

MEMO

Date: July 13, 2011
To: ABAG Executive Board
From: Ken Kirkey, ABAG Planning Director
Subject: Regional Housing Needs Allocation (RHNA) Methodology Concepts

Overview

This memo provides an update on the work done by ABAG and MTC staff, with the assistance of the SCS Housing Methodology Committee (HMC), to develop the Regional Housing Need Allocation (RHNA) methodology for the 2015-2022 period. Since January 2011, members of the HMC have been discussing and refining the framework for allocating a portion of the region's total housing need to each jurisdiction in the region. The HMC has reached consensus about the major components of the methodology, however, there are still areas where discussion is ongoing. This memo presents an overview of the proposed methodology framework as well as a summary of the HMC's discussion to date.

Staff is requesting that the Executive Board approve the conceptual framework for the RHNA methodology, which consists of the following elements that are described in more detail below:

- Sustainability Component
- Fair Share Component
 - Upper housing threshold
 - Minimum housing floor
 - Quality of life factors
- Income allocation
- Sphere of Influence (SOI) adjustments

Background

The Regional Housing Need Allocation (RHNA) is a state mandate that requires each community to plan for its share of the state's housing need, for people at all income levels. The California Department of Housing and Community Development (HCD) determines the total housing need for each region in the state and, as the Council of Governments for the San Francisco Bay Area, it is ABAG's responsibility to distribute this need to local governments.¹

With the passage of SB 375, ABAG and MTC must identify areas within the region sufficient to house an eight-year projection of the regional housing need for all income groups. Additionally, the housing allocation plan must allocate housing units within the region consistent with the development pattern included in the Sustainable Communities Strategy (SCS).

¹ The total housing need number for the region, the Regional Housing Need Determination, will be provided to ABAG by HCD in October 2011.

Since January, staff from ABAG and MTC has been working with the members of the SCS Housing Methodology Committee—which is made up of staff and elected officials from all 9 counties as well as stakeholder groups—to develop the framework for the RHNA methodology.

The committee’s discussions to date have focused primarily on determining how best to promote consistency between RHNA and the development pattern of the SCS, while ensuring that the allocation of housing need also meets the specific objectives of Housing Element law, including that every jurisdiction accommodate its fair share of the region’s housing need. The committee has also begun to address some of the more technical aspects of the RHNA methodology, including how to address Spheres of Influence.

Proposed Methodology Conceptual Framework

The RHNA methodology consists of several major steps, including determining a jurisdiction’s total RHNA, identifying the share of the jurisdiction’s total RHNA in each income category, and adjusting a jurisdiction’s total RHNA for areas included in its Sphere of Influence.

In developing the RHNA methodology, staff and the HMC have identified two components that would be used together to assign total housing need to local jurisdictions. The first is the “Sustainability Component” that incorporates the Priority Development Areas² (PDAs). The second is the “Fair Share Component” that seeks to ensure that each jurisdiction in the region shares responsibility for accommodating the region’s housing need.

Determining a Jurisdiction’s Total Allocation

Sustainability Component

The Sustainability Component continues and expands upon the inclusion of compact growth principles that began with the 2007-2014 RHNA methodology. Staff is recommending that most of the region’s housing need would be allocated to jurisdictions planning for growth in PDAs. Based on evaluation of numerous options and discussions with the HMC, staff is currently considering basing the share of housing need assigned to PDAs on the proportion of growth in these areas in the Preferred Scenario, as long as it does not exceed 70 percent of the region’s total need.

Using the PDA framework from the SCS in the RHNA methodology promotes growth in sustainable locations and is a key to ensuring consistency between the two planning documents. Directing growth to infill locations is a key component of protecting agricultural and natural resources. This methodology also recognizes the multiple benefits for local communities and the region as a whole of encouraging housing, particularly affordable housing, in the neighborhoods near transit that local communities have identified as priorities for development and investment to create complete communities.

Fair Share Component

It is important that jurisdictions with PDAs are not asked to shoulder too much of the responsibility for meeting the region’s housing need. PDAs are not the only areas in which housing choices are needed, and the RHNA methodology has a responsibility to share the regional need for housing

² The term “PDAs” encompasses the Growth Opportunity Areas as well as Planned and Potential PDAs.

among all jurisdictions. Focusing only on the PDAs could mean that jurisdictions that were unable or unwilling to pick adequate Place Types for these areas or to designate any PDAs at all commensurate with their housing need, would not be allocated their “fair share” of the regional housing obligation. Thus the proposed methodology includes an explicit “fair share” component that is composed of three primary elements:

1. *Upper Housing Threshold*

Staff is proposing to establish an upper threshold that would compare the amount of growth assigned to a jurisdiction’s PDAs in the Preferred Scenario to the amount of growth expected in the jurisdiction based on forecasted household formation growth. If the amount of growth in the PDAs meets or exceeds this threshold, the jurisdiction would retain the amount of growth in those areas, but would not have to accommodate additional growth based on the “quality of life” factors described below. Any growth forecasted in the Preferred Scenario for that jurisdiction in locations outside of the PDAs would be redistributed to jurisdictions throughout the region that have not met upper threshold. After evaluating multiple options with the HMC, staff is considering setting the upper housing threshold at 110 percent of a jurisdiction’s household formation growth.

2. *Quality of Life Factors Outside PDAs*

The “quality of life” factors would apply to the growth in the Preferred Scenario that is expected to occur outside of PDAs. Housing units would be allocated based on factors related to the services and amenities that improve residents’ quality of life. The inclusion of these factors in the methodology is intended to ensure that housing need is allocated in a manner that provides for potentially increased access to communities with good transit access, employment opportunities, and quality schools and services. At the HMC, members have explored the use of a wide variety of factors, including school quality, transit, employment, and past RHNA performance.

3. *Minimum Housing Floor*

Staff is proposing to establish a minimum floor for a jurisdiction’s total allocation that would ensure that each jurisdiction is planning for housing to accommodate at least a portion of the housing need generated by the population within that jurisdiction. The minimum floor would be set at a certain percentage of the jurisdiction’s forecasted household formation growth. If a jurisdiction’s total RHNA (based on the sustainability component and quality of life factors described above) does not reach this floor, this minimum is applied, and the number of units assigned to other jurisdictions is reduced proportionally. After evaluating multiple options with the HMC, staff is considering setting the minimum housing floor at 40 percent of a jurisdiction’s household formation growth.

Determining a Jurisdiction’s Income Allocation

Two primary objectives of the state’s regional housing need process are to increase the supply of housing and to ensure that local governments consider the housing needs of persons at all income levels. In addition to identifying each jurisdiction’s share of the region’s total housing need, the RHNA methodology must also divide this allocation into the four income categories defined by

HCD³. The income allocation portion of the RHNA method is designed to ensure that each jurisdiction in the Bay Area plans for housing for people of every income.

Staff is proposing to use the same method for distributing units by income as the 2007-2014 RHNA. This method is based on a comparison between a jurisdiction's income distribution and the region-wide income distribution. To address concentrations of poverty, each jurisdiction is given 175 percent of the difference between their household income distribution and the region-wide household income distribution. With this method, a jurisdiction receives a higher allocation of units in an income category when it has a smaller proportion of households in that income category compared to the rest of the region.

For example, if a jurisdiction has 36 percent of its households in the very low income category, this would be compared to the regional percentage in this income category, which is 23 percent. The difference between 23 and 36 is -13. This is multiplied by 175 percent (the adjustment factor) for a result of -23. This number is then added to the jurisdiction's original distribution of 36 percent, for a total share of about 13 percent. Therefore, 13 percent of their allocation must be affordable to households with very low income.

A similar calculation can be made for a jurisdiction that has a relatively low proportion of households in the very low income category. If this jurisdiction has 9 percent of its households in the very low income category, when this is subtracted from the regional percentage in this income category, the result is 14. When this difference is multiplied by 175 percent, the result is 25. That amount is added to the jurisdiction's proportion of households in the very low income category, for a total of 34. Therefore, 34 percent of their allocation must be affordable to households with very low income.

HMC Discussion

At its June meeting, the HMC discussed each of the elements of the RHNA methodology described above, and there was widespread support for the conceptual framework. However, although members of the committee agreed in principle with tying RHNA to the Preferred Scenario, there was substantial concern about developing the methodology without knowing the details of the scenario, which is in the very early stages of development.

HMC members requested more transparency about how growth is assigned in the SCS Alternative Scenarios and ultimately the Preferred Scenario, so that they would have confidence in the sustainability component as an input into the RHNA allocation. Members of the committee, as well as others, will have the opportunity to provide input into the development of the Preferred Scenario over the next several months as the Alternative Scenarios are created and evaluated. The HMC is also expected to reconvene in the fall once the results of the analysis of the Alternative Scenarios are released, to provide additional input into the final draft of the RHNA methodology before it is scheduled to be released in November 2011.

³ Very low income is 50 percent or less of area median income (AMI), low income is 50 to 80 percent of AMI, moderate income is 80 to 120 percent of AMI, and above moderate is 120 percent or more of AMI.

With regard to the specific elements of the RHNA methodology framework, most members of the HMC supported using the percentage of growth assigned to PDAs in the Preferred Scenario, with a maximum of 70 percent for the Sustainability Component. The HMC discussed a range of options for the upper housing threshold, but most supported the staff recommendation of using 110 percent. Most agreed with the principle of using a percentage higher than 100 percent to encourage more sustainable growth in PDAs, and felt that 110 percent does not ask jurisdictions with PDAs to shoulder too much of the responsibility for providing housing. The HMC also generally supported the inclusion of the 40 percent minimum housing floor, although there was a desire to see the results of trying different percentages. There was also strong support for using the proposed income allocation methodology, although committee members would like to consider strategies to ensure that affordable units actually get produced.

The element on which additional analysis and discussion is needed is the inclusion of the quality of life factors in the methodology. There was strong support for incorporating some mix of these factors in the methodology as a way to promote greater “access to opportunity,” although the HMC was not yet able to identify exactly which ones to include. There was also some discussion and request for additional analysis about whether the minimum housing floor might adequately address the need to ensure access to opportunity.

With regard to the specific quality of life factors that were considered, there was widespread support for including employment and transit, although some members want to refine the transit factor to exclude PDAs, since transit is already explicitly included in the definition of PDAs. The HMC also considered a factor related to school quality and, although there was some interest in keeping this as part of the methodology, many members had significant concerns about the complexities and challenges of trying to aggregate Academic Performance Index (API) scores at the jurisdictional level. Most members of the HMC requested that staff continue to explore other options for identifying a factor that would capture the idea of promoting access to opportunity.

For the final quality of life factor, past RHNA performance, members of the HMC supported including this in the methodology, but want to consider refining the proposed method. The staff proposal looked at how well a jurisdiction did in issuing permits to meet its RHNA allocations for very low- and low-income units. There was concern about using permits issued, since market forces and available resources play a significant role in whether a jurisdiction can meet these targets. The data is also self-reported by jurisdictions without outside verification. One suggestion was to look at whether a jurisdiction has a certified housing element and zoning in place.

Spheres of Influence

“Spheres of influence” (SOI) must be considered in the RHNA methodology if there is projected growth within a city’s SOI, and most SOI areas within the Bay Area are anticipated to experience growth. Every city in the Bay Area has a SOI, which can be either contiguous with or go beyond the city’s boundary. The SOI boundary is designated by the county’s Local Area Formation Commission (LAFCO). The LAFCO influences how government responsibilities are divided among jurisdictions and service districts within a county. The SOI is considered the probable future boundary of a city and a city is responsible for planning areas within its SOI.

For the 2015-2022 RHNA, staff is proposing to use the same approach regarding SOI that was included in the 2007-2014 RHNA, unless ABAG receives a resolution from a county and all the cities in that county requesting a change to the rules outlined below:

1. In Napa, San Mateo, Santa Clara, Solano, and Sonoma counties, the allocation of housing need generated by the unincorporated SOI was assigned to the cities.
2. In Alameda and Contra Costa counties, the allocation of housing need generated by the unincorporated SOI was assigned to the county.
3. In Marin County, 75 percent of the allocation of housing need generated by the unincorporated SOI was assigned to the city; the remaining 25 percent was assigned to the county.

These rules are based on the premise that each local jurisdiction with land use permitting authority over its SOI should plan for the housing need generated within that area. These reflect the fact that each county in the Bay Area is different in terms of whether a city or county has jurisdiction over land use and development within unincorporated SOIs.

These rules reflect the general approaches to SOIs, and agreement between the jurisdictions in each county. Adjustments may be needed to better reflect local conditions. To allow flexibility, the methodology included the following criteria:

1. Adjustments to SOI allocations shall be consistent with any pre-existing written agreement between the city and county that allocates such units, or
2. In the absence of a written agreement, the requested adjustment would allocate the units to the jurisdiction that has permitting authority over future development in the SOI.

Staff is requesting that local jurisdictions provide resolutions requesting a change to the SOI rules by **September 30, 2011**. The specific rule for the SOI in each county will then be adopted by the Executive Board as part of the draft RHNA methodology in November 2011.

Next Steps

The HMC will meet in July to continue its work on refining the details of the RHNA methodology. The committee will also reconvene in the fall to review the results of the analysis of the Alternative Scenarios and provide additional input into the final draft of the RHNA methodology before it is scheduled to be released in November 2011.