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Memo: The City of Cupertino's Response to the Bay Area Housing Crisis

The San Francisco Bay Area has drawn people from around the world seeking fortune, education, innovation, natural beauty, and a near-perfect climate. Through cycles of boom and bust, the Bay Area has grown to be the fourth-largest metropolitan region in the United States today, with more than 7.6 million people residing in the area encompassing nine counties and 101 cities. Today a very successful economy has contributed to housing, transportation, and environmental challenges that pose a risk to the region's dynamism and diversity. By 2050, California's population is expected to grow to nearly 60 million people. Decisions about how we accommodate that growth will have a huge impact on our health, economy, and environment. Additional information is available in the Appendix, beginning on Page 4.

WHAT IS THE CITY OF CUPERTINO DOING TO COMBAT THIS ISSUE?

- Each city is provided with a Regional Housing Need Allocation (RHNA) per state-mandated process to identify the total number of housing units that each jurisdiction must accommodate in its Housing Element (a State-required document).
- Additionally, every city is required to identify specific sites with specific unit allocations as part of their Housing Element. The California Department of Housing and Community Development (HCD) generally requires jurisdictions to show a surplus of sites/units in order to guarantee that the City can realistically accommodate the RHNA allocations.
- For the 2007-2014 Housing Element, Cupertino identified 13 sites allowing a total of 951 units. Due to the recession, the City received just one application for the Biltmore project at the intersection of Stevens Creek Boulevard and Blaney Avenue. A total of 80 units was approved as part of that project and is now built and occupied.

- For the 2014-2022 period, Cupertino’s RHNA is 1,064 units. The table below identifies the City’s regional housing needs by income levels. The income levels are separated into four categories: very low, low, moderate, and above moderate.

Table 1 – Cupertino RHNA 2014-2022

Income Group	RHNA
Very Low	356
Low	207
Moderate	231
Above Moderate	270
Total	1,064

- Cupertino adopted the 2015-2022 Housing Element in May 2015 and identified six sites throughout the City to accommodate 1,400 units (about 32% over its base RHNA). The sites were located along Stevens Creek Boulevard and adjacent to Apple Park on Wolfe Road. These sites include:

Table 2 – Cupertino Housing Element sites

Site	Realistic Capacity
The Hamptons	600 net new
Vallco Shopping District	389
Marina Plaza	200
Barry Swenson	11
Total	1,400

- In 2015, Cupertino was also one of the first cities in Santa Clara County to adopt aggressive housing mitigation fees for all types of development with up to \$25 per square foot for residential development and up to \$20 per square foot for non-residential development. The fees have helped the City negotiate with developers to provide below-market-rate housing within the market-rate housing projects to pay down the fees.
- In 2016, the City approved projects on two housing element sites; Hamptons (942 units total; 600 net new units) and Marina Foods (188 units). Cupertino

successfully negotiated affordable housing units in the case of the Hamptons and Marina Foods projects as part of a Development Agreement. The Hamptons will provide 62 affordable units and Marina will provide 18 affordable units.

- In 2017, the City approved a 19-unit affordable senior project on Stevens Creek Boulevard. The City also provided \$4.67 million in loans (about 44% of the cost of the project) to nonprofit Charities Housing, which will build and operate the site.
- The City Council has been extremely supportive of seeing affordable housing included in residential and mixed-use projects and the City continues to look for opportunities to partner with affordable housing developers to make more affordable housing units available to current and future residents and workers. The City has sent out several notices of funding availability (NOFAs), some in conjunction with the County of Santa Clara to attract a wider pool of affordable housing developers. So far, the high cost of land in the City has been cited as a deterrent to development of affordable housing. However, the City remains committed to its goals and will continue to work with market-rate and affordable housing developers to increase the supply of affordable housing.
- In order to make affordable housing available to school district employees and employees of public agencies that serve Cupertino, the Council revised the Below-Market Rate Manual to give public agency employees one additional priority point. This will ensure that those who serve Cupertino will have a greater ability to get a housing unit in the City.
- Additionally, the City Council has sent letters of support to the legislature for housing bills including AB 1505 which allows cities to require affordable housing in rental projects, and SB 2 and SB 3 which provide additional funding for affordable housing.

APPENDIX

HOW DID WE END UP IN A HOUSING CRISIS IN THE BAY AREA?

- There has been a particular mismatch between employment growth relative to growth in housing supply. Overall, the Bay Area added nearly two jobs for every housing unit built since 1990. The deficit in housing production has been particularly severe in terms of housing affordable to lower and middle-wage workers, especially in many of the jobs-rich, high-income communities along the Peninsula and in Silicon Valley. The booming regional economy combined with increased household formation among the millennial generation has further contributed to the acute housing crunch.
- The availability of developable land in the Bay Area is limited due to topography and protected conservation lands, and state and local regulations exacerbate the availability of housing by preventing instead of promoting higher-density, mixed-use development in urban infill areas. Lengthy review processes in many communities stall transit-oriented projects long enough to make them infeasible, leading to the loss of grant funding and private investment that would otherwise flow into cities along with desperately needed new housing.
- In addition, the current approach to taxation creates incentives for cities to attract development that maximizes sales tax revenues and minimizes costs for public services (such as schools, police and social services), rather than encouraging more balanced approaches to land use. This trend has discouraged housing development and small business growth in many communities. The tax measures of 40 years ago, such as Proposition 13 and other restrictions on new funding sources, caused many jurisdictions to view housing as a fiscal loser because property tax rates were capped below the cost of delivering services compared to retail or commercial development.
- With the increased number of higher income households and most income growth going to the top 20 percent, demand for housing has remained very strong at the upper end of the market. Conversely it has become more difficult for low- and middle-wage households to compete for market-rate housing as a larger pool of high-wage workers bid up a limited housing supply. This has further intensified competition for limited affordable housing opportunities.
- The housing crisis raises major concerns about negative impacts to the region. Affordability, a primary concern of Bay Area residents, continues to be a major challenge. This in turn poses risks to the Bay Area's socioeconomic diversity, transportation system, environmental goals and robust economy.

- Housing affordability has significantly worsened over time. Home prices are at record levels in some counties and rents have nearly doubled in real dollars since the 1970s. While median wages are near the top nationally; the Bay Area has by far the highest median home sale prices of any major metro region in the country, the region is now also home to three of the five most expensive rental markets in the nation.
- The prospects of home ownership are simply out of reach for many Bay Area households. Amid the affluence and new wealth generated in the post-recession era, approximately 24 percent of the Bay Area’s population lives below 200 percent of the federal poverty level, and the vast majority of households with annual incomes below \$50,000 experience an excessive housing cost burden.

Why can’t we build more Affordable Housing?

- In addition to the regulatory and tax policy challenges noted above, recent years also have seen major reductions in funding for affordable housing programs at both the state and federal levels.
 - Since 2000, for example, there have been cuts of over 50 percent to federal affordable housing programs, and most remaining federal funds go to rehabilitation rather than increasing supply.
 - At the state level, the dissolution of redevelopment agencies in 2013 eliminated a large source of funding for affordable housing, including a loss of more than \$200 million for the Bay Area in 2011 alone.
 - Cities used to require affordable housing to be included (usually at percentages ranging from 5% to 15%) in housing developments. However, inclusionary requirements for rental housing were invalidated in the 2009 Palmer decision, which struck down Los Angeles’s inclusionary ordinance for rental development based on the idea that it violated the Costa Hawkins Act limiting rent control. This further limits the ability of cities to get affordable housing in projects. AB 1505 was approved by the legislature in September 2017; and, if signed by the Governor, will allow cities to require affordable housing in market-rate rental units to a limited extent.
 - Due to low supply and high demand, there has also been insufficient progress in the production of “naturally occurring” affordable housing — unsubsidized rental units that are affordable to low- and moderate-income households. This has severely affected the region’s low- and moderate- income households by further reducing the supply of new and

existing affordable housing, whether government-subsidized or market-rate, especially given median wage deflation from 2000–2013.

- Given insufficient support for affordable housing, many individuals who perform important but lower paying jobs face either substandard or overcrowded and unhealthy housing; costly, long-distance work commutes; or sometimes even homelessness — the most severe expression of the region’s housing shortage.

HOW DOES A LACK OF HOUSING CREATE TRAFFIC AND ENVIRONMENTAL IMPACTS?

- Rising prices in the region’s core have driven many lower and moderate-income households to outlying jurisdictions farther away from jobs, transit and amenities, even as low and middle wage job growth has been concentrated in San Francisco, the West Bay and South Bay. This further contributes to more development pressures on open space and agricultural land, higher transportation costs and greater levels of highway and transit congestion. The resulting development of open space and agricultural lands, and pollution from passenger vehicles also create adverse impacts on air quality, open space, and loss of habitat for bird and animal populations.
- The impacts of the booming economy and wider housing crisis, and resulting disconnect between where people live and where people work, has contributed to record levels of freeway congestion and historic crowding on transit systems like Bay Area Rapid Transit (BART), Caltrain and San Francisco’s Municipal Railway (SF Muni). For example, overall commute time is at the highest level on record, as are time spent and miles traveled in highway congestion.
- These challenges are already imposing costs on the Bay Area in terms of health and environmental impacts and lost time, and are only likely to increase in the future without meaningful action to improve the jobs-housing balance in the region.

What policy solutions are available to reduce traffic and environmental impacts and make housing more affordable for Californians?

- California and the Bay Area have shown that it can solve serious problems when citizens and key institutions — including business, government, academia, and the non-profit sector — come together to work toward common goals. In order to protect and nurture our historic economic, environmental and transportation accomplishments, the Bay Area needs to pursue a multi-pronged strategy that emphasizes the jobs-housing balance to make market-rate housing more affordable, create affordable housing for low-income and moderate income

households, increasing financial resources for mass transit solutions, and locating future growth near transit so that workers can live near where they work. Some of these policies enacted at state and local levels are discussed below.

What policies have been enacted to ensure that there is enough housing to meet demand?

- State law recognizes the vital role local governments play in the supply and affordability of housing. Since 1969, California has required that all local governments adequately plan to meet the current and future housing needs of a region. California's local governments meet this requirement by adopting "Housing Elements" as part of their "General Plan" (also required by the state). General Plans serve as the local government's "blueprint" for how the city and/or county will grow and develop.
- Housing element law requires local governments to adequately plan to meet their existing and projected housing needs including their fair share of the regional housing need. The law recognizes that in order for the private sector to adequately address housing needs and demand, local governments must adopt land use plans and regulatory schemes that provide opportunities for, and do not unduly constrain, housing development. The objectives of the State housing element law are to:
 - 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, resulting in each jurisdiction receiving an allocation of units for low and very low income households.
 - Promote infill development and socioeconomic equity, the protection of environmental and agricultural resources, and the encouragement of efficient development patterns.
 - Promote an improved intra-regional relationship between jobs and housing.
- The Regional Housing Need Allocation (RHNA) is the state-mandated process to identify the total number of housing units (by affordability level) that each jurisdiction must accommodate in its Housing Element. As part of this process, the [California Department of Housing and Community Development \(HCD\)](#) identifies the total housing need for each region for an eight-year period. For each region, the appropriate Council of Government and the regional transportation authority must then develop a methodology to distribute this need to local governments.

- Each local government in California is required to adopt a [Housing Element](#) as part of its General Plan that shows how the community plans to meet the existing and projected housing needs of people at all income levels. RHNA identifies the number of market rate and affordable housing units that each jurisdiction in the region is required to plan for over an eight-year cycle.
- For the Bay Area the "projection period" or the time period for which the Regional Housing Need is calculated is January 1, 2014 – October 31, 2022. The "planning period" for the Bay Area, or the time frame between the due date for one Housing Element and the due date for the next Housing Element, is January 31, 2015 – January 31, 2023.

What policies have been enacted to ensure that future growth reduces traffic impacts and effects on the environment?

- The Sustainable Communities and Climate Protection Act of 2008, also known as California [Senate Bill 375](#) or [SB 375](#), was enacted to ensure that future land use and transportation strategies protected the environment and reduced greenhouse gas emissions. The law was enacted in order to meet the environmental standards set out by the [Global Warming Solutions Act of 2006 \(AB 32\)](#), which requires the reduction of California's greenhouse gas emissions to 1990 levels by the year of 2020. AB32 and SB 375 encourage more environmentally-friendly communities, more sustainable developments, less time people spend in their cars, more alternative transportation options and neighborhoods we can safely and proudly pass on to future generations.
- As required by Senate Bill 375, all metropolitan regions in California must complete a Sustainable Communities Strategy (SCS) as part of a Regional Transportation Plan (RTP). In the Bay Area, the Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG) are jointly responsible for developing and adopting a SCS that integrates transportation, land use and housing to meet greenhouse gas reduction targets set by the California Air Resources Board (CARB). The goal is to better link regional transportation planning and funding with a projection for future land use.
- Plan Bay Area is the product of the following two regional agencies:
 - The [Metropolitan Transportation Commission](#) (MTC), the regional transportation funding agency for the Bay Area and the agency that historically produced the RTP.
 - The [Association of Bay Area Governments](#) (ABAG), the council of governments responsible for growth projections and housing allocations and the agency responsible for RHNA.

- Play Bay Area includes the Regional Transportation Plan (RTP), a multi-decade statement of the region’s likely transportation spending projects and needs, and produced every four years. RHNA identifies the number of market rate and affordable housing units that each jurisdiction in the region is required to plan for over the upcoming eight years. The RHNA will be updated several times during the life of Plan Bay Area.

WHAT IS ‘PLAN BAY AREA 2040’ AND HOW IS IT SUPPOSED TO HELP WITH THE REGION’S CURRENT ISSUES?

- Plan Bay Area 2040, is a regional statement and projection about what the Bay Area could look like in 2040. Over the next 30 years, the Bay Area is projected to add 2.148 million new residents and 1.12 million new jobs. The planning questions inherent in Plan Bay Area are: Where will these new residents live? Where will they work? How will they get around? What percentage will live in apartments? What percentage will work in dense transit-oriented job centers? Accommodating this growth in a more sustainable way is at the heart of Plan Bay Area.
- The most recent plan by MTC and ABAG, Plan Bay Area 2040, provides a roadmap for accommodating projected household and employment growth in the nine-county Bay Area by 2040 as well as a transportation investment strategy for the region. Plan Bay Area 2040 details how the Bay Area can make progress toward the region’s long-range transportation and land use goals based on AB 32 and SB 375:
 - Describes where and how the region can accommodate 820,000 new projected households and 1.3 million new jobs between now and 2040;
 - Details a regional transportation investment strategy given \$303 billion in expected revenues from federal, state, regional and local sources over the next 24 years;
- Plan Bay Area 2040’s core strategy is “focused growth” in existing communities along the existing and planned transportation network. This strategy allows the best “bang for the buck” in achieving key regional economic, environmental and equity goals. Key to implementing the focused growth strategy are Priority Development Areas (PDAs) and Priority Conservation Areas (PCAs) identified, recommended and approved by local governments.
 - Priority Development Areas (PDAs) - Plan Bay Area 2040 focuses growth and development in nearly 200 PDAs. These existing neighborhoods are

served by public transit and have been identified as appropriate for additional, compact development.

- Priority Conservation Areas (PCAs) - Plan Bay Area 2040 helps preserves over 100 regionally significant open spaces which have a broad consensus for long-term protection but which face nearer-term development pressures.
- PCAs and PDAs complement one another: by promoting compact development in established communities with high-quality transportation access, there is less development pressure on the region's vast and varied open spaces and agricultural lands.
- Plan Bay Area 2040 concentrates both household and employment growth in the "Big 3 Cities" of San Jose, San Francisco and Oakland, as well as the east and west Bayside corridors along the region's core transit network. Approximately 70 percent of projected household growth will be concentrated in just 15 Bay Area cities, as will 74 percent of employment growth. Besides the Big 3 Cities, other cities such as Richmond, Emeryville, Concord and Mountain View with easy access to good transit, will also serve as key locations for the Bay Area's future households and jobs.
- This year's Regional Transportation Plan (RTP) identifies \$289 billion of likely funding over the life of the plan. Approximately 90 percent of Plan Bay Area 2040's investments focus on operating, maintaining and modernizing the existing transportation system. Plan Bay Area 2040 also directs almost two-thirds of future funding to investments in public transit, mostly to ensure that transit operators can sustain existing service levels through 2040.
- In addition to significant transit and roadway performance investments to encourage focused growth, Plan Bay Area 2040 directs funding to neighborhood active transportation and complete streets projects (improving walking and biking and including Safe Routes to Schools), climate initiatives, lifeline transportation and access initiatives, safety programs and PDA planning.

Sources: Association of Bay Area Governments and Metropolitan Transportation Commission.