

Gov. Gavin Newsom threatens to cut state funding from cities that don't approve enough housing

By [Liam Dillon](#)

Jan 10, 2019 | 7:05 PM

| Sacramento



Gov. Gavin Newsom leaves the stage after presenting his first state budget proposal during a news conference Thursday in Sacramento. (Rich Pedroncelli / Associated Press)

For 50 years, California [has required cities and counties to plan for enough new housing](#) so that residents can live affordably. But many local governments [fail to approve new development](#), contributing to the state's housing crunch. Now, Gov. Gavin Newsom is proposing a radical new step: punishing communities that block homebuilding by withholding state tax dollars.

Newsom unveiled his proposal Thursday at his state budget presentation, which also included more than \$2 billion in new funding for housing and homelessness initiatives. The governor said his aggressive approach speaks to the depth of the state's problems, which have forced millions

of Californians to pay more than half their income on rent, pushed home prices to new highs and added thousands to the homeless population.

“This is a new day and we have to have new expectations, new requirements,” Newsom said, noting that California’s highest-in-the-nation poverty rate is largely driven by escalating housing costs.

[California lawmakers have tried for 50 years to fix the state's housing crisis. Here's why they've failed »](#)

The governor’s proposed spending would pay for emergency homeless shelters, subsidize new development for low- and middle-income residents and provide grants to cities and counties to spur more homebuilding, among other ideas. Newsom said he has spoken with Silicon Valley tech leaders, whose industry has fueled strong job growth in the state, about contributing an additional \$500 million to support his administration’s affordable housing efforts.

Newsom pledged to revamp housing supply goals set by the state, which require cities and counties to plan every eight years for enough new development to accommodate projected population growth. [A 2017 Times investigation](#) showed that although state law requires local governments to plan for housing, it does not hold them accountable for resulting homebuilding.

On the campaign trail, Newsom [called for 3.5 million new homes to be built in the state over seven years](#), which would more than quadruple current production levels. The governor said his administration would develop new homebuilding targets for every region and, for the first time, hold local governments to meeting those goals with financial penalties.

State transportation revenue would be withheld from cities and counties that did not perform, he said.

“If you’re not hitting your goals, I don’t know why you get the money,” Newsom said.

Housing advocates praised Newsom’s plans, calling them a departure from former Gov. Jerry Brown, who rarely pushed for big-ticket housing policies and cut low-income housing funding during the depths of the state budget crisis.

“This is exactly the kind of bold visionary leadership on housing issues that the state needs and frankly we have lacked for the last eight years,” said Matt Schwartz, president and chief executive of California Housing Partnership, a nonprofit advocate for low-income housing. “The proposals won’t fix the system overnight. But they’re smart and strategic.”

Newsom’s plan to enforce homebuilding goals in cities and counties with financial penalties would mark an incursion by the state into how housing is approved at the local level. The governor is sure to face broad pushback on the idea, which is already raising concerns from transportation advocates.

In his budget news conference, Newsom proposed withholding revenue generated from Senate Bill 1, 2017 legislation that increased the state's gasoline taxes to pay for road repairs and transit improvements. When pressed, Newsom said state transportation dollars overall, and not necessarily gas tax money, would be held back from local governments.

[Coverage of California politics »](#)

Newsom's comments prompted opposition from all sides of the gas tax effort. Those behind the tax increase, such as the League of California Cities and Sen. Jim Beall (D-San Jose), who authored the legislation, said the plan would go against the will of the voters. And some who were against the gas tax increase were similarly critical. GOP Senate leader Patricia Bates of Laguna Niguel called withholding transportation funds from communities "a bait-and-switch."

Many reasons why homebuilding is slow across the state are outside local government control, including the ability for developers to get financing and the costs of labor and construction materials. It will be difficult for Newsom to develop a system of financial incentives and penalties for cities and counties that takes into account all these factors.

For instance, city and county restrictions on homebuilding are more consequential in the Bay Area — which has seen 750,000 new jobs added but just 167,000 new homes built over the last eight years, according to construction industry statistics — than in parts of the state where there's been less economic development, said David Garcia, policy director at UC Berkeley's Turner Center for Housing Innovation.

"In the Central Valley, most, if not all, of their cities are not meeting their [housing production] goals," Garcia said. "It has nothing to do with them being exclusionary or not welcoming housing and everything to do with market forces and the lack of money to fund affordable housing."

Garcia believes it is necessary for Newsom to try to break down local resistance to new development, but he said it will be hard to determine which cities and counties should forfeit funding.

Los Angeles Mayor Eric Garcetti said he was overjoyed when he received a briefing on Newsom's plans Wednesday night. Last year, Garcetti and other big-city mayors [mounted a campaign to persuade Brown to support new homelessness funding](#); Newsom addressed the issue immediately.

"In the past, it's felt like pulling teeth," Garcetti said. "This time, it's what a partnership feels like."

Garcetti also said he was not worried that Los Angeles would face penalties for not approving enough housing. The city is currently [behind on meeting existing targets for low-income housing production](#), and Newsom's new goals almost certainly will result in significantly higher numbers overall for Los Angeles and other urban areas. But Garcetti said he could not imagine a new target that would be too ambitious for the city to meet.

“I don’t think they will be unrealistic,” he said. “I think they will be stretch goals, and we will have stretch goals whether the state gives them to us or not.”

Newsom’s proposed new spending on housing totals \$2.3 billion. That includes \$1.3 billion for cities and counties in financial incentives to permit and plan for new homes and support local homeless housing efforts. The remaining \$1 billion is split between loans for developers who build homes for moderate-income families and tax credits to subsidize low- and moderate-income housing construction.

Times staff writer Patrick McGreevy contributed to this report.