



PLANNING COMMISSION
AGENDA REPORT

DATE: April 13, 2023

AGENDA OF: April 20, 2023

SUBJECT: Draft 6th Cycle Housing Element Update Review for State Submittal

RECOMMENDATION: That the Planning Commission review and provide comments on the Draft 6th Cycle Housing Element Update prior to its presentation to the City Council and prior to its submittal to the State’s Housing and Community Development Department.

BACKGROUND: The Housing Element is a critical tool for the City of Santa Cruz to plan for and accommodate current and future housing growth and services over the next eight years. The Housing Element is one of the seven State-mandated elements included in the Santa Cruz General Plan and is required to be updated in eight-year planning “cycles.” Santa Cruz is currently in the final year of its 5th Cycle, and the upcoming 6th Cycle Housing Element will be from December 31, 2023 to December 31, 2031. The purpose of the Housing Element is to identify and plan for the City’s existing and projected housing needs. It contains a detailed outline of the City’s goals, policies, and objectives for the preservation, improvement, and development of housing for a sustainable future. The Housing Element Update is approved by City Council and then certified by the California Department of Housing and Community Development (HCD) for compliance with State Housing Element law.

California Government Code Section 65580 lists six Housing Element goals to help ensure that every resident has access to housing and a suitable living environment.

1. The availability of housing is of vital statewide importance, and the early attainment of decent housing and a suitable living environment for every Californian, including farmworkers, is a priority of the highest order.
2. The early attainment of this goal requires the cooperative participation of government and the private sector in an effort to expand housing opportunities and accommodate the housing needs of Californians of all economic levels.
3. The provision of housing affordable to low- and moderate-income households requires the cooperation of all levels of the government.
4. Local and State governments have a responsibility to use the powers vested in them to facilitate the improvement and development of housing to make adequate provision for the housing needs of all economic segments of the community.

5. The Legislature recognizes that in carrying out this responsibility, each local government also has the responsibility to consider economic, environmental, and fiscal factors and community goals set forth in the general plan and to cooperate with other local governments and the State in addressing regional housing needs.
6. Designating and maintaining a supply of land and adequate sites suitable, feasible, and available for the development of housing sufficient to meet the locality’s housing need for all income levels is essential to achieving the State’s housing goals and the purposes of this article.

A central part of the Housing Element is detailing how the City can facilitate the construction of housing units at various affordability levels to the amounts prescribed in the Regional Housing Needs Allocation (RHNA). The RHNA is developed by HCD and the Association of Monterey Bay Area Governments (AMBAG) and quantifies current and anticipated future housing growth within a jurisdiction. It provides a specified target number of housing units in four different affordability levels (as shown in Table G-1 from the attached Draft Housing Element below).

| Income Category | Percent of Area Median Income (AMI) | RHNA |
|--|--|--------------|
| Very Low-Income | 0-50% AMI | 859 |
| Low-Income | 51-80% AMI | 562 |
| Moderate-Income | 81-120% AMI | 709 |
| Above Moderate-Income | >120% AMI | 1,606 |
| TOTAL RHNA | | 3,736 |
| *The Santa Cruz County AMI is \$119,300 for a family of four, according to 2022 HCD Income Limits. | | |

The total number of units the City needs to plan for is 3,736. To put this number in perspective, the total RHNA units for Santa Cruz in the current 5th Cycle is 747. By the end of this 5th Cycle reporting period, Santa Cruz will have produced about double the total number of units in the City’s 5th Cycle RHNA targets and will exceed the required number of units in each income category. Only about 6% of all jurisdictions in the State have met RHNA targets in all income categories. Despite this remarkable housing accomplishment, the City will need to make even greater strides to reach the significantly increased 6th Cycle RHNA targets. While there are no direct penalties for not meeting RHNA targets (yet), one consequence of not meeting RHNA targets is that, per State law, it triggers the increase in availability for a project to use SB35 legislation to bypass some local control in housing development review.

Draft Housing Element Update

In order to support meeting these RHNA targets and to drive housing decisions for the next eight years, the Housing Element Update does two key things: (1) it provides goals, policies, and objectives to address current housing needs and to guide future housing growth for all income levels, and (2) it identifies sites to show that the City has capacity to accommodate its RHNA housing unit targets.

In addition to these foremost items, the Housing Element Update includes several other sections and analyses required by the State such as a summary of the Update’s community engagement, a review of past Housing Element performance, and assessments of fair housing, housing

constraints, and housing resources. Together, the Housing Element provides a comprehensive view of the City's past, present, and future actions as they relate to supporting the production of housing for all needs and all affordability levels.

New to the 6th Cycle Housing Element Updates statewide is the inclusion of Affirmatively Furthering Fair Housing (AFFH) requirements. Beginning on January 1, 2019, Assembly Bill (AB) 686 established new requirements for all California jurisdictions to ensure that local laws, programs, and activities affirmatively further fair housing and that all Housing Elements due after January 1, 2021 contain an assessment of fair housing. Under State law, affirmatively furthering fair housing means "taking meaningful actions, in addition to combatting discrimination, that overcome patterns of segregation and foster inclusive communities free of barriers that restrict access to opportunity based on protected characteristics (such as race, religion, sex, marital status, ancestry, national origin, color, familiar status, or disability)." The State requires Santa Cruz to show how its housing decisions are furthering fair housing and HCD assigns special focus on this new portion of the document in its certification review.

Each of these required summaries, analyses, and actions are packaged into the attached Draft 6th Cycle Housing Element Update. On June 14, 2022, City Council also provided direction on the Housing Element to staff in the form of a resolution. The attached Response Letter to the June 14, 2022 City Council Housing Element Direction details how the Draft Housing Element Update is meeting the formal directions provided by City Council. Council also formed a Housing Element Subcommittee consisting of Mayor Keeley, Councilmember Kalantari-Johnson, and Councilmember Newsome. Staff has met regularly with the Subcommittee to vet goals, policies, objectives, and sites, and will continue to do so throughout the Housing Element Update process.

A public review draft of the Housing Element Update has also been available since March 24 for the community to review and provide feedback to staff. This public review draft comment period is open for 30 days until April 23. Comments received through this public review period will be considered prior to formally submitting the first draft of the Housing Element Update to HCD for review.

Staff will also consider how to best incorporate comments and feedback from the Planning Commission and City Council into the draft submitted to HCD. Public comments at these meetings will also be considered. Upon submittal, HCD will have 90 days to review the document and provide comments to the City if the document is not certifiable. Based on reviews of Housing Elements across the State, at least two submittals have been needed before HCD certifies the document. Staff intends to receive feedback from HCD in the summer and address those comments, along with any additional public feedback, as part of another submittal package.

The discussion section below seeks to provide an overview of the Draft Housing Element Update and focuses attention on key areas where review and comments at this time may be especially impactful.

DISCUSSION: When reviewing the Draft Housing Element, note there are two chapters, an Introduction Chapter, and a Policy Plan Chapter. These chapters are followed by eight

appendices: Community Engagement, Review of Past Performance, Housing Needs Assessment, Fair Housing Assessment, Housing Constraints, Housing Resources, Housing Sites Inventory, and Glossary. Other than the Policy Plan Chapter and the Housing Sites Inventory Appendix, the other sections are largely summaries of existing conditions in the City and often used to support the Policy and Sites Inventory sections. Thus, this report will focus on the Policy Plan Chapter and the Housing Sites Inventory Appendix, as those are areas where many new decisions are made.

Policy Plan Chapter

The Policy Plan Chapter details the community's goals, policies, and objectives relative to housing production, rehabilitation, conservation, and assistance for all residents in Santa Cruz. This chapter builds upon the identified housing needs and the constraints and resources evaluated in other appendices to address housing needs in the community. This chapter is organized in a hierarchy of three levels, each more specific in nature. There are seven overarching goals that guide all the efforts to address housing needs facing the City. Policies fall under each goal addressing key housing topics and issues. Finally, objectives are listed under each policy that describe what the City will do to achieve the City's goals and policies. Each objective includes a timeline for completion, and the objectives are quantified when applicable. Objectives that include an (AFFH) stamp were determined to Affirmatively Further Fair Housing objectives.

The seven goals of the Draft Housing Element Update Policy Plan are listed below to provide the reader with a general overview of what the Policy Plan Chapter covers. More detail on the goals, as well as the policies and objectives within them, are in the attached Draft Housing Element Update.

Goal 1: Housing Production. Facilitate housing production that meets the present and future housing needs of Santa Cruz residents.

Goal 2: Affordable Housing. Provide an increased and protected supply of housing affordable to extremely low, very low, low, and moderate-income households.

Goal 3: Special Needs Housing and Homelessness. Provide accessible housing and supportive services that provide equal housing opportunities for special needs populations, including the unhoused and those at risk of homelessness.

Goal 4: Housing Assistance. Provide increased opportunities for low- and moderate-income residents to rent or purchase homes.

Goal 5: Neighborhood Vitality. Improve housing and neighborhoods throughout Santa Cruz and in designated target areas while protecting residents from displacement.

Goal 6: Affirmatively Further Fair Housing. Combat housing discrimination, undo historic patterns of segregation, and lift barriers that restrict access to foster a more inclusive community and help achieve racial equity and fair housing choice.

Goal 7: Resource Conservation and Environmental Stewardship. Fulfill the City's housing needs while promoting an environmentally sustainable, compact community with clearly defined urban boundaries that takes into consideration the existing and potential impacts of sea level rise and climate change, particularly on underserved communities.

When reviewing the goals, policies, and objectives in this Draft Housing Element chapter, it is important to note that the policies can achieve multiple goals, and objectives can achieve multiple policies. There is overlap in many housing areas, such as one goal facilitates housing production while another goal facilitates affordable housing production in particular. Another example is that AFFH has its own goal and set of policies and objectives, but policies and objectives housed under all of the other goals also achieve AFFH objectives.

Given Santa Cruz's positive efforts on housing, some policies and objectives maintain or expand on what the City is doing already to facilitate housing production, and they do not have a definitive end point. These objectives are listed as "ongoing." Some objectives also represent discrete work that is already underway but anticipated to be completed in the new Housing Element Cycle (such as completion of the Downtown Plan Expansion in 2024). Many other objectives introduce new programs and Zoning Ordinance amendments. These feature staff's best estimate of when the task would be completed. These timings are prioritized based on level of impact, staff capacity, and whether the action may be combined with another project that already has a separate timeline. Staff has requested that the public review the goals, policies, and objectives to provide feedback on the proposed ideas, their anticipated effectiveness, and their prioritization, and the same is being asked of the Planning Commission and City Council. Staff will be developing a Housing Element Policy Objectives Gantt Chart attachment to visualize the proposed timing of this work. It will be ready for the City Council meeting on April 25, 2023. If it is available prior to the Planning Commission meeting, it will be made available to the Commissioners and public at that time too.

Based on conversations with consultants and staff from other jurisdictions, there are two key things to note when reviewing the Policy Plan Chapter: (1) HCD is looking for cities to push the envelope regarding policies and objectives, as it is not enough to rely on existing policies no matter how well a city has previously performed, and (2) it is vital that the AFFH component links the proposed policies and objectives to noted fair housing issues the city faces. Deficiencies in these two areas have most slowed down certification of Housing Element Updates statewide. HCD is looking for creative and progressive approaches to further support housing production and services in Santa Cruz. The State is also looking for the AFFH component to tell a story of why a given AFFH issue exists in Santa Cruz and what solutions to that issue are included in the policies, objectives, and site inventory. If draft policies and objectives presented in this current Draft Housing Element Update get removed or watered down for the first submittal, HCD may ask for stronger policies and objectives, and a back-and-forth will ensue. This scenario would delay review times and possibly certification. Submitting a strong first draft of the Housing Element Update will put the City on the front foot in negotiating with HCD and likely give the City more control over the document moving forward in the process.

In response to community and Council Subcommittee feedback, some of the Policy Plan Chapter goals, policies, and objectives have been modified since the draft was released. An updated version of that chapter showing the changes made is included as an attachment.

Housing Sites Inventory Appendix

The Housing Element is required to include an inventory of parcels (sites) suitable for residential development that can accommodate the RHNA unit targets for all income levels. The Sites Inventory section is essentially a paper exercise to show HCD that capacity exists for the City to meet its housing targets. Inclusion of sites does not directly mean they will develop, only that their capacity for housing development is included to show the HCD that the City has enough capacity to meet its housing development targets. Reversely, sites not included in the inventory would see no changes to how they could currently develop. If a site not included in the inventory develops housing, that housing would still count towards meeting the RHNA. One possible outcome of being included in the Sites Inventory is that if a developed site has been included in two consecutive Housing Elements and has not redeveloped, a new development proposal may use a ministerial process to achieve its Housing Element capacity. This means that a housing project would still be subject to the City's Objective Standards for development review but would not require a public hearing or review under the California Environmental Quality Act (CEQA). For vacant sites, a ministerial process would be triggered upon a property's inclusion in a third consecutive Sites Inventory. The aforementioned ministerial, or by right, triggers are identified in Government Code Section 65583.2(c). Table B-17 in the Sites Inventory lists whether a site was included in the 4th or 5th Cycle Housing Element.

The sites in the inventory are broken down into two categories: Pipeline Projects and Projected Development. Pipeline projects are those that have already been submitted for review or received entitlements, but they have not yet received a Building Permit. The proposed affordable units in those projects are directly counted. These sites are the easiest for HCD to accept as part of the Sites Inventory because they highlight developer confidence and have the highest potential to produce housing in the next few years. A prime example of a pipeline project is the recently approved Downtown Library and Affordable Housing project, but many other sites throughout the City have accepted or approved applications and have not yet received a Building Permit. Some or all of two projects on the University of California Santa Cruz (UCSC) campus currently called the Hager and Heller projects can also be counted as pipeline projects, because they exist within the City (even though they are outside of City development control). Only full dwelling units (and not dormitory-style rooms) can currently be counted towards meeting RHNA targets, so only those units are included in the Sites Inventory.

Projected Development includes sites that have potential for housing development due to their parcel size, location, base General Plan/zoning, and development capacity. This section does not assume that each of these properties will develop, rather, a "realistic capacity" is assigned to these sites from 30% to 100% to provide a more grounded projection of the number of units that could be produced in these areas over the next eight years. These Projected Development sites are opportunity areas such as downtown, major transportation corridors, and sites that have mixed-use zoning. These are sites zoned for higher density and have good access to transportation options. Many sites in these areas are underutilized and ripe for redevelopment.

The Sites Inventory supposes that a percentage of these sites will develop in this eight-year cycle.

The Projected Development portion of the Sites Inventory also includes Accessory Dwelling Units (ADUs). HCD supports the use of a projection to estimate the number of ADUs included in the Sites Inventory. Santa Cruz used the average of the last five years of ADU permits to determine the number of units to be counted per year in the eight-year cycle (72.88). This is the method most supported by HCD. However, this is likely a conservative estimate because the number of permitted ADUs increased each of the last five years, so if the Sites Inventory used a linear progression over eight years rather than a single average, there would be significantly more ADUs in the inventory. The ADU affordability levels are projected to be 60% Very Low and Low, 30% Moderate, and 10% Above Moderate. This is a common standard that the State is likely to accept in their review. A recent ADU study conducted for the Housing Element 2022 Annual Progress Report showed that 89% of ADUs in the City were at Very Low and Low-Income rents or less. This study featured self-reported data and a relatively small sample size, but it does support the 60%/30%/10% projection as reasonable.

Finally, several church sites were also included as Projected Development in the Sites Inventory. Recent State legislation has made it easier to build housing on church parking lots. In fact, a project on the Calvary Church parking lot downtown is currently under construction, and the Peace United Church on High Street is pursuing entitlements for a housing project at their site. So it is reasonable to consider some future development on other church sites in the City. Again, the Sites Inventory is an estimate to show the State what could develop and where, so the State knows that the RHNA targets can be reached within the City in the eight-year Housing Element cycle. It does not dictate that the sites will develop with housing.

Since the Public Review Draft of the Housing Element Update was released, several changes have been made to the Sites Inventory. A separate group of sites labeled as “Objective Standards Mixed-Use” was removed in favor of adding those sites to various corridor areas. The allowed densities of those sites were also changed to match the correct corridor density. The Downtown Expansion Plan area was originally listed as needing a separate rezoning. Instead, staff has opted to only count the base density of that expansion area to reduce uncertainty by HCD when they are reviewing the capacity. Staff expects the Downtown Plan Expansion project will allow for more units than its base capacity once approved, but those units were not necessary for the Sites Inventory at this time.

Following discussion with the Council Subcommittee, several sites have been removed and one site was added. The sites on Golf Club Drive, Antonelli Pond, and the County Building were removed. Additionally, the existing library site downtown is proposed not to be included in the Sites Inventory and instead, the City’s Lot 7 site is proposed to be added. Additional information on these changes can be provided at the meeting.

Below is a table taken from the Sites Inventory Appendix in the Draft Housing Element and features the changes made since the release of the Public Review Draft. This table provides a breakdown of each of the categories, their housing unit capacities, and unit affordability projections.

| Table G-2: 6 th Cycle RHNA Sites Inventory Analysis | | | | | | |
|--|------------------------------|-----------------|------------|-----------------|-----------------------|--------------|
| Strategies | | Very Low Income | Low Income | Moderate Income | Above Moderate Income | TOTAL |
| 6th Cycle RHNA | | 859 | 562 | 709 | 1,606 | 3,736 |
| 1. Pipeline Projects | City of Santa Cruz | 691 | | 174 | 1,865 | 2,730 |
| | UC Santa Cruz | 868 | | 217 | 0 | 1,085 |
| | Total | 1,559 | | 391 | 1,865 | 3,815 |
| 2. Projected Housing | ADUs | 349 | | 175 | 59 | 583 |
| | Vacant Residential Land | 5 | | 11 | 138 | 154 |
| | Mission Street Corridor | 93 | | 71 | 705 | 869 |
| | Ocean Street Corridor | 51 | | 40 | 176 | 267 |
| | Soquel Avenue Corridor | 80 | | 62 | 353 | 495 |
| | Water Street Corridor | 28 | | 23 | 172 | 223 |
| | River Street Corridor | 12 | | 9 | 201 | 222 |
| | Church | 55 | | 25 | 28 | 108 |
| | Downtown | 26 | | 21 | 312 | 359 |
| | Downtown Expansion Plan Area | 115 | | 115 | 916 | 1,145 |
| | Other | 0 | | 3 | 29 | 32 |
| | Total | 814 | | 555 | 3,089 | 4,457 |
| 3. Buffer | TOTAL UNIT POTENTIAL | 2,373 | | 946 | 4,954 | 8,272 |
| | Buffer Over RHNA | 67% | | 33% | 208% | 121% |

Aside from pipeline projects with known affordability amounts, HCD prescribes set percentages of affordability (and only if the parcel is at least a half-acre in size or more – otherwise the units are considered all Above Moderate income, or market rate.). The unit counts by affordability are not allowed to consider the City’s Inclusionary Ordinance or the use of Density Bonus. While the percentage of Above Moderate Income units is higher than Very Low, Low, and Moderate, the affordable units created by the Above Moderate development through the Inclusionary Ordinance are not taken into account. These projections set by HCD also do not directly consider 100% affordable development that is often facilitated through the work of the City staff and non-profit partners even though that work was successful in the 5th Cycle. HCD merely uses set percentages to derive these affordability amounts. Thus, with the City’s Inclusionary Ordinance and with 100% affordable projects, more affordable units are expected than what is included in the table. It must be reiterated that the affordability breakdown in the Sites Inventory is not necessarily correlated with what will get built or a projection of the City’s housing priorities but rather an output on paper based on HCD’s algorithms all jurisdictions must use.

HCD also recommends that the Sites Inventory includes 15-30% more units than the RHNA to help ensure that RHNA targets can be met should some sites not develop. While the Moderate Income Category has the lowest percentage over the RHNA target, it is 33% over, which is still within the HCD recommended range. The other affordability levels in the City’s draft Sites Inventory greatly exceed the HCD recommendation. The extent of the noted capacity above the RHNA targets is supported as a State Prohousing Designation best practice and would be looked upon favorably by HCD in their review.

Next steps

Staff will present the Draft Housing Element to Planning Commission on April 20, 2023 and to City Council on April 25, 2023. Staff will take into consideration Commissioner and Councilmember comments at these meetings as well as public comment. The Public Review Draft Housing Element has been available since March 24, 2023, and the 30-day comment period will close on April 23, 2023. Following closure of the comment period, ten additional business days are required by the State for staff to address comments. Staff will make additional edits during that time and will consult with the Housing Element Subcommittee as needed. Following that period, the Draft Housing Element can be submitted to the state for review. Staff anticipates submitting the Draft document in the first half of May.

Upon submittal, the City will be assigned a reviewer at HCD, and the State is allowed up to 90 days to provide comments on the submittal. Staff will seek early and regular feedback from HCD during their review period and expect to receive formal comments from the State in August. Staff will address those comments (and hold an additional community meeting) prior to the second formal submittal. HCD will then have a 60-day comment period. The deadline for Housing Element certification is December 15, 2023, so staff will present a certifiable Housing Element to Council for approval before that date.

Based on these review times, there is no flexibility for delay in this schedule if the City wishes to have a certifiable Housing Element complete in December. Given that the project anticipates two reviews by HCD before December, it is important for the City's initial submittal to be comprehensive and progressive to meet or exceed HCD's expectations. This will minimize back-and-forth during the review periods and help ensure a smoother path to certification.

Health in All Policies

The goal of Health in All Policies (HiAP) is to ensure that decision-makers are informed about the impacts on the three HiAP pillars of health, equity, and sustainability when reviewing projects and policy options. The Housing Element Update's key purpose is to support the development of housing throughout the City for all needs and all affordability levels. It supports health by promoting housing, services, and efficient land use patterns that encourage sustainable living situations and healthy lifestyles. The Affirmatively Furthering Fair Housing component of the Housing Elements provides many policies and objectives focused on improving equity in housing. The resource conservation and environmental stewardship goal in the Housing Element Policy Plan also provides a variety of policies and objectives to address sustainability. Therefore, the Housing Element Update meets each of the HiAP pillars.

ENVIRONMENTAL REVIEW:

The Housing Element Update requires environmental review per the California Environmental Quality Act (CEQA). Because the draft Housing Sites Inventory (Appendix G) of the Housing Element indicates that rezoning of properties will not be required, and the Downtown Plan Expansion project is being reviewed as a separate project under CEQA; it is anticipated that a CEQA Exemption will be prepared. Per Section 15061(b)(3), an Exemption consists of activities

covered by the “common sense exemption” that CEQA allows when a project would not cause a significant effect on the environment.

As currently proposed, the Housing Element would not result in any direct or indirect physical changes to the environment. The Housing Element is a policy document and does not provide entitlements to any specific land use projects. It does not make any changes to the 2030 General Plan land use map and would not modify any land use designations, allowed densities, or land use intensities currently established in the 2030 General Plan. It would not entitle, propose, or otherwise require the construction of new development or rehabilitation of existing development. It would not change the rate or location of development and would not propose or approve any development projects.

Rather, the goals, policies, and programs established by the Housing Element would only facilitate the development, preservation, and rehabilitation of housing consistent with existing and proposed uses as identified in the 2030 General Plan and as mandated under State law.

All future proposed housing development projects submitted to the City will be reviewed pursuant to CEQA, when required, concurrent with other permitting and regulatory requirements.

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ATTACHMENTS:

Draft 6th Cycle Housing Element Update
Response Letter to the June 14, 2022 City Council Housing Element Direction