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Publication Date

2025-10-01

Analyzing the Effects of the Prohousing Designation Program on Santa Clara County

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POL 195: Policy Analysis in California

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December 8, 2025

Housing in California has been a crisis since the early 2000s. To address this, California's Department of Housing and Community Development developed the "Prohousing Designation Program" (HCD). Its purpose is to provide accelerated funding to California cities and towns who meet the requirements, lifting the burdens towns face to build affordable housing.

Since the program was founded six years ago in 2019, it is now necessary for us to evaluate the effectiveness of this program. The County of Santa Clara in Northern California has been especially plagued with this housing crisis, with towns and cities seeing soaring housing prices. Out of the 15 cities and towns in Santa Clara County, only four (Campbell, Mountain View, Los Altos, and Sunnyvale) currently have prohousing designation (HCD). Do cities that have prohousing designation positively impact the development of affordable housing in Santa Clara County? This will be tested through a comparison of the affordable housing development in cities in Santa Clara County with and without prohousing designation. To accurately evaluate cities in Santa Clara County, I must take non-prohousing Santa Clara County cities that have similar characteristics to the prohousing Santa Clara County cities.

Context and Significance:

The housing crisis in California is a fundamental issue that affects every resident. For context, housing is a stepping stone for a functioning society. Without good housing policy, it is incredibly difficult to stimulate a successful economy. In 2024 alone, the median price of homes sold in Santa Clara County was a little over \$1.9 million (CA EDD). The housing crisis has also exacerbated the existing homelessness crisis in our state, garnering vast amounts of national attention. With hundreds of thousands of homeless Californians, it is imperative that we adjust housing policy to address this issue (Cremin).

All of this led to the creation of the Prohousing Designation Program through the 2018-2019 State Budget Act (City of Walnut Creek). As previously stated, the program's aim is to provide tools to cities to streamline the affordable housing development process. Among these tools are scoring points that are beneficial for cities when applying for funding grants to aid in the building of affordable housing. To gain prohousing designation, cities must go through a seven section appendix where they promise to uphold promises to continue the development of affordable housing. After they sign commitments and send their policy schedule to the Department of Housing and Community Development in Sacramento, they are evaluated. Being able to evaluate a specific area of this wide program is crucial because it will help the Department of Housing and Community Development (HCD) adequately adapt to the unique needs of Santa Clara County and the rest of the state. Hopefully, this evaluation will have application to similar towns and cities around the states.

Literature Review:

Since the prohousing designation program is relatively new, being founded in 2019, there has been very little academic research published about the long-term effects of the program. Not only that, but there has been no research done around the prohousing designation program in Santa Clara County specifically. There are important themes that have come up during my literature review, some of which include state vs local jurisdiction, bureaucratic barriers, and the local economic impact of housing.

The first articles of research I found about the prohousing designation program were articles from the Turner Center for Housing Innovation at UC Berkeley. The first article, titled "Incentivizing Housing Production: State Laws from Across the Country to Encourage or Require Municipal Action," describes the prohousing designation program as a "Carrot" (Manji

et al, 18) to incentivize housing production. This is done through the program's method of rewarding cities with the designation so that they receive accelerated funding and approval for future affordable housing proposals. The authors essentially state that the state government's incentivization of the building of affordable housing units helped lay a barrier to the decline of developers who wanted to propose affordable housing units.

The second article from UC Berkeley's Turner Center, titled "California's Prohousing Designation Program: Rewarding City and County Policies that Boost Housing Supply," gives an in-depth review and analysis of the program. The authors outline the many facets of the prohousing designation program, one of which is the aim to tackle the lengthy permit process it takes to approve affordable housing proposals. To go around unnecessary bureaucratic processes, cities with prohousing designation are often able to have affordable housing proposals exempt from certain approvals, such as CEQA requirements (Ramiller et al, 8). These unnecessary bureaucratic barriers are also costly for both the city and developers, who then put those costs back onto renters. These high costs also result in fewer units being built. While the authors say that bypassing some requirements in the approval process aids in the developments of more units, they say that there has been little evidence that says the program reduces the time for approval to under four months (10). The apparent themes from the Turner Center studies indicate that the prohousing designation program is useful, but has needed updates. In the second article, the authors spoke about the fact that there are many prohousing laws passed by the legislature on a yearly basis, which ultimately creates the need for the prohousing designation program to constantly adapt and update to these new laws.

Another source, written by former Clemson graduate student Andy Daly, outlined the entire modern housing crisis in California. Daly interviewed eight experts in the housing and

planning field, many of whom brought up the barrier between local and state authority. Many of these experts said that while local authority is gradually declining, it may be a necessary measure as local governments have not “kept up with housing production demand for the past thirty years” (Daly 50). A large reason for this, Daly says, can be attributed to local municipalities having NIMBY groups oppose planning proposals for affordable housing. He says, using the City of Los Angeles as an example, that many city planners do their job in coordination with “key stakeholders and the public” (50). Daly’s article gives us a good sense of purpose for the prohousing designation program, showing why state control is a necessary measure for the development of affordable housing units.

To understand the important economic impact of prohousing policy on California cities, we can look to an article by former MIT graduate student Kevin Skiles. This paper was written in 2003 about a 1992 California law that gave density bonuses for building affordable housing. While it is not up to date, the paper offers important insight into the importance of density bonuses (seen in the prohousing designation program) to incentivize developers. One of the case studies that Skiles analyzes was the effect of this density bonus law in Berkeley. Here, he said that an apartment complex proposal called “Granite Place Apartments” (Skiles 38) had a “Net Present Value of [...] \$139,345” (38). Net present value is essentially profitability, a tool that developers and cities use to determine the type of units that they want to propose on certain plots of land. Skiles says that the net present value of \$139,345 was not enough to make developers propose a high-density project, but an existing Berkeley law that requires developers to use the density bonus forced them to increase the density of their project (38). So instead of incentivizing, Skiles says, the city of Berkeley forced developers to comply with the law, which may remove the appeal of development to future developers. He says that in order to actually

incentivize developers, “the amount of bonus would have to be increased” (39). Skiles concludes the Berkeley analysis by saying that it is a good example of the “effect of leverage” (39) due to the use of Berkeley’s density bonus mandate law. We can also draw from this that it is difficult to truly incentivize developers. Instead, Skiles says, it is useful to enact laws that force developers to take advantage of density bonus programs while also reducing the government approval process (entitlement period) to lessen costs for developers (41). Cutting costs for developers by shortening the government approval process is an effective way to incentivize production of affordable housing.

Furthering my analysis of the economic impact of the building of affordable housing, I looked at an article from the Center for Strategic Economic Research titled “The Economic Benefits of Housing in California.” This article goes over the important economic effects that building affordable housing brings. The building of affordable housing brings jobs and people, thereby stimulating the local economy of the town in which the units are built (Center for Strategic Economic Research, i). We see in this article, using a 2011 study, that in California, the building of housing contributes about 123,000 new jobs every year (6). High-density housing causes people to move into that area and spend money at local businesses and schools. This is incredibly important for cities if they want to maintain fiscal stability. One of the reasons why the California housing crisis is so pressing is because of the economic decline caused by people moving out of the state.

From these sources, we see how important the issue between local and state governments is, the economic impact of the California housing crisis, and the vast possibilities of the prohousing designation program. I hope to contribute to knowledge about the prohousing designation program with my analysis of it and its effects on Santa Clara County cities.

Theory, hypothesis (conceptual and operational) and causal mechanism:

Overall, my theory is that the prohousing designation program positively affects the number of affordable housing in California. I used my design of comparing cities in Santa Clara County with prohousing designation and cities without while controlling for similar characteristics between the cities to ensure accuracy. My conceptual hypothesis is as cities are labeled with prohousing designation, the progress towards proposals for the development of affordable housing increases. My reasoning and causal mechanism is straightforward: cities that have already made the effort to attain prohousing designation will continue that trend to continue building affordable housing. Prohousing designation is not necessarily the catalyst for the development of prohousing designation but another step towards resources for cities who aim to do more.

My operational hypothesis is cities in Santa Clara County, California that received prohousing designation from 2010-present, affordable housing development increased significantly more than cities without prohousing designation. As previously stated, Santa Clara County's housing crisis has been one of the worst in the state. Only four of the fifteen cities in Santa Clara County have received prohousing designation, although San Jose has sent their application for review. While the prohousing designation program was created in 2019, cities' records towards gaining the designation in the early 2010s are important to consider, hence its addition to my operational hypothesis.

There are various confounding variables that are important to consider when comparing cities in Santa Clara County with and without prohousing designation. Two confounding variables stick out, median household income and the willingness to build affordable housing. Median household income greatly affects the ability of cities in Santa Clara County to build

affordable housing. The other confounding variable is a city's past willingness to build and develop affordable housing. In order to receive prohousing designation, cities must complete a process in which the Department of Housing and Community Development decides whether or not a city will keep up their promise to build and develop affordable housing. This means that cities with prohousing designation may have already made great progress towards the development of affordable housing projects.

Research Design and Methods:

For this study, I analyzed and compared eight cities in Santa Clara County. Four of the analyzed cities had prohousing designation and four did not. This analysis' timeframe was 2014-present.

My independent variable is if a city from Santa Clara County that I am analyzing has prohousing designation. This is a fairly simple binary variable indicating whether or not they hold prohousing designation status measured for me by the Department of Housing and Community Development. I chose this as my IV because I am evaluating the effectiveness of the prohousing designation program in Santa Clara County, therefore I must analyze cities in Santa Clara County that have prohousing designation with similar cities in Santa Clara County that do not have prohousing designation. This data can be found on the HCD website page about the prohousing designation program.

My dependent variable is cities' progress towards building or developing affordable housing. I had various methods of measurement for my DV, one of which was using the HCD's [Housing Open Data Tool](#). This allows me to see housing data on California cities from proposed units to permits issued for the building of new units. It helped me accurately compare the prohousing cities with the cities without prohousing designation. I chose this as my dependent

variable because it is incredibly important for us to understand trends within Santa Clara County cities towards affordable housing. If a city has had a trend towards building affordable housing, they are more likely to have received prohousing designation or are trying to receive it. Cities in Santa Clara County that do not have prohousing designation may not have the same trends as cities with prohousing designation, even before 2019 when the program was founded. I planned to get the variable through mainly government websites, because they had useful information on housing policy and proposals.

As previously stated, there are some confounding variables that I need to control for. Two of which are median income and population. In order to have an accurate comparison between cities in Santa Clara County, it is necessary to only compare the prohousing cities with non-prohousing cities that have similar characteristics. This will allow me to recommend a more effective policy proposal during my findings. Like my dependent variable, I will easily find info on median household income and population through the US Census Bureau and individual city websites. Additionally, I found that land area was an important factor to control for. Since I am comparing the prohousing cities with non-prohousing cities, getting land area would aid in accuracy of comparison.

After designing my research and acquiring the necessary data, I ran two point-biserial correlation coefficients with the 5th (2014-2022) and 6th (2023-2031) RHNA cycles between the prohousing and non-prohousing cities. The reason I chose point-biserial for my correlation coefficient was because I had binary (prohousing designation status) and continuous variables (affordable housing units proposed/permits allocated). I ran point-biserial correlations both with and without control variables to see if the numbers had different implications. However, for the 5th RHNA cycle, I found that it would be difficult to run a correlation with the same control

variables due to the outdatedness of the data points. Because of this, I ran the pre-prohousing designation numbers without accounting for my control variables. I also ran a t-test between the city data points without the control variables to see if the raw numbers were statistically different

Figure 1: Map of Santa Clara County with analyzed cities labeled (prohousing cities highlighted)



Figure 1 Source: Cities Association of Santa Clara County

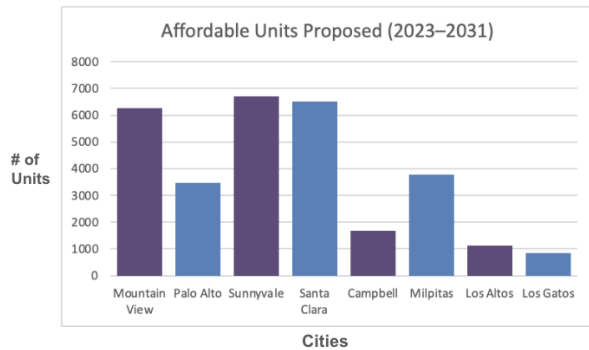
from one another.

Results:

After running a point-biserial correlation coefficient while controlling for land area, population, and median income, I found that the 6th RHNA cycle (see Fig 2 for exact numbers) had a weak moderate negative correlation with a -0.44

correlation number. This number exhibits a weaker moderate relationship as it is closer to being weak than it is to being strong. This led me to understand that the prohousing designation status for the four prohousing cities is not necessarily associated with a higher proposed affordable

Figure 2: Clustered column showing the affordable housing proposals for Santa Clara County prohousing designated cities for the 6th RHNA cycle (2023-2031)



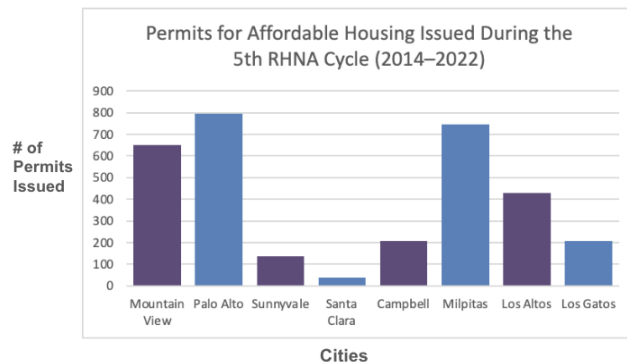
Source: HCD 2024 Housing Element Implementation and APR Data Dashboard

housing units. I ran another correlation with the same data points but without using control variables. I found that there was a moderate positive relationship that was slightly stronger with a correlation number of 0.65. While this indicates that there would be a moderate to strong correlation between prohousing cities

having a higher number of houses, it shows the importance of using control variables.

Additionally, I found with the 5th RHNA data (see Fig 3 for exact numbers) on permits issued (instead of proposed) that there was a moderate relationship between cities that gained prohousing designation and cities that still do not have it with a correlation number of 0.52. However, both of these numbers being moderate means that there is no significant relationship between cities having prohousing relationship and an increase in the proposals and permits issued for affordable housing. From a t-test on the 6th cycle RHNA data for after the creation of the prohousing designation program, I got a 0.25 t-stat indicating that prohousing designation did not significantly affect the amount of proposed affordable housing developments.

Figure 3: Clustered column showing the affordable housing permits issued for Santa Clara County comparison cities during the previous RHNA cycle (2014–2022)



Source: HCD 2024 Housing Element Implementation and APR Data Dashboard

Implications:

So, does prohousing designation positively affect the number of proposed developments in Santa Clara County? Not necessarily, because the relationship between the number of affordable housing projects proposed between prohousing and

non-prohousing cities did not indicate a relationship between the prohousing designation program and a significant increase in the number of proposed affordable housing developments. These results went against my hypothesis that the prohousing designation program would have a relationship between a significantly higher number of proposed developments from the prohousing cities in Santa Clara County. Why is this?

There are many factors that can be attributed one of which is the fact that the prohousing program could do more to adapt to certain areas with the aim of better incentivizing the zoning and building of affordable housing. Certain areas in Santa Clara County have not yet applied for

prohousing designation possibly because they do not feel the need to or they simply do not want more housing built. The Department of Housing and Community Development must do more to incentivize cities to apply. Los Gatos, an analyzed non-prohousing city, has a budget deficit above \$5 million (Freimark) yet they do not want to build more housing. Adding more measures to the program that would help developers overcome bureaucratic barriers would be immensely beneficial for small towns such as Los Gatos. Drawing on Skiles, an important bureaucratic barrier that must be further loosened or removed altogether is to increase the ability of developers to go ahead of planning commissions and town councils to zone for affordable housing and high-density units.

Another important area of improvement for the program would be accountability measures. One existing accountability measure is the ability of the Department of Housing and Community Development to revoke prohousing designation status, a power that was recently practiced with the City of Fresno losing their status as a prohousing city. Fresno lost their status due to their failure to enact “Prohousing Policies” (McDougall) within the timeframe they agreed to. While this is an important measure, the Department of Housing and Community Development should propose more accountability measures to this program. Before revoking status, HCD can implement policies that require cities to provide annual housing reports that show their commitment to upholding promises made to develop affordable housing. On top of that, cities that are approved to the program must add a feature on their individual city websites that shows their housing progress similar to the HCD Open Data Tool. This will provide a level of public transparency that would make it easier for residents to hold their cities accountable. Additionally, HCD can periodically reevaluate cities for the program in a measure that will force

cities to strictly adhere to their agreed proposals and the program requirements. While this gives more power to the state, it is necessary as localities often fail to meet requirements.

Research Limitations

There were significant limitations to my project, one of which is that I completed this over a short 10 week span. Longer time would have given me the ability to analyze more cities in Santa Clara County which would have contributed to my ability to propose more amendments and go into the more specifics of my understanding of the needs of the county when it comes to affordable housing.

There was more that I could have done when choosing my control factors, one being controlling for gdp per capita. This is an important factor to account for when evaluating housing due to the vast effect it has on the needs of cities to build housing. On top of that, this program is a voluntary program that cities have to opt into. When talking about incentivizing cities to build more housing, more state overreach could cause cities to remove themselves from the program. It is necessary to carefully adapt this program so that cities continue to trust the HCD's requirements.

Arguably the most important limitation that I faced was the fact that the prohousing designation program is only six years old meaning the long term effects of the program are not yet apparent. It will be necessary for me to revisit this paper in five to ten years to see if my findings may come out differently.

Overall, there are countless factors that contribute to the development and building of housing that could inhibit a city's ability to build housing. A longer timeframe to conduct this study could have given me the ability to factor these limitations into my findings.

Conclusion:

In conclusion, the prohousing designation program in Santa Clara County does not have a significant impact on the proposed affordable housing units for the four analyzed cities, Campbell, Los Altos, Mountain View, and Sunnyvale. In this study, I took data from the 5th and 6th Regional Housing Needs Allocation cycles and sought to determine if the prohousing designation program had a positive effect on the proposing and building of affordable housing in Santa Clara County. My aim was to propose fixes to the program that could positively impact the building of affordable housing throughout the entire state. Since our state faces a brutal housing crisis, I felt this study necessary to evaluate cities and their ability or willingness to build. While I was unable to control for every variable I wanted to, I found that the prohousing designation program, while mostly effective, has some needed changes that would help both cities and the state promote affordable housing development, thereby stimulating and improving California as a whole.

While my hypothesis was not true, I found at least two important areas of improvement for the program. The first was to adapt the program to increase cities to apply through incentivizing measures. It is important for cities to actually apply and see the benefits of building more affordable housing and the Department of Housing and Community Development can take measures to help incentivize cities through the loosening or removal of certain bureaucratic barriers faced by developers. The second area of improvement was to increase accountability measures. One proposal I suggested was to do this through features on individual city websites for residents to see housing progress in real time and for cities to have an annual progress report. The other accountability measure was for the Department of Housing and Community Development to periodically reevaluate prohousing cities to ensure they are keeping up with

their agreements. These measures and proposals will hopefully boost the effectiveness of the prohousing designation program and lead to a reduction in California's housing crisis.

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