



Memorandum

TO: Legislation Committee

DATE: June 1, 2018

FR: Executive Director

W.I. 1131

RE: SB 828 (Wiener): Regional Housing Needs Assessment and Allocation – Support

Background

Senate Bill 828 proposes to make significant changes to the regional housing needs assessment and allocation process. The regional housing needs allocation (RHNA) informs the land use development pattern for each region's long-range transportation and land use plan, or Sustainable Communities Strategy (SCS), as mandated by SB 375 (Steinberg, 2008).

State Assessment of Regional Housing Need

Existing law requires the Department of Housing and Community Development (HCD) to determine the existing and projected housing need for each region, which, in theory, should account for any shortage of housing in the existing housing stock, or “unmet need.” Despite this, HCD's needs projections for previous RHNA cycles have been criticized as underestimating housing demand (see Attachment A). In response to this criticism, HCD has already begun taking steps to revise its methodology. For example, HCD's recent draft regional housing determination for San Diego – the first of the Bay Area's counterparts to receive their draft determination – was about 30 percent higher on an annualized basis than the region's previous regional housing need projection. This draft determination reflected several significant changes from previous RHNA cycles, including applying all “allowances” (that is, criteria used to determine unit increases to adjust for unmet need indicated by low vacancy rates and overcrowding and loss of older housing units) to the *total* number of projected households in the region, rather than only the increment of *new* households. In short, if HCD continues on the path they are on, staff anticipates a significant increase in HCD's assessment of need relative to the previous methodology for all regions of the state.

SB 828 Seeks to Correct for Previous Undercounting of Statewide Housing Need

On May 25, an amended version of SB 828 was released that incorporates changes to the bill that were discussed at a May 1st meeting with Senator Wiener and representatives from MTC and the Association of Bay Area Governments (ABAG). The amended version would codify changes to the underlying methodology HCD uses to forecast regional housing need so that it is an accurate reflection of the number of units needed to house each region's projected population. Specifically, the amended bill would:

- 1) Provide new direction to HCD that the regional determination should correct for “unhealthy” conditions in the existing housing stock by requiring that the department apply allowances to each region's total number of projected households.
- 2) Require that HCD consider a new allowance factor to account for rent burdened households and codify a range of target vacancy rates.
- 3) Add flexibility for each COG to determine what a “healthy housing market” looks like for its region, as it relates to rates of overcrowding and cost burden, by determining the average rates in comparable regions throughout the nation.

Changes to RHNA: A New Emphasis on Equity and Housing in High Opportunity/Affluent Areas

The amended bill would also make changes to the process by which councils of governments (COGs) allocate RHNA to local jurisdictions by prohibiting a COG from considering prior underproduction of housing or stagnant

population growth to justify a lower allocation in the future. The bill also requires that the final RHNA plan demonstrate government efforts to reduce racial and wealth disparities regionwide by weighting housing allocations toward high-income jurisdictions that meet both of the following criteria:

- 1) A locality with median employed household incomes above the 50th percentile for the region.
- 2) A locality that either contains a major regional job center or contains high-quality public transportation for the region, such as a major transit stop or stops along a high quality transit corridor, that connects to a regional job center.

Local Zoning and RHNA as a Floor for Future Housing Production

SB 828 would require that localities zone for 125 percent of their RHNA allocation by providing that each jurisdiction's Housing Element site inventory identify sites sufficient to provide for at least 125 percent of the jurisdiction's RHNA. The rationale for this "over-zoning" requirement is that jurisdictions rarely distribute 100 percent of the permits allowed under their zoning maximums. It would also revise legislative intent language in current law that explicitly recognizes that "future housing production may not equal the regional housing need established for planning purposes," and instead provides that "*reasonable actions should be taken by local and regional governments to ensure that future housing production meet, at a minimum, the regional housing need established for planning purposes.*"

Amendments Address MTC's Technical Concerns with Earlier Versions of SB 828

As detailed in our May 4th Joint MTC and ABAG Legislation Committee memo (Attachment B), the initial version of SB 828 would have potentially resulted in double or even triple counting statewide and regional housing needs for the next RHNA cycle. Additionally, specific provisions related to equity in an earlier version of the bill raised concerns about how they might conflict with other land use, infill development and greenhouse gas emissions reduction directives under state law. The May 25th amendments, reflected in the bill summary above, along with a commitment from Senator Wiener to incorporate in future amendments further technical revisions related to "allowances" and language that mitigates potential legal conflicts between climate and equity goals, address these concerns.

Of note, the ABAG Executive Board approved a "support if amended" position on SB 828 at its May 17th meeting. The amended version of SB 828 reflects nearly all of the amendments sought by the Executive Board and the commitments referenced above would address the remaining concerns identified at the May 17th meeting.

Recommendation: Support

Discussion

It is widely recognized that the most recent round of HCD regional housing needs assessments significantly understated the number of housing units needed in California. SB 828, as amended, would help ensure future housing needs assessments are better aligned with reality. Given that the bill has been amended to address staff's substantive concerns, we recommend a "support" position on SB 828.

Known Positions

See Attachment C



Steve Heminger

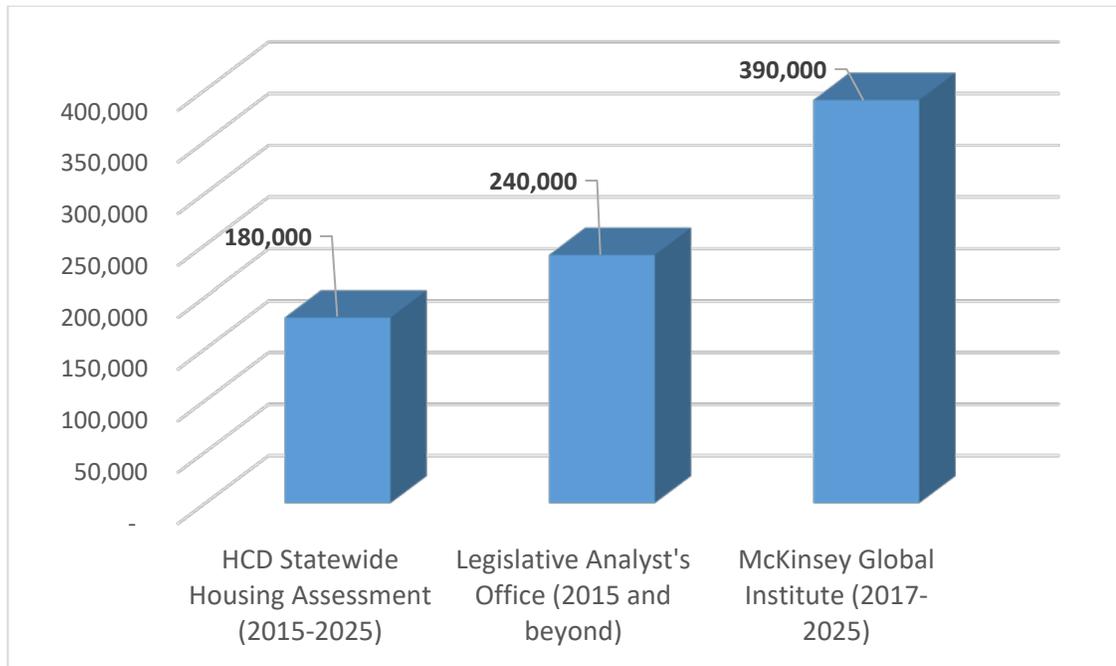
Attachment:

- Attachment A: Statewide Housing Needs Assessments Chart
- Attachment B: May 4th Joint MTC and ABAG Legislation Committee SB 828 Memorandum
- Attachment C: SB 828 Known Positions

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How Many New Housing Units Does California Need to Build Annually to Meet Forecast Population Growth (HCD) & Stabilize Housing Costs (LAO & McKinsey)?



Source:

http://www.hcd.ca.gov/policy-research/plans-reports/docs/SHA_Final_Combined.pdf <http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf> <https://www.mckinsey.com/featured-insights/urbanization/closing-californias-housing-gap>



Memorandum

TO: Joint MTC Legislation Committee and
ABAG Legislation Committee

DATE: May 4, 2018

FR: Deputy Executive Director, Policy

RE: SB 828 (Wiener): Regional Housing Needs Assessment and Allocation – Support and Seek Amendments

Background

Senate Bill 828 is one of two bills this year that propose to update the state’s methodology for assessing California’s future housing needs and make changes to the process by which councils of government (COGs) distribute regional housing needs allocations (RHNA) to local jurisdictions, including requiring that COGs directly incorporate equity considerations into RHNA plans. The other significant bill on this subject is AB 1771 (Bloom), Item 6c on your agenda, which we recommended that you oppose unless it is amended to address our concerns. We believe the Wiener bill is worthy of our support.

State Assessment of Regional Housing Need

Existing law requires the Department of Housing and Community Development (HCD) to determine the existing and projected housing need for each region, which, in theory, should account for any past unmet need. Despite this, HCD’s needs projections for previous RHNA cycles have been criticized as underestimating housing demand. In response to this criticism, HCD has already begun taking steps to revise its methodology. For example, HCD’s recent draft regional housing determination for San Diego proposed several significant changes, including applying all “allowances” (that is, criteria used to determine unit increases to adjust for unmet need indicated by low vacancy rates and overcrowding and loss of older housing units) to the *total* number of projected households in the region, rather than only the increment of *new* households. If applied to the Bay Area, staff estimates the overcrowding adjustment alone could account for an estimated 120,000 units, nearly 65 percent of the entire Bay Area housing needs determination for the 2015–2023 RHNA cycle. In short, if HCD continues on the path they are on, staff anticipates a significant increase in HCD’s assessment of need relative to the previous methodology for all regions of the state.

SB 828 attempts to correct for HCD’s undercounting in prior assessments by requiring:

- 1) A new “allowance factor” to account for rent burdened households be added to the underlying methodology HCD uses to forecast regional housing need and a new target vacancy rate set at 6 percent for both owners and renters (higher than previous HCD targets).
- 2) A one-time assessment or “audit” of unmet need, with the results *added* to the next regional housing needs assessment.
- 3) Unmet needs from a prior cycle for an individual jurisdiction to be “rolled over” or *added* to that jurisdiction the next cycle.

If the first two “unmet needs” numbers are added on top of what HCD has already determined to be the total regional housing need for the forecast period, staff is concerned that this could oddly result in overestimating statewide and regional housing needs for the next RHNA cycle.

Changes to RHNA: A New Emphasis on Equity and Housing in High Opportunity/Affluent Areas

The bill would also make changes to the process by which COGs allocate RHNA to local jurisdictions by prohibiting a COG from considering prior underproduction of housing to justify a lower allocation in the future and requiring that the final regional housing needs plan demonstrate government efforts to reverse racial and wealth disparities regionwide by showing the following:

- 1) High housing allocations (including for low- and very low-income households) for jurisdictions with high rates of projected income growth to ensure equity and stabilize home prices and communities.
- 2) High housing allocations (including for low- and very low-income households) for high-income jurisdictions that contain regional job centers with connectivity to high-quality public transit.

Local Zoning and RHNA as a Floor for Future Housing Production

SB 828 would require localities zone for 125 percent of the housing obligation that could not be accommodated on sites identified in the jurisdiction's Housing Element inventory, including zoning at least 100 percent of that amount for multifamily housing located within developed areas. The idea behind the 125% "over-zoning" requirement is that jurisdictions rarely handout 100 percent of the permits allowed under their zoning maximums. It would also revise legislative intent language in current law that explicitly recognizes that "future housing production may not equal the regional housing need established for planning purposes," and instead provides that "*reasonable actions should be taken by local and regional governments to ensure that future housing production meet, at a minimum, the regional housing need established for planning purposes.*"

Recommendation: Support and Seek Amendments

Discussion

It is widely recognized that the most recent round of HCD regional housing needs assessments significantly understated the number of housing units needed in California. SB 828 aims to ensure future housing needs assessments are better aligned with reality. We support this goal. From a technical standpoint we are concerned this would potentially result in an overcorrection by double counting the unmet need, as detailed on the first page of this memo. This could undermine HCD's credibility with local government and could ultimately hurt efforts to make RHNA more meaningful. SB 828 also adds new goals to RHNA related to racial and wealth disparities. While we support this addition on policy grounds, the specific requirements listed in the bill could be in tension with other statewide goals aimed at reducing greenhouse gas emissions.

Changes to Calculation of Housing Need Should Focus on Improving HCD Methodology

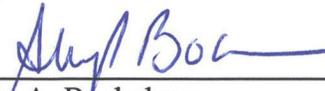
To address our technical concern that SB 828 could still result in inaccurate regional housing needs assessments, we recommend seeking amendments so that the bill focuses exclusively on directing HCD to improve the underlying methodology used to calculate housing needs so that it is accurate. The bill could direct HCD to codify the changes in methodology they have already begun, including considering allowance factors as they apply to the *total* housing stock as opposed to projected household growth. The bill could further direct HCD by setting numerical targets for various allowance factors and adding the rent-burden allowance factor, as currently proposed. Importantly, the bill should provide for a range instead of a single target number to account for regional differences and extraordinary circumstances.

Equity Provisions Must Recognize Tension with Regional Greenhouse Gas (GHG) Reduction Targets
While we support requiring that the RHNA demonstrate efforts to reduce racial and wealth disparities, the specific steps required by the current language in the bill could be in tension with other state directives to focus growth near public transit in order to reduce GHG emissions associated with driving. The bill should acknowledge that in finalizing the RHNA, COGs have to balance many competing policy goals.

Staff recommends a “support and seek amendments” position on SB 828 and requests direction to work with the author to make amendments to address the concerns noted above.

Known Positions

See Attachment A



Alix A. Bockelman

Attachment:

- Attachment A

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SB 828 (Wiener) Known Positions

Support

California Building Industry Association
California Business Properties Association
California Chamber of Commerce
California Community Builders
California YIMBY
City of Oakland
Fiona Ma, Board of Equalization District 2
Half Moon Bay Brewing Company
Heller Manus Architects
HKS Architects
Inn at Mavericks
Mavericks Event Center
McKinsey & Company
Non Profit Housing Association of Northern California
North Bay Leadership Council
Pacific Standard
Postmates
San Francisco Bay Area Planning and Urban Research Association (SPUR)
San Francisco Housing Action Coalition
San Mateo County Economic Development Association
Sand Hill Property Company
Silicon Valley Community Foundation
Sustainable Silicon Valley
SV Angel
The Two Hundred
TMG Partners

Opposition

American Planning Association, California Chapter
California Association of Councils of Governments
Citizen Marin
City of San Bernardino
City of Mill Valley
City of Redondo Beach
City of San Marcos
City of San Rafael
Coalition to Preserve L.A.
Cow Hollow Association
Haight Ashbury Neighborhood Council
Livable California
Marin Community Association
Marin County Council of Mayors and Councilmembers
Mission Economic Development Company
SF Ocean Edge
Spaulding Square Neighborhood Association
Historic Preservation Overlay Zone
Stand Up for San Francisco
Sunset Residents for Sensible Planning
8 individuals

SB 828 (Wiener) Known Positions

Support

California Building Industry Association
California Business Properties Association
California Chamber of Commerce
California Community Builders
California YIMBY
City of Oakland
Fiona Ma, Board of Equalization District 2
Half Moon Bay Brewing Company
Heller Manus Architects
HKS Architects
Inn at Mavericks
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North Bay Leadership Council
Pacific Standard
Postmates
San Francisco Bay Area Planning and Urban Research Association (SPUR)
San Francisco Housing Action Coalition
San Mateo County Economic Development Association
Sand Hill Property Company
Silicon Valley Community Foundation
Sustainable Silicon Valley
SV Angel
The Two Hundred
TMG Partners

Support if Amended

Association of Bay Area Governments

Opposition

American Planning Association, California Chapter
California Association of Councils of Governments
Citizen Marin
City of San Bernardino
City of Mill Valley
City of Redondo Beach
City of San Marcos
City of San Rafael
Coalition to Preserve L.A.
Cow Hollow Association
Haight Ashbury Neighborhood Council
Livable California
Marin Community Association
Marin County Council of Mayors and Councilmembers
Mission Economic Development Company
SF Ocean Edge
Spaulding Square Neighborhood Association
Historic Preservation Overlay Zone
Stand Up for San Francisco
Sunset Residents for Sensible Planning
8 individuals