



Memorandum

TO: COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE
FROM: Leslye Krutko
Joseph Horwedel
SUBJECT: REPORT ON THE HOUSING ELEMENT UPDATE PROCESS
DATE: June 6, 2008

Approved

Date

COUNCIL DISTRICT: City-Wide
SNI AREA: All

RECOMMENDATION

It is recommended that the Committee accept this report on the Housing Element update process.

OUTCOME

The outcomes associated with the Housing Element Update include:

1. Completing a Housing Element that fully complies with State law in order to maintain the City's eligibility for state and regional housing and infrastructure funding;
2. Identifying specific locations and land use policy measures to demonstrate that the City has a viable plan to meet its Regional Housing Needs Allocation through 2014; and
3. Developing a comprehensive implementation strategy to facilitate housing development at all income levels through 2014.

BACKGROUND

The Housing Element is one of seven planning elements that California law requires to be covered by each city's and county's general plan. While planning for housing is generally a local land use issue, the State recognizes that adequately planning for regional housing needs is fundamentally important for advancing the State's long-term economic competitiveness and for meeting its goal of providing decent housing and a suitable living environment for every California family. The purpose of the Housing Element is to provide a comprehensive analysis of a local jurisdiction's housing needs and to detail the policies and programs that will be implemented to meet those needs. This analysis must be periodically updated (generally every

five years) and certified by the California Department of Housing and Community Development (HCD). The City of San José must complete its Housing Element Update and have it certified by HCD by June 30, 2009.

The Housing Element Update process begins when HCD calculates statewide housing needs based on population projections from California’s Department of Finance. HCD then allocates the statewide housing needs to Councils of Governments (COG) throughout California, which in turn assign their share to the cities and counties that comprise the region for which each COG is responsible. This last stage of allocation—from COGs to cities and counties—is known as the Regional Housing Needs Allocation, or RHNA, and includes housing needs across income categories.

The Association of Bay Area Governments (ABAG) is the Bay Area’s COG and is responsible for assigning the “fair share” RHNA goals to all jurisdictions in the Bay Area (9 counties and 101 cities). On April 30, 2006, ABAG began working with HCD on the current (fourth) RHNA cycle to determine the region’s share of the Statewide housing need.

On June 30, 2006, ABAG requested information from jurisdictions to develop a methodology for allocating the regional housing need to individual cities and counties. San José staff member Laurel Prevetti (Department of Planning, Building and Code Enforcement) participated on the Housing Methodology Committee that developed this methodology. ABAG adopted a final methodology in the beginning of 2007 that is based on household growth, employment growth, existing employment, and household and employment growth near transit. The methodology also includes an income adjustment factor that is intended to equitably distribute affordable housing units to jurisdictions.

On July 24, 2007, ABAG released the draft RHNA for review. On May 15, 2008, ABAG issued the final RHNA goals for the current planning cycle. Table 1 gives the final RHNA goals by income categories for the City of San José and Santa Clara County by income categories.

Table 1. 2007-2014 Final RHNA Goals

Income Category	Income Range	Number of Units	
		San José	County
Above Moderate (Above MOD)	≥ 120% of AMI*	15,450	25,886
Moderate (MOD)	81% -120% of AMI	6,198	11,007
Low (LI)	51% - 80% of AMI	5,322	9,567
Very Low (VLI)	31% - 50% of AMI	3,875	6,939
Extremely Low (ELI)	≤ 30% of AMI	3,876**	6,939
Total		34,721	60,338

* AMI = Average Median Income: \$105,500 for a family of four in Santa Clara County.

** ABAG has assigned the City of San José 7,751 VLI units. Housing Element Law requires 50% of these VLI units to be allocated towards ELI units.

Required Components

The Housing Element update is subject to detailed statutes that require the City to plan to meet its RHNA goals for the 2007-2014 period. The Housing Element must include:

- An analysis of the City's housing needs across different income levels and populations
- An assessment of the City's land capacity to meet the City's Regional Housing Needs Allocation (RHNA) as assigned by the Association of Bay Area Governments (ABAG) for the 2007-2014 planning cycle
- A parcel-by-parcel sites inventory identifying where housing can/should go, and how many units each parcel may yield
- Identification of both governmental and non-governmental constraints to housing production
- Policies and programs to be used to facilitate housing production
- Quantified housing production goals

Timeline

The Housing Element is an integral part of the General Plan, and both are currently being updated by the City. However, because the General Plan does not have a state-mandated due date whereas HCD must certify the Element by June 30, 2009, the Housing Element update is operating on a parallel but accelerated track from the comprehensive General Plan Update.

ANALYSIS

The Housing Element update presents both opportunities and challenges for the City. To meet its Housing Element requirements, the City must develop housing policies, implement land use regulations, and inventory housing opportunity sites in order to facilitate housing production by the private sector across all income categories. This update process will allow the City to assess the efficacy of its existing housing policies, to consider and implement new policies, and to identify where housing should go in order to meet the City's RHNA goals.

In the previous RHNA cycle from January 1, 1999 – June 30, 2006, the City of San José exceeded its total RHNA goal, as well as its goals for low- (LI) and above moderate-income (Above MOD) housing, although it fell short of its very low- (VLI) and moderate-income (MOD) goals. Overall, the City produced more than its fair share of housing units for the region.

While San José has proactively planned for residential uses in its General Plan, it will be a challenge for the homebuilding industry to construct units at this high level of production across the income categories. The current RHNA is significantly higher than the previous allocation. Table 2 shows that the total RHNA has increased 33 percent. The Above MOD goal has increased 36 percent, the LI goal by 125 percent, and the ELI/VLI goal by 45 percent (a recent change to Housing Element law now requires that 50% of a jurisdiction's VLI allocation be for extremely low- income (ELI) units).

Table 2. Change in RHNA Goals

	Previous RHNA	Current RHNA	% Increase
Above Mod	11,327	15,450	36%
MOD	7,086	6,198	-12%
LI	2,364	5,322	125%
VLI	5,337	3,875	45% (ELI + VLI)
ELI	N/A	3,876	
TOTAL	26,114	34,721	33%

Construction of homes according to these goals will be especially challenging given the current slowdown in the housing market and in the overall economy. Banks have tightened their lending practices, making conditions difficult for consumers to obtain mortgages and potentially for developers to obtain construction loans. Raw material and construction costs have increased significantly in the last few years, creating challenges to develop housing projects that are financially feasible, especially for affordable housing developments. Although the purpose of the Housing Element is to minimize undue barriers to residential development, there are market forces—construction costs, the availability of credit, etc.—that are beyond the City's control.

Additionally, the City must secure adequate funding sources to meet the increased RHNA goals for the current update cycle. As part of adopting the housing allocation methodology, the ABAG Executive Board adopted a resolution supporting increased State funding to communities that take a larger share of the region's housing needs due to their proximity to existing and planned transit and other infrastructure (i.e., San José, San Francisco, and Oakland). A bill in the State Assembly was introduced to address this commitment; however, it died in the Appropriations Committee. Since all of the cities and counties in the San Francisco region have RHNA with deeper affordability requirements, San José will be competing for limited State affordable housing dollars to meet its higher numbers of LI, VLI, and ELI units compared with other cities in the region.

The City's General Plan currently has a housing capacity of approximately 60,000 new units. Areas along existing and planned transit corridors and infill areas such as Downtown and North San José are specifically targeted as priority housing areas as envisioned in the San José 2020 General Plan. Where the challenge exists is in planning for housing according to the various income categories established in the RHNA. A major component of the Housing Element Update analysis is to identify specific sites suitable for development of housing, and in particular, housing for the VLI and ELI income households. This may require a significant commitment of staff time and resources to assess the suitability of sites in the holding capacity for actual development of affordable housing units.

Specifically, as part of the Housing Element, staff is identifying the sites that are currently planned for housing and determining additional proactive steps to ensure housing occurs in the

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right location. For example, a significant portion of San José's identified housing capacity is composed of parcels that are zoned non-residential but have a residential General Plan land use designation. Staff is considering that the City rezone some portion of these lands for housing consistent with the existing General Plan, thereby facilitating their development. By the City rezoning property with all appropriate outreach, the private property owner/developer would have one step of the entitlement process completed for them.

In addition, staff will be examining the opportunities for housing at all income levels in North San José, the greater Downtown, and other locations where the City has a large amount of planned housing. The analyses would identify any particular steps that may be necessary to facilitate such housing and would incorporate policy direction from the City Council including the Framework for Preservation of Employment Lands and the Green Vision.

The Housing Element Update will focus on the City's housing potential on existing residentially-designated sites. On October 23, 2007, the City Council adopted the Framework for Preservation of Employment Lands to preserve remaining industrial and commercial lands in the City. Policies in the Framework for Preservation of Employment Lands and the Housing Element focus on strategies to increase jobs and housing, as both are important for a healthy local economy. Both sets of policies will relate to the broader General Plan update process that will study whether the balance of employment lands and housing lands is appropriate to meet projections of household and employment growth.

In October 2007, the City Council also adopted the City of San José Green Vision, which includes ten goals that the City intends to achieve within 15 years to support the General Plan Sustainable City Major Strategy. The Green Vision promotes the development of the City as an environmentally and economically sustainable city through conservation and renewal of its natural resources and built environment and through economic development of clean technology businesses. The recommendations of the updated Housing Element will include goals and policies consistent with the Sustainable City Major Strategy of the General Plan and Green Vision by promoting new housing and dispersion of affordable housing near existing job centers and along transit corridors to maximize efficiency of existing City services while reinforcing the goal of creating sustainable, balanced neighborhoods.

EVALUATION AND FOLLOW-UP

It is anticipated that City staff will deliver a Council memo and a final draft of the Housing Element to the City Council for approval before the end of calendar year 2008. Upon Council's approval of the final draft, City staff will send the draft to the California Department of Housing and Community Development for certification by June 30, 2009.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 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)**
- Criterion 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)**

Housing Element law requires local governments to make a diligent effort to achieve public participation of all economic segments of the community in the development of the Element. This effort must be described in the Housing Element itself. The City's Housing Department and the Department of Planning, Building and Code Enforcement have already begun the outreach process by presenting an introduction to the Housing Element Update process in public forums such as the General Plan Update Task Force meeting, Planning Commission meeting, and the Housing and Community Development Committee meeting. Additional public outreach to the Planning, Building and Code Enforcement Developer and Neighborhood Roundtables has also occurred, and presentations to other groups are also planned.

COORDINATION

This memo has been coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

The Housing Element update process is consistent with and helps implement the San José 2020 General Plan.

COST SUMMARY/IMPLICATIONS

The cost of the Housing Element update process will be absorbed by current resources in the Housing Department and the Department of Planning, Building and Code Enforcement.

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CEQA

Not a project.


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