



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Joseph Horwedel
Leslye Krutko

SUBJECT: ABAG'S PROPOSED REGIONAL
HOUSING NEEDS
METHODOLOGY

DATE: January 5, 2007

Approved

Kay Wines

Date

1/5/07

COUNCIL DISTRICT: Citywide
SNI: All

REASON FOR THE ADDENDUM

On January 18, 2007, the Association of Bay Area Government (ABAG) Executive Board is scheduled to decide the final Regional Housing Needs Allocation (RHNA) Methodology. The January 9, 2007 City Council meeting is the only opportunity for the City Council to consider its comments on the methodology.

RECOMMENDATION

It is recommended that the City Council direct the City Manager to prepare a letter forwarding comments to the Association of Bay Area Governments regarding the proposed Regional Housing Needs Methodology.

OUTCOME

The preparation of a letter would formally transmit San Jose's comments on the proposed Regional Housing Needs Allocation (RHNA) methodology.

BACKGROUND

By State law, the Association of Bay Area Governments (ABAG) is responsible for allocating the State-determined regional housing need to all jurisdictions in the Bay Area for the planning period of 2007 – 2014. Each jurisdiction must then update its General Plan Housing Element to document how it will achieve this housing allocation during the planning horizon. State law requires that the State Department of Housing and Community Development certify Housing Elements as a prerequisite to the receipt of certain State infrastructure incentives. In other

words, the regional housing need and Housing Element processes should be taken seriously. San Jose has a strong track record of certified Housing Elements, planning for the projected housing need, and facilitating the construction of housing for all income levels.

A Housing Methodology Committee (HMC) was established in May 2006 to advise ABAG staff in developing a recommended methodology for allocating the regional need for adoption by the ABAG Executive Board. The HMC was comprised of local elected officials, city and county staff, and stakeholder representatives. Laurel Prevetti, Deputy Director of Planning, represented San Jose on this Committee and was one of three representatives for the jurisdictions within Santa Clara County.

The Committee concluded its work in October and the ABAG Executive Board accepted the Committee's recommendation of a methodology in November 2006, starting a 60-day comment period. On January 18, 2007, the ABAG Executive Board is scheduled to take final action on the housing allocation methodology. Comments should be provided by this date. This memorandum describes the proposed methodology, additional alternatives recently put forth by ABAG staff, and suggested comments to the ABAG Executive Board.

The overall schedule for the housing allocation process and Housing Element update is:

- January 18, 2007: ABAG Executive Board adopts final methodology
- March 1, 2007: Determination of regional housing need
- June 30, 2007: Release of draft housing allocations
- June 30, 2008: Release of final housing allocations
- June 30, 2009: Housing Element revisions due to HCD

ANALYSIS

Proposed Allocation Methodology

The regional housing needs allocation methodology assigns each jurisdiction in the Bay Area its share of the region's total housing need. The methodology is a mathematical equation that consists of weighted factors to meet the following state mandated objectives:

- (1) Increase the housing supply and the mix of housing types, tenure, and affordability in all cities and counties within the region in an equitable manner, which shall result in each jurisdiction receiving an allocation of units for low and very low income households.
- (2) Promote infill development and socioeconomic equity, the protection of environmental and agricultural resources, and the encouragement of efficient development patterns.
- (3) Promote improved intraregional relationship choices between jobs and housing.
- (4) Allocate a lower proportion of housing need to an income category when a jurisdiction already has a disproportionately high share of households in that income category, as compared to the countywide distribution of households in that category from the most recent decennial United States census.

State law was changed in 2004 to allow ABAG and other Councils of Governments to utilize their projections as the basis for the housing allocations, subject to HCD approval. Every two

years, ABAG estimates population, household, and job growth for every jurisdiction in the Bay Area. *Projections 2007* incorporates “smart growth” principles layered on top of local jurisdictions’ general plans, with the hope of encouraging communities to focus growth to areas with existing and planned infrastructure. Specifically, the *Projections* now forecast more growth in existing urbanized areas particularly near existing and planned transit, and less in edge communities.

State law also identifies specific factors that the Housing Methodology Committee (HMC) had to consider for inclusion in the allocation methodology, including:

- Water and sewer capacity
- Land suitable for urban development or conversion to residential use
- Protected open space – lands protected by state and federal government
- County policies to protect prime agricultural land
- Distribution of household growth
- Market demand for housing
- City-centered growth policies
- Loss of affordable units contained in assisted housing
- High housing cost burdens
- Housing needs of farm workers
- Impact of universities and colleges on housing needs in a community

Given that some of these factors are more qualitative, the HMC recommended four key factors for the formula: household growth, employment growth, existing employment, and proximity to planned and existing transit. The proposed allocation formula assigns a “weight” or percentage for each factor:

- Household Growth (40%): Household growth is defined as a jurisdiction’s share of household growth during the planning period 2007 – 2014 based on ABAG’s *Projections 2007*. This factor, as opposed to existing households or total households, allocates housing where growth is anticipated to occur based on the *Projections*.
- Existing Employment (20%) and Employment Growth (20%): The existing employment factor attempts to address historic job/housing imbalances by allocating housing to accommodate existing employment (2007). The employment growth factor acknowledges that communities adding jobs should also plan for housing for those jobs.
- Household Growth near Transit (10%) and Employment Growth near Transit (10%): The transit factors add more housing to jurisdictions with existing or planned transit stations as defined by growth that would occur within ½ mile of planned or existing fixed transit stations. The planned stations are those in the RTP 2005 - Track 1, such as BART to San Jose. Current *Projections* places incrementally more growth along major transportation corridors (including major bus routes) and at transit stations. Therefore, using transit as a direct factor in the methodology “double counts” transit. Those jurisdictions with existing and planned transit (e.g., San Francisco, Oakland and San Jose) would receive a relatively higher proportion of the housing needs allocation than those jurisdictions without existing or planned transit.

In October, the Committee recommended the above methodology, but did not reach consensus. The three largest cities in the Bay Area would receive significantly higher allocations under the proposed methodology than the previous allocation because of the extra weighting of planned and existing transit. San Jose's representative also expressed concerns during the process about exacerbating existing jobs/housing imbalances with the proposed methodology. In other words, job rich communities would continue to have a relatively lower housing allocation.

On January 4, 2007, ABAG came forward with three new alternatives that modified the transit factors. The cities of Oakland and San Francisco continued to argue for no additional transit factors, however, the majority of the Committee again recommended its original methodology which weights both planned and existing transit. The majority of the communities believed that their elected officials and constituents understand "smart growth" and would expect transit to be given additional weight in the formula.

Proposed Regional Income Allocations

In October, the HMC unanimously decided that each local jurisdiction should plan for income-based housing in the same ratio as the regional average income distribution, as follows: 23% Very Low¹; 17% Low; 19% Moderate; and 42% Above Moderate. In October, San Jose staff supported this approach because all communities would have equitable percentages, incrementally moving all communities to provide housing for all income levels. This approach, however, does not consider existing concentrations of low income households.

On January 4, 2007, ABAG released three alternative income distribution methodologies to attempt to "alleviate existing concentrations" of low and very low income households. Two of these proposals (known as "150%" and "175%", respectively) would allocate a larger share of very low and low income housing to communities that traditionally have not provided such housing. A third approach was a complex, tiered approach to move each jurisdiction closer to a regional income distribution. After some discussion, the Committee voted for the "175%" alternative, which would assign a greater proportion of lower income housing to communities which have traditionally not been providing as much of this housing as others. Again, this vote was not unanimous.

Implications for San Jose and Suggested Comments

Assuming the same Bay Area allocation of almost 231,000 units as the prior RHNA cycle, San Jose would be required hypothetically to provide over 33,000 homes from 2007 through 2014 under the proposed methodology. With the other alternatives presented in January, San Jose would be required to hypothetically provide between 32,000 and 37,000 units. In other words, under any of the proposed methodologies, San Jose's allocation is significantly greater than it was under the previous RHNA cycle. The prior RHNA cycle had a methodology that weighted housing and job growth equally at 50%, resulting in San Jose having a requirement of approximately 26,000 homes.

¹ On January 1, 2007 new State law took effect which requires, for purpose of the RHNA allocation, the inclusion of an extremely-low income (ELI) category. State law now requires the very-low income category be divided in half, which means that the ELI and VLI categories each represent 11.5%.

Staff recommends that the following comments be submitted to the ABAG Executive Board:

- Appreciation to the ABAG staff for their efforts in running a variety of scenarios for consideration by the HMC and ABAG Executive Board.
- Acknowledgement that under any of the proposed methodologies, San Jose would receive a significantly higher allocation.
- The City accepts its responsibility for providing its fair share of housing, and while the HMC recommendation does not go far enough to alleviate existing job/housing imbalances, San Jose generally supports the HMC's original recommendation because on a regional basis, housing would be focused to infill locations and away from outlying portions of the Bay Area. The planned and existing transit reinforces appropriate locations for housing development.
- Should the ABAG Executive Board be inclined to respond to San Francisco and Oakland's concerns and entertain a different alternative, then San Jose would recommend the "reduced transit alternative" which considers only 5% housing growth and 5% employment growth at existing transit stations. While San Jose's allocation would likely increase, so would the housing requirements of job-rich cities in Santa Clara County. From a subregional basis, it is appropriate for other cities in the subregion to plan for more housing to make up for past shortfalls.
- In terms of the income allocation, San Jose supports the more aggressive "175%" approach. In this way, communities would be encouraged to do more than they have in the past to provide for low and very low income housing.
- The ABAG Executive Board should be encouraged to adopt incentives and work with the Metropolitan Transportation Commission to fund transportation infrastructure consistent with the recommended methodology. In this way, communities assuming a higher proportion of housing allocation should receive funding for the planned transit projects to "reward" this approach.
- Similarly, incentives and funding for deeper affordability levels should be pursued and distributed to achieve the more aggressive distribution of housing for low and very low income households.

Subregions

Due to the interest on the part of some Council members, this report concludes with a brief discussion of the "subregion approach." Under recent legislation, jurisdictions have the option of creating a "subregion" to formulate a local methodology. Only the County of San Mateo, in partnership with all twenty cities in the County, formed a subregion, as allowed by State statute. Under this approach, ABAG will assign a share of the regional need to the subregion "in a proportion consistent with the distribution of households" in *Projections 2007*. The subregion is then responsible for completing its own RHNA process that is parallel to, but separate from, the

regional RHNA process. The subregion is now creating its own methodology, and will issue draft allocations, handle the revision and appeal processes, and then issue final allocations to the members of the subregion.

Several cities in Santa Clara County considered forming a subregion, however, the institutional relationships between communities were not conducive to the majority of cities to create a subregion during the tight time constraints of the RHNA process. Planning Directors within Santa Clara County are talking now about growth and development issues in the hope of having a stronger base to consider a subregion approach during the next RHNA cycle.

POLICY ALTERNATIVES

The City of San Jose could choose not to comment on the proposed methodology, however, given the City's active participation on the ABAG Executive Board, it is prudent for the entire Council to consider the comments on the proposed methodology.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

While these categories are not applicable for this item, staff did bring the proposed methodology to two Housing and Community Development Advisory Commission meetings (see discussion below under "Coordination."). ABAG is responsible for the public outreach on the proposed methodology.

COORDINATION

Planning staff discussed the proposed ABAG methodology with the Housing and Community Development Advisory Commission at its November and December meetings. Members of the public and the affordable housing community were present and contributed to the discussion. The Commission voted to support the original HMC allocation formula because it contained the appropriate components of job and housing growth near transit. The Commission commented that while this was not a perfect approach, it was "moving in the right direction." The

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Commission also voted to affirm the original income allocation, however, one Commissioner believed that the income allocations should be more aggressive to better distribute affordable housing throughout the region. While the other Commissioners agreed philosophically, they were concerned that a more aggressive approach might not succeed. Staff believes that the revised recommendation for income allocation better addresses the sentiments of the Commission.

FISCAL/POLICY ALIGNMENT

The proposed comments on the ABAG methodology is consistent with the San Jose 2020 General Plan which provides housing opportunities for all income segments of the community and focuses growth to locations with existing and planned transit facilities.

COST SUMMARY/IMPLICATIONS

Not applicable.

CEQA

Not applicable.


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