OneBayArea

Date: June 14, 2011
To: SCS Housing Methodology Committee
From: Ken Kirkey, ABAG Planning Director
Subject: Recommended Allocation Methodology

Overview

With guidance and input from the Housing Methodology Committee (HMC), ABAG and MTC staff have been assessing a variety of scenarios and factors for allocating the region's total housing need to local jurisdictions as part of RHNA. One of the fundamental challenges in developing the allocation methodology is balancing the need to direct growth to sustainable locations (and ensure consistency with the region's Sustainable Communities Strategy) with the need to meet the specific objectives of RHNA.

After reviewing the multitude of methodology options that have been generated, staff is putting forward a recommended RHNA methodology that seeks to achieve this balance as a way of facilitating discussion by the HMC on Basecamp and at its next meeting. Staff is seeking to develop consensus among HMC members about a conceptual framework for the RHNA methodology to present to ABAG's Executive Board on July 21, 2011.

Recommended Allocation Methodology

In developing the RHNA methodology, staff and the HMC have identified two components that would be used together to assign housing need to local jurisdictions. The first is the "Sustainability Component" that incorporates the Priority Development Areas (PDAs) and Growth Opportunity Areas and 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.

In evaluating the different potential approaches and factors that could be incorporated into the methodology, staff sought to achieve the sustainability goals articulated as part of the SCS process by directing growth to jurisdictions with PDAs and Growth Opportunity Areas as a means to plan and build neighborhoods that offer a variety of housing and transportation choices. Using the Place Type framework from the SCS in the RHNA methodology is a key to ensuring consistency between the two planning documents and in encouraging actual development of these neighborhoods.

At the same time, it is important that jurisdictions with PDAs and Growth Opportunity Areas are not asked to shoulder too much of the responsibility for meeting the region's housing need. These 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 among all jurisdictions.

Finally, for the RHNA methodology to be implemented successfully, it must be understandable to elected officials and explainable to members of the public. Staff has tried to select a recommended methodology that meets the sustainability and fair share goals articulated above, while remaining as logical and easy to explain as possible.

Approach for the Sustainability Component

With regard to the Sustainability Component, staff is recommending that:

- The percent of growth assigned to PDAs/Growth Opportunity Areas be based on the growth pattern in the SCS Preferred Scenario, with a maximum of 70 percent;
- The upper threshold for a jurisdiction would be if growth in PDAs/Growth Opportunity Areas meets or exceeds 110 percent of the jurisdiction's household formation growth.

Each of these elements is described in more detail below.

The percent of growth assigned to PDAs/Growth Opportunity Areas would be based on the growth pattern in the SCS Preferred Scenario, with a maximum of 70 percent

There has been general support among HMC members for the concept of directing growth into PDAs and Growth Opportunity Areas as the primary means to promote sustainable growth within the region. The sustainability framework of the PDAs and Growth Opportunity Areas is the basis for the SCS and the inclusion of this framework in the RHNA methodology promotes consistency between the two.

However, one of the challenges in developing the methodology up to this point is the fact that the amount of growth in a PDA or Growth Opportunity Area is likely to change from what is shown in the Initial Vision Scenario. The idea of assigning 70 percent of housing need to PDAs and Growth Opportunity Areas was derived from the land use pattern described in the Initial Vision Scenario, where 70 percent of future growth is in these sustainable locations, while 30 percent is in other areas. Since the Preferred Scenario must consider constraints on development within the region, this ratio may be somewhat different. It should be noted however, that in Projections 2009, PDAs still constituted approximately 66 percent of the growth in the region.

In light of this potential for change in the amount of growth assigned to PDAs and Growth Opportunity Areas in the SCS Preferred Scenario, staff is recommending that the percent of housing need assigned based on growth in the PDAs and Growth Opportunity Areas would match the percentage of the region's future growth assigned to these sustainable locations in the Preferred Scenario of the SCS. However, in order to provide stability to the planning process, the maximum ratio that would be used for PDA/Growth Opportunity Area growth in the RHNA methodology would be 70 percent. This approach links the RHNA methodology to the fundamental sustainability framework and development pattern that underlie the SCS.

Upper threshold per jurisdiction would be 110 percent of growth in PDAs/Growth Opportunity Areas

If growth in PDAs/Growth Opportunity Areas is more than 110 percent of a jurisdiction's forecasted household formation growth, the jurisdiction would not have to accommodate additional growth based on "fair share" factors (the 30 percent household growth outside of PDAs/GOAs as modified by policy factors). Any growth forecasted for that jurisdiction in locations outside of the PDAs/Growth Opportunity Areas would be redistributed to jurisdictions throughout the region that have not met the 110 percent threshold.

Using a percentage higher than 100 percent as the upper threshold encourages more sustainable growth in PDAs and Growth Opportunity Areas, and recognizes the positive impact on the region of those jurisdictions that are accommodating significant growth in these sustainable locations. Setting the

threshold at 110 percent rather than 125 percent shifts more of the RHNA allocation to areas without PDAs/Growth Opportunity Areas and to jurisdictions where the PDAs/Growth Opportunity Areas are planning for a lower proportion of total growth. This helps to ensure that responsibility for accommodating the housing need is distributed more evenly and equitably throughout the region.

Approach for the Fair Share Component[1]

For the Fair Share Component, staff is recommending that:

- The minimum threshold would be 40 percent of household formation growth
- Units would be redistributed throughout the region, rather than within the same county

With regard to the factors that would be used to allocate units based on the portion of growth outside of the PDAs and Growth Opportunity Areas, staff is putting forward two options for discussion:

- Option 1: household formation growth (no additional factors)
- Option 2: RHNA performance, employment, and transit weighted equally

Each of these elements is described in greater detail below.

Minimum threshold is 40 percent of household formation growth

Each jurisdiction is assigned units to meet at least 40 percent of its household formation growth. If a jurisdiction does not reach this threshold based on the factors included in a particular RHNA methodology scenario, this minimum is applied, and the number of units assigned to other jurisdictions is reduced proportionally.

Setting this minimum threshold ensures that each jurisdiction is planning for housing to accommodate at least a portion of the housing need generated by the population within that jurisdiction. Forty percent was selected because it ensures that each jurisdiction is doing a reasonable amount of fair share housing to meet the region's housing need.

Units would be redistributed throughout the region, rather than solely within the same county

Aligning the redistribution region-wide rather than within a given county would serve to reinforce a sustainable development pattern for the region beyond the PDAs and Growth Opportunity Areas. Redistributing region-wide means that the differences among jurisdictions in different parts of the region are taken into account, and the methodology has a greater impact on shifting units among communities. Redistributing housing need at a regional level serves to better recognize the region's communities that have good transit access and /or a significant employment base but are not PDAs or Growth Opportunity Areas.

Fair Share Option 1: Household Formation Growth

In this scenario, the RHNA allocation related to the portion of growth that is expected to occur outside of the PDAs and Growth Opportunity Areas would be based on the amount of growth shown in these areas in the Preferred Scenario. However, the upper threshold of 110 percent and the lower threshold of 40 percent would be applied to the growth assigned to each jurisdiction in the Preferred Scenario.

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[1] For more information about how each of these factors is derived, see the memo "Revised Allocation Methodology – Fair Share Factors" from the May 2011 HMC meeting.

As noted above, this methodology directs growth to the region's most sustainable locations, while the use of the upper and lower limits helps to ensure that each jurisdiction is allocated its fair share of the region's housing need. The benefit of this option is that it is easier to explain than the scenarios that include additional factors. From one perspective, the results of this simpler formula are reasonably comparable to those from incorporating the more complex policy factors of Option 2. The HMC should determine whether the adjustments caused by inclusion of the more complex and potentially controversial policy factors outweigh the benefits of using a simpler formula.

Fair Share Option 2: RHNA performance, employment, and transit all weighted equally
In this scenario, the RHNA allocation related to the portion of growth that is expected to occur outside of the PDAs and Growth Opportunity Areas would be based on a formula that equally weights factors related to RHNA performance, employment, and transit.

In the past several RHNA periods, many local governments have expressed a desire to include a factor that gives jurisdictions credit for achieving their RHNA targets. This approach would offer lower allocations to jurisdictions that have permitted more of their 1999-2006 RHNA allocation of very low- and low-income units.

With regard to employment, the Place Type framework for PDAs and Growth Opportunity Areas encourages housing and job growth in sustainable locations. However, there are still areas outside of these locations that have significant employment concentrations. Employment in these locations creates a demand for housing, so the methodology would allocate a higher number of units to jurisdictions that have a higher number of jobs outside of PDAs and Growth Opportunity Areas. Staff recognizes that employment impacts on housing should be considered for the commute shed as a whole, but given the relatively small weight of this factor, the work associated with developing a formula relating to the commute shed is impractical.

Finally, higher allocations would be directed to jurisdictions that have better transit service and coverage. Although the Sustainability Component of the methodology already includes transit as a factor, since it is explicit by definition that PDAs and most Growth Opportunity Areas are well-served by transit, staff felt that it was important to include it as its own factor in the methodology, given the importance of transit access to achieving the region's sustainability goals. This factor captures areas within the region that have quality transit service, but that have not been designated a PDA or Growth Opportunity Area.

Staff recognizes the value of providing housing opportunities, particularly for very low-, low-, and moderate-income households in high quality school districts. However, our analysis suggests that inclusion of a factor related to schools would be problematic for a number of reasons. In the State of California, school quality is generally linked to Academic Performance Index (API) scores. In many Bay Area school districts, average API scores vary widely among schools within a district. A number of Bay Area cities are served by more than one school district and in some cases multiple school districts.

Because RHNA is jurisdictionally based, the ability to align housing need allocations with high performing schools is indirect at best. In addition, using schools as criteria could have the effect of labeling some school districts as "bad" without recognizing a number of demographic, funding, and intra-district issues in addition to those described above. Staff believes that combining the Sustainability Component and

one of the Fair Share Options described above with the Income Allocation approach described below would serve 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.

Income Allocation[2]

The final component of the RHNA methodology is the allocation of units by income. As noted previously, ABAG and MTC staffs are recommending that we continue to use the income allocation formula from the 2007-2014 RHNA process. 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.

The income allocation method gives jurisdictions that have a relatively higher proportion of households in a certain income category a smaller allocation of housing units in that same category. Conversely, jurisdictions that have a lower proportion of households in an income category would receive a larger allocation of housing units in that same category.

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.

Next Steps

- Small group discussion at HMC about the key aspects of the methodology articulated above.

[2] For more details about how the income allocation is calculated, see the pp. 5- 6 of the memo "Proposed Allocation Methodology for RHNA" from the April 2011 HMC meeting.