TO: ABAG Administrative Committee   DATE: October 22, 2021

FROM: Therese W. McMillan, Executive Director

SUBJECT: City of Palo Alto Appeal of Draft RHNA Allocation and Staff Response

OVERVIEW

Jurisdiction: City of Palo Alto

Summary: City of Palo Alto requests the decrease of its Draft RHNA Allocation by 1,500 units (25 percent) from 6,086 units to 4,586 units based on the following issues:

- ABAG failed to determine the jurisdiction's Draft Allocation in accordance with the Final RHNA Methodology and in a manner that furthers, and does not undermine, the RHNA Objectives.
- A significant and unforeseen change in circumstances has occurred in the local jurisdiction that merits a revision of the information submitted in the Local Jurisdiction Survey.

Staff Recommendation: Deny the appeal.

BACKGROUND

Draft RHNA Allocation
Following adoption of the Final RHNA Methodology on May 20, 2021, the City of Palo Alto received the following draft RHNA allocation on May 25, 2021:

	Very Low Income	Low Income	Moderate Income	Above Moderate Income	Total
City of Palo Alto	1,556	896	1,013	2,621	6,086

Local Jurisdiction Survey
The City of Palo Alto did not submit a Local Jurisdiction Survey. A compilation of the surveys submitted is available on the ABAG website.

Comments Received during 45-Day Comment Period
ABAG received nearly 450 comments during the 45-day public comment period described in Government Code section 65584.05(c). Some comments encompassed all of the appeals submitted, and there were seven that specifically relate to the appeal filed by the Town of Corte Madera. All seven comments oppose the City's appeal. All comments received are available on the ABAG website.

ANALYSIS

Issue 1: *Palo Alto argues that errors in the modeling for the Plan Bay Area 2050 Final Blueprint result in an allocation that is inconsistent with the adopted RHNA methodology. Specifically, Palo Alto asserts the Final Blueprint forecasts housing on parcels that are outside the City's jurisdictional control and that there are several sites that have unrealistic projections based on parcel size.*

ABAG-MTC Staff Response: Households on the parcels in question are all related to Final Blueprint baseline data from the baseline analysis year of 2015, and no growth is forecasted on any of the parcels between 2015 and 2050. When developing the Final Blueprint, ABAG-MTC staff used data from the California Department of Finance (DOF) to confirm the total number of housing units, as well as households, in each county and city in 2015. It is possible that, in some cases, these households are placed on an incorrect parcel in the UrbanSim model in the baseline year.

However, because year 2015 conditions are confirmed at the jurisdiction level, the location of the approximately 27,000 existing Palo Alto households *within* the city has no impact on the jurisdiction's *total* households in 2015. Since the Final Blueprint does not forecast household growth on these sites, the fact that the model assigned households to these sites has no impact on Palo Alto's total households in 2050 (the baseline allocation for RHNA) and thus no impact on Palo Alto's draft RHNA allocation.

While these arguments fall outside the scope of a RHNA appeal since they do not have any impact on the City's allocation, ABAG-MTC staff reviewed each of them to better understand the specifics of each site in the Final Blueprint:

- Palo Alto identified 77 housing units at Herbert Hoover Elementary School and argues these units represent an error since Palo Alto lacks jurisdictional control of this site. The 77 units that Palo Alto states are located at the Herbert Hoover Elementary address are *not* located on the school site. Instead, these units are on a parcel occupied by Stevenson House, an existing affordable senior housing development adjacent to the school.
- Palo Alto identified 16 housing units at Frank Greene Middle School and argues these units represent an error since Palo Alto lacks jurisdictional control of this site. These units should have been located elsewhere in Palo Alto but do not affect the jurisdiction's total households, and thus have no impact on the City's RHNA.
- Palo Alto identified six more sites which it argues have unrealistic numbers of units in 2050 based on the size of the parcels. As noted above, the households on these sites were included in the baseline data for 2015. Although these households might be attributed to the wrong parcel – or in some cases, assigned to single parcel instead of being distributed across multiple adjacent parcels – it does not change the total number of households in Palo Alto in 2015. Thus, there is no impact on the City's RHNA allocation.

Ultimately, the region has millions of parcels and identifying a potential issue on one or more specific parcels does not constitute a valid case for a RHNA appeal, as the allocation is at the jurisdiction level and the jurisdiction could find alternative parcels for accommodating its RHNA. The forecasted development for a parcel in Plan Bay Area 2050's land use modeling does not dictate where a local jurisdiction sites housing. The jurisdiction can instead use full discretion in its Housing Element update to determine the sites for future development. Palo Alto has not sufficiently demonstrated that these parcel-level issues have a substantive impact on the RHNA allocation or the jurisdiction's ability to identify sites.

Issue 2: Palo Alto argues that ABAG-MTC's treatment of the Palo Alto office development caps in Plan Bay Area 2050 Final Blueprint resulted in more housing projected for the City. Palo Alto states that this outcome does not further the statutory objective to improve the intraregional relationship between jobs and housing.

ABAG-MTC Staff Response: This argument by Palo Alto challenges the Plan Bay Area 2050 Final Blueprint land use forecasting methodology. A valid appeal must show ABAG made an error in the application of the RHNA methodology that was adopted by the ABAG Executive Board and approved by HCD in determining the jurisdiction's allocation; a critique of the Plan Bay Area 2050 land use forecasting methodology falls outside the scope of the appeals process.

Based upon information from the City of Palo Alto related to its office development cap, ABAG-MTC staff specifically incorporated the cap in the forecasting assumptions for the Plan Bay Area 2050 Final Blueprint to reflect existing land use policies. In its appeal, the City argues that a limit on additional job growth should have reduced its RHNA allocation. However, the land use modeling for Plan Bay Area 2050 showed that some sites that were not available for office development because of the cap would still be attractive to developers but for residential use instead. While ABAG-MTC staff recognize how the City's office development cap can help make headway on the City's jobs-housing imbalance by limiting job growth, the Final RHNA Methodology would enable further headway on this key policy issue by requiring the City to identify sites to increase housing opportunities for persons at all income levels.

Furthermore, Housing Element Law gives HCD the authority to determine whether the RHNA methodology furthers the statutory objectives described in Government Code Section 65584(d), and HCD made this determination.[1] Regarding the RHNA objective related to "*Promoting an improved intraregional relationship between jobs and housing, including an improved balance between the number of low-wage jobs and the number of housing units affordable to low-wage workers in each jurisdiction,*" HCD made the following findings:

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[1] For more details, see [HCD's letter](#) confirming the methodology furthers the RHNA objectives.

The draft ABAG methodology[2] allocates more RHNA units to jurisdictions with more jobs. Jurisdictions with a higher jobs/housing imbalance receive higher RHNA allocations on a per capita basis. For example, jurisdictions within the healthy range of 1.0 to 1.5 jobs for every housing unit receive, on average, a RHNA allocation that is 61% of their current share of households. Jurisdictions with the highest imbalances – 6.2 and higher – receive an average allocation 1.21 times their current share of households. Lastly, higher income jurisdictions receive larger lower income allocations relative to their existing lower income job shares.

Issue 3: *Palo Alto argues that the RHNA methodology does not adequately consider the "distribution of household growth assumed for purposes of a comparable period of regional transportation plans and opportunities to maximize the use of public transportation and existing transportation infrastructure," as described in Government Code Section 65584.04(e)(3). Specifically, the City states that its forecasted household growth from the Plan Bay Area 2050 Blueprint is 12,809 households, and the City contends its draft RHNA is inconsistent with the Plan Bay Area 2050 growth forecast since Palo Alto's eight-year RHNA allocation represents almost half of its 35-year forecasted growth from Plan Bay Area 2050.*

ABAG-MTC Staff Response: The statutory factor cited in the City's argument centers on whether the RHNA Methodology considers the distribution of household growth from regional plans like Plan Bay Area 2050 as well as opportunities to maximize transit use. The Final RHNA Methodology addresses this statutory requirement because the methodology directly incorporates the forecasted development pattern from the Plan Bay Area 2050 Final Blueprint as the baseline allocation.

The Final Blueprint emphasizes growth near job centers and in locations near transit, including in high-resource areas, with the intent of reducing greenhouse gas (GHG) emissions. This land use pattern is developed with complementary transportation investments in an effort to ensure past and future transportation investments are maximized. Additionally, the inclusion of job proximity by transit as a factor in the Final RHNA Methodology directs more housing to the jurisdictions with the most jobs that can be accessed with a 45-minute commute by transit. The Job Proximity – Transit factor encourages growth that capitalizes on the Bay Area's existing transit infrastructure.

While Government Code Statute 65584.04(m) requires that the RHNA plan allocate units consistent with the development pattern included in the Sustainable Community Strategy, the statute does not specify how to determine consistency. In the absence of statutory direction,

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[2] Pursuant to Government Code Section 65584.04(i), HCD must review the Draft RHNA Methodology developed by the Council of Governments. On May 20, 2021, ABAG adopted the Draft RHNA Methodology without any modifications as the Final RHNA Methodology.

ABAG has discretion to identify the framework to be used for establishing that RHNA is consistent with Plan Bay Area 2050.

Plan Bay Area 2050 includes adopted growth forecasts at the county and subcounty levels, not the jurisdiction level where RHNA is statutorily focused.[3] Therefore, staff developed an approach for determining consistency between RHNA and Plan Bay Area 2050 that received support from the Housing Methodology Committee, the Regional Planning Committee, and the Executive Board. This approach compares the 8-year RHNA allocations to the 35-year housing growth from the Plan Bay Area 2050 Final Blueprint at the county and subcounty geographies used in the plan. If the 8-year growth level from RHNA does not exceed the 35-year housing growth level at either of these geographic levels, then RHNA and Plan Bay Area 2050 are determined to be consistent. Staff evaluated the draft RHNA allocations using this approach and found the RHNA allocations are fully consistent with Plan Bay Area 2050, including the allocations to the Northwest Santa Clara County (which encompasses most of Palo Alto) and North Santa Clara County superdistricts (where the remainder of Palo Alto is located). See Table 1 below for more details.

Table 1. Superdistrict Forecasted Growth in Final Blueprint Compared to Draft RHNA*

Superdistrict	County	Superdistrict Name	Blueprint Final 2015-2050 Growth	Draft RHNA
8	Santa Clara	Northwest Santa Clara County	28,000	18,039
9	Santa Clara	North Santa Clara County	212,000	23,355

* The Northwest Santa Clara County superdistrict contains the following jurisdictions: Los Altos Hills, Los Altos, Palo Alto (partial), Mountain View (partial), and portions of unincorporated Santa Clara County. The North Santa Clara County superdistrict contains the following jurisdictions: Sunnyvale, Santa Clara (partial), Mountain View (partial), Milpitas (partial), San Jose (partial), Palo Alto (partial), and portions of unincorporated Santa Clara County.

RHNA is not just a reflection of projected future growth, as statute also requires RHNA to address the existing need for housing that results in overcrowding and housing cost burden throughout the region. Accordingly, the 2050 Households baseline allocation in the RHNA methodology represents both the housing needs of existing households and forecasted household growth from the Plan Bay Area 2050 Blueprint. The factors in the RHNA methodology – Access to High Opportunity Areas and Job Proximity – adjust a jurisdiction's baseline allocation from the Final Blueprint to emphasize near-term growth during the 8-year RHNA period in locations with the most access to resources (to affirmatively further fair housing) and jobs (to improve the intraregional relationship between jobs and housing). Palo Alto's high share

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[3] View the table of 35-year household growth at
https://www.planbayarea.org/sites/default/files/pdfs_referenced/FinalBlueprintRelease_December2020_GrowthPattern_Jan2021Update.pdf

of existing households living in areas designated as Highest Resource or High Resource on the State's Opportunity Map[4] and access to a significant share of the region's jobs relative to other jurisdictions in the region adjusts its baseline allocation upward, resulting in more RHNA units.

Issue 4: Palo Alto argues that the impacts of COVID-19 represent a significant change in circumstances meriting a reduction in its RHNA. The City asserts that high rates of telecommuting will result in decreased demand for housing in and near Palo Alto. The City also states that changes to Strategy EN7 in the Plan Bay Area 2050 Final Blueprint were not sufficient to capture the impact of telecommuting, arguing that a telecommuting rate higher than 17% should be assumed in the Plan Bay Area 2050 Final Blueprint.

ABAG-MTC Staff Response: ABAG-MTC Staff appreciates Palo Alto's concerns about the significant economic and societal changes resulting from COVID-19. In its comment letter on submitted appeals, HCD indicated that RHNA appeals based on changes caused by COVID-19 do not fall within the appeal criteria defined by statute, stating "The COVID-19 pandemic has only increased the importance of ensuring that each community is planning for sufficient affordable housing as essential workers, particularly lower income ones, continue to commute to their places of business."[5]

Potential impacts of COVID-19, including accelerated shift toward telecommuting and the associated economic boom/bust cycle, are incorporated into the Final RHNA Methodology through integration of the Plan Bay Area 2050 Final Blueprint. Approved in January 2021, the Final Blueprint was crafted throughout the entirety of 2020, taking into account the best information available on future impacts related to telecommuting, locational preferences, and more. External forces, including long-term projections for telecommuting and office square footage needs per employee, were updated to reflect potential post-COVID conditions. Long-range household and job projections were adjusted in the short-to-medium term to capture the weak economic conditions of 2020 and a multi-year recovery period in the years ahead. Additionally, strategies in the Final Blueprint were updated, including new strategies to encourage an accelerated shift toward telecommuting and other sustainable modes of travel, to support job training programs to assist in economic recovery, and to expand opportunities to rebuild aging malls and office parks into housing-rich neighborhoods as e-commerce continues to boom.

Palo Alto's argument that Plan Bay Area 2050 should assume a higher rate of telecommuting challenges the Final Blueprint land use forecasting methodology. A valid appeal must show ABAG made an error in the application of the RHNA methodology that was adopted by the ABAG Executive Board and approved by HCD in determining the jurisdiction's allocation; a

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[4] For more information about the Opportunity Map, visit https://www.treasurer.ca.gov/ctcac/opportunity/2020.asp.
[5] See HCD's comment letter on appeals for more details.

critique of the Plan Bay Area 2050 land use forecasting methodology falls outside the scope of the RHNA appeals process.

Importantly, the eight-year RHNA cycle (which starts in 2023) represents a longer-term outlook than the current impacts of the pandemic in 2020 and 2021. Palo Alto has not provided evidence to suggest that COVID-19 reduces the jurisdiction's housing need for the entirety of the 2023-2031 RHNA planning period. Additionally, impacts from COVID-19 are not unique to any single jurisdiction, and the appeal does not indicate that the jurisdiction's housing need has been disproportionately impacted relative to the rest of the Bay Area. Therefore, the pandemic is not cause for a reduction in RHNA for any particular jurisdiction. Regardless of the impacts of the pandemic, demand for housing remains high across the region, as reflected in home prices that continue to rise. Accordingly, jurisdictions must maintain their statutory obligation to plan for additional housing.

RECOMMENDED ACTION

ABAG-MTC staff have reviewed the appeal and recommend that the Administrative Committee **deny** the appeal filed by City of Palo Alto to reduce its Draft RHNA Allocation by 1,500 units (from 6,086 units to 4,586 units).