



## City Council AGENDA REPORT

**DATE:** 03/07/2023

**AGENDA OF:** 03/26/2024

**DEPARTMENT:** Planning and Community Development

**SUBJECT:** Annual Housing Element and General Plan Progress Reports (PL)

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**RECOMMENDATION:** Motion to accept the 2023 General Plan and Housing Element Annual Progress Reports, and direct staff to submit the reports to the Governor's Office of Planning and Research and the California Department of Housing and Community Development.

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**BACKGROUND:** The State of California Government Code Section 65400 requires cities and counties to report annually to the Governor's Office of Planning and Research (OPR) and the California Department of Housing and Community Development (HCD) regarding their progress toward implementing their General Plans and, in a separate report, the Housing Element portion of the General Plan. Reporting on the Housing Element progress has expanded since 2018 to include reporting each stage of development applications, including both planning permit applications (entitlements) and building permit applications. Additional reporting requirements for 2023 include differentiating between ministerial and discretionary projects and identifying projects proposed with certain state streamlining provisions. The Annual Housing Element Report is submitted on an Excel form provided by HCD. There is no specific format required for the annual General Plan report, merely that it be a report on the status of the General Plan and an update on its implementation, with a few specific items of information noted below.

The purpose of this informational item is to present the attached 2023 Housing Element Annual Progress Report and 2023 General Plan Annual Progress Report to the City Council prior to submittal to OPR and HCD as required by State law.

### **DISCUSSION:**

#### 2023 Housing Element Annual Progress Report

##### *Regional Housing Needs Allocation*

The State of California and the regional Council of Governments, the Association of Monterey Bay Area Governments (AMBAG), use the Regional Housing Needs Assessment (RHNA) process to aid jurisdictions in making land use designation decisions that will accommodate estimates of future statewide growth and housing need.

The RHNA reporting cycles are eight years in length except that the current cycle was extended by one year to allow for its alignment with the Metropolitan Transportation Plan and Sustainable Communities Strategy (MTP/SCS), as required by Senate Bill 375. This most recent nine-year cycle ran from 2015-2023. Per the RHNA, the City was required to ensure that enough land is zoned for residential uses to allow for the potential development of a minimum of 747 units during the 2015-2023 cycle. This minimum number of units was further broken down by four required affordability levels based on Area Median Income (AMI) calculations: Very Low Income (VLI), Low Income (LI), Moderate Income, and Above Moderate Income. In the City's 2015-2023 Housing Element, the City successfully demonstrated that there was sufficient appropriately zoned land to accommodate these units in the allocated affordability categories, and HCD certified that Housing Element in 2016.

### *HCD Reporting*

The 2023 Housing Element Report utilizes the format provided by the HCD. This format provides HCD with information on the following items:

- A Summary table populated with data from Tables A, A2, C, and C (described below)
- Residential projects submitted for entitlement (Planning or, if no Planning entitlement is required, Building) approval during 2023 (Table A);
- Residential projects with entitlements approved during 2023 (Table A2);
- Residential building permits issued during 2023 (Table A2);
- Residential building permits finalized during 2023 (Table A2);
- Number of and affordability level of units within all of the above categories (Tables A and A2);
- Whether any projects or permits included a density bonus (Tables A and A2)
- Whether any projects or permits were approved utilizing SB9, AB2011, SB6, or SB 35 streamlining (Tables A and A2);
- Annual progress on meeting the jurisdiction's RHNA (Table B);
- The progress on rezoning of properties required to meet a jurisdiction's RHNA or to accommodate housing potential lost by downzoning other properties (Table C, not needed by Santa Cruz in 2023);
- Progress toward implementing Housing Element programs (Table D);
- Commercial density bonus projects where a commercial developer partners with an affordable housing developer to provide a mixed-use project (Table E, not needed by Santa Cruz in 2023);
- Affordable projects that were substantially rehabilitated or received assistance in exchange for extending affordability requirements (Table F, this table is optional);
- Above Moderate Income units that were converted to Moderate Income units (Table F2);
- Locally owned lands listed on the Housing Element Sites Inventory that have been sold, leased, or otherwise disposed of (Table G, no City-owned lands were listed on the Housing Element Sites Inventory);
- Locally owned surplus sites (Table H);
- Student housing projects with special student housing density bonus (Table J, the City had no applications for this type of density bonus in 2023);

- A link to the webpage with information on the City’s tenant preference policy (Table K, new for 2023); and
- An update on the City’s Local Early Action Planning (LEAP) grant activities (LEAP Reporting table, new for 2023).

Some of these items, such as the progress on rezoning, commercial density bonus projects, and disposal of locally owned lands on the Housing Element Sites Inventory, are not applicable to the City’s reporting as there is nothing to report or these categories do not apply (there are no current commercial density bonus projects, the City did not need to rezone any properties to meet the RHNA targets, and there were no City-owned properties listed on the Housing Element Sites Inventory).

### *RHNA Targets and Building Permits Issued in 2023*

The progress toward meeting the RHNA is based upon building permits *issued* for housing units rather than building permits *finalized* (i.e., construction completed). Because of this distinction, the numbers found in this report may vary from those found in the Housing Element, those indicated in reports submitted to the State Department of Finance, and those generally used by the City to track housing development. Reviewing other reporting requirements, such as the number of residential units receiving Planning approvals (i.e., entitlements) and the number of residential units finalized during 2023, provides a more complete picture of the City’s progress towards meeting its housing goals. However, any projects that did not submit or receive approval, issuance, or occupancy permits within the calendar year 2023 do not appear in the 2023 Annual Progress Report.

Jurisdictions that meet or exceed their RHNA totals in all income categories by the end of the RHNA cycle are not subject to Senate Bill (SB) 35 (which will be superseded by SB 423 in 2025) for the following four years. SB 35 and SB 423 allow for ministerial approvals of development projects with 1) no discretion on the part of the City to deny projects that meet objective standards and 2) no California Environmental Quality Act review. Four years into the next RHNA cycle, jurisdictions will be reevaluated to see whether they have met their pro-rated share of RHNA targets. For the mid-cycle review, the jurisdiction must meet half the RHNA target numbers for each income category to be exempt from SB 35 / SB 423. If a jurisdiction has met half of its Above Moderate allocation but has not met half the allocation for Low-Income (LI) and Very-Low-Income (VLI) units, projects with at least 50 percent affordable units may apply for SB 35 / SB 423 processing. If the jurisdiction has not met the Above-Moderate allocation, any project that includes 10 percent affordable units or the jurisdiction’s inclusionary requirement, whichever is higher, may apply for SB 35 / SB 423 processing. Both SB 35 and SB 423 have specific criteria that must be met in order for projects or sites to be eligible, with the biggest pending change from SB 423 being that sites in the Coastal Zone will be eligible once that bill takes effect on January 1, 2025.

At the start of 2023, the City had achieved all categories of affordability for the 5<sup>th</sup> Cycle RHNA target except for the VLI category, which was 47 units short of the target. The City achieved its RHNA targets for all levels of affordability in May of 2023 with issuance of a building permit for the 415 Natural Bridges Drive SRO housing project, adding the final VLI units for the RHNA target. While these numbers will be under review by the state and formal determination will be

made by this summer, staff anticipates these numbers being confirmed, and the City will not be subject to SB 35 or SB 423 for the next four years.

In addition, because the City met its target in the first half of 2023 and prior to the end of the 5<sup>th</sup> RHNA cycle, state law allows the City to count building permits issued for new housing after June 30, 2023 toward the new, 6<sup>th</sup> RHNA cycle. The following table shows the total units issued building permits in 2023 by affordability and shows how many units count toward the 5<sup>th</sup> versus 6<sup>th</sup> RHNA cycles. Note that Extremely Low Income (ELI) units count toward the VLI total and that the affordable, non-deed-restricted units shown in the table are Accessory Dwelling Units (ADUs).

	ELI /VLI: deed restricted	VLI: non-deed restricted	LI: deed restricted	LI: non-deed restricted	Moderate: deed restricted	Moderate: non-deed restricted	Above moderate	Total units
2023: 5 <sup>th</sup> cycle	12/45	0	31	20	0	16	165	289
2023: 6 <sup>th</sup> cycle	0	0	0	21	0	17	11	49
2023: total	12/45	0	31	41	0	33	176	338

Unit totals for the 5<sup>th</sup> Housing Element RHNA cycle are shown in the table below.

Income Level		RHNA Allocation	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total Units
Very Low	Deed Restricted	180	5	1		6	45			76	57	190
	Non-Deed Restricted											
Low	Deed Restricted	118	7	15	13	47	17		2	60	31	479
	Non-Deed Restricted					6	51	43	81	86	20	
Moderate	Deed Restricted	136										249
	Non-Deed Restricted		39	112	41	1	16	24			16	
Above Moderate		313	94	44	109	90	26	12	228	42	165	812
Total RHNA		747										
Total Units			145	172	163	150	155	79	311	264	289	1,730

Of the 338 units for which building permits were issued in 2023, 245 units were from larger projects (175-unit Front/Riverfront, 50-unit 314 Jessie Street, and 20-unit Natural Bridges Drive). ADUs and Junior Accessory Dwelling Units (JADUs) made up most of the remaining permits issued, with 83 in 2023. Since 2020, ADU construction has been increasing steadily. This may, in part, be related to changes in State law that loosened ADU development standards, lifted the owner-occupancy requirement for ADUs, allowed JADUs in addition to ADUs, and permitted ADUs in multi-family projects. It may also be related, at least partially, to the COVID-19 pandemic, during which many people were working from home and reconfigured their live/work spaces to better suit their new lifestyle needs.

Staff sent out an ADU survey in 2022 for the specific purpose of providing a more accurate reflection of their affordability (as they are non-deed restricted). A total of 99 responses were received, and 89 percent of all ADU rents reported were below the LI rent level. Based on those findings, last year’s Annual Progress Report included all ADUs in the LI, non-deed restricted unit count.

2022 ADU Survey Results				
Number of Bedrooms	HCD Low Income Rent Limits	Median Rents from Survey including Family	Median Rents from Survey, Separate Household only	Percent of Rents Below Low Income for All ADUs
Studio	\$2,178	\$917	\$1,779	15/17, 88%
1 Bedroom	\$2,333	\$1,951	\$2,107	44/50, 88%
2 Bedroom	\$2,800	\$1,300	\$2,075	6/6, 100%

At the March 28, 2023, City Council hearing regarding the 2022 Annual Progress Report, Council mentioned possible changes to the ADU reporting to better reflect the percentages found in the survey. For instance, there appears to be some ADUs with Moderate or Above Moderate rents so some consideration should be made to distribute ADUs across affordability levels. Staff agreed and during the 6<sup>th</sup> Cycle Housing Element process, staff proposed a more conservative ADU affordability breakdown that was approved by HCD: 50% Low Income, 40% Moderate, and 10% Above Moderate. This Progress Report uses that same breakdown for the ADU counts.

*Pipeline Projects and Future Housing Element Cycle*

There continue many new applications for housing development in the pipeline. Applicants submitted for entitlements or, if entitlements were not required, for building permits for 808 units in 2023, up from 709 units in 2021 and 728 units in 2022. This includes the 40-unit project at 900 High Street, the 59-unit project at 1130 Mission Street, the 27-unit project at 1811 Mission Street, the 389-unit project at 908 Ocean Street, the 43-unit project at 515 Soquel Avenue, and the 84-unit project at 1800 Soquel Avenue, as well as 106 ADUs and several single-family homes. For more detailed information, please see the attached 2023 Housing Element Annual Progress Report.

The City’s RHNA for the 6<sup>th</sup> cycle is 3,736 units total, up from 747 units in the 5<sup>th</sup> cycle. The affordability level breakdown of those 3,736 units follows:

	Number of VLI Units	Number of LI Units	Number of Moderate Units	Number of Above Moderate Units	Total Units
6 <sup>th</sup> Cycle RHNA	857	562	709	1,606	3,736

The City’s 6<sup>th</sup> Cycle Housing Element was determined to be in Substantial Compliance by HCD prior to the December 15, 2023 deadline and is effective as of January 1, 2024. As mentioned previously, because the City met all of its housing targets in the 5<sup>th</sup> Cycle, the City has been able to count housing units towards the 6<sup>th</sup> Cycle RHNA as of July 1, 2023.

2023 General Plan Annual Progress Report

As noted earlier, the State does not dictate the format for the General Plan Annual Progress Report but recommends that certain topics be covered, including General Plan updates, Zoning Ordinance amendments, a review of major development projects, what the jurisdiction has done to promote infill development, and intergovernmental coordination. These topics are covered in the beginning section of the attached 2023 General Plan Annual Progress Report.

The second portion of Annual Progress Report is an overview of key General Plan implementation efforts in 2023. Chapter 11 of General Plan 2030 identifies implementation tasks by City department. Planning staff periodically meets with City departments to monitor and discuss implementation plans and progress. Updates on key projects and programs are included in the “Selected Key Projects and Programs” section of the attached report.

*Health in All Policies*

The items before Council are consistent with the Health in All Policies pillars of equity, public health, and sustainability in that they track the City’s housing goals for all levels of affordability and help encourage the development of housing at all affordability levels. Providing housing at all levels of affordability promotes equity in that it provides more opportunities for people of various incomes and household sizes to reside in Santa Cruz’s expensive housing market. It promotes public health by striving to house more people regardless of their income. Finally, it promotes sustainability by encouraging housing at a variety of affordability levels in a city that is the job center of the region, so that more people can live closer to their place of work, supporting environmental and smart growth goals.

**ENVIRONMENTAL REVIEW**

The items before Council are informational and do not constitute a project under CEQA.

**FISCAL IMPACT:** There are no direct fiscal impacts to the General Fund from the transmittal of the Calendar Year 2023 General Plan Annual Progress report or Housing Element Annual Progress Report to OPR and HCD. However, failure to submit these reports would disqualify the City from significant State grant funding opportunities.

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**ATTACHMENTS:**

1. 2023 Housing Element Annual Progress Report
2. 2023 General Plan Annual Progress Report