

AFFORDABLE HOUSING:
A Tale of Two Cities



2021 Civil Grand Jury
of Santa Clara County

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GLOSSARY AND ABBREVIATIONS

ABAG	Association of Bay Area Governments: a regional planning agency
AH	Affordable Housing
AMI	Area Median Income: The median family income in a metropolitan or nonmetropolitan area
ELI	Extremely Low-Income: Households with income at or below the Poverty Guideline or 30% of AMI, whichever is higher
FAR	Floor Area Ratio: the measurement of a building’s floor area in relation to the size of the lot/parcel that the building is located on.
GDP	Gross Domestic Product: the total value of goods produced, and services provided in a country for one year
HCD	The California Department of Housing and Community Development: the state agency which produces the RHNA allocations
HE	Housing Element: a report created by each city in response to the city’s share of RHNA housing goals
LI	Low-Income: households with incomes between 50% and 80% of AMI
MI	Moderate-Income: households with income between 80% and 120% of AMI
NOFA	Notice of Funding Availability: a public notice issued by a governmental entity which announces the availability of funding for a specific purpose and can be requested through an application process. It is typically awarded competitively for proposals that achieve an outcome desired by that organization

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NVCAP	North Ventura Coordinated Area Plan: an area in Palo Alto, located near the old Fry’s store, where multiple proposals from City staff, residents, and property owners have been developed
Permitted	An official approval that has been issued by a local government agency that allows a builder to proceed with a project.
Prop 13	Proposition 13: a June 1978 amendment to the California Constitution that established the concepts of a base year value for property tax assessments, and limitations on the tax rate and assessment increase for real property. This reduced property tax revenue for California municipalities.
RHNA	Regional Housing Needs Allocation: On an eight-year cycle, the state’s Department of Housing and Community Development gives each regional planning agency a housing planning target for the number of units needed and affordable at various income levels. The regional planning agencies then sub-allocate target numbers to local jurisdictions.
VLI	Very Low-Income: households with income below 50% of the AMI. This also includes the extremely low-income category.

SUMMARY

While Charles Dickens' novel, *A Tale of Two Cities*, was written over 160 years ago, we can extrapolate some important ideas that continue to be relevant today.¹ At its core, the Dickens novel is about the continuing possibility of resurrection and transformation as well as the capacity of humans to change. He believes that discarding the old way of thinking prepares the pathway for transformation. The 2021 Civil Grand Jury of Santa Clara County (Civil Grand Jury) will try to illuminate one city's new way of thinking about Affordable Housing (AH), while contrasting it with a city still thinking in the old way.

The Civil Grand Jury examined the efforts of the City of Palo Alto and the City of Mountain View to implement an AH strategy. While all jurisdictions in Santa Clara County (the County) struggled to meet AH mandates, Mountain View was on a path of meeting its targets (56% of AH goals as of 2019) while Palo Alto was consistently falling short (just over 10% of AH goals as of 2019).² Why are these northern neighbors performing so differently? What practices have caused one to be more effective than the other in handling this difficult challenge?

To answer the question about practices, the Civil Grand Jury identified four broad areas which significantly impact AH success. They are: (i) Political and Community Support, (ii) Proactive Planning and Effective Reporting, (iii) Supportive Practices, and (iv) Affordable Housing Financing. Each area will be discussed in more detail later in the report.

The Civil Grand Jury identified important differences between the two cities in these four areas. Mountain View has built up strong community support for AH and has fostered and maintained the political will over several years to advance on its goals and meet its mandates. Palo Alto lacks a cohesive and effective way to communicate with its citizens and as a result, has continually struggled to garner community support for the value of and need for AH.

Mountain View has systematically planned to achieve AH targets through well-coordinated regional housing plans and straightforward near-term planning. Once the plans were in place, they were continually monitored and effectively communicated to the citizens. Due to the lack of alignment on AH goals and on the zoning changes AH requires, Palo Alto has a variety of separate plans and policies but few outcomes. Mountain View's coordinated plans enabled much shorter approval cycles compared to Palo Alto.

Given the cost and complexity of AH financing, Mountain View has taken a very targeted approach to building an AH fund and leveraging all available State and County resources. Palo Alto has

¹ Charles Dickens, *A Tale of Two Cities*, (New York: Penguin Books, 2000).

² City of Mountain View, *2020 Housing Element Progress Report (2015-2023 Housing Element)*, March 3, 2021, p. 3.

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struggled to build an AH fund because, in comparison to Mountain View, there has been less commercial or mixed-use development due to its lack of political and community support and slow approval process. Both cities would also benefit from having a dedicated and empowered affordable housing manager to champion this important cause.

The Civil Grand Jury believes there are lessons to be learned from this tale of two cities. Other jurisdictions might look to these best practices to improve their own policies and strategies. Due to increasing AH needs and challenging new state mandates exerting greater state control over AH developments, there is more urgency for cities to successfully meet AH targets.

The Civil Grand Jury hopes the findings and suggestions in this report will lead to renewed efforts by the cities to successfully meet their AH targets and mandates. While the Civil Grand Jury cannot say this is the best of times yet for AH in these cities, it is through greater commitment and renewed efforts that additional housing opportunities for the residents of Santa Clara County will be created.

BACKGROUND

The Problem

California and the Bay Area are failing to solve one of the most important economic, environmental, and social issues facing the state—affordable housing. California’s housing/job imbalance has been growing. A McKinsey report discovered that since the 1970s, “the state [has] added only 325 homes for every 1,000 additional people.”³

Given the importance of this crisis, it is not surprising that prior civil grand juries (two in Southern California and one in Santa Clara County) have investigated this issue.⁴ In June 2018, the 2017-2018 Santa Clara County Civil Grand Jury concluded “The critical need for affordable housing is the issue of the day in Santa Clara County ... and our cities are failing.”⁵ However, the problem persists.

The pandemic and the economic slowdown of the past two years have worsened the housing situation in the Bay Area for low-income wage earners and their families. This year in Santa Clara County, there are just 29 homes available for every 100 extremely low-income (ELI) renter households. Homelessness increased 31% between 2017 and 2019.⁶ The County has the fourth highest rate of homelessness of any community in the country.⁷

³ Jonathan Woetzel, et al., *A Tool Kit to Close California’s Housing Gap*, October 2016, p. 2, accessed November 26, 2021, <https://www.mckinsey.com/~/media/mckinsey/industries/public%20and%20social%20sector/our%20insights/closing%20californias%20housing%20gap/closing-californias-housing-gap-full-report.pdf>.

⁴ 2016-2017 Civil Grand Jury of Los Angeles County, “Affordable Housing,” *Final Report*, pp. 1-18, accessed November 12, 2021, <http://grandjury.co.la.ca.us/pdf/LOSANGELESCOUNTY2016-2017CIVILGRANDJURYFINALREPORT.pdf>;

2019-2020 Civil Grand Jury of Santa Barbara County, “Homelessness in Santa Barbara County: Our Everyday Epidemic,” accessed November 12, 2021, <http://www.sbcgj.org/2020/homeless.pdf>, and “Affordable Housing in Santa Barbara: An Oxymoron?” accessed November 12, 2021, <http://www.sbcgj.org/2020/AffordableHousing.pdf>.

⁵ 2017-2018 Civil Grand Jury of Santa Clara County, “Affordable Housing Crisis: Density is our Destiny,” p. 2, June 21, 2018, https://www.scsccourt.org/court_divisions/civil/cgj/2018/BMRH%20Rpt%202018-06-19%20REVISED%20FINAL.pdf.

⁶ Andrew Aurand, et al., *The GAP: A Shortage of Affordable Homes: Appendix B: Metropolitan Comparisons*, March 2021, p. 25, accessed November 13, 2021, https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2021.pdf.

⁷ Destination Home, *Understanding Homelessness in Santa Clara County*, accessed September 28, 2021, <https://destinationhomesv.org/understanding-homelessness/numbers/>.

If “adequate housing is universally viewed as one of the most basic human needs,” then Santa Clara County is not meeting a basic need of almost 50% of its residents.⁸

Affordable Housing Defined

The term AH denotes either rental or owned housing which costs less than a region’s average housing cost. AH is generally divided into three categories: Extremely Low-Income (ELI), Very Low-Income (VLI), or Low-Income (LI).⁹ These low-income levels vary by region because they are determined by an area’s Average Median Income (AMI). Table 1 shows these categories for Santa Clara County.

Income Level	Household 1*	Household 2	Household 3	Household 4	Household 5
Low Income: <80% of AMI	\$82,450	\$94,200	\$106,000	\$117,750	\$127,200
Very Low Income: <50% of AMI	\$58,000	\$66,300	\$74,600	\$82,850	\$89,500
Extremely Low Income: <30% of AMI	\$34,800	\$39,800	\$44,750	\$49,700	\$53,700

*Number of individuals in the Household

Table 1. Santa Clara County 2021 Area Median Income (AMI) Chart¹⁰

⁸ Joint Venture Silicon Valley, Institute for Regional Studies, *2021 Index Highlights*, 2021, p. 41, <https://jointventure.org/publications/silicon-valley-index>

⁹ Many cities are also very concerned about housing affordability for “moderate-income” earners. See The Committee to House the Bay Area, *CASA Compact*, January 2019, p. 15, https://mtc.ca.gov/sites/default/files/CASA_Compact.pdf.

¹⁰ County of Santa Clara, accessed May 1, 2021, <https://covid19.sccgov.org/sites/g/files/exjcpb766/files/Documents/santa-clara-county-2021-area-median-income-ami-chart.pdf>.

The Affordable Housing Gap

Thirty-two percent of Silicon Valley households earn \$200,000 or more annually.¹¹ This is a larger share of high-income households than the City and County of San Francisco (31%), California (14%), or the United States (9%).¹² Income inequality in Silicon Valley is more than double that of the U.S. overall and has increased by 81% since 1990.¹³ The extreme income disparity between the highest- and lowest-wage earners drives up housing costs because increased demand by high-income households creates competition which drives home prices higher.¹⁴ Currently, California's real estate prices are rising “three times faster than household incomes, [and] more than 50% of the state's households cannot afford the cost of housing.”¹⁵

Nearly half of Bay Area renters are rent-burdened—they spend more than 30% of their household income on rent.¹⁶ In 2021, Santa Clara County renters need to earn 2.8 times the minimum wage, or \$46.21 per hour, to afford the County's average rent.¹⁷

¹¹ Joint Venture Silicon Valley, *2021 Silicon Valley Index*, p. 41, <https://jointventure.org/publications/silicon-valley-index>.

¹² *Ibid*, p. 41.

¹³ *Ibid*, p. 40.

¹⁴ “The less equal the distribution, the higher income inequality is.” from Carol M. Kopp, “Income Inequality,” *Investopedia* November 2, 2021, <https://www.investopedia.com/terms/i/income-inequality.asp>; Thomas Goda, et al., *Absolute Income Inequality and Rising House Prices*, December 1, 2016, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2886481; Andrew Aurand, Dan Emmanuel, Daniel Threet, Ikra Rafi, and Diane Yentel, *The GAP: A Shortage of Affordable Homes: Appendix B: Metropolitan*, March 2021, p. 5; https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2021.pdf; Joint Venture Silicon Valley, p. 40.

¹⁵ Woetzel, et al., *A Tool Kit*, p. vi.

¹⁶ Wikipedia, “San Francisco Bay Area,” “is defined by the Association of Bay Area Governments to include the nine counties ... Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano, Sonoma, and San Francisco,” https://en.wikipedia.org/wiki/San_Francisco_Bay_Area; Bay Area Equity Atlas, “Housing Burden: Nine-County Bay Area vs. California,” accessed November 27, 2021, <https://bayareaequityatlas.org/indicators/housing-burden#/>; Joint Venture Silicon Valley, p. 102.

¹⁷ California Housing Partnership, *Santa Clara County 2021 Affordable Housing Needs Report*, p.1, accessed November 13, 2021, https://1p08d91kd0c03rlxhmhtydpr-wpengine.netdna-ssl.com/wp-content/uploads/2021/05/Santa-Clara_Housing_Report.pdf.

Occupation	Mean Annual Wage	% of Monthly Income Needed to Afford Average Market Rent for a 2-Bedroom Unit
Dishwashers	\$30,160	127%
Hairdressers	\$33,384	115%
Receptionists and Information Clerks	\$39,239	98%
Retail Salespersons	\$39,987	96%
Security Guards	\$41,512	93%
Preschool Teachers	\$41,563	92%
Medical Assistants	\$47,846	80%
Daycare & Preschool Administrators	\$55,020	70%
Police Officers	\$130,911	29%

Table 2. Santa Clara County Wage/Housing Gap¹⁸

Since the 1970s, jobs in the region have increased faster than available housing units.¹⁹ A study by the Bay Area Council Economic Institute shows that one high-tech sector job is associated with the creation of 4.3 additional jobs in the local goods and services economy.²⁰ The number of AH units needed has severely lagged job creation for the past five decades.

Consequences of the Affordable Housing Crisis

According to the McKinsey Global Institute study, nearly 100% of California’s ELI, VLI, and LI households cannot afford the cost of local housing. This disparity negatively affects every aspect of a community’s well-being, forcing lower-income workers to commute long distances, increasing their stress, reducing family time, and impacting the environment. Lack of decent affordable housing increases crowded, multi-family households, housing instability, and

¹⁸ City of Gilroy, *What is Affordable Housing in Santa Clara County?* p. 2, accessed November 13, 2021, <https://www.cityofgilroy.org/DocumentCenter/View/11636/Affordable-Housing-101-and-FAQs>.

¹⁹ City of Gilroy, *What is Affordable Housing in Santa Clara County?* p. 2.

²⁰ Bay Area Council Economic Institute, *Technology Works: High-Tech Employment and Wages in the United States*, December 2012, p. 5, accessed November 13, 2021, <http://www.bayareaconomy.org/files/pdf/TechReport.pdf>.

homelessness.²¹ Diversity is diminished because “Black people, Native Americans and Latinos are more likely to experience homelessness and overcrowded housing than white people.”²²

The McKinsey Global Institute calculates that “in dollar terms, California loses \$140 billion per year in output or 6 percent of state Gross Domestic Product due to the housing shortage.”²³ They divide these annual losses into approximately \$90 billion in missed construction investment and more than a \$50 billion loss in consumer spending on food, health, and education.²⁴

The AH crisis also impacts the social fabric of the community. Homelessness was increasing in the County before the pandemic and the current economic uncertainty has made it worse.²⁵ Many low-income wage earners are one paycheck away from eviction. Although moving to lower-cost housing areas avoids the threat of homelessness, it creates other negative consequences. About 120,000 Silicon Valley workers live long distances from their jobs.²⁶ Silicon Valley “super commuters” drive 3 hours one way to work, resulting in traffic gridlock, air pollution, and degraded health and quality of life.²⁷

Other negative consequences are more subtle. Low-income workers and families with long commutes are disproportionately from non-White, non-Asian backgrounds.²⁸ The communities they work in—but cannot live in—suffer a loss of diversity. Because of this loss of workers, the civic, political, cultural, and human engagement of the region narrows. In addition, the region loses

²¹ Andrew Aurand, “*The GAP*,” p.1.

²² Ibid.

²³ Woetzel, et al., *A Tool Kit: In Brief*, p. vi.

²⁴ Ibid.

²⁵ Marisa Kendall, “How Can We Solve the Bay Area Housing Crisis? Build 160,000 Affordable Homes,” *Mercury News*, March 18, 2021, <https://www.mercurynews.com/2021/03/18/how-can-we-solve-the-bay-area-housing-crisis-build-160000-affordable-homes/>.

²⁶ Sophia Harrison, *Ethics Study: Silicon Valley Housing Crisis*, March 19, 2021, <https://sevenpillarsinstitute.org/ethics-study-silicon-valley-housing-crisis/>.

²⁷ Annette Schaefer, “Commuting Takes Its Toll,” *Scientific American Mind*, v. 16 no. 3, pp. 14-15, October 1, 2005, accessed December 2, 2021, <https://www.scientificamerican.com/article/commuting-takes-its-toll/>; Deanna Pai, “5 Ways Your Commute Affects Your Health,” Keck Medicine of USC, accessed June 7, 2021, <https://www.keckmedicine.org/commuting-and-your-health/>.

²⁸ Sophia Harrison, *Ethics Study*. Bay Area Equity Atlas, “Extreme Community: Drivers of Inequity,” accessed November 27, 2021, <https://bayareaequityatlas.org/indicators/extreme-commuting#/?geo=050000000000000017>.

needed workers. In 2019-2020, more people left the state than moved here, resulting in a net migration loss of 135,600.²⁹

State-Driven Planning Solutions

The California Department of Housing and Community Development (HCD) drives statewide housing planning efforts through the Regional Housing Needs Allocation (RHNA). Every eight years, the HCD works with regional councils of government to estimate the number and type of jobs that are expected. With this job estimate, RHNA then projects the number of housing units needed at a variety of affordability levels. HCD allocates the appropriate number of new housing units to each region. The County is part of the Association of Bay Area Governments (ABAG) region which is responsible for allocating the housing need among the cities and counties in the Bay Area.³⁰

Once ABAG has sub-allocated housing quotas, each city must produce a planning document, titled the *Housing Element Report*.³¹ This plan identifies potential sites where housing may be built over the next eight years and the policies and strategies that are needed to help cities meet the housing goals. The sites identified typically include property the city does not own or control.

Although most cities in the County are meeting their ABAG quotas for higher-income level housing, few are meeting their AH allocations (see [Table 3](#)).

In response to the AH crisis, the California Governor signed on September 16, 2021, three bills that address the state's housing crisis. Senate Bill 8 accelerates housing project approval processes and limits fee increases and a city's ability to downzone (i.e., reduce the density of housing development in an area). Senate Bill 9 requires cities and counties to approve development proposals that meet specified size and design standards. It also allows property owners to split a single-family lot into two lots and place up to two units on each newly created lot. Assembly Bill 1174 amends an existing measure that streamlines approval processes for housing in cities and

²⁹ Eric Escalante, "California's Growth Rate at Record Low as More People Leave," *ABC10 News*, December 16, 2020, <https://www.abc10.com/article/news/local/california/californias-growth-rate-at-record-low-as-more-people-leave/103-3f814e19-ffe1-44af-90c0-a49168be4a60>.

³⁰ California Department of Housing and Community Development, *Regional Housing Needs Allocation: 5th Cycle*, accessed July 17, 2021, <https://www.hcd.ca.gov/community-development/rhna/index.shtml>.

³¹ California Department of Housing and Community Development, *Housing Elements*, accessed November 7, 2021, <https://www.hcd.ca.gov/community-development/housing-element/index.shtml>.

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counties that have not yet made sufficient progress in meeting their RHNA goals.³² The impact of these statewide reforms is yet to be felt.³³

Jurisdiction	Affordability Level	RHNA Goals	Permits approved as of 2019	% Progress
Palo Alto	Very Low Income (VLI) & Low Income (LI)	1123	80	7%
	Moderate Income (MI) and Above Moderate Income (AMI)	865	426	49%
Mountain View	LI & VLI	1306	326	25%
	MI & AMI	1620	2557	158%
San José	LI & VLI	14661	854	6%
	MI & AMI	20419	11748	58%
City of Santa Clara	LI & VLI	1745	145	8%
	MI & AMI	2348	3980	170%

Table 3. Percent Achievement Compared to RHNA Goals³⁴

Cities in the Middle

Creating affordable housing is a complex local interaction among a variety of players – city officials and staff, non-profit and for-profit developers, landowners, residents, banks, and a variety of advocacy organizations. Cities by themselves rarely have the full resources needed to build AH.

³² Whitney Hodges and Talya Gulezian, "California Enacts New Legislation to Combat Growing Housing Crisis, But Not Without Controversy," *National Law Review*, September 20, 2021, <https://www.natlawreview.com/article/california-enacts-new-legislation-to-combat-growing-housing-crisis-not-without>.

³³ George Skelton, "Don't Be Fooled, California's New Housing Laws Are Game-Changers," *Mercury News*, September 24, 2021, https://www.mercurynews.com/2021/09/24/skelton-dont-be-fooled-californias-new-housing-laws-are-significant/?utm_source=ourcommunitynow&utm_medium=web.

³⁴ Association of Bay Area Governments, "2015-2019 Bay Area Building Permit Activity Report," February 2021, https://abag.ca.gov/sites/default/files/documents/2021-02/2015-2019_Permit_Activity_Report.pdf.

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They often lack sufficient financial resources to completely fund an AH project. They also may not have appropriate public land on which to build their RHNA quota of AH units.

Despite many challenges, some cities in the County have come closer to meeting their affordable housing RHNA quotas than other cities. The Civil Grand Jury investigated this discrepancy by examining the efforts of two cities in the County that share a border, Mountain View and Palo Alto, which have very different achievement levels, as shown in Table 4.

Income Group	% of County AMI	Palo Alto RHNA	Permits approved	% of RHNA Accomplished Palo Alto	Mountain View RHNA	Permits approved	% of RHNA Accomplished Mountain View
Very Low	0-50%	691	101	15%	814	218	27%
Low	51-81%	432	65	15%	492	212	43%
Moderate	81-120%	278	26	9%	527	18	3%
Above Moderate	120%+	587	540	92%	1093	3771	345% ³⁵
Total ----		1988	732	37%	2926	4219	52%

**Table 4. Regional Housing Needs Allocation (RHNA) 2015-2023:
Palo Alto & Mountain View Progress³⁶**

The table above shows the current achievement of each city. The future outlook for these two cities is also very different. By 2023, Mountain View (MV) Planning Division anticipates reaching 45.6% of its RHNA goal for VLI housing and 75.6% of its RHNA goal for LI housing.³⁷ In contrast, the Palo Alto (PA) Planning Department warned the City Council in January 2021 that progress building AH continues to be slow and that “near-term housing production is not anticipated to reach” the 2023 RHNA goals.³⁸

³⁵ In Mountain View, the number of permitted units exceeding the RHNA Above Moderate category allocation (an “excess” of 2,678) are not counted in the calculation of the total percentage accomplished.

³⁶ Data drawn from Mountain View and Palo Alto 2021 Housing Element reports covering progress through 2020. City of Mountain View, Community Development, *2020 Housing Element Annual Progress Report*, March 23, 2021; City of Palo Alto, City Council Staff Report ID#11838, *2020 Comprehensive Plan and Housing Element Annual Progress Reports*, March 15, 2021, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-11838.pdf>.

³⁷ City of Mountain View, *2020 Housing Element Annual Progress Report*, March 23, 2021, p.4.

³⁸ City of Palo Alto, City Council Staff Report ID#10950, *Housing Work Plan Update*, January 21, 2020, pp. 2, 17, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020/id-10950.pdf>.

METHODOLOGY

The Civil Grand Jury's interest in this issue started with a review of the 2017-18 Civil Grand Jury of Santa Clara County's report, *Affordable Housing Crisis: Density is our Destiny*.³⁹ The Civil Grand Jury also reviewed other county civil grand jury reports: the 2016-2017 Civil Grand Jury of Los Angeles County's report on affordable housing needs and progress, as well as the two Civil Grand Jury of Santa Barbara County reports, one on county homelessness and one on the City of Santa Barbara's lack of affordable housing.⁴⁰

The Civil Grand Jury interviewed twenty people for this report, some of them more than once. Interviewees also answered follow-up emails, suggested additional individuals to interview, and supplied the Civil Grand Jury with documents and data. People interviewed represented a broad spectrum of interests and organizations involved in AH: city and county elected and appointed officials, city and county staff, leaders of regional and local non-profit organizations, non-profit and for-profit developers, and representatives of residential/neighborhood advocacy organizations.

The Civil Grand Jury read the *Regional Housing Needs Assessment (RHNA)* for Mountain View and Palo Alto for the current RHNA cycle, 2015-2023 as well as the two Cities' corresponding *Housing Element* planning documents and annual Housing Element updates to their respective city councils. The Civil Grand Jury also researched over a hundred city-produced staff reports, land-use documents, plans and proposals, consultants' findings, city council agendas, minutes, and memoranda. Local and regional news outlets were particularly helpful in identifying key city council actions and studies.

To better understand the actions and outcomes of these two Cities' affordable housing efforts, the Civil Grand Jury also examined online resources and housing studies identifying best practices in AH development. A bibliography of key best practices appears in a separate section of this report's References.

³⁹ 2017-2018 Civil Grand Jury of Santa Clara County, "Affordable Housing Crisis," https://www.scscourt.org/court_divisions/civil/cgj/2018/BMRH%20Rpt%202018-06-19%20REVISED%20FINAL.pdf.

⁴⁰ 2016-2017 Civil Grand Jury of Los Angeles County, "Affordable Housing," *Final Report*, pp. 1-18, <http://grandjury.co.la.ca.us/pdf/LOSANGELESCOUNTY2016-2017CIVILGRANDJURYFINALREPORT.pdf>; 2019-2020 Civil Grand Jury of Santa Barbara County, "Homelessness in Santa Barbara County: Our Everyday Epidemic," accessed November 12, 2021, <http://www.sbcgj.org/2020/homeless.pdf>, and "Affordable Housing in Santa Barbara: An Oxymoron?" accessed November 12, 2021, <http://www.sbcgj.org/2020/AffordableHousing.pdf>.

DISCUSSION

Santa Clara County cities struggle to create AH. Yet Mountain View and Palo Alto have made radically different progress in building LI and VLI units during the first six years of the current RHNA cycle as shown in Table 4 above.

There is no easy solution that will solve the AH crisis. However, advocacy groups, researchers, and innovative municipalities have identified a set of best practices.

These best practices fall into four areas:

- Political Commitment and Community Support
- Proactive Planning and Effective Reporting
- Supportive Practices
- Affordable Housing Financing

In each area, there are tools and strategies that can be used to assist cities in building affordable housing. The Civil Grand Jury investigated how Mountain View and Palo Alto use these tools.

Political Commitment and Community Support

The housing crisis can only be solved at the local level.⁴¹ The solution requires city leadership, residents, property owners, and developers collaborating to achieve AH goals. In their study of housing affordability best practices, James Wood and colleagues acknowledge that:

as city councils and planners respond to their constituents, zoning ordinances come to embody, in part, resident concerns, interests, and preferences. And a facet of land use regulation familiar to every developer is the opportunity for neighbors to express their views, in front of the city council and planning commission, on proposed new residential and commercial developments.⁴²

How do city leaders create the conditions that support AH? How do they align all stakeholders behind a local strategy and then successfully execute that strategy? AH success requires long-term

⁴¹ Woetzel, et al., *A Tool Kit: In Brief*, p. vi.

⁴² James Wood, Dejan Esikic, D.J. Benway, and Kathryn Macdonald-Poelman, *Housing Affordability: What Are Best Practices and Why Are They Important?* (University of Utah: Kem C. Gardner Policy Institute, November 2020), p. 1, <https://gardner.utah.edu/wp-content/uploads/Best-Practices-Dec2020.pdf>.

commitment of city leaders and city residents. Commitment requires leadership, education, and persistence.

Mountain View: political commitment

Cities develop each *Housing Element* eight-year plan through a formal process that includes substantial community input. Both the MV City government and the residents of MV support the goal of socioeconomic and cultural diversity and support building AH as a way to reach that goal. The Mountain View 2015 - 2023 *Housing Element's* two top goals are:

- Support the production of new housing units serving a broad range of household types and incomes
- Provide assistance to households at different income levels to address their housing needs⁴³

These goals build on several of the City's core values, including:

- Promote a community for all with a focus on strategies to protect vulnerable populations
- Improve the quantity, diversity and affordability of housing
- Preserve Mountain View's socioeconomic and cultural diversity⁴⁴

The MV City Council uses these values to drive the City's priorities. Every two-to-five years the City Council develops a Strategic Action Plan. These plans establish an achievable set of priorities, direct funding, and identify project completion dates. They remain relatively stable across City Council election turnover and reflect MV's stated values. In the past five years, the Strategic Action Plan goals have prioritized affordable housing.⁴⁵ The Civil Grand Jury learned that MV city leaders take pride in MV's positive and stable support of AH. This support, reflected in their strategic plans, is a key component of Mountain View's AH successes. For example, in the City's

⁴³ City of Mountain View, *2015-2023 Housing Element*, October 14, 2014, pp. 18, 26, <https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=15284>.

⁴⁴ City of Mountain View, *City Council Major Goals for Fiscal Years 2019-20 and 2020-2021*, accessed August 23, 2021, <https://www.mountainview.gov/council/goals.asp>; City of Mountain View, *Strategic Roadmap Action Plan for Fiscal Years 2021-22 and 2022-23*, April 23, 2021, https://www.mountainview.gov/council/strategic_planning_and_visioning.asp.

⁴⁵ City of Mountain View, *Previous City Council Major Goals Fiscal Years 2017-19 and 2018-19*, accessed November 12, 2021, <https://www.mountainview.gov/council/goals.asp#previousgoals>; City of Mountain View, *FY 2019-20 through FY 2020-21 City Council Major Goals Work Plan*, April 25, 2019, <https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=29232>.

2021-2022 and 2022-2023 action plans, two of the seven strategic priorities are “Community for All” and “Intentional Development & Housing Options.”⁴⁶ ([Finding 1](#))

Mountain View: community support

The Mountain View City government could not champion AH without the support of its residents. Many MV residents are renters, who have been politically active, and have aligned in the past with AH advocates.⁴⁷ For example, in 2016 MV voters passed the Community Stabilization and Fair Rent Act (CSFRA) which tied annual rent increases to the Bay Area Consumer Price Index.⁴⁸ This charter amendment was in direct response to AH scarcity and large multi-year rent increases.⁴⁹

However, an active population of renters is not sufficient to explain MV’s sustained AH achievements. As in other cities, AH does not have total community support. To overcome resistance and ensure community concerns are heard and resolved, the MV City Council and staff have built a strong communication process that systematically reaches MV residents in every neighborhood. The goal of this ongoing dialog is to educate residents about the need for AH, the costs and trade-offs required, and the areas that are zoned for AH development. With this proactive communication, specific projects may be modified by resident input but are rarely derailed.

The MV City government organizes this communication around twenty-five published Precise Plans—defined city areas where development and zoning options are identified in detail. Some of these Precise Plans include affordable housing zoning. The City uses these as both planning and communication tools “for coordinating future public and private improvements on specific properties where special conditions of size, shape, land ownership, or existing or desired development require particular attention.”⁵⁰ Each plan is reviewed every three years on a rotating schedule. As part of each plan’s review, a team comprised of a City councilmember, staff, developers, and public safety representatives meet with neighborhood residents to talk about the

⁴⁶ City of Mountain View, *Strategic Priorities*, https://www.mountainview.gov/council/strategic_planning_and_visioning.asp.

⁴⁷ 58% of Mountain View residents are renters. See: TownCharts.com, *Figure 32: Number of Owners vs. Renters in Mountain View, CA and Area*, accessed August 16, 2021, <https://www.towncharts.com/California/Housing/Mountain-View-city-CA-Housing-data.html>.

⁴⁸ Ballotpedia, “Mountain View, California, Rent Control City Charter Amendment, Measure V November 2016,” accessed November 7, 2021, [https://ballotpedia.org/Mountain_View,_California,_Rent_Control_City_Charter_Amendment,_Measure_V_\(November_2016\)](https://ballotpedia.org/Mountain_View,_California,_Rent_Control_City_Charter_Amendment,_Measure_V_(November_2016)).

⁴⁹ Tenants Together, July 2019, <https://www.tenantsaltogether.org/resources/mountain-view-tenants-coalition-mvvc>.

⁵⁰ City of Mountain View, *Precise Plans*, accessed August 18, 2021, <https://www.mountainview.gov/depts/comdev/planning/regulations/precise.asp>.

plan, allay fears, and understand and mitigate concerns. One of the communication goals is to make sure no one is surprised when AH is built. The Civil Grand Jury found it compelling to hear that when visitors toured a Mountain View AH project, they could not differentiate it from a middle-income project. City staff and councilmembers take pride and satisfaction in creating attractive housing for all. ([Finding 2](#))

Palo Alto: political commitment

In PA, the City Council, staff, and the residents have also expressed support for Affordable Housing. AH is a top priority in many of the PA City Council policy and planning documents. For example, the second and third goals in the PA *2015-2023 Housing Element* address and establish policies to support AH:

- H2 GOAL: Support the Construction of Housing Near Schools, Transit, Parks, Shopping, Employment, and Cultural institutions
 - H2.1 POLICY: Identify and implement strategies to increase housing density and diversity.... Emphasize and encourage the development of affordable and mixed-income housing to support the City's fair share of regional housing needs and to ensure that the City's population remains economically diverse.
- H3 GOAL: Meet Underserved Housing Needs and Provide Community Resources to Support Our Neighborhoods
 - H3.1 POLICY: Encourage, foster, and preserve diverse housing opportunities for very low-, low-, and moderate-income households.⁵¹

This emphasis on policies that support AH is reflected in other City documents and City Council actions. The Palo Alto *Comprehensive Plan* includes Policy L-1.4 which commits the City to:

creating an inventory of below market rate housing for purchase and rental. Work with neighbors, neighborhood associations, property owners and developers to identify barriers to infill development of below market rate and more affordable market rate housing and to remove these barriers, as appropriate. Work with these same stakeholders to identify sites and facilitate opportunities for below market rate housing and housing that is affordable.⁵²

⁵¹ City of Palo Alto, *2015-2023 Housing Element City of Palo Alto*, 2014, pp. 131, 136, accessed November 7, 2021, https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/housing-element/housingelement_2015_2023/complete-public-hearing-draft-09-17-14.pdf.

⁵² City of Palo Alto, *City of Palo Alto Comprehensive Plan*, November 13, 2017, p. 36, <https://www.cityofpaloalto.org/Departments/Planning-Development-Services/Long-Range-Planning/2030-Comprehensive-Plan>.

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Through Council Colleagues' Memos and a variety of other actions, PA City councilmembers continue to acknowledge and support the need to create more AH.⁵³ Despite this public support, the actions have not matched policies. The City has permitted far fewer AH units in this RHNA cycle, and in the previous one, than it achieved two RHNA cycles ago:⁵⁴

- 166 AH units or 15% of RHNA by 2020
- 165 AH units or 13% of RHNA by 2014
- 344 AH units or 90% of RHNA by 2006

Palo Alto has a strong tradition of community consultation. A potentially contentious issue such as where to build AH can be resolved if consultation and conversation is productive. The PA City Council has charged the Planning and Development Services Department with the responsibility to “maintain an ongoing conversation with the community regarding the need for affordable housing, the financial realities of acquiring land and building affordable housing, and the reasons that affordable housing projects need higher densities to be feasible.”⁵⁵ However, the PA City Council should not expect staff to manage such a contentious issue. Councilmembers should be taking a leadership role in these conversations.

Several of the current City leaders ran on platforms that included support for AH. Campaign websites state this commitment:

⁵³ City of Palo Alto, *Ordinance No. 5460: Housing Crisis Zoning Changes*, accessed September 1, 2021, <https://www.cityofpaloalto.org/files/assets/public/city-clerk/ordinances/ordinances-1909-to-present/ordinances-by-number/ord-5460.pdf?t=67468.69>; City of Palo Alto, *Colleagues' Memo, No. 63027*, November 6, 2019, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2017/id-8630-colleagues-memo.pdf>; City of Palo Alto, *Colleagues' Memo, No. 73361*, September 23, 2019, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/id-10548-colleagues-memo.pdf>.

⁵⁴ Association of Bay Area Governments, *San Francisco Bay Area Progress in Meeting 2007-2014 Regional Housing Need Allocation (RHNA)*, p. 6, accessed June 15, 2021, https://abag.ca.gov/sites/default/files/rhnaprogress2007_2014_082815.pdf; City of Palo Alto, City Council Staff Report ID#11838, *2020 Comprehensive Plan and Housing Element Annual Progress Reports*, March 15, 2021, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-11838.pdf>; City of Palo Alto, *2015-2023 Housing Element City of Palo Alto*, p. 127; City of Palo Alto, *Housing Work Plan, February 2018 Draft*, p. 10, accessed November 12, 2021, https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/2018_01_26_housing_work_plan_final.pdf.

⁵⁵ City of Palo Alto, City Council Staff Report ID#10950, *Housing Work Plan 2018-2019: Summary Status Update*, January 21, 2020, pp. 5, 7, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020/id-10950.pdf>.

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- funding for moderate and low-income housing⁵⁶
- Prioritize housing by focusing on leveraging government programs, developer fees, and implementing our Comprehensive Plan to increase our affordable (below market rate) housing⁵⁷
- a vision for Palo Alto that is inclusive and diverse ... provides new affordable housing opportunities⁵⁸

Rather than relying on staff to educate PA residents about the complexities involved in building AH and hear resident concerns, PA councilmembers should be the point-persons in working with and listening to residents. ([Finding 3](#))

Palo Alto: community support

Palo Alto conducts an annual community survey that is reported to the City Council and helps shape their annual plan. Over the past four years, resident concern about the lack of affordable housing has become more prominent.⁵⁹ In the 2021 Community Survey, nine in ten PA residents rated the quality of their city and neighborhoods as excellent or good. The unique qualities of PA's 35 neighborhoods are highly valued, and residents wish to preserve their tree-lined streets, many parks, and historic homes and neighborhoods. A desire to maintain these qualities motivates some residents to resist the changes AH might bring. In that same survey, the responses to the question "What should the city change?" give a flavor of the tensions surrounding the AH issue for Palo Altans:

- Build more housing! Affordable housing will give us a more diverse and vibrant city. The idea that it will ruin what we have is just silly.
- Limit developers from adding more residences because it makes traffic a nightmare.
- More affordable housing for all – teachers, firemen, police, secretaries, etc.

⁵⁶ Patrick Burt, "My Top 3 Priorities," *Voters' Edge California*, November 3, 2020, <https://votersedge.org/ca/en/election/2020-11-03/santa-clara-county/city-council-city-of-palo-alto/patrick-burt>.

⁵⁷ Tom DuBois, "Re-Elect Tom DuBois for Palo Alto City Council," accessed September 21, 2021, <https://www.votedubois.com>.

⁵⁸ Greer Stone, "Greer Stone Palo Alto City Council," accessed September 21, 2021, <http://www.greerstone.com/GStone2020/home.asp>.

⁵⁹ City of Palo Alto, City Council Staff Report ID#12270, *Presentation of the Annual Community Survey Results*, May 17, 2021, p. 14, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12270.pdf>.

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- Stop increasing population density of the city by allowing more housing that is not single family. I bought into Palo Alto because it is primarily single-family zoning.⁶⁰

Unfortunately, several promising AH projects have been derailed in this RHNA cycle and the last cycle because of negative input from residents.⁶¹ Resident objections to AH proposals stem from a variety of reasons, including lack of agreement on goals, failure to feel consulted, and worry that AH will compromise the beauty and safety of a neighborhood.

One example of a lack of agreement on goals is the controversial North Ventura Coordinated Area Plan (NVCAP) project near the former Fry's location. A fourteen-person panel worked with staff from the PA Planning Department, developers, and consultants to create alternative plans for the NVCAP area. After four years, the panel has not reached a consensus on goals, let alone ways to reach those goals.

The City of Palo Alto and pro-AH groups see the North Ventura area as an opportunity to build needed AH. Many residents support AH but do not want their neighborhood to become the vanguard for tall, dense buildings and parking scarcity. Some residents also do not accept the City's model of mixed-use development as a trade-off for AH units. The Civil Grand Jury learned that some members of the working group and residents felt the project's goals were changed by staff and the consultants during the planning process. Residents felt the changes no longer aligned with what the neighborhood wanted.

The PA Planning Department based its work in part on financial data from a study done in 2020 that identified what percentage of AH units were financially feasible for a for-profit developer to include in the project.⁶² The staff and consultants also "engaged in a tremendous amount of

⁶⁰ City of Palo Alto, City Council Staff Report ID#12270, pp. 65-68, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12270.pdf>.

⁶¹ Louis Hansen, "Fierce, 7-Year NIMBY Battle in Palo Alto Reaches a Conclusion: Big \$5 Million Homes Rise on Site Once Eyed for Affordable Senior Units," *Mercury News*, June 23, 2020, <https://www.mercurynews.com/2020/06/23/fierce-7-year-nimby-battle-in-palo-alto-reaches-a-luxury-conclusion/>; Gennady Sheyner, "Facing Concerns from College Terrace, City Looks to Reassert Commitment to Single-Family Housing Zones," *Palo Alto Weekly*, April 7, 2021, <https://www.paloaltoonline.com/news/2021/04/07/facing-concerns-from-college-terrace-city-looks-to-reassert-commitment-to-single-family-housing-zones>; Gennady Sheyner, "With No Consensus in Sight, Palo Alto's Vision for Ventura Gets Murky," *Palo Alto Weekly*, June 10, 2021, <https://www.paloaltoonline.com/news/2021/06/10/with-no-consensus-in-sight-palo-altos-vision-for-ventura-gets-murky>.

community outreach, providing numerous opportunities for public engagement and meaningful input.”⁶³

Few people were satisfied by the three alternatives presented to the PA City Council. They were “deemed unfeasible by the city’s consultants and unappealing by the property owners and residents.”⁶⁴ North Ventura residents felt that the City’s staff and consultants controlled the process and did not listen to community concerns.⁶⁵ The outcome of this four-year planning process has been characterized as “a terrible, disappointing, and unfortunate failure.”⁶⁶

An example of another failed project occurred in 2012. The non-profit Palo Alto Housing Corporation purchased a 2.5-acre site on Arastradero Road with plans to build 60 units of AH for seniors and 15 single-family homes. In September 2012, the non-profit held a poorly attended community meeting to introduce nearby residents to the project.⁶⁷ Another community meeting was held in January 2013. With few residents in attendance, the PA Planning and Transportation Commission approved a plan to change the zoning, and the PA City Council approved loaning funds to the non-profit in March of that year. A final neighborhood meeting was held in April to discuss the project’s modified plans and its impact on traffic. In contrast to the poorly attended neighborhood and City meetings, a large group of residents attended the May 2013 PA City Council meeting to protest the development. They expressed the feeling that their issues had not been adequately listened to by PA City Council and the non-profit developer.⁶⁸ After signatures were gathered, a measure was placed on the November 2013 ballot to halt the development. Once the measure passed, Palo Alto Housing Corporation was unable to build the project.

⁶² City of Palo Alto, City Council Staff Report ID#11472, “Inclusionary Below Market Rate Feasibility Study,” September 21, 2020, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020-2/id-11472.pdf>.

⁶³ City of Palo Alto, City Council Staff Report ID#11930, “NVCAP – Review Plan Alternatives,” June 14, 2021, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-11930.pdf>.

⁶⁴ Sheyner, “With No Consensus.”

⁶⁵ Rebecca Sanders, “PAN’s Outreach to the Community Regarding the NVCAP2 Survey,” April 16, 2020, <https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/north-ventura-cap/survey-emails-only.pdf?t=42004.46>.

⁶⁶ Sheyner, “With No Consensus.”

⁶⁷ Gennady Sheyner, “What’s Measure D Really About?” *Palo Alto Online*, October 11, 2013, <https://www.paloaltoonline.com/news/2013/10/11/whats-measure-d-really-about>.

⁶⁸ Joseph Hirsch, “Guest Opinion: A Neighborhood Perspective of Maybell Avenue Development,” *Palo Alto Weekly*, July 16, 2016, <https://www.paloaltoonline.com/news/2016/07/16/guest-opinion-a-neighborhood-perspective-of-maybell-avenue-development>.

Resident commenting on a variety of AH proposed projects indicate that they want to be engaged in PA's AH planning and are willing to negotiate and compromise:

- Residents need to be actively and genuinely consulted with regard to significant developments proposed to take place in their immediate neighborhood⁶⁹
- The Working Group met for two years, and they [City staff] didn't respect their time, commitment, and dedication to even take their ideas under consideration"⁷⁰
- Despite initial misgivings...residents of the Ventura neighborhood on Monday rallied behind the project. Many credited the development team for listening and constructively responding to their concerns.⁷¹

Building AH is neither simple nor inexpensive. Palo Altans need to understand the possible locations, design requirements, and financing required for AH. Responding to residential apprehensiveness that an AH project will lead to crime and increased traffic, the City can lead discussions that explain to residents how an AH project will allow teachers, city workers, and service employees to live in the city where they work. City leaders can also lead discussions to combat the idea that AH developers are motivated by profit when, in fact, they are often non-profit organizations.

The City can also explain the perspective of for-profit developers who expect a fair rate of return on the time and money they must invest, and the risk they take when developing a mixed-use project that combines AH with commercial space or market-rate housing. An urban economics consulting firm analyzed the feasibility of including below-market rate housing in different types of developments.⁷² Their analysis assumed that if a rental project provided a return of 5% or more, the project was "highly likely" to be built; if the return was less than 4.75 %, the project was unlikely to be built. Many residents believe that developers make excessive profits and are unaware that many AH projects struggle to reach viability. Residents are less likely to make financially

⁶⁹ Hirsch, "Guest Opinion."

⁷⁰ Suzanne Keehn, Letter to City Council, "Fw: NVCAP," June 14, 2021, https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/north-ventura-cap/all-public-comments_1.pdf.

⁷¹ Gennady Sheyner, "First Affordable-Housing Project in Seven Years Wins Approval: City Council Supports 59-Unit Development on El Camino Real," *Palo Alto Weekly*, January 14, 2019, <https://www.paloaltoonline.com/news/2019/01/14/affordable-housing-project-wins-approval-in-palo-alto>.

⁷² City of Palo Alto, *Inclusionary Below Market Rate Feasibility Study*, p. 5.

untenable proposals or objections to a project if they understand the issues and tradeoffs and feel their concerns have been respected.⁷³

According to many researchers, building resident and stakeholder support for AH is an effective best practice.⁷⁴ City staff do not have the same stature as elected leaders. Therefore, PA City councilmembers cannot expect staff alone to lead community conversations that enable PA residents to understand AH needs and cost requirements and to build community support. City councilmembers--PA's community leaders--can play a critical role in publicly supporting and discussing AH. Since many current PA City councilmembers ran on platforms that included AH, they are well-positioned to take a leadership role in discussing this issue with residents.

To be more successful in building AH, the PA City Council should continue its tradition of strong resident input but engage with residents to create a series of defined area plans with clear zoning rules, including for AH zoning. One example of the City's success in doing this is the South of Forest Area Coordinated Area Plan (SOFACAP).⁷⁵ Palo Alto should employ the process used for SOFACAP to work with residents in other areas where AH is appropriate to build. Direct, transparent, and committed dialog, particularly when crafting plans and projects, can be effective. Palo Alto City councilmembers should develop a communication plan that they can use to engage residents and stakeholders in proactive, detailed, and fact-based conversation to allay resident concerns, focus on the benefits of AH, and build resident support.⁷⁶ (Finding 4)

Proactive Planning and Effective Reporting

The RHNA-mandated *Housing Element* reports written by cities are planning documents as opposed to approved projects. The *Housing Element* lists potential sites where AH might be built as well as policies and actions cities might undertake to help build AH. To be effective, these

⁷³ Allison Levitsky, "Palo Alto Council Unanimously Approves Affordable Housing Project," *Daily Post*, January 15, 2019, <https://padailypost.com/2019/01/15/palo-alto-council-unanimously-approves-affordable-housing-project/>.

⁷⁴ Woetzel, et al., *Toolkit*, p. iv; James Wood, et al., *Housing Affordability*,

⁷⁵ City of Palo Alto, *South of Forest Area Coordinated Plan*, December 2003, accessed November 13, 2021, <https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/file-migration/current-planning/forms-and-guidelines/south-of-forest-coordinated-area-plan-phase-2.pdf>.

⁷⁶ See "Mountain View: Political Commitment" section above; Hee-Jung Jun, "The Link Between Local Comprehensive Plans and Housing Affordability," *Journal of the American Planning Association* v. 83, no. 3 (Summer 2017), pp. 249-261, <https://www.tandfonline.com/doi/full/10.1080/01944363.2017.1321496>; City of Morgan Hill, *2021 Housing Conversation*, accessed July 8, 2021, <https://www.morgan-hill.ca.gov/2162/2021-Housing-Conversation>.

general plans must be turned into action-oriented outcomes supported by local leadership, developers, and residents.⁷⁷ To develop resident support, cities must not only create specific plans with resident input but also communicate those plans effectively to the community.

Creating community engagement by including community members in the advance planning processes and communicating the value of AH are best practices.⁷⁸ Successful AH projects require “that local governments should restore direct reliance on adopted plans and create transparency, predictability, reliability and timeliness to the housing approvals process.”⁷⁹

So how effective are MV and PA in creating proactive plans that are realistic for all stakeholders (residents, developers) and result in real housing being built? Are these plans well-tailored to each area or a mix of options that require time-consuming negotiations or approvals? Who leads the planning effort and engages stakeholders? Finally, how well are the two Cities making progress on these plans and their AH goals?

Mountain View: proactive planning

Mountain View has 25 Precise Plans covering 24 neighborhoods. The City uses these plans as “a tool for coordinating future public and private improvements on specific properties where special conditions of size, shape, land ownership, or existing or desired development require particular attention.”⁸⁰ The visions, principles, and goals in these plans are coordinated with MV’s *General Plan* and *Housing Element Plan*. But the Precise Plans live up to their titles—they are concrete, spelling out where and how AH will be included.⁸¹

Not only does MV leadership take a proactive role in creating precise plans, but when property owners struggle to resolve development conflicts, MV has actively stepped in to offer a

⁷⁷ Hee-Jung Jun, “The Link Between Local Comprehensive Plans and Housing Affordability,” p. 258,, <https://www.tandfonline.com/doi/full/10.1080/01944363.2017.1321496>; Charles Hoch, “How Plan Mandates Work: Affordable Housing in Illinois,” *Journal of the American Planning Association* v. 73, no. 1 (Winter 2007), pp. 87, 94-95, <https://www.tandfonline.com/doi/abs/10.1080/01944360708976138>.

⁷⁸ Wood, et al., *Housing Affordability*, p. 5.

⁷⁹ Committee to House the Bay Area, *CASA Compact*, p. 12.

⁸⁰ City of Mountain View, *Precise Plans*.

⁸¹ See for example: City of Mountain View, *El Camino Real Precise Plan*, p. 3, accessed August 21, 2021, <https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=29701>; *North Bayshore Precise Plan: North Bayshore Affordable Housing Administrative Guidelines*, accessed August 21, 2021, <https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=22584>; *East Whisman Precise Plan: Guiding Principles*, p. 17, accessed August 17, 2021, <https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=32005>.

resolution.⁸² Within MV’s North Bayshore Precise Plan area, two property owners with adjacent land (Google and SyWest) could not agree on a coordinated approach to developing the sites. In response, the MV City Council created a new set of development standards for a 30-acre section. This proposed Gateway Master Plan “will help implement the goals and objectives of the [broader] Precise Plan.”⁸³ Google likes the proposed plan, but SyWest says it doesn’t work financially for them. City officials are working proactively with the developers to resolve their concerns over this proposed solution.⁸⁴

In addition to the Precise Plans, the MV City Council uses its planning process to focus City work on AH outcomes. The Council periodically adopts and updates a 2-to-5-year Strategic Roadmap Action Plan in which AH is prioritized. The current plan lists specific affordable housing actions to be completed in the next two years of the five-year plan.⁸⁵ ([Finding 5](#))

Palo Alto: multiple plans, few outcomes

Unlike MV, PA does not have a comprehensive, well-organized set of planning documents that clearly identify regions where the City is planning AH development that the Civil Grand Jury could find. Instead, AH is addressed in a confusing combination of general and specific approaches.

The *Comprehensive Plan* defines allowable land uses for residential, mixed-use, and commercial areas within PA. Some areas include options for affordable housing.⁸⁶ The *Comprehensive Plan* was used extensively in creating PA’s *2015-2023 Housing Element*.

Palo Alto strengthened its current *Housing Element* with specific AH-enabling zoning changes in 2019 when the PA City Council passed the *Housing Work Plan Implementation Ordinance*.

⁸² Martin Alkire, *North Bayshore Gateway Master Plan: Public Draft – August 2021*, accessed November 13, 2021, <https://www.mv-voice.com/news/reports/1629396384.pdf>.

⁸³ City of Mountain View, *Gateway Master Plan*, accessed August 21, 2021, https://www.mountainview.gov/depts/comdev/planning/activeprojects/gateway_master_plan.asp.

⁸⁴ Wesley Severson, “Mountain View Pushes Ambitious Development Plans, Developer Calls them Unrealistic,” *Hoodline*, August 25, 2021, <https://hoodline.com/2021/08/mountain-view-pushes-ambitious-development-plans-developer-calls-them-unrealistic/>.

⁸⁵ City of Mountain View, *Strategic Roadmap Action Plan*.

⁸⁶ City of Palo Alto, *2030 Comprehensive Plan, Land Use and Community Design Element*, pp. 31-33, accessed August 21, 2021, <https://www.cityofpaloalto.org/files/assets/public/planning-amp-development-services/3.-comprehensive-plan/comprehensive-plan/2030-comp-plan-2-land-use-june-21.pdf>.

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Prompted by a 2018 Council Colleagues' Memo calling for more AH, this ordinance amended the *Municipal Code* to “remove barriers and disincentives to housing development at higher densities where appropriate near transit, jobs and services, and that is affordable for a range of income levels [*sic*].”⁸⁷ By approving these zoning changes, PA acknowledged that the housing shortage, particularly for AH, “threatens the city’s prosperity, diversity, stability, environment, quality of life, and community character.”⁸⁸

The PA City Council has created many documents that address affordable housing, including the *Comprehensive Plan*, the *Housing Element*, Title 18 of the *Municipal Code*, and numerous ordinances, zoning maps, reports, studies, and design and development guidelines:

- Housing Work Plan
- Coordinated Area Plans (CAP)
- Planned Home Zones (PHZ)
- Priority Development Areas (PDA)
- Affordable Housing Overlays
- Workforce Housing Overlays
- Housing Incentive Programs

There has been some AH success in the current RHNA cycle. For example, a 2019 *Palo Alto Weekly* article announced, “First Affordable-Housing Project in Seven Years Wins Approval.”⁸⁹ Yet, as the headline demonstrates, PA is not making rapid progress in meeting the community’s AH needs.

In January 2020, the PA Planning and Development Services Department updated City Council on housing progress. Staff was not optimistic about the City’s ability to meet its RHNA goals. The update warned that “many of the conditions that precipitated the [2018 Council] Colleagues’ Memo ... continue” and that “the lack of affordable housing at all income levels contributes to” many other problems PA is experiencing, such as “traffic congestion, increased motorist travel time, ... greater greenhouse gas emissions,” and the difficulty hiring and retaining low-wage workers.⁹⁰

⁸⁷ City of Palo Alto, Municipal Code Ordinance No. 5460, April 1, 2019, p. 2, <https://www.cityofpaloalto.org/civicax/filebank/documents/71494>.

⁸⁸ *Ibid.*

⁸⁹ Gennady Sheyner, “First Affordable-Housing Project in Seven Years Wins Approval: City Council Supports 59-Unit Development on El Camino Real,” *Palo Alto Weekly*, January 14, 2019, <https://www.paloaltoonline.com/news/2019/01/14/affordable-housing-project-wins-approval-in-palo-alto>.

These planning documents offer different levers to help AH projects, but there have been few results. To match AH outcomes with their policy goals and campaign platforms, PA leaders need to employ best planning practices such as creating specific planned areas with identified densities, setbacks, height limits, etc., that support AH development. The PA City Council should identify specific regions where zoning will allow AH to be feasible and clarify and simplify zoning requirements. This should be done with wide community input and education.

Compact, comprehensive, and clear plans coupled with 1-to-2-year strategic plans with specific outcomes would give the PA City Council a powerful tool to help make AH development viable. ([Finding 6](#))

Mountain View: effective reporting

Mountain View reports on its plans in a variety of ways. As discussed above in the Community Support section, MV City councilmembers conduct annual conversations with residents. The MV Planning Division's website has the precise plans, often with supporting documentation and details.⁹¹ In addition, the MV Planning Division annually presents a *Housing Element Annual Progress Report* to the City Council (and RHNA). This report is accompanied by a cover memo that summarizes the specific actions and achievements made during the year, which makes the City's accomplishments easy to identify and quantify.⁹²

The MV *2015-2023 Housing Element* text is available on the City's website.⁹³ However, a search of the City's website does not easily reveal any 2015-2023 annual updates. The most prominent search result is a link to the *2023-2031 Housing Element Update* on the Community Development website.⁹⁴ A version of the 2020 Housing Element Annual Update is provided as an attachment to the March 3, 2021 agenda of the MV Environmental Planning Commission as a staff report.⁹⁵

⁹⁰ City of Palo Alto, City Council Staff Report ID#10950, *Housing Work Plan Update*, January 21, 2020, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020/id-10950.pdf>.

⁹¹ City of Mountain View, *Precise Plans*.

⁹² City of Mountain View, *2020 Housing Element Annual Progress Report*, March 23, 2021.

⁹³ City of Mountain View, *2015-2023 Housing Element*, October 14, 2014, <https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=15284>.

⁹⁴ City of Mountain View, *General Plan and Housing Element*, accessed August 24, 2021, <https://www.mountainview.gov/depts/comdev/planning/regulations/general.asp>.

Mountain View should update its website to include all the annual *Housing Element Progress Reports*. ([Finding 7](#))

Palo Alto: reporting confusion

The Civil Grand Jury found that there are so many plans—with documents, specific rules, and details—that it is difficult for PA residents to understand where AH is planned, what specific design elements zoning would permit (density, height, setbacks, etc.), and what public benefits might accompany each project. Since there is often no linked text, the myriad of plans, overlays, and other documents are also difficult to find when mentioned on a website.⁹⁶

Annual reports are an excellent way to communicate AH progress. This past year, PA’s Planning Department submitted a memo with its *2020 Comprehensive Plan and Housing Element Annual Progress Report* to the City Council.⁹⁷ The *Comprehensive Plan’s* progress and the *Housing Element’s Update* are discussed together. The annual *Housing Element Update* tables identifying progress are difficult to understand and are buried as an accompanying attachment. Palo Alto should more clearly communicate its annual AH progress.

The City’s website can be a powerful tool to aid in communicating AH plans and achievements to the community. Palo Alto is to be commended on the fact that the full text of its *2015-2023 Housing Element* is linked from the Planning & Development website and that it has *Annual Housing Element Progress Reports* from 2015 through 2018.⁹⁸ It should update this annual list with the missing most recent years. ([Finding 8](#))

⁹⁵ City of Mountain View, Environmental Planning Commission, “Staff Report, 2020 Housing Element Progress Report,” March 3, 2021, <https://mountainview.legistar.com/LegislationDetail.aspx?ID=4811887&GUID=31D36D2F-EA70-4326-BE48-2026143531E0&Options=&Search=>.

⁹⁶ See City of Palo Alto, *Area Plans and Studies: Ongoing Area Plans and Studies*, “Priority Development Areas (PDAs) and Priority Conservation Areas (PCAs),” December 12, 2019. This website has two paragraphs announcing the adoption of a PDA for University Avenue/Downtown but there are no linked documents, <https://www.cityofpaloalto.org/News-articles/Planning-and-Development-Services/Priority-Development-Areas-PDAs-and-Priority-Conservation-Areas-PCAs>.

⁹⁷ City of Palo Alto, City Council Staff Report ID#11838, *2020 Comprehensive Plan and Housing Element Annual Progress Reports*, March 15, 2021, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-11838.pdf>.

⁹⁸ City of Palo Alto, *Housing Element (2015-2023)*, accessed August 24, 2021, <https://www.cityofpaloalto.org/Departments/Planning-and-Development-Services/Long-Range-Planning/Housing-Policies-and-Programs/Housing-Element-2015-2023>.

Supportive Practices

Defining and communicating neighborhood plans is an essential best practice in the creation of AH. But, after plans are adopted, cities must create an environment that supports developers as they consider the construction of housing.

One supportive practice is “streamlining and standardizing the uncertain and time-consuming approval process.”⁹⁹ The Civil Grand Jury learned that a second supportive practice is to identify a member of the city planning staff who takes the lead on AH development, and who can guide developers through the approval process.

Efficient city review and approval

In Mountain View, the City review and approval process, beginning with the submission of an initial proposal and ending with formal approval by the City Council, averages less than twelve months. Two Mountain View projects with AH units reflect this efficient process:

- 535-555 Walker Dr., with 58 townhouse units, took eleven months. This involved two meetings with the Development Review Committee followed by the MV City Council approval.¹⁰⁰
- 394 Ortega Ave., a 144-unit project (including five AH units), took ten months. This involved two meetings with the Development Review Committee, a meeting with the Environmental Planning Commission, and the MV City Council approval.¹⁰¹

The length of time it takes developers in PA to move from proposal to entitlement is significantly longer. Two projects with sizes comparable to MV’s examples are:

- 2755 El Camino Ave., a 57-unit project, took two years and one month from the preliminary screening before the PA City Council to the final City

⁹⁹ Wood, et al., *Housing Affordability*, p. 5.

¹⁰⁰ City of Mountain View, “Council Report,” June 12, 2018, <https://mountainview.legistar.com/LegislationDetail.aspx?ID=3523778&GUID=57E1911A-07B7-4D74-87F5-0185E491F20A>.

¹⁰¹ City of Mountain View, “Council Report,” September 20, 2016, <https://mountainview.legistar.com/LegislationDetail.aspx?ID=2838231&GUID=74838AC8-BB92-49DC-8CC1-2F0D4B52B705&Options=&Search=>.

AFFORDABLE HOUSING: A TALE OF TWO CITIES

Council approval. The approval process involved a preliminary review by the PA City Council, reviews by the Planning Commission and the Architectural Review Board, and a final City Council hearing. This project was complicated by a requirement to amend the zoning code and because architectural plans had to be resubmitted six times.¹⁰²

- 788-796 San Antonio Rd., ground-level retail with 102 units (including 16 below market rate units), took one year and eleven months. The approval process included rezoning, an architectural review, an Environmental Impact Report, and the PA City Council approval.¹⁰³

The Civil Grand Jury found that PA’s lengthy approval process discourages developers from working with the City. If the PA wants to encourage the development of AH, it needs to find ways to streamline the approval process. ([Finding 9](#))

Palo Alto uses Planned Home Zoning to offer developers greater density, higher building height, and less required parking—provided the project includes Below Market Rate (BMR) housing. This type of development requires a preliminary review by the PA City Council, which adds about four months to the time it takes to obtain final approval. This is an additional risk for developers, who not only must extend the project schedule by four months, but after investing in the project, may subsequently discover that the City Council dislikes the proposed development. Palo Alto should take the time to define specific area development plans with the attendant neighborhood involvement, similar to the Precise Plan process in Mountain View.¹⁰⁴ If Palo Alto develops area plans that clearly specify the designs that would be acceptable to the City and the community, not only could preliminary reviews be eliminated, but the developer could invest in the project with more confidence that final approval would be obtained.

Another possibility is to combine public meetings. Currently, after the preliminary review by the PA City Council, the project is reviewed in a public meeting with the PA Planning and

¹⁰² City of Palo Alto, “2755 El Camino, Attachments,” accessed December 3, 2021, <https://aca-prod.accela.com/paloalto/Cap/CapDetail.aspx?Module=Planning&TabName=Planning&capID1=16PLN&capID2=00000&capID3=00234&agencyCode=PALOALTO&IsToShowInspection=no>; <https://aca-prod.accela.com/paloalto/Cap/CapDetail.aspx?Module=Planning&TabName=Planning&capID1=16PLN&capID2=00000&capID3=00464&agencyCode=PALOALTO&IsToShowInspection=no>.

¹⁰³ City of Palo Alto, “788-796 San Antonio Road, Attachments,” accessed December 3, 2021, <https://aca-prod.accela.com/paloalto/Cap/CapDetail.aspx?Module=Planning&TabName=Planning&capID1=19PLN&capID2=00000&capID3=00084&agencyCode=PALOALTO&IsToShowInspection=no>.

¹⁰⁴ The City of Palo Alto uses the phrase “Precise Plans” in the *Palo Alto Municipal Code: Title 20 Precise Plans* to “provide for the systematic execution of the circulation element of the general plan ... by [among other regulations] designating the precise location of planned rights-of-way” and prevent encroachments. Accessed December 10, 2010, https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto_ca/0-0-0-82433.

Transportation Commission, and in a separate public meeting with the Architectural Review Board. In contrast, MV combines the two meetings with its Design Review Committee, which is chaired by a planning administrator and two consulting architects. Combining the public review meetings would reduce the time it takes for a project to obtain final approval. This would take away an opportunity for public comment, but this drawback could be effectively neutralized by encouraging public feedback when specific area development plans are defined. Palo Alto planners should explore whether a combined process would speed up its approval timeline.

There may be other ways to reduce the time it takes for developers to get their plans approved by the City. Palo Alto planning staff should consult with Mountain View staff to explore additional ways to streamline their approval process.

Single role to manage and advocate for affordable housing

A classic organizational best practice involves “assigning responsibility for outcomes along with the authority to do what is needed to produce the desired results.”¹⁰⁵ A dedicated AH manager would be responsible for outcomes and drive progress toward the city’s AH target. Cities such as Morgan Hill have created a similar affordable housing position leading to strong results. The Civil Grand Jury learned that the Morgan Hill Housing Manager is responsible for achieving the City of Morgan Hill’s AH numbers and coordinates projects, funding sources, and organizations to achieve AH outcomes. Top city leader support is critical to the success of position. With that support, a knowledgeable and dedicated AH manager can be responsible for the AH targets, solve problems, and provide stakeholders with expert advice.

The Civil Grand Jury learned that both non-profit and for-profit developers prefer to work with a city expert, a single point-of-contact, particularly when negotiating about residential and affordable units. According to the Newport Beach Community Development Director, “establishing a dialogue with developers on the front end of projects is important.”¹⁰⁶ By consulting with developers, a city’s AH manager can understand what they need to make a project feasible. This manager can eliminate lengthy negotiations and prevent avoidable delays. With a clear understanding of both sides’ priorities, the AH manager is in a strong negotiation position when working with for-profit developers. ([Finding 10](#))

¹⁰⁵ Sam Lloyd, “Managers Must Delegate Effectively to Develop Employees: Planning Can Minimize Poor Performance,” accessed August 15, 2021, <https://www.shrm.org/resourcesandtools/hr-topics/organizational-and-employee-development/pages/delegateeffectively.aspx>; Alexandra Kalev, Frank Dobbin, and Erin Kelly, “Best Practices or Best Guesses? Assessing the Efficacy of Corporate Affirmative Action and Diversity Practices,” *American Sociological Review* v. 71, no. 4 (2006), pp. 589-617.

¹⁰⁶ Nikie Johnson, and Jeff Collins, “Report Card: California Cities, Counties Failing Again on Affordable Housing Goals,” *Orange County Register*, January 31, 2021, <https://www.ocregister.com/2021/01/31/report-card-california-cities-counties-failing-again-on-affordable-housing-goals/>.

AH Financing: City Funding and Financial Participation

Affordable housing is expensive

In June of this year, MV announced its Montecito Proposal for 84 affordable units and 147 bedrooms.¹⁰⁷ The planned project development cost totals \$88,702,160, or \$1,055,978 per unit and \$591,348 per bedroom. In December 2020, MV announced its similarly scaled La Avenida project.¹⁰⁸ The total development cost was listed as \$78,573,646 for 100 units (\$785,736 per unit) and 119 bedrooms (\$603,416 per bedroom). In Santa Clara County, 29 projects - totaling 2,969 units and 3,989 bedrooms - have received Measure A funding approval over a three-year span. The average cost per unit of AH for those projects is \$678,365. The average cost per bedroom for these same projects is \$504,905.

Affordable housing financing is complex

One public official close to this issue noted that the projects require anywhere from 8-15 sources of financing. As an example of this complexity, the funding plan for the Montecito project is shown in [Table 5](#) below. In addition to the Measure A and MV funds, the project required seven additional sources:

Permanent Sources	Dollar Amounts
Tax Credit Equity	\$31,085,934
City of Mountain View	18,000,000
County of Santa Clara Measure A	16,000,000
Federal Home Loan Bank-Affordable Housing Program	820,000
Conventional Loan	9,507,000
Contributed Developer Fee	5,478,000
Deferred Developer Fee	877,655
Fee Waivers	5,473,911
Deferred Interest from City and County	<u>1,459,660</u>
TOTAL	\$88,702,160

Table 5. Charities Housing Funding Proposal – 1265 Montecito Avenue

¹⁰⁷ Kevin Forestieri, “Mountain View City Council Earmarks \$16M for Costly New 84-Unit Affordable Housing Project,” *Mountain View Voice*, June 28, 2021, <https://www.mv-voice.com/news/2021/06/28/mountain-view-city-council-earmarks-16m-for-costly-new-84-unit-affordable-housing-project>.

¹⁰⁸ Kevin Forestieri, “Mountain View Pours \$15M into North Bayshore’s First Affordable Housing Project,” *Mountain View Voice*, December 14, 2020, <https://dmv-voice.com/news/2020/12/14/mountain-view-pours-15m-into-north-bayshores-first-affordable-housing-project>.

The largest source, the Tax Credit Equity, is from a Low-Income Housing Tax Credit Program.¹⁰⁹

When the Charities Housing Funding Proposal to build AH at 1265 Montecito Avenue in MV was later announced, the funding mix changed. Santa Clara County took the lead on the project, committing \$18M, and MV committed \$16M.

Multi-faceted funding strategies build more affordable housing

Despite the scale of resources required and the complexity of project financing, AH does get built. However, it is difficult to fully understand the financing and what deals are made because real estate negotiations are done behind closed doors. Real estate negotiations, like those that involve personnel decisions, are not subject to the Ralph M. Brown Act's public meeting requirements.¹¹⁰

In addition, residential and commercial development projects add costs to local infrastructure and services. When offices and housing are built, more people will live in the community. More classrooms and teachers will be needed. Parks need to be built. Demands for police, fire and utilities providers will increase. The need for other service workers in restaurants and delivery services will increase and those individuals will need places to live. In a post-Prop 13 world, cities must find ways to fund these services. Often that means charging fees on commercial development projects.

Multiple public funding sources are available to achieve AH goals. Federal and state programs play a central role. A prime example is the federal tax credit program in the Montecito project. Both the federal government and the State are committing funding through Homekey (as described below). The federal government is the primary funding source for AH, supplying all the Low-Income Housing Tax Credit money and most of the funding for Homekey. Unfortunately, the State of California is not providing a substantial amount of funding to help cities with this difficult problem.

¹⁰⁹ The Low-Income Housing Tax Credit is a federal resource, administered by the states, available to support affordable housing. Developers receiving an award use the tax credits to raise equity capital from investors. The tax credit gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for equity. The tax credits are claimed over a ten-year period.

¹¹⁰ California Government Code § 54956.8, accessed November 7, 2021, https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=2.&title=5.&part=1.&chapter=9.&article=

Santa Clara County plays an important fiscal role as well. Measure A, a bond approved by voters in 2016, provides \$950M to build AH.¹¹¹ Santa Clara County is commended for its support of the County's AH needs.

Private organizations such as the Housing Trust Silicon Valley also play a role. Their Tech Fund enables private individuals and Bay Area employers to invest in AH projects.¹¹²

City Affordable Housing funding challenges and opportunities

The task at the city level is twofold. First, it must leverage all possible external funding from federal, state, and county sources. The Montecito and La Avenida projects are good examples of leveraging from city and county funds, including funds from Measure A.

Second, cities must contribute directly. An excellent recent example of this occurred when MV contributed \$15M to the La Avenida Project and \$16M to the Montecito Project. It is critical for cities to contribute funding since city funds are often the first—and most necessary—step to acquiring other external funding sources.

Cities can contribute directly by:

1. Developing local pools of funding. For example, until recently, MV had a fund of \$69M to finance AH and support the cost of new infrastructure. ([Finding 11](#)) Mountain View built its AH fund through linkage or impact fees (fees imposed on property developers by municipalities for the new infrastructure required to accommodate new development). These fees are paid by office space developers. Palo Alto, with its annual cap on office space development, has severely restricted this source of funding.¹¹³
2. Waiving or deferring fees where AH is provided. The Montecito project is an example.
3. Negotiating other benefits to have developers include AH units. For example, allowing additional height, less required parking, or increased Floor Area Ratio (FAR), which is the size of a building's floor area in relation to the parcel size on which the building is located. For example, a market rate housing project can be transformed by trading increased density

¹¹¹ Santa Clara County, "Complete Text of Measure A," accessed August 1, 2021, <https://www.sccgov.org/sites/scc/Documents/Complete-Text-of-Measure-A-20.pdf>.

¹¹² Donna Kimura, "Silicon Valley Firms Invest in Affordable Housing," *Affordable Housing Finance*, February 13, 2019, [https://www.housingfinance.com/finance/silicon-valley-firms-invest-in-affordable-housing o](https://www.housingfinance.com/finance/silicon-valley-firms-invest-in-affordable-housing-o).

¹¹³ Gennady Sheyner, "Palo Alto Approves Permanent Office Cap," *Palo Alto Online*, May 1, 2018, <https://www.paloaltoonline.com/news/2018/05/01/palo-alto-approves-permanent-office-cap>.

for more affordable units, or by obligating the developer to build or buy AH elsewhere. Both MV and PA have used these methods to incentivize housing development. Mountain View has had a greater degree of success, in part because it has been much more aggressive with office development.

4. Contributing city-owned land. The inventory of available city land can have a significant impact on the cost and risk of building AH.
5. Using tax increment financing. As property taxes rise above a base year, the added amount, or the “increment,” could be used to finance AH and/or needed infrastructure. To do this, some of the increase in property tax revenue that has traditionally supported operations like the police and fire departments would be redirected to AH. No new taxes would be required because this is a diversion of property taxes from other services. This approach has long been in use in the United States and elsewhere but has many legal complications that would need to be addressed.
6. Establishing new ongoing sources of revenue by relying on a broader base of payors rather than an individual project developer. Revenue could include new business taxes, fees on real estate activity such as transfer taxes and recording fees, or parcel taxes. Both PA and MV are exploring these opportunities. Mountain View changed its business licensing tax in 2018 and currently raises about \$6M per year. At this time, MV intends to spend these funds on capital projects related to commuting activity instead of AH. The increased AH housing targets in the next RHNA cycle may cause MV and PA to consider asking voters to consider increasing local property taxes as part of their funding solution.¹¹⁴ ([Finding 12](#))

Mountain View’s success in developing a local housing fund enabled the City to issue several Notices of Funding Availability (NOFAs).¹¹⁵ These substantial NOFAs, 2014 (\$12.5M), 2016 (\$36M), and 2018 (\$22M), encouraged developers to come forward with AH proposals.¹¹⁶ Mountain View’s commitment to AH funding set the stage for leveraging other sources of financing to build affordable housing projects.

¹¹⁴ Kevin Forestieri, “Facing a Requirement to Allow 11K New Homes, Mountain View Looks to Update its Housing Plans,” *Mountain View Voice*, August 16, 2021, <https://mv-voice.com/news/2021/08/16/mountain-view-seeks-to-update-housing-plans-following-new-requirement-to-allow-11k-new-homes>; Gennady Sheyner, “New Numbers, Same Concerns as Palo Alto Challenges Housing Mandate,” *Palo Alto Weekly*, January 13, 2021, <https://www.paloaltoonline.com/news/2021/01/13/new-numbers-same-concerns-as-palo-alto-challenges-housing-mandate>.

¹¹⁵ Notice of Funding Availability is a public notice issued by a governmental entity which announces the availability of funding for a specific purpose and can be requested through an application process. It is typically awarded competitively for proposals that achieve an outcome desired by that organization.

¹¹⁶ Mark Noack, “Affordable Housing Project Carries Steep Price,” *Mountain View Voice*, April 20, 2018, <https://mv-voice.com/news/2018/04/20/affordable-housing-project-carries-steep-price>.

100% affordable housing projects vs. mixed-use projects

There are two main types of AH projects. The first is the 100% AH type in which only housing is built, often by a non-profit organization. The second type is a mixed-use project. In mixed-use projects, the developer delivers a combination of occupant units, including some or all of office space, retail space and housing. Mountain View and Palo Alto have differing views on the relative use of these two project types.

The Montecito and La Avenida projects are examples of strong public funding for 100% AH projects. Both projects make use of significant County Measure A funds and MV pooled funds. That said, building 184 units and 264 bedrooms required committing \$34M, almost 50% of the MV Development Fund. One hundred percent AH projects may be too costly for cities to afford, particularly if cities cap commercial development and the fees or inclusionary units that such development generates.¹¹⁷

An alternative to 100% city-financed AH is the Gateway Master Plan (“Plan”) announced by MV.¹¹⁸ This large mixed-use project located at the Shoreline Boulevard entrance to MV’s North Bayshore neighborhood is a 29-acre project spanning land owned by Google, SyWest and MV. The Plan provides for 500,000 square feet of office space, 300,000 square feet of entertainment/restaurants and retail, and a 200-room hotel. After earlier attempts by Google and SyWest to agree on a plan failed, MV took the initiative and proposed this project.

The Gateway Plan provides up to 2,800 residential units. Twenty percent of those units (560) are affordable units. While the publicly accessible plan does not include financing data, the heavy office space and retail space components create a mixed-use blend that likely makes the project profitable for the two property owners. Mountain View contributed land to the deal and offered zoning that increased the FAR as an incentive. At the time of this report, Google likes the Plan, while SyWest has said it doesn’t meet its profitability requirements.¹¹⁹

Mixed-use projects typically involve substantial negotiations between a developer and a city. Developers need zoning concessions (height, parking, density) or other concessions such as reduced city fees. Cities need AH units or other public benefits in return for those concessions.

¹¹⁷ Inclusionary units are affordable housing units that a developer includes in a project—typically at a city-mandated percentage (e.g., 15 or 20%) of the total project units approved.

¹¹⁸ Martin Alkire, *North Bayshore Gateway Master Plan*.

¹¹⁹ Wesley Severson, “Mountain View Pushes Ambitious Development Plans, Developer Calls Them Unrealistic,” *Hoodline*, August 25, 2021, <https://hoodline.com/2021/08/mountain-view-pushes-ambitious-development-plans-developer-calls-them-unrealistic/>.

Although each project is unique, including profitable office space in the project underpins the developers' ability to provide AH and other community benefits. Achieving AH goals require that a balance be found between the community's needs and the developer's profitability requirements. ([Finding 13](#))

Unintended consequences of a commercial project focused funding approach

In addition to the benefits of mixed-use projects, the Gateway Project poses an important question: When a city permits more office space to be built, are enough units of AH created to support the service workers needed because of the increased office space? Gateway will generate at least three types of service worker demands:

- The new office buildings will require maintenance, landscaping, food service, and security workers.
- The project's restaurants, retail, and hotel operations will require service workers.
- There will also be impacts throughout the city - police, fire, teachers, grocery clerks, and others.

A very large percentage of the workers in the list above will be low-income employees and will require AH. At the high end of the Gateway Plan, the project will provide 560 affordable units potentially housing approximately 1,100 service workers.¹²⁰ Is that enough? ([Finding 14](#))

Homekey

The State of California has created significant housing funding through Homekey, which combines both state and federal funds.¹²¹ Cities and the County can use these funds to create affordable housing for the homeless and other vulnerable populations. In one such affordable housing implementation, MV has partnered with the State, the County, and a private builder (LifeMoves)

¹²⁰ Bay Area Council Economic Institute, *Technology Works*, p. 24-25; Non Profit Housing Association of Northern California, "Jobs/Housing Fit and the Effects on Bay Area Health, Equity and Environment," accessed December 10, 2021, <https://nonprofithousing.org/wp-content/uploads/2020/02/JH-Fit-Fact-Sheet-FINAL-9.15.pdf>.

¹²¹ California Department of Housing and Community Development, *Homekey: Bringing California Home*, accessed September 23, 2021, <https://homekey.hcd.ca.gov>; H. Blair Kincer, "Homekey Program Provides Additional Subsidy for Affordable Housing Development Across California," *Novogradac*, November 19, 2020, <https://www.novoco.com/notes-from-novogradac/homekey-program-provides-additional-subsidy-affordable-housing-development-across-california>; Wesley Severson, "Mountain View Pushes Ambitious Development Plans.," *Hoodline*.

to construct 100 units and 124 beds of Homekey housing.¹²² The Homekey funding for this project is \$14.4M. Occupancy began in the spring of 2021. Palo Alto is also considering a similar Homekey project.

The Homekey/LifeMoves target population in MV is homeless families, seniors, and disabled individuals. This program is intended to house people for 4-6 months, and they will subsequently need to find permanent AH.

¹²² City of Mountain View, *LifeMoves Mountain View Now Providing a Path to Stability for Individuals and Families Experiencing Homelessness*, May 6, 2021, <https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=35478>.

FINDINGS AND RECOMMENDATIONS

Finding 1

The Civil Grand Jury commends the City of Mountain View for prioritizing and exhibiting strong, visible support for affordable housing and progress towards Regional Housing Needs Allocation targets.

No recommendation.

Finding 2

The Civil Grand Jury commends the City of Mountain View for creating a multi-tiered communication plan that both communicates the value of affordable housing to all stakeholders and addresses their issues. This has engendered strong community support for affordable housing leading to many successful projects.

No recommendation.

Finding 3

The Palo Alto City Council has not taken a leadership role in developing community support for affordable housing planning and projects.

Recommendation 3

The City of Palo Alto should research how other cities foster support for affordable housing and develop a communication plan focused on increasing community support for affordable housing. The plan should be developed and made available to the public by June 30, 2022.

Finding 4

Palo Alto City councilmembers do not play a strong enough leadership role in personally engaging in community education and discussion to aid in resident acceptance of affordable housing.

Recommendation 4

The City of Palo Alto should conduct a “lessons learned” analysis from the 4-year unsuccessful North Ventura Coordinated Area Plan planning process. The City of Palo Alto should create an

improved process to bring residents to a shared understanding of the needs and complexities of affordable housing development. This process should include direct involvement of Palo Alto City elected leaders in community outreach. These recommendations should be completed by June 30, 2022.

Finding 5

The *Housing Element Plan* and land-use changes are foundational to supporting affordable housing, but they are not enough. Affordable housing also needs cities to create area-specific land-use and zoning plans like the City of Mountain View's Precise Plans. Mountain View has also prioritized affordable housing development by using its planning processes to specifically identify a set of projects and actions within a concrete time frame. The City of Mountain View is to be commended for both its use of Precise Plans and its short-term City Strategic Planning process.

No recommendation.

Finding 6

The City of Palo Alto's multiplicity of planning policies and documents creates lengthy processes and can lead to frustration for all parties, including neighborhoods as well as developers. The City of Palo Alto does not have a comprehensive set of plans organized by area or neighborhood that include all zoning elements and regulations that could support AH. Current plans do not clearly and concisely identify where affordable housing could be built with design and density acceptable to the City of Palo Alto and the community.

Recommendation 6a

The City of Palo Alto should identify, by March 31, 2022, three or four areas where significant affordable housing can be built.

Recommendation 6b

The City of Palo Alto should agree, by June 30, 2022, to task its planners to create realistic plans for each identified area in consultation with residents and developers.

Finding 7

Mountain View Planning Division's summary memo to the Mountain View City Council provides a clear, concise update on progress toward *Housing Element* goals. The City of Mountain View is commended for the clarity and conciseness of its *Annual Housing Element Progress Update* to the

Mountain View City Council. However, the *Annual Housing Element Progress Updates* with cover memos to the Mountain View City Council cannot be found easily by the public on the city's website.

Recommendation 7

The City of Mountain View should publish its *Annual Housing Element Updates* and the summaries (in an appropriate form) on the city's website by June 30, 2022.

Finding 8

Combining the City of Palo Alto's Housing Element Annual Update and the Comprehensive Plan Update with one cover memo does not communicate city progress in either area clearly.

Recommendation 8

The City of Palo Alto should publish the latest two years of its *Housing Element Annual Updates* and cover memos summarizing annual progress to the city's website by June 30, 2022. To better communicate to the public, the *Housing Element Annual Updates* and the *Comprehensive Plan Updates* should be separated.

Finding 9

The length of time it takes developers to get their plans approved is significantly higher in the City of Palo Alto compared to the City of Mountain View. This discourages developers from proposing residential development in Palo Alto.

Recommendation 9a

Once the guidelines for developments are clearly defined in area plans, the Palo Alto City Council preliminary review could be eliminated. The City of Palo Alto should establish a schedule by June 30, 2022, for defining and accepting the area plans identified in Recommendation 6a.

Recommendation 9b

The City of Palo Alto should explore combining the Planning and Transportation Commission and Architectural Review Board reviews into a single review, as is done in Mountain View. Palo Alto City staff should also consult with Mountain View planners to investigate ways to further

streamline the approval process. Recommendations for changes to the planning review process should be proposed by June 30, 2022.

Finding 10

Developers (both for-profit and non-profit) find it very useful to work with a designated individual who is responsible for the affordable housing target and coordinates all activities across developers, funding sources, city council, planning departments, and other stakeholders to enable progress on projects.

Recommendation 10a

The City of Palo Alto should identify an Affordable Housing Manager who can be responsible for the affordable housing target and ensure coordination among stakeholders by June 30, 2022. This role should be the primary focus of this individual and should have the support of Palo Alto's City Council.

Recommendation 10b

The City of Mountain View should identify an Affordable Housing Manager who can be responsible for the affordable housing target and ensure coordination among stakeholders by June 30, 2022. This role should be the primary focus of this individual and should have the support of Mountain View's City Council.

Finding 11

In the past decade, the City of Mountain View has created substantial affordable housing funding derived both from City revenues (fees, charges to developers, etc.) and from external funding. However, the City of Mountain View's fund is diminishing and needs to be built up.

Recommendation 11

The City of Mountain View should develop a specific affordable housing funding plan to cover its needs for the next five years by July 30, 2022.

Finding 12

The City of Palo Alto does not have a multi-faceted affordable housing funding strategy (including creating a fund for affordable housing as well as proactively leveraging all potential external funding sources) that would encourage it to build more below market housing.

Recommendation 12a

The City of Palo Alto should create a plan with specific goals and timelines by July 30, 2022, to build up the affordable housing fund considering tools such as business tax, document tax, bond measure, and property tax.

Recommendation 12b

The City of Palo Alto should create a Memorandum of Understanding with Santa Clara County by July 30, 2022, to establish goals and actions to leverage Measure A bond funding and advance identified affordable housing projects.

Finding 13

One hundred percent affordable housing projects are more reliant on scarce city funds and other resources compared to mixed-use projects that combine housing with commercial space. Having a city-wide portfolio of both 100% affordable housing projects and mixed-use projects will yield the greatest number of units and best utilize available funds.

Recommendation 13

The City of Palo Alto should include both mixed-use and 100% affordable funding opportunities in its affordable housing plan referred to in Recommendation 12a by July 30, 2022.

Finding 14

Relying on commercial development to fund affordable housing has the unintended consequence of increasing the need for affordable housing.

Recommendation 14

By July 30, 2022, both the City of Palo Alto and the City of Mountain View should require a Housing Impact Study in the approval process for new commercial development, that informs decision-makers about how the proposed project affects the job-to-housing ratio.

REQUIRED RESPONSES

Pursuant to Penal Code sections 933 and 933.05, the Civil Grand Jury requests responses as follows from the following governing bodies:

Responding Agency	Finding	Recommendation
The City of Mountain View	7, 10, 11, 14	7, 10b, 11, 14
The City of Palo Alto	3, 4, 6, 8, 9, 10, 12, 13, 14	3, 4, 6a, 6b, 8, 9a, 9b, 10a, 12a, 12b, 13, 14

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This report was **ADOPTED** by the 2021 Civil Grand Jury of Santa Clara County on this 16th day of December, 2021.

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Ms. Karen Delaney

Foreperson