



Palo Altans for Sensible Zoning

August 15, 2019

PLAN BAY AREA 2050 METHODOLOGY

The current Plan Bay Area 2040 has led us towards critical community problems. The methodology for the updated Plan Bay Area 2050 must clearly acknowledge the problems it has contributed to and a clear pathway that lead us to an outcome that will benefit all.

Plan Bay Area is important—it provides jobs and housing projections for the region as a whole and for every city within the region. The numbers guide state and regional spending on transportation and housing. These projections are used by city planning staffs, virtually all the consultants who work for the cities, by academics doing their own analysis and forecasting, by the media and by state politicians. There is only one chance in every eight years to correct the jobs and housing projections in this Plan and now is that time.

What problems are embedded in the current Plan? The current Plan is based on an aggressive jobs-driven model that emphasizes jobs-rich areas as the centers of priority development areas. This has led to critical problems. Over the first seven years covered by the current Plan (2010-2017) we have had high concentrations of job growth in the West Bay, astoundingly high housing prices, a huge jump in long distance commuting, higher levels of congestion, transit overload, a jump in income inequality, a growing tax burden on residents, sustainability challenges and a deep threat to local democracy.

We need to define a more open and inclusive planning process that clearly identifies our current problems and offers opportunity for a full public discussion of a new more effective Plan Bay Area 2050.

WHAT ARE THE MANIFESTATIONS OF OUR METHODOLOGY PROBLEMS TODAY?

The current Plan Bay Area 2040 is based on a jobs-driven model. It starts with a regional job growth projection that seeks to concentrate growth in jobs-rich priority development areas.¹ It has asserted that a rapid growth of new jobs would be spread in urban centers around the Bay Area while an effective transit system could make these job centers flourish effectively. Through the first seven years of the Plan (2010-2017), the result has been quite the opposite: very rapid job growth has been concentrated in a dramatically narrow band of West Bay cities. (The West Bay includes the city of San Francisco, all the San Mateo County cities east of Highway 280 and the five cities in Northern Santa Clara County that have been associated with Silicon Valley-- Palo Alto, Mountain View, Sunnyvale, Santa Clara and Cupertino).

¹ ABAG resolution 02-19.

The original intention of Plan Bay Area was to concentrate job growth in the three big cities of the Bay Area—San Francisco, San Jose and Oakland. While San Francisco and the neighboring Silicon Valley cities would be the fastest growing job center, together San Jose and Oakland would create about half as many new jobs each year as the West Bay. In practice, the West Bay has added well over SEVEN TIMES the number of jobs as San Jose and Oakland over the first seven years of the Plan (Table 1).

Table 1
The Projections in Plan Haven't Worked
(average annual job growth)

| | Projected (2010-2040) | Actual (2010-2017) |
|------------------|--------------------------|-----------------------|
| West Bay | 19,857 | 36,245 |
| Oakland/San Jose | 7,717 | 5,044 |

Source: Plan Bay Area: Strategy for a Sustainable Future (July 2013), "Employment Growth by Jurisdiction"; and Census Bureau, ACS Factfinder (Advanced search on B08601 and DP03).

In actuality, over the seven years from 2010 to 2017 San Francisco and the cities of the West Bay have created about two and a half times the number of new jobs compared to the rest of the whole Bay Area. (Table 2) Half of those new jobs have been filled by commuters crossing the Bay or travelling along the narrow and congested pathways from the south.

Table 2
New jobs created and new employed residents added: 2010-2017
(in thousands)

| | New jobs | New Employed Residents | Ratio Jobs/Emp Res |
|------------------------------|-----------|---------------------------|-----------------------|
| San Francisco | 120 | 60 | |
| Five Silicon Valley cities | 88 | 30 | |
| San Mateo cities east of 280 | <u>44</u> | <u>32</u> | |
| West Bay Total | 252 | 122 | 2.1:1 |
| Rest of Santa Clara Co | 59 | 94 | |
| Rest of San Mateo Co | 2 | 12 | |
| Alameda Co | 23 | 110 | |
| Contra Cost Co | 19 | 53 | |
| Marin Co | <u>3</u> | <u>5</u> | |
| Rest of Bay Area Total | 107 | 274 | 0.4:1 |

(Census Bureau, ACS Factfinder, Advanced search on B08601 and DP03)

This huge imbalance in job growth has created severe problems throughout the Bay Area. The rapid job growth in a relatively constrained strip of ground bounded by mountains on one side and the Bay on the other has resulted in severe problems: land and housing costs are the highest in the country, congestion is escalating, there are disturbing inequalities in incomes, family workers are commuting longer distances, overloaded regional transit systems need major upgrades, commute times are increasing, we are facing new challenges in our ability to create a sustainable future and the functioning of local democracy is under challenge. We need a methodology that will systematically explore each of these challenges.

TEN CHALLENGES THAT MUST BE ADDRESSED

There are at least ten major economic, financial and societal problems that flow from the concentrated job growth and increased congestion engendered by the serious imbalances we have identified:

*** *LAND PRICES.***

The rapid expansion in business growth in jobs-rich areas has driven up the cost of land and the share of land costs in total housing prices. A recent Federal Reserve study has tracked land cost escalation in 46 metro areas around the country. They found that in the 46 metro areas, land's share of home value accounted for 51% of total market value of home prices. The highest share was in the San Francisco metro area where over 88% of the market value of a home was accounted for by land. The San Jose metro area was a close second with 82%. In general the cities in California were well ahead of the rest of the country in land price share.² This is clearly driven by the aggressive expansion of office space in the West Bay.

*** *HOUSING PRICES.***

Home prices in San Francisco and in the San Jose Metro area are now the highest in the country. The same is true of rental rates for apartments (Table 3).

² Morris A. Davis and Michael G. Palumbo, Federal Reserve Board, Staff Paper 2006-25, Washington DC).

Table 3
The Bay Area has the most expensive housing in the Country
(Metro Areas)

| | <u>Median Housing prices</u> (thousands of dollars) | <u>Monthly Rentals</u> (dollars/month) |
|---------------|--|---|
| San Francisco | 955 | 3448 |
| San Jose | 1,230 | 3547 |
| Los Angeles | 652 | 2955 |
| Seattle | 491 | 2232 |
| Boston | 468 | 2391 |
| New York | 440 | 2419 |
| Washington DC | 407 | 2172 |
| Austin | 310 | 1700 |
| Dallas | 244 | 1641 |

Zillow, February 2019

Prices are especially high in the job-rich cities of the West Bay. But the rate of increase is just as high in the surrounding communities that feel the commuting effects from the centers of job growth (Table 4). The housing price impact has spread to every part of the Bay Area.

Table 4
Increase in housing prices throughout the Bay Area
(annual percent increase in median family home prices, 2010-2018)

| | |
|-------------------------|------|
| The Core | |
| Silicon Valley 6 | 11.4 |
| San Francisco | 10.2 |
| Surrounding communities | |
| San Jose | 10.1 |
| Milpitas | 12.9 |
| Fremont | 10.3 |
| Hayward | 10.4 |
| Oakland | 12.9 |
| Concord | 10.4 |

Source: siliconvalleymls.com

*** INCOME INEQAULITY.**

Highly paid new workers are taking the existing housing that is being offered on the markets as well as the new housing being built. A recent study by Brookings showed that of all US Metro areas that San Francisco had the largest income gap between the 95th and 20th percentiles other than the New York area. While the San Jose Metro area income gap was slightly lower, it was growing at the second highest rate in the country in recent years (just behind Honolulu).³ A recent Census Bureau report noted that the income gap between the 90th and the 50th percentiles were growing at about the same rate as the gap between the highest and the lower income groups.⁴

*** CONGESTION.**

More people commuting longer distances have crowded local freeways on both sides of the Bay. The time spent in congested traffic conditions throughout the Bay Area has been growing almost 10% per year since 2010.⁵

*** TRANSIT OVERLOAD.**

The key to dealing with the growing number of commuters is to get them onto public transit. Three transit systems serve commuters to the West Bay: BART, Caltrain and the VTA. While transit ridership on these lines grew though the 1990s and 2000s, over the last three years, both BART and Caltrain have found their ridership leveling off and even dropping a bit from 2016 to 2018. The Santa Clara County transit system that services San Jose and the five Silicon Valley cities (VTA) has had a 14% fall in ridership over those three years.⁶ The costs of maintaining current service much less any planned expansion has escalated rapidly, making quick improvements slow and costly.

*** IMPACT ON FAMILIES.**

As we move toward greater densification, congestion has raised the issue of family living in the Bay Area. Denser apartment buildings near jobs serve workers well, but they are not ideal for families with children. Clearly San Francisco with its dense housing and nineteenth century transportation system is already an outlier. It has the lowest ratio of children between the ages of five and seventeen as a share of the total population of any city in the country—just under the ratio of other dense cities built up before the automobile like New York and Boston. But there are troubling signs of changes in other cities in the West Bay. The share of the population in early elementary school has fallen between 5% and 10% in Cupertino, Palo Alto and Sunnyvale over the period 2015 to 2019 among the other job-rich cities in the West Bay. The neighboring city of East Palo Alto has seen a drop of over a quarter in the share of the population in elementary school.⁷

³ Berube, Alan, “Income Inequality in cities and metro areas: An update” Brookings: Metropolitan Policy Program, 2016, Appendix X).

⁴ Glassman, Brian, U.S. census Bureau, “Income inequality among Regions and Metropolitan Statistical Areas: 2005 to 2015”, SEHSD Working Paper Number: 2017-41).

⁵ *Horizons, Vital Signs “Bay Area: Time spent in Congestion”*)

⁶ BART, Caltrain and VTA operating statistics.

⁷ Data taken from California Department of Education, School Profiles, and California Department of Finance, E-5. Population Estimates for Cities and Counties, 2011-2019.

**** TAX BURDEN ON RESIDENTS.***

Rapid growth in jobs and workers leads to dramatic increases in infrastructure costs. This includes a wide range of items from worker housing, transit improvements, offsetting increased congestion, improved roadways, police, health responses, schools and recreation facilities. The vast majority of local infrastructure funding is paid by residents, not by businesses. Residents pay through higher property taxes, parcel taxes, sales taxes, and gas taxes. For example, the base tax for all local government (cities, counties, schools, community colleges) is the Property Tax. Prop 13 has shifted a major share of that tax from business to residents. In the mid-1980s, commercial properties and residences in Santa Clara County paid roughly the same share of the property tax. In 2018 despite the rapid growth in new jobs in the county residents paid 62% and commercial properties 38%.⁸ Furthermore, at least three quarters of all new transportation funds for the Bay Area come from local and regional sources that fall on individual residents such as gas taxes, sales taxes, parcel taxes and property taxes.⁹ Most of these are regressive taxes with middle and lower income people paying a larger share of their income for such taxes.

**** DON'T KILL SILICON VALLEY***

Silicon Valley emerged as a dynamic center of tech innovation partially because of its unique features of mobility both of talented workers and ideas flowing easily from place to place. Historical observers have pointed to two unique features of the Valley that were critical to its success: a very high rate of people changing jobs and the lack of large dominant firms that could capture new ideas as they emerged.¹⁰ The emergence of very large companies and the densification jobs within the Valley is challenging the traditional mobility of workers and ideas that lie at the basis of Silicon Valley's unique success. In 2015 an anti-trust case was resolved that stopped an agreement among several large Silicon Valley firms agree that they would not hire workers from each other.

**** SUSTAINABLE GROWTH GOALS.***

With the dramatic increase in commuters coming into the job-rich West Bay, the number of cars on the road, the distance traveled and the longer time spent in congested traffic all mean a rise in harmful emissions. It is essential that we develop an effective public transportation system that will minimize the pollution but it is hard to deal with our current problems when we keep adding longer-distance commuters. An increasing share of workers with families will continue to live in suburban communities. Further, increased water needs from the growing number of office buildings and new worker housing (especially those with families) means that the Bay Area's chronic water shortages will be exacerbated as changes in climate impact the limited sources of water that the Bay Area depends upon.

**** THE FUTURE OF LOCAL DEMOCRACY.***

The greatest threat of all is the increasing pressure to usurp local government control over zoning. A number of bills are being debated in the state legislature that would override local zoning authority on housing density. While regional cooperation on creating healthy balances between new jobs and housing is essential, this should be done through working together, not

⁸ Santa Clara County, County Assessors 2018-2019 Annual Report, page 14.

⁹ MTC, Plan Bay Area 2040, Draft EIR, April 17, 2017, p 1.2-13.

¹⁰ Annalee Saxenian, "Regional Advantage: Culture and Competition in Silicon Valley and Route 128", Harvard University Press, 1994 and Martin Kenney, ed. "Understanding Silicon Valley: The Anatomy of an Entrepreneurial Region", Stanford University Press, 2000).

from having regional solutions imposed by state legislators. This destroys the very essence of local government—the ability of individuals to participate directly in decisions that affect the daily family life of their communities.

LET'S MAKE SURE THAT PLAN BAY AREA 2050 WORKS

The planning process used in the formulation of Plan Bay Area 2040 has not been effective in preparing us to deal with today's overriding issue of job concentration in a geographically bounded area. In fact, it has completely missed the impacts of the exaggerated jobs/employed resident imbalances in the West Bay. Jobs are expanding there at almost twice the annual average projected in the Plan (and 35% less than projected in the major cities of San Jose and Oakland). This has had serious consequences for the whole region. The methodology for Plan Bay Area 2050 must confront these imbalances and assure effective public discussion on planning for our future. That process must start now if it is to confront the existing problems and offer pathways to resolving the most important issues. We suggest three key methodological steps as critical for the upcoming planning process:

1. END THE JOBS-BASED MODEL

MTC/ABAG base their population and housing projections for each community in the Bay Area on a model that starts with an aggressive regional job projection. The original job projections were based on maintaining the local share of a national BLS job projection by industry. The projections of jobs, population and housing for each community were then produced internally (based on their own consultants work, their own Technical Advisory Committee and their own self-appointed advisory groups). Once approved, the job growth starting point could not be lowered or even examined by subsequent CEQA processes. (Plan Bay Area 2040 is currently operating under a jobs growth number that was generated in 2011 and will continue in effect until 2022. During that time period, no lower regional job projection number could be considered (although a higher one can be).¹¹

The model seriously underestimated the high job growth numbers in one specific jobs-rich area—the West Bay. That has been a key cause of the problems discussed above. The process would be much improved by having a range of job growth options explored upfront both in the region as a whole and in key sub-regions, like the West Bay. This would allow the modeling process to compare impacts of a range of jobs and population projections for the region as a whole, as well as key sub-regions. This would foster the exploration of alternative job growth projections on land costs, housing costs, congestion, income inequality, infrastructure needs and sustainability goals.

The initial methodology must allow communities to explore job growth and housing growth together upfront, including potential regional imbalances. This would allow public discussion of the consequences of a more moderate and balanced jobs and housing growth throughout the Bay Area and in special regions and the range of impacts on their communities.

¹¹ MTC, Plan Bay Area 2040, Final EIR, July 10, 2017, Master Response #6, p 2-16.

2. PROVIDE REALISTIC ALTERNATIVES FOR BALANCED GROWTH

MTC/ABAG has suggested a process that should be at the core of planning for Bay Area 2050. Horizon's Perspective Paper: The Future of Jobs (May 2019) identified a few Priority Strategies that would help. One was particularly suited to the problems of the West Bay. It was Priority Strategy L3: "Office Development Limits in Jobs-Rich Communities". This strategy stated that cities that have a job/housing ratio of over 2:1 merited special attention.¹² But Table 2 pointed out that the entire West Bay was adding jobs at well over a 2:1 ratio over the period 2010-2017.

Thus the entire West Bay qualifies as an area that is job rich, with a transit system that is at full capacity and difficult commutes over restricted bridges or crowded north-south roadways. Between 2010 and 2017 this area added 250K jobs with half of them coming from outside the area using crowded commute corridors.

This has created the list of critical issues that affect the whole Bay Area. There is no easy transit solution available. Denser housing is limited because the land cost in the fastest growing job centers is so high that developers will not build housing in mixed zone areas unless they are granted mandates to build even more offices than housing units. (Note a thousand square feet of office space can house between four to six workers while a similar space for housing would fit a single apartment with access and common spaces that would on average house fewer than 1.5 workers. The job space offers a higher return.)

This means that this huge regional imbalance must be addressed in the updated Plan. A critical component of the Plan's methodology has to be to explore alternative growth paths in this major jobs-rich area. This should include exploring the consequences of moderate and balanced growth of both jobs and housing with a dynamic and adapting transit system that grapples with today's existing problems of imbalance and congestion. Clearly job limit discussions have to engage the whole of the jobs-rich area—in this case the West Bay.

There are really two critical tasks that should be included in the new methodology: work carefully to craft incentives for a moderate growth balance of jobs and housing in the West Bay while at the same time creating credible incentives for jobs to grow in San Jose, Oakland and the urban areas in other parts of Santa Clara County, Alameda County and Contra Costa County. The incentives that MTC/ABAG uses to allocate job growth around the Bay Area (Priority Development Areas in jobs-rich areas with promised transit solutions) have not worked. We need to explore limits on job growth in the West Bay and clear incentives to add jobs in cities like Oakland and San Jose and other mid-level cities on the East and South Side of the Bay.

3. OPEN THE PROCESS TO ENGAGE A DIVERSE SET OF THOSE AFFECTED

Job growth has an impact on each of the problem areas we discussed above. The only road to an effective planning process is to grapple with this complex set of interrelationships in the modeling process and that each of the key parties affected has a chance to observe and comment on those relationships. Elsewhere MTC/ABAG have introduced the notion of an iterative

¹² MTC, Regional Advisory Working Group, June 4, 2019, Agenda Item 3, Attachment B, page 2 of 17.

model.¹³ An effective iterative model would look not just at the impacts of transit on housing but the impact of jobs on community life. By far, the biggest imbalance is on the jobs and employed resident side and any effective policy has to grapple with the consequences of shifting that jobs to housing ratio. But, of course, the way the model is currently set up, there can be no examination of alternative lower job growth numbers during the course of the RHNA period.¹⁴ Obviously the most effective way of lowering housing prices in the jobs-rich West Bay would be to lower the job growth number which is pushing up land and housing costs and forcing longer distance commuting. A good effective reiterative model could explore how much housing prices and congestion might be affected if the jobs growth number was lowered in jobs-rich areas. Thus, a jobs cap or limit through the West Bay would be one effective way of dealing with the whole slew of problems that have cropped up over the last seven years.

The Regional Body involved (MTC/ABAG) has no direct authority over land use matters in the individual cities. But they do have substantial incentives that they could use to shift the site of new growth. They could provide affordable housing funds for those communities that fostered balanced jobs and housing growth. They could build transit systems that would provide effective service linking homes and jobs outside the West Bay. By limiting the growing number of long distance commuters, they would be providing the most effective way of cutting harmful emissions and wasted time in congestion.

The approved methodology needs to explicitly examine the consequences of critical decisions on job growth for each of the ten challenges mentioned above. Participation in the process should include all parties affected. Make this happen—get a Bay Area Plan that allows an effective reiterative planning process with diverse public inputs.

HELP THE BAY AREA PREPARE FOR THEIR FUTURE NOW.

APPROVE A METHODOLOGY THAT:

- * IS NOT DRIVEN BY AN AGGRESSIVE JOBS-BASED MODEL;
- * ALLOWS CLOSE EXAMINATION OF MORE MODERATE REGIONAL JOBS AND HOUSING BALANCES;
- * AND WELCOMES DIVERSE POINTS OF VIEW.

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¹³ MTC, Regional Advisory Working Group, June 2, 2019, Agenda Item 2, Draft Methodology, page 2-4 of 13.

¹⁴ MTC, Plan Bay Area 2040, Final EIR, July 10, 2017, Master Response #6, p 2-16.

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