assumptions -- is creating the impression that regions are in fact meeting their targets and will continue to do so no matter how extreme the future density or development pattern concentration. It is well-understood that CEQA litigation most frequently targets housing and infrastructure projects in existing urbanized areas targeted for denser urban development.

Currently, the large MPO SCS plans produce around a 17% GhG reduction. With the top targets proposed at 21% the resulting delta is expected to be made up mainly by aggressive VMT reductions. Given that VMT & GhG are separate and distinct metrics and measurements, it is unclear how CARB scores VMT reductions as equivalent to or contributing to GhG emission-reductions.

A 15% reduction in passenger and light truck travel would require a massive overhaul of driving behavior by Californians. It would necessitate an absolute cut in per-capita mileage between now and 2050 while the state is projected to add another 6.5 million residents and, as CARB notes, vehicular travel is rising.

As if a massively overhauling driving behavior were not enough, a second part of the CARB strategy is to fundamentally alter land use and housing policies and priorities such that the settlement opportunities for future Californians are focused primarily within high-density urban environs near transit[4] and transportation hubs in which multi-family living is the preferred housing option.[5] The framework of this new regime is built around maximizing protection of natural landscapes; promoting urban growth boundaries; increasing CEQA costs and risks in non-transit priority areas; shifting funds away from roads, modernization and maintenance projects to subsidize costly infill and transit oriented development, to name a few.

Urban living is desirable and preferred by a segment of our population.[6] We have long-supported and advanced policies to assist cities and surrounding unincorporated areas in their quest to attract jobs and housing and to provide the basic infrastructure and school facilities to allow these areas to become more competitive with their suburban neighbors. Competition is healthy. It helps to ensure that Californians have a diverse suite of options for where they choose to live and for the type of housing they choose to occupy.

Our read of the Board's land use framework is that it is focused more on prescriptive policies bent on preventing development in more regionally-based affordable areas than on advancing affordable and accessible infill development.

The CARB land use and VMT strategies while well-intentioned have the potential for consequences that are worthy of serious attention. When policies are advanced that create scarcities, costs and prices rise. Housing policies that favor dense urban development and discourage more-regionally based solutions ratchet up the price of land and housing and price middle and lower-income

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[4] Transit ridership in both the Bay Area and Los Angeles continues to fall. See -- www.bizjournals.com/sanfrancisco/news/2017/04/10/transit-ridership-down-samtrans-bart-sf-commute.html ; www.latimes.com/local/lanow/la-me-in-bus-ridership-study-20170518-story.html

[5] This calls to question whether compact development makes people drive less and if so, how much less. In a 2017 article published in the Journal of the American Planning Association by Mark R. Stevens, associate professor University of British Columbia, the answer was yes, compact development does make people drive less. The impact, however, is fairly small. Compact development features do not appear to have much influence on driving. The takeaway for planners is: don't rely on compact development as the only strategy for reducing driving unless the goals for reduced driving are very modest and can be achieved at a low cost. See: http://www.tandfonline.com/doi/full/10.1080/01944363.2016.1240044

[6] In the CARB report section on "Demographics" millennials (those born between the early 80s and the mid- 90s) are specifically mentioned as favoring urban areas, driving less or not owning a car at all, postpone getting married and are heavy users of alternative transportation modes. The report assumes that millennials will continue to carry on similar lifestyles as they age. While living in cities, owning little, living in tiny footprints and walking and biking everywhere may be desirable for a cohort of millennials, recent census data shows this to be more situational than fixed. As the leading edge of millennials age and start to have children the economics of schools, space and housing affordability are driving them to the suburbs, much like their parents. 2015 census data shows that between 2015-2016, nearly twice as many people ages 20 to 34 moved from the cities to the suburbs as did the opposite. Similarly, A 2013 Gallup poll found that almost nine of ten of individuals between ages 18 and 40 said they intended to have children someday. As that day comes more of them will be buying homes and looking to areas that are affordable, safe, provide space and have good school systems. See also *The Great Millennial Migration* Comstock's magazine www.comstocksmag.com/longreads/great-millennial-migration

Californians out of the market. This in turn forces families and individuals to search for more affordable options outside of traditional urban areas. This point was made well by the State's Legislative Analyst:

> *Our analysis found that many important factors have statistically significant effects on commute times. These include whether the commuter drives, walks, or takes public transit to work; the metro areas land size, population and density; the metro's median income; and whether. After controlling for these factors – in essence isolating the effects of housing costs on commute times – a 10 percent increase in a metro's median rent is associated with a 4.5 percent increase in individual commute times.*

Statewide, average California rents have increased 60 percent over the past 20 years. In 2016, median rents in the Bay Area and Los Angeles areas ranged from $2,427 to $4,508, according to the California Department of Housing and Community Development.[7] Nearly half of the state's households are renters and 84 percent of them are considered "burdened," spending 30 to 50 percent or more of annual income on rent. The reciprocal and aggravating cycle we find ourselves in is: As housing supply is constrained (often artificially by counter-productive public policies) what gets built tends to be concentrated at the higher margins of the market. The high cost and overall lack of supply forces middle income and lower income families – many of whom are ethnically and racially diverse – to either remain perpetual renters or to move to other more affordable localities in search of homeownership and the stability and wealth accumulation that homeownership promises. The economics of the decision to relocate is made easier considering today's relatively modest gasoline prices.

The response from CARB and the Office of Planning and Research is to advocate for counterproductive measure like SB 743 directing lead agencies as part of the project's CEQA environmental review to evaluate VMT associated with new development (of which the air quality and criteria pollutant compound analysis are already required) as a separate, stand-alone environmental impact. If the VMT impact is significant then it will have to be mitigated through costly travel-reducing measures. Who does this hurt the most? Middle income individuals and families in search of a better life.[8]

Road pricing is generally considered to be one of the more effective tools to reduce emissions from mobile sources and reduce VMT. With both EPA and ARB projections for a more fuel-efficient fleet (and along with stable gas prices) auto travel is and will continue to be the more attractive and less expensive preferred means of transportation for most Californians. This fact is at odds with the ambition of CARB to set high GhG emission reduction targets, dramatically reduce VMT, and promote high-density focused growth.[9] Achieving the proposed targets will require massive shifts in funding away from roads, modernization projects, congestion relief and maintenance activities in favor of costly and robust transit investment package. The CARB report suggests that $53 billion

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[7] California's Housing Future: Challenges and Opportunities. http://www.hcd.ca.gov/policy-research/plans-reports/docs/California's-Housing-Future-Full-Public-Draft.pdf

[8] As of 2014, minorities made up 59% of California's population. According state demographers the 2014 racial and ethnic makeup of California is: Latinos 39%, white non-Hispanic 38.8%, Asian, Pacific-Islander 13%, Black 5.8%, Native American 1%. See http://www.pewresearch.org/fact-tank/2014/01/24/in-2014-latinos-will-surpass-whites-as-largest-racialethnic-group-in-california/

[9] See the following housing mix graphic depicting the share of multi-family and single family new units to be added by 2040 to the Bay Area under the most extreme, Scenario 3, "stress test" scenario. This scenario achieved a 20% GhG reduction but only after assuming (1) a housing mix that consigns future generations to high-density, multi-family renter status, (2) a significant increase (up to $1.75 per gallon) in the cost of gasoline, and a massive shift of roadway congestion relief funding to public transit. See the graphic here.

($5.3 billion annually) in additional funding resources and tools are newly available for SB 375 implementation but this conclusion is questionable.[10]

The more likely scenario is that to reduce auto travel a VMT fee would be considered. VMT fees of four and eight cents a mile has been discussed. Analysis show that a 4 cent VMT fee translates to an 88-cent increase in the cost of a gallon of gasoline with an 8 cent VMT fee pushing the cost of a gallon of gasoline up $1.75 for the average motorist based on today's standard fuel efficiency. Significantly increasing the cost of housing as well as the cost of driving are two consequences of the staff proposal.

We strongly encourage CARB to re-evaluate its draft proposal and to undertake a leadership role in articulating to the legislature and others key policy, regulatory and financing reforms that are necessary to achievement of the ambitious 2035 goals. These include:

- Increasing the supply of housing across all communities and across all income levels;
- Reforming the housing entitlement process and particularly the environmental review process;
- Recognizing the void that was created with the elimination of redevelopment and revisiting the need for a broad-based tax increment financing tool so communities can make important infrastructure improvements and have a source of revenue to finance affordable housing needs;
- Transportation pricing strategies that more accurately reflect the true cost of driving and that replace diminishing fuel-based charges with a more rational user-based fee system;
- Ensuring that all future climate policies account for and use real, verifiable data and that they clearly and transparently acknowledge the projected costs to consumers-- noting particularly those Californians that will bear the greatest burden;
- Ensuring that Californians are given the information they need to help them understand the connection between ambitious state climate policies and the everyday costs of living and working in California.

Again, we thank you for the opportunity to offer these comments and look forward to working with you to make SB 375 a success.

Respectfully,

California Building Industry Association
California Chamber of Commerce
California Business Properties Association
California Business Roundtable

[10] SB 1 provides $52.4 billion over a decade for road repairs and other transit investments of which transit will receive approximately $7 billion. Active transportation programs may receive a total of @ $1 billion. The Volkswagen settlement is anticipated to generate @ $800 million to be allocated toward zero emission vehicle (ZEV) projects over a ten-year period. The amount of ZEV miles that are driven on the state and region roadways are outside the control of MPOs and outside the framework of what an MPO can take credit for under SB 375. The Transformative Climate Communities program secured a cap and trade authorization of $140 million for planning grants to be administered by the Strategic Growth Council. The program is still in the formative stages with the final program guidelines not yet approved. The allocations from these programs to SB 375-related implementation activities do not appear to add up to $53 billion in new funding.