



City of Temecula

Community Development

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September 12, 2019

The Honorable Peggy Huang, Chair
RHNA Subcommittee
Southern California Association of Governments
900 Wilshire Blvd, Ste. 1700
Los Angeles, CA 90017

RE: 6th Cycle of the Regional Housing Needs Assessment Allocation

Dear Ms. Huang:

The City of Temecula would like to thank you for the opportunity to provide comments on the Regional Housing Needs Assessment (RHNA) draft methodology options for the SCAG region. We would like to stress that the City of Temecula is an active partner in this process and is willing to take on its fair share of the region's housing needs; however, it is important for the City of Temecula, as well as for all of the partnering jurisdictions, that the selected RHNA allocation methodology is equitable, achievable, and consistent with the State and regional sustainable development goals.

The City of Temecula has reviewed each of the three RHNA draft methodology options released for public input. Based on our review, the City of Temecula suggests the following as SCAG evaluates which methodology best serves the long-term needs of our region.

Applicable to All Options

Existing Need – Vacancy Adjustment

We recommend that the "existing need" for all Options include an updated vacancy adjustment that adequately addresses jurisdictions that have a high percentage of vacancies that are not for sale, sold pending occupancy, for rent, or for rent pending occupancy. Jurisdictions with high percentages of second units, vacation rentals, and other similar types of vacancies reduce the amount of housing available to the region's residents and should be encouraged to provide for more permanent housing options.

The vacancy adjustment should assign additional units to jurisdictions that have a higher than average percentage of units vacant for seasonal, recreational, or other purposes. This adjustment will help correct for jurisdictions that have an excess of housing units that simply are not available for occupancy on a year-round basis and are not available to address the region's housing needs. This would encourage jurisdictions to consider adopting ordinances that ban or limit short-term rentals and other housing practices that exacerbate the shortage of housing units that are available as permanent housing options in the region.

The City of Temecula recognizes the need to protect our housing stock. Under the principles of permissive zoning, the City prohibits short term rentals in the City. When the City receives complaints pertaining to short term rentals, the City investigates those complaints, and issues administrative citations where appropriate.

Earlier this year, the City's Planning Commission recommended that the City Council consider adopting an express ban on short term rentals. An ordinance addressing short term rentals is anticipated to be considered by the City Council later this year, while the City continues to analyze the impacts locally. Additionally, the City Council directed staff to present a resolution increasing the fines that are imposed on illegal short term rentals.

The City Council also directed staff to hire a consultant to track the short term rental market so that staff could determine which properties are illegally being used as short term rentals. The City hired Host Compliance to research and provide data on the short term rental market in Temecula. This allows the City to take a more proactive approach in bringing possible enforcement actions against those property owners that are illegally operating short term rentals in the City. The City is making a concerted effort to actively protect its permanent housing stock by reducing the number of short term rentals operating in the City.

Local agencies that allow, and even encourage, short term rentals to operate in their jurisdictions are not doing their fair share to accommodate the region's housing need. As part of the RHNA allocation methodology, SCAG should include an updated vacancy adjustment into the measurement of existing need that accounts for properties that are being used as short term rentals rather than as permanent housing stock.

Existing and Projected Need – Overcrowding

Jurisdictions with a higher incidence of severe overcrowding, that is households with an average of 1.51 persons or more per room, have a demonstrated need for more housing units to better accommodate their existing households. The high incidence of overcrowding may also indicate a higher demand for housing in these areas, compared to other jurisdictions that do not experience higher-than-average overcrowding rates. In areas with a higher incidence of overcrowding, there are existing households excessively burdened by the lack of affordable housing and required to live in constrained and potentially unsafe situations in order to afford a home. It is anticipated that current growth trends would continue to exacerbate overcrowding issues. The RHNA should be adjusted to include a factor that addresses overcrowding, with an emphasis on providing a larger share of RHNA in jurisdictions where a higher-than-average percentage of households experience severe overcrowding.

Existing and Projected Need – Overpayment

Jurisdictions with a higher incidence of cost burden, that is households who are overpaying or severely overpaying for housing should be allocated a larger share of the RHNA. The RHNA should be adjusted to include a factor that addresses housing cost burdens, with an emphasis on providing additional extremely low, very low, and low income units in jurisdictions where a higher-than-average percentage of households experience severe overpayment or cost burden (e.g, those areas where households are paying 50% or more of their income toward housing costs).

Projected Need – Consistency with 2016 SCAG RTP/SCS

The "projected need" for all Options must address existing and future High-Quality Transit Areas (HQTAs) consistent with growth plans and projects articulated in the 2016 SCAG Regional Transportation Plan/Sustainable Communities Strategy (RTP/SCS). This is necessary to ensure that an appropriate mix of affordability is provided in specific locations to serve future HQTAs and ensure that population growth occurs in the vicinity of future HQTAs in order to support transit extensions. We find that this must be an integral factor for all methodologies; providing adequate housing as well as a mix of affordability levels where significant household/population growth is anticipated (in conjunction with areas currently or anticipated to be served by high-quality transit) is a cornerstone of our region's growth plans and as such, the RHNA methodologies must support and be consistent with the RTP/SCS.

The approach of allocating the RHNA to HQTAs based on an HQTA's percentage of the existing population serves to under allocate growth to future HQTAs. The RHNA will result in jurisdictions reviewing and assessing their housing capacity. The RHNA must support appropriate planning to ensure sufficiently high densities in the vicinity of existing and future HQTAs to support transit-oriented development and to ensure that the housing opportunities in HQTAs provide for a range of housing affordability levels. Changing the methodology to allocate growth based on the buildout population of an HQTA rather than the existing population would serve to reduce the potential for overconcentration of lower income units in HQTAs that have already been developed with sufficient lower income units, while ensuring that growth within HQTAs supports existing and planned transit.

That said, the RTP/SCS is a long-range plan that envisions future transit improvements that are not yet funded. In light of the comparatively short-term nature of the 2021-2029 housing element cycle, projected need related to future HQTAs should give more weight to projected need in the vicinity of existing, near-term, and mid-term HQTAs, including those where the necessary infrastructure projects have been identified and allocated funding, as the projected units are likely to be constructed in the next eight to twenty years. Those jurisdictions that will receive funds for HQTAs in the next eight years should have a greater share of the RHNA than those jurisdictions that may not be able to fund future HQTAs until the next housing element cycle. However, while the RHNA is relatively short-term in nature, the RHNA is likely much higher than actual development that will occur in the next eight years. By distributing the RHNA where growth is anticipated in the near- and mid-term, land use decisions made in response to the RHNA will ensure that growth patterns in those areas are transit-oriented and provide appropriate densities to support planned HQTAs and transit extensions. Those jurisdictions that will receive funds for HQTAs in the next eight years should receive a greater share of the RHNA than those jurisdictions that may not be able to fund future HQTAs until the next housing element cycle.

By creating consistency between the RHNA methodologies and RTP/SCS, the region can be better prepared to address issues related to reductions in vehicle miles traveled (VMT), greenhouse gas emissions, sustainable and responsible land use decisions, and support better regional air quality, transportation, and public health priorities.

Specific Option 1 Recommendations

Option 1 should reflect the growth potential of a jurisdiction with consideration to entitled projects and should ensure that all jurisdictions receive their fair-share of the RHNA. Option 1 should also be revised, as discussed above under "Applicable to All Options", to ensure that vacancy patterns, particularly those that relate to seasonal homes and vacation rentals, overcrowding, housing cost burden rates, and consistency with the 2016 RTP/SCS, particularly ensuring appropriate growth within HQTAs, are adequately addressed.

Projected Need – Requires Appropriate Distribution of Growth

Distributing the RHNA with such a strong emphasis on projected growth penalizes those jurisdictions that have planned for higher density residential by up-zoning land and does not ensure that jurisdictions with low-growth or no-growth land use plans are accommodating their fair share of the RHNA. The "projected need" calculated under Step 2a must 1) address the share of a region's planned household growth that is already entitled, 2) ensure that each jurisdiction's growth plans are consistent with the growth anticipated in the 2016 RTP/SCS, and 3) assign need to jurisdictions that may have not adequately planned for growth in past cycles.

If a jurisdiction has already entitled some or all of the household growth projected during the forecast period, the RHNA for that share of growth should only reflect the income levels of the entitled growth. Any portion of the RHNA that conflicts with entitled growth should not be assigned to that jurisdiction and should be re-distributed equitably amongst all jurisdictions, including those that have not adequately planned for growth. This correction for entitlements recognizes that a jurisdiction cannot change the affordability mix in areas where it has already approved specific development projects and also ensures that all jurisdictions work to address the RHNA.

For example, Temecula reported capacity for 11,844 units to SCAG by 2045. Of this capacity, 9,986 units are entitled. Temecula does not have the legal authority to adjust the density or impose affordability levels upon these approved projects. Temecula's remaining growth of 2,053 units through 2045 is not entitled and has the capacity to accommodate a broader range of income levels. However, it is also noted that although we have the capacity for 11,844 units through 2045, a review of our planned growth and building permit data indicates that an annual production rate of 433 units would be needed to achieve 11,844 units by 2045.

Reviewing the growth projections reported to SCAG for this RHNA cycle versus the growth identified in the RTP/SCS indicates that allocating growth based on a jurisdiction's recent reported capacity and growth plans results in significant under allocations and over allocations throughout Riverside County. This could be because jurisdictions were conservative with their reported potential growth in light of the upcoming

RHNA, or it could be that jurisdictions did not fully review their growth potential. Therefore, it is recommended that the allocations based on projected need and growth include a factor that reflects the projected growth based on the RTP/SCS to ensure that the environmental and sustainable community benefits of the RTP/SCS are not impeded.

It is also recommended that a factor be included that reflects each jurisdiction's needs based on its existing share of the region's population, regardless of a jurisdiction's plans for growth. This ensures that each jurisdiction in the region is required to proactively address its fair-share of the regional housing need and ensures that jurisdictions that have failed to plan adequately for growth, through this process or through the RTP/SCS process, are accommodating their fair-share of housing needs.

The changes we have suggested would remove this 'penalty' to jurisdictions that have been proactive in anticipating growth and would ensure that all jurisdictions are accommodating their fair-share, rather than overburdening jurisdictions that have responsibly planned for growth.

Specific Option 2 Recommendations

The methodology for Option 2 does not address where growth is planned and is inconsistent with the RTP/SCS as it does not support the areas identified for future development. At a minimum, this option should address the capacity of a jurisdiction to accommodate its RHNA and should provide for a greater adjustment to support future HQTAs. This could include areas where the existing HQTA population may be low, but there is a need for transit-oriented development and the RHNA should address the need for increased density based on the future HQTAs. As such, the methodology should address the desired population around each HQTA, not existing population. See comments above regarding future growth areas (HQTA) being responsibly identified and tied to near- or mid-term growth plans, with an emphasis on ensuring adequate distribution for HQTAs with infrastructure that already has been allocated funding.

In addition, Option 2 does not address the factors that have led to an excessively high RHNA for the region. This option must be adjusted to ensure that jurisdictions with housing indicators that demonstrate a strong need for lower income housing and that have directly contributed to the region's allocation from HCD are appropriately allocated their fair-share of the RHNA. Factors to address the nature of vacancies (e.g., vacation rentals, seasonal homes, and other housing types that do not contribute to the housing stock available for year-round occupancy by residents of a jurisdiction), overpayment, and overcrowding (with an emphasis on providing additional extremely low, very low, and low income units in areas experiencing extreme cost burden and severe overcrowding), are vital to ensuring that this option truly provides for each jurisdiction's "fair-share" of housing needs.

Specific Option 3 Recommendations

Existing Need – Socioeconomic Characteristics

Option 3 does not address jurisdictions that have an existing undersupply of housing or jurisdictions where there are significant housing needs as indicated by factors such as overpayment, vacancy, overcrowding, and a large amount of vacation homes, short-term rentals, and other issues that restrict access to permanent housing options. These issues discussed in the "Applicable to All Options" section of this letter should be addressed and accounted for in the methodology for Option 3.

Projected Need – Accurate Reporting

Based on our review, we find that Option 3 severely penalizes jurisdictions that are already doing their part to plan for growth and fails to address a number of other factors that affect housing need. The methodology of Option 3 creates a scenario whereby it is in a jurisdiction's best interest to underreport planned growth and/or, in an abundance of caution, provide conservative estimates regarding future growth. Moreover, jurisdictions that may have outdated or inadequate land inventories or have a poor understanding of their growth potential will not be able to provide the same level of detail or data accuracy as better-prepared jurisdictions, resulting in unequal distributions not based on fact, but rather faulty data. This is apparent if one compares the RHNA allocation of cities with similar profiles under Option 2 and the drastically divergent RHNA allocation for those same cities under Option 3.

The City of Temecula has taken proactive steps to plan for growth, including allowing for a range of housing densities and affordability levels in our community. While our City has allowed for this growth to occur, and accurately reported these plans to SCAG, this growth is expected to occur over time and potentially at levels lower than the maximums allowed by our planning documents (based on market conditions outside of our control). It is inequitable and inappropriate to assume that jurisdictions like Temecula (who are already planning for growth) should be responsible for accommodating such significant percentages of the region's share because we have proactively adopted responsible plans that allow for growth, while other jurisdictions have not. See the discussion of this issue under Option 1.

Projected Need – Reflection of Entitled Projects

As previously discussed under Option 1, distributing the RHNA with such a strong emphasis on projected growth penalizes those jurisdictions that already have planned for growth and does not ensure that jurisdictions with low-growth or no-growth land use plans are accommodating their fair share of the RHNA. The "projected need" must address the share of a region's planned household growth that is already entitled. A jurisdiction cannot change the affordability mix in areas where it has already approved specific development projects. The change we have suggested under Option 1 applies to Option 3 as well. An adjusting Option 3 would: 1) ensure that the RHNA does not conflict with entitled growth, and 2) ensure that all jurisdictions accommodate some portion of the RHNA regardless of their foresight to responsibly plan for growth would remove this 'penalty' and ensure that all jurisdictions are accommodating their fair share.

The Option 3 methodology (11,231 units) would require the City to issue 1,404 units per year during the next eight-year housing cycle, which greatly exceeds the City's planned growth pattern and capacity. This is an unrealistic number given that we have four major projects entitled (Sommers Bend, Old Town, Uptown, and Altair) to accommodate more than 9,771 number of medium to high density residential units, yet our generally "pro-growth" City issued 90 building permits in 2018 due to existing market conditions.

Based on the proposed RHNA methodologies data appendices for permits issued from 2006-2018, the City has issued 5,625 permits; an average of 469 building permits per year. At the City's average permit issuance rate during the last 12 years of 469 permits per year, the City would have a shortfall of 5,606 units under Option 3. Furthermore, based on the SCAG reported 2019 Local Profiles for Temecula, the City highest number of permits issued between 2000-2018 was 1,386 permits in year 2000, followed by the second highest year of permits issued in 2004 of 1,296 permits, while the remainder of these years show the highest number of permits issued of 651 permits or less per year. Even if the City is able to sustain a remarkably high growth rate of 1,386 permits per year for the entire RHNA cycle, the City would have a shortfall of 143 permits. Option 3 significantly exceeds the City's capacity for growth based on the average number of permits per year, and also exceeds City's capacity for growth based on the highest growth rate scenario. It should be noted that the RHNA methodology data appendices for permits issued does not match up with the data from the SCAG report 2019 Local Profiles. That said, all three of the options exceed the City's capacity as shown in the table below.

TABLE 1: TEMECULA'S HOUSING PRODUCTION CAPACITY VERSUS SCAG RHNA METHODOLOGY OPTIONS

	Option 1	Option 2	Option 3
Proposed / Estimated RHNA	7,195	6,393	11,231
Average Annual RHNA Production Required	899	799	1,404
Temecula's Actual Capacity			
Estimated Housing Production for 6 th RHNA Cycle based on average permits per year (8 yrs x 469 ave. permits/yr. = 3,752 permits)	3,752	3,752	3,752
Shortfall – Temecula's Capacity less the RHNA			
Average Annual Permits (2006-2018)	(3,443)	(2,641)	(7,479)

A better distribution of the RHNA, as recommended above, would ensure that jurisdictions that are not contributing to increasing the housing supply in the region are also required to accommodate their fair-share of housing needs and not rely on those jurisdictions that have planned for growth to compensate for jurisdictions that are contributing to an undersupply of housing for all income levels. Under each of the current options, the City is allocated far more annual growth than the City has ever permitted, due to market conditions and not zoning capacity. The allocation assumes that the City's growth would be condensed or concentrated over a shorter time frame and occur at the highest densities possible, rather than reflecting a realistic growth rate and pattern for Temecula.

For the reasons mentioned above, the City of Temecula strongly opposes the methodology of Option 3.

Appeal to the California Department of Housing and Community Development

The City of Temecula also recommends that SCAG appeal the regional determination number provided by the California Department of Housing and Community Development (HCD) as we believe SCAG has substantial basis to do so.

In addition, SCAG should complete an analysis on the number of short term rentals in the region relative to the cost of housing. The impacts of short-term rentals should be specifically incorporated into the methodology, and jurisdictions that allow short-term rentals should be assigned a higher ratio accordingly, as those rentals diminish the housing stock available to long-term occupants, contributing to the housing shortage and driving up the cost of housing.

City of Temecula Support for Option 2

Although the methodologies used in all of the options could be improved as identified above, the City of Temecula supports RHNA Methodology Option 2, because it results in the most equitable RHNA distribution as a result of its reflection of growth around HQTAs. We find that growth around existing and future high-quality transit areas is most consistent with the 2016 SCAG RTP/SCS, will best support the success of future transit extensions, and support reductions to regional VMT and GHG emissions, creating a healthier, safer, and more sustainable region.

The City of Temecula appreciates the opportunity to provide input into the RHNA process. Should you have any questions, please contact me at (951) 694-6415 or via email at luke.watson@TemeculaCA.gov

Sincerely,



Luke Watson
Director of Community Development

cc: Aaron Adams, City Manager
Rick Bishop, Executive Director, Western Regional Council of Governments