



## Land Use & Natural Resources Committee

Meeting Date: August 1, 2019

Agenda Item No. 2

Regional Housing Needs Allocation: Regional Determination

Information

**Prepared by:** Dov Kadin

**Approved by:** Clint Holtzen

**Attachments:** Yes

### 1. Issue:

The California Department of Housing and Community Development (HCD) has provided SACOG with a regional determination for the Regional Housing Needs Allocation (RHNA) process, a state requirement with the objective to ensure cities and counties are zoning enough land to accommodate projected growth between 2021 and 2029.

### 2. Recommendation:

None; this item is for information only.

### 3. Background/Analysis:

The RHNA is the state-required process that seeks to ensure cities and counties are planning for enough housing to accommodate all economic segments of the community. The process is split into three steps:

- *Regional Determination:* HCD provides each region a regional determination of housing need, which includes a total number of units split into four income categories.
- *RHNA Methodology:* Councils of Governments are then responsible for developing a RHNA Methodology for allocating the regional determination to each jurisdiction in the region. This methodology must further a series of state objectives.
- *Housing Element Updates:* Jurisdictions must adopt a housing element that demonstrates, among other things, how it can accommodate its assigned RHNA number through its zoning. The state reviews each jurisdiction's housing element for compliance.

This item provides more detail on the regional determination. This step began with a consultation between HCD and SACOG staff to discuss HCD's approach, data sources, and timeline. Through this consultation, SACOG staff worked with HCD staff to provide region-specific suggestions for applying state law fairly and appropriately. Based on that consultation, HCD issued a regional determination of 153,512 units to SACOG on July 18, 2019. The following explains how the regional determination was developed.

## Developing the Regional Determination

HCD develops the regional determination using a two-step process beginning with a regional projection of new households which is then adjusted up or down using a required set of existing needs factors. The regional projection of new households is developed in consultation with the California Department of Finance. It starts with the projected household population for the end of the RHNA period (August 31, 2029 for Cycle 6). The projected population used by HCD as a part of the Cycle 6 regional determination is in line with what SACOG is projecting in the MTP/SCS. Based on this household population projection, HCD uses household formation rates by age group to estimate the number of new projected households the region needs to accommodate. The household growth projection for the SACOG region for Cycle 6 is 112,609 and makes up the largest component of the overall determination.

Starting with the projected household growth number above, HCD adjusts the regional determination to account for four existing needs factors: (1) vacancy rate, (2) replacement units, (3) overcrowding, and (4) cost burden. The state's purpose for including these factors is to capture existing housing need irrespective of future household growth. HCD is required by state law to factor these needs into the regional determination. The determination calculates the four existing needs adjustments in the following ways:

1. *Vacancy Rate*: HCD compares the SACOG region's existing vacancy rate with a healthy vacancy rate of 5%. The difference is then multiplied with the total projected households to yield the vacancy adjustment. For Cycle 6 of RHNA, the SACOG region's vacancy rate is low (2.77%), which means that SACOG received a 2.23% upward adjustment in the regional determination. This resulted in 22,730 additional units.
2. *Replacement Units*: HCD applies a replacement adjustment between 0.5% and 5% based on the current 10-year annual average percent of demolitions. Since the SACOG region has a very low rate of demolitions (0.18%), SACOG received the minimum (0.5%) replacement adjustment. This resulted in 5,105 additional units.
3. *Overcrowding*: The overcrowding adjustment was added in 2018 by state legislation. For the purposes of RHNA, overcrowding is defined as more than one resident per room in each room in a dwelling. This adjustment is based on the difference between the rate of overcrowding in the SACOG region and the rate of overcrowding in comparable regions, which SACOG staff worked with HCD to identify. The difference between the overcrowding rate in the SACOG region (4.39%) and comparable regions (3.79%) is 0.6%. This difference resulted in 6,111 additional units.
4. *Cost Burden*: The cost burden adjustment was added in 2018 by state legislation. For the purposes of RHNA, cost burden is defined as the percentage of households paying more than 30% of their income on housing. Since cost burden is experienced very differently across income groups, the rate of cost burden is separated between households earning below 80% of area median income (lower income) and households earning above 80% area median income (higher income). The adjustment is based on the difference between cost burden by income group for the region and the cost-burden by income group in comparable regions, which SACOG staff worked with HCD to identify.
  - The difference between the cost burden rate for lower income households in the SACOG region (68.76%) and comparable regions (64.23%) is 4.53%. This difference resulted in 2,711 additional lower income units.
  - The difference between the cost burden rate for higher income households in the SACOG region (16.37%) and comparable regions (11.48%) is 4.89%. This difference resulted in 4,246 additional higher income units.

In total, SACOG received a regional determination of 153,512 units for Cycle 6 of RHNA, of which 40,903 is due to the existing needs factors described in the bullets above.

#### **4. Discussion/Analysis:**

The SACOG regional determination for Cycle 6 of RHNA (2021-2029) is 153,512 units. Attachment A provides the Determination from HCD, which also breaks the determination into four income categories. The determination is approximately 46 percent higher than the Cycle 5 (2013-2021) determination of 104,970. The increase in the regional determination this cycle is not unique to the SACOG region and reflects both the drastically different housing climate in 2019 as well as the addition of two new existing need considerations (overcrowding and cost burden).

The different housing climate in 2019 and its impact on the regional determination is most evident in the vacancy rate adjustment. Vacancy rates lower than 5 percent typically indicate that housing supply is not keeping pace with demand. HCD has historically adjusted the determination upward in situations like this. Last cycle, in the depths of the recession, SACOG received a special downward RHNA adjustment to “account for abnormally high vacancies and unique market conditions due to prolonged recessionary conditions, high unemployment, and unprecedented foreclosures.” As such, the Cycle 5 determination was reduced by approximately 12,640 units as HCD assumed some housing demand would be addressed through absorption into vacant housing units. For Cycle 6, SACOG received an upward adjustment of 22,730 units in order to bring the SACOG region’s vacancy rate back to a healthy vacancy rate of 5 percent. This means that changes in vacancy rate alone are resulting in a net increase of over 35,000 units relative to last RHNA cycle.

No formal action is needed by SACOG to accept the regional determination. The determination will become final 30 days after SACOG received the initial letter from HCD, on August 17, 2019. During this time, SACOG may formally object to the determination based on any shortcomings in the data used by HCD. SACOG staff does not feel an objection is warranted because the determination already reflects SACOG’s input and data and appropriately implements State law.

The next step in the RHNA process includes releasing a methodology for allocating the regional determination among cities and counties in the SACOG region. SACOG anticipates requesting board action to release a set of potential methodologies for public review in September. The board will then act on a final methodology in November which will allow staff to provide local jurisdictions with their Cycle 6 housing allocations and begin development of the Regional Housing Needs Plan that the board will adopt in August 2020. Cities and counties will have until August 2021, to update their housing elements to accommodate their share of the regional determination.

#### **5. Fiscal Impact/Grant Information:**

This project is funded with a combination of SACOG’s federal and state planning funds in the adopted Fiscal Year (FY) 18/19 OWP and budget.

#### **6. This staff report aligns with the following SACOG Work Plan Goals:**

8 - Build out our Council of Governments Functions