

REGIONAL HOUSING NEEDS ALLOCATION



TO: Housing Methodology Committee

DATE: May 14, 2020

FR: Deputy Executive Director, Policy

RE: Options for the Income Distribution Component of the RHNA Methodology

Overview

The Association of Bay Area Governments (ABAG), with guidance from the Housing Methodology Committee (HMC), must allocate the Regional Housing Needs Determination (RHND) to the cities and counties in the nine-county Bay Area. The RHND is the total number of housing units assigned to a region by the California Department of Housing and Community Development (HCD). HCD also divides a region's RHND across four levels of housing affordability that correspond to different income categories. Ultimately, the HMC will need to recommend a Regional Housing Needs Allocation (RHNA) methodology that both assigns a total number of housing units to each Bay Area jurisdiction and distributes each jurisdiction's allocation among the four affordability levels. Jurisdictions in turn must update their housing elements to show how they will accommodate their share of housing needs for each income group.

RHNA Income Categories

A healthy and inclusive housing market is characterized by housing options for a range of workers, family types, and incomes. Both the number of units available is important and the cost at which these units are provided are critically important. For the Bay Area, one of the most expensive housing markets in the country, the urgency of providing a range of housing opportunities is even more pronounced.

Pursuant to state housing element law ([Government Code section 65584](#), et seq.), HCD is charged with determining the regional housing needs for the Bay Area for the period from 2023 to 2031. HCD divides the region's housing need among four separate income groups:

- **Very Low Income:** households earning less than 50 percent of Area Median Income (AMI)
- **Low Income:** households earning 50 - 80 percent of AMI
- **Moderate Income:** households earning 80 - 120 percent of AMI
- **Above Moderate Income:** households earning 120 percent or more of AMI

ABAG has not yet received the RHND from HCD; this is anticipated to occur in the next one to two months. In lieu of the RHND, Table 1 shows the distribution of Bay Area households by income from the most recent Census Bureau data for reference purposes.

Table 1 Bay Area Households, By Major Income Group

Income Group	Income Limit	Households	Percent
Very Low Income	0 - \$47,350	678,673	25.3%
Low Income	\$47,351 - \$75,760	411,670	15.3%
Moderate Income	\$75,760 - \$113,640	459,169	17.1%
Above Moderate Income	\$113,640 +	1,136,896	42.3%

Source: U.S. Census Bureau, American Community Survey PUMS data, 2018 5-year release

Considerations for the Income Allocation

The Bay Area is a large and complex region: close to 8 million people reside in 109 jurisdictions across a 7,000 square mile geography with a number of distinctive subregions and economies. The region contains a range of community types and economic situations, with some communities encompassing a range of income groups, while others skew to either the low-income or high-income side of the spectrum.

Housing Element Law includes the objective that RHNA “[a]llocat[e] a lower proportion of housing need to an income category when a jurisdiction already has a disproportionately high share of households in that income category,”¹ meaning the RHNA methodology will in part be assessed by HCD in terms of how the allocation works to counter-balance existing concentrations of wealth or poverty. As noted in previous HMC meetings, meeting this objective will require that the RHNA methodology direct market-rate units to jurisdictions that currently have a higher concentration of lower-income households, which could exacerbate the potential for displacement of existing residents. The RHNA methodology must also improve coordination between the locations of low-wage jobs and housing affordable to low-wage workers (jobs-housing fit) and affirmatively further fair housing, which will require allocating more lower income units to communities that historically have not provided affordable housing.

Examples of Income Allocation Methodologies from Other Regions

At the December 2019 HMC meeting, ABAG staff presented a summary of the methodologies created by other regions for the current RHNA cycle, as well as ABAG’s methodology for the previous RHNA cycle (2015-2023).² Although these RHNA methodologies differ substantially, they have primarily used one of two approaches for the income allocation: an income shift or an income shift modified by equity-focused factors. These two approaches are described below.

Income Shift – used by the San Diego region³ this cycle and by ABAG last cycle⁴

In this approach, a jurisdiction’s distribution of households by income is compared to the distribution for the region or county the jurisdiction is in. The jurisdiction’s allocation of units by income category is then adjusted so the jurisdiction will move toward the region’s income distribution over time. Thus, jurisdictions that have a higher percentage of existing households in a given income category compared to the region receive a smaller share of units in that income category. In some cases, the income shift multiplier applied to a jurisdiction varies based on how much the jurisdiction’s household income distribution differs from the region or county.

In the simplest example, ABAG’s 2015-2023 RHNA methodology moved each jurisdiction’s income distribution 175 percent toward the region’s income distribution. A 100 percent shift means a jurisdiction’s allocation of units by income category mirrors the region’s existing income distribution. The 175 percent shift would close the gap between a jurisdiction’s income distribution and the region’s distribution more quickly. The first step in this calculation is to

¹ See [California Government Code Section 65584\(d\)](#).

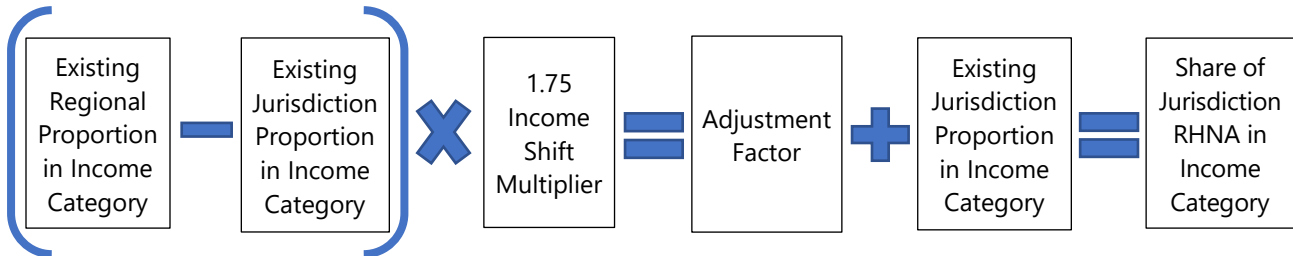
² See this [document](#) from the December 2019 HMC meeting agenda packet.

³ See page 6 of the [San Diego Association of Governments RHNA methodology document](#).

⁴ See pages 11-12 of ABAG’s [Final Regional Housing Need Plan for the San Francisco Bay Area: 2015–2023](#).

compare a jurisdiction's share of households in each income category to the region's share of households in that income category. The difference between the region and the jurisdiction is then multiplied by 175 percent to create an adjustment factor. The adjustment factor is added to the jurisdiction's existing proportion of households in the income category to determine the total share of the jurisdiction's housing unit allocation for that income category. Figure 1 shows a visual representation of the income shift from ABAG's last RHNA methodology. This process is repeated for each of the four income categories. The result is that a jurisdiction with a higher proportion of households in an income category compared to the region receives a smaller allocation of housing units in that same category, and vice versa.

Figure 1 Income Shift from ABAG 5th Cycle RHNA Methodology



Income Shift Plus Equity-Focused Factors – used by the Los Angeles and Sacramento regions

This approach uses an income shift approach conceptually similar to the one described above paired with other factors related to affirmatively furthering fair housing and improving jobs-housing fit. After the jurisdiction is compared to the region or county, the factors included in the methodology are used to increase or decrease the amount that the jurisdiction's income distribution is adjusted. The factors used by the Sacramento region's income methodology are the share of housing units in high opportunity areas, as defined by the State's Opportunity Map, and a jurisdiction's jobs-housing fit ratio.⁵ Jurisdictions receive more very low- and low-income units if they have a higher share of housing units in high opportunity areas or a higher ratio of low-wage workers to housing units affordable to those workers.

In the Los Angeles region's income methodology,⁶ a larger income shift multiplier is applied to a jurisdiction where more than 70 percent of the population lives in "high segregation and poverty"/"low resource" or "highest resource" census tracts as defined by the State's Opportunity Map.⁷ Notably, the potential methodologies developed by the HMC in March 2020 include equity-focused factors related to high opportunity areas and jobs-housing fit in the determination of a jurisdiction's total allocation, while other regions use these equity-focused factors solely in the income allocation.

⁵ See pages 29-34 of the [Sacramento Area Council of Governments RHNA methodology document](#).

⁶ See pages 13-17 of the [Southern California Association of Governments RHNA methodology document](#).

⁷ For more information on the Opportunity Map, see pages 10-13 of [this document](#) from the March 2020 HMC meeting's agenda packet.

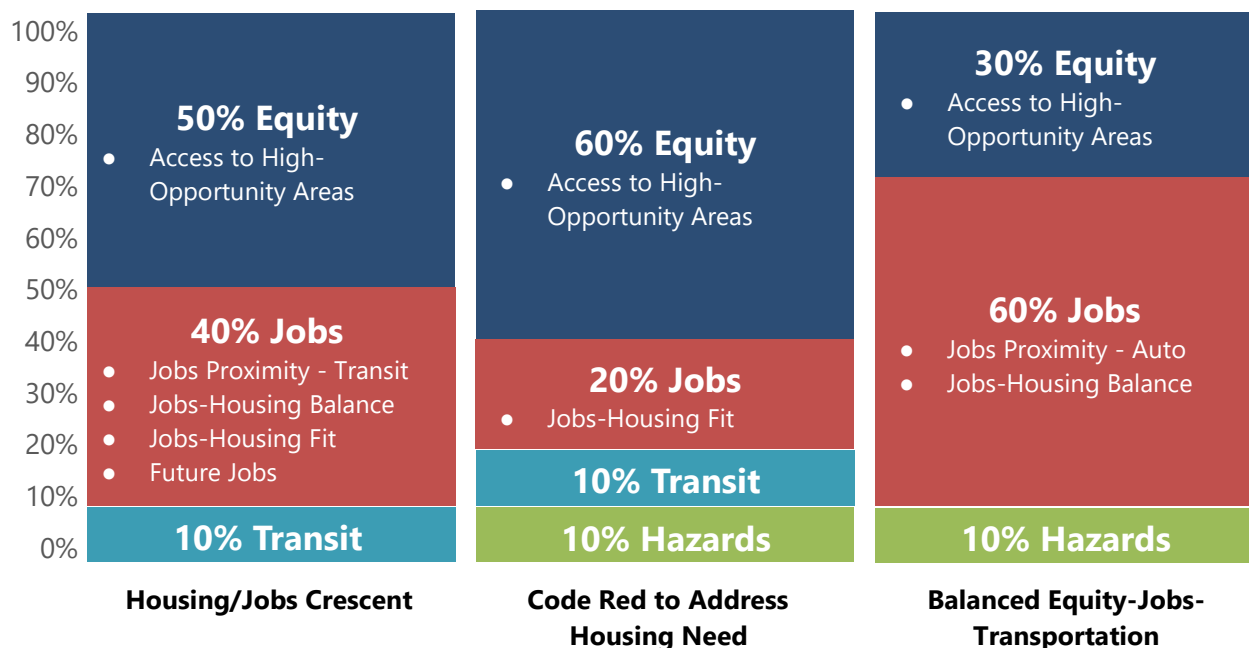
Potential Approaches to the Income Allocation

ABAG staff has developed three relatively distinct methodological approaches to the income distribution component of RHNA, described in more detail below. The first two—the income shift and factor-based approach—are aligned with the methodologies used by other regions. Both approaches are proposed to be applied as a second step in the allocation process, after the use of a factor-based methodology to determine a jurisdiction’s total allocation. The third approach would take an entirely different tack and use different weights and/or factors for different income categories, with the sum of the results for the four income categories determining a jurisdiction’s total allocation.

Approaches A and B: Income Methodologies that are Applied to the Total Allocation

At the March HMC meeting, committee members used an [online visualization tool](#) to experiment with different factors-based methodologies for allocating a total number of housing units to jurisdictions based on a hypothetical RHND. Figure 2 shows the three methodology options developed during the small group discussions that received the most votes from HMC members and members of the audience.⁸ As noted above, these potential methodologies developed by the HMC include equity-focused factors in the determination of a jurisdiction’s total allocation, while other regions’ methodologies for the current RHNA cycle do not use equity-focused factors for this purpose. The other regions relied on either the long-range regional plan or factors related to jobs and transit to determine a jurisdiction’s total allocation, while using equity-focused factors related to affirmatively furthering fair housing and jobs-housing fit solely in the income allocation.

Figure 2 Comparison of Top Three Methodology Options from March 2020 HMC Meeting

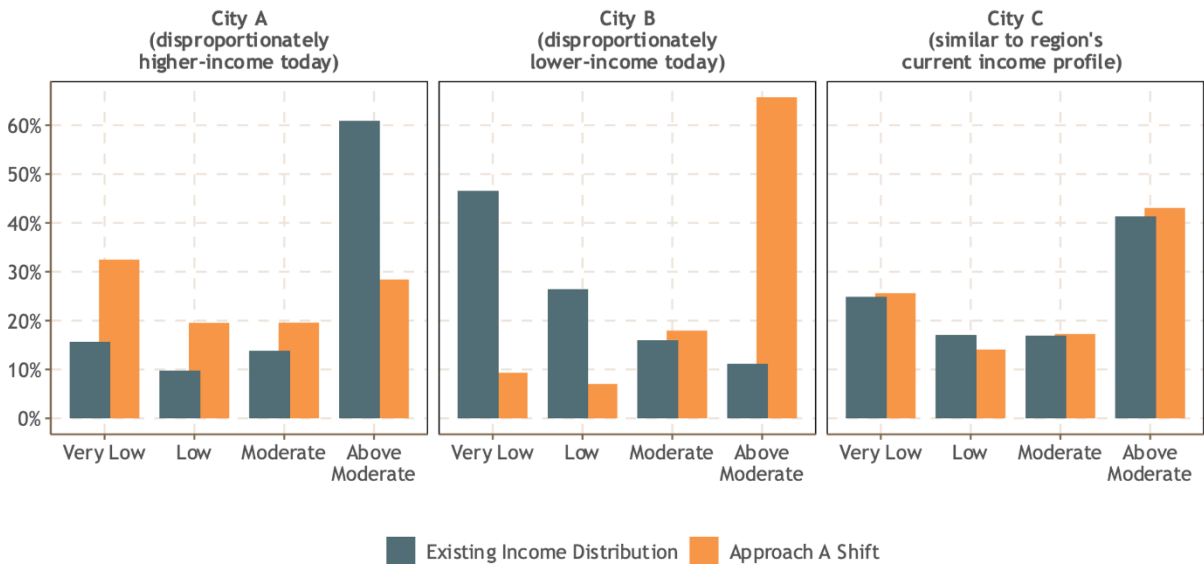


⁸ See the [summary of the initial methodology options from the March HMC meeting](#).

Approach A: Income Shift Applied to Total Allocation

This approach resembles the income allocation method from ABAG’s 2015-2023 RHNA, using an income shift approach where the local and regional income distributions are compared. For this approach, the income allocation shifts the local distribution closer to or beyond the regional distribution, depending on the income shift multiplier. In the last cycle, the income shift multiplier used by ABAG was 175 percent (see Figure 1 for more information on how the income shift multiplier impacts the income allocation). In theory, setting the income shift multiplier above 100 percent could close the gap between a jurisdiction’s income distribution and the region’s distribution in a shorter period of time, but this more aggressive shift could also increase the potential for displacement by directing more market-rate units to jurisdictions with higher proportions of existing lower-income households. To illustrate the shift approach on cities with different income profiles, Figure 3 shows the effect of using an income shift approach with a 175 percent multiplier. City A is a relatively high-income city with good access to jobs. City B has a lower income profile, with less job access. City C is somewhere in between, falling close to the regional income distribution. We will use these same sample cities to illustrate how they fare with each income allocation approach.

Figure 3 Hypothetical Example of Income Shift Approach, Using 175 Percent Multiplier



This approach directly addresses the state objective of “[a]llocating a lower proportion of housing need to an income category when a jurisdiction already has a disproportionately high share of households in that income category.”⁹ A smaller shift than 175 percent is also possible and may be appropriate given HMC members’ previously stated concerns about assigning large numbers of above moderate-income housing in lower income jurisdictions at risk of gentrification.

⁹ See [California Government Code Section 65584\(d\)\(4\)](#).

Approach B: Using Factors Applied to Total Allocation

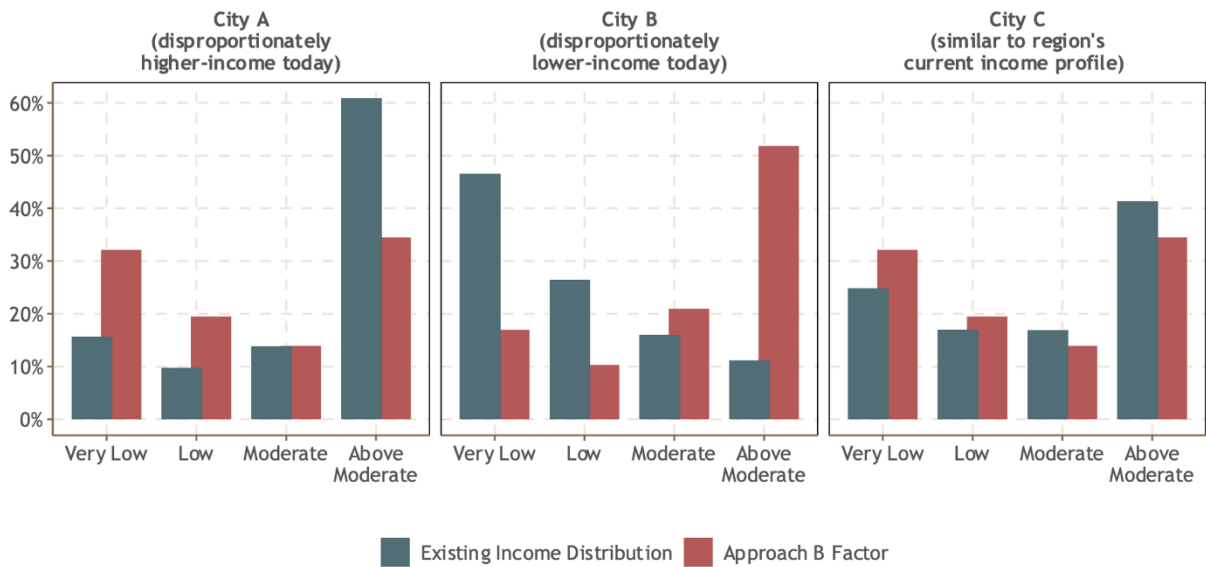
Similar to Approach A, this option is also applied after determining a jurisdiction's total allocation using a factor-based methodology. In this income allocation approach, factors are used to assign units for the lower two income groups (very low- and low-income units). As an initial example, staff used the *Jobs-Housing Fit* and *High Opportunity Areas* factors. The *Jobs-Housing Fit* factor specifically relates to the relationship between lower-wage workers and housing units affordable to those workers and the *High Opportunity Areas* factor affirmatively furthers fair housing by assigning more lower-income units to high opportunity areas, both objectives call for in Housing Element law.¹⁰ As noted earlier, other regions often paired the factor-based approach with the income shift. However, these approaches are not dependent on one another, and ABAG is presenting them independently to make them easier to understand.

In this approach, each jurisdiction starts with the same income distribution, as determined by HCD for the RHND. A jurisdiction's share of units in the lower income categories is then adjusted up or down based on whether a city has relatively high or low scores compared to the region for the *Jobs-Housing Fit* and *High Opportunity Areas* factors. ABAG staff capped a jurisdiction's adjustment from the RHND income distribution at 30 percent (15 percent for each of the two factors). Once the total share of lower income units is determined, the remainder of a jurisdiction's units (as determined by the total allocation methodology) are assigned to the higher income categories (moderate- and above moderate-income units). Once these totals are set, the allocation is disaggregated into the four income categories using shares from the regional income distribution.

Figure 4 shows the effect of this factor-based income approach for three hypothetical cities with different income profiles. Both City A (higher income) and City C (average income) received the same income distribution, which demonstrates the impact of the cap that limits the extent to which the distribution can deviate from the regional distribution. Setting this cap at a different level would potentially result in different outcomes.

¹⁰ See [California Government Code Section 65584\(d\)\(3\) and \(5\)](#).

Figure 4 Hypothetical Example of Factor-Based Income Allocation Approach



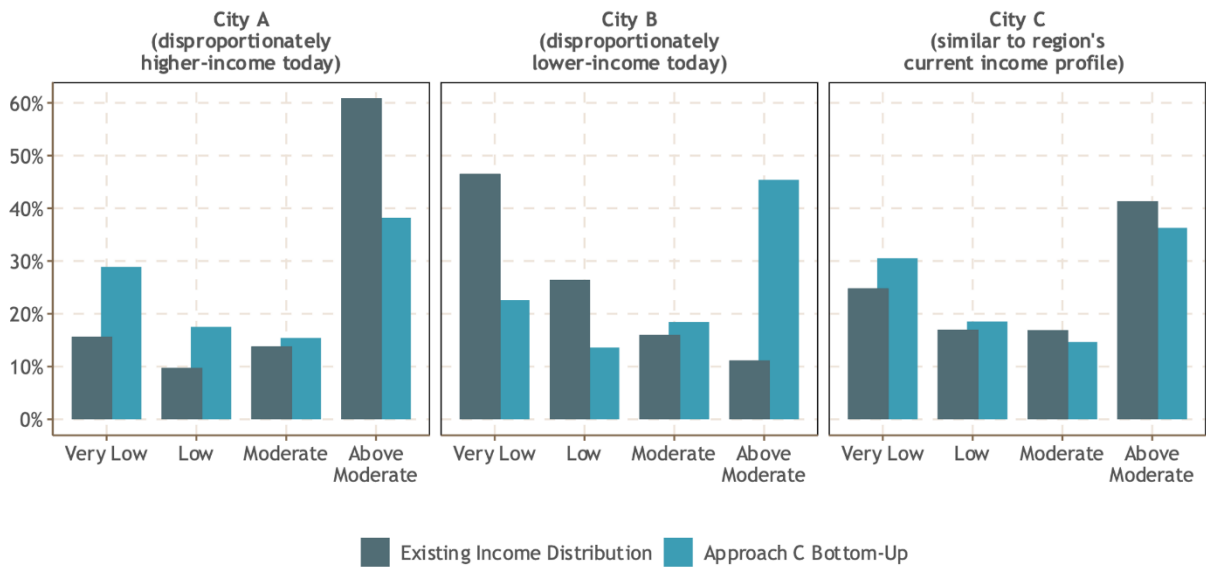
Approach C: Using Bottom-Up Income Allocation to Build the Total Allocation

In contrast to Approaches A and B, this income allocation approach does not start with a total allocation assigned with a factor-based methodology. Instead, this approach uses factors to determine allocations for the four income categories, and the sum of these income group allocations represents a jurisdiction’s total allocation. Factors and weights could be modified, as appropriate, by the HMC. As an initial example, ABAG staff used the *Jobs-Housing Fit* and *High Opportunity Areas* factors to determine the allocation of lower income units (very low- and low-income) and the *Jobs-Housing Balance* and *Job Proximity-Auto* factors to determine the allocation of higher income units (moderate- and above-moderate income).¹¹ A jurisdiction’s income distribution is determined based on how the jurisdiction scores relative to the rest of the region on the selected factors. The jurisdiction’s total allocation is calculated by summing the results for each income category.

As noted above for Approach B, the *Jobs-Housing Fit* factor specifically relates to the relationship between lower-wage workers and housing units affordable to those workers and the *High Opportunity Areas* factor supports affirmatively further fair housing by assigning more lower-income units to high opportunity areas. The *Jobs-Housing Balance* and *Job Proximity-Auto* are included because of their emphasis on the relationships between housing and jobs for moderate- and higher-income households. While many other combinations of factors are possible, staff selected these factors to make this approach conceptually similar to Approach B for a more meaningful comparison.

¹¹ These factors used the same definitions and methodology as those used in the total income allocation.

Figure 5 Hypothetical Example of Bottom-Up Income Allocation Approach



Similarities and Differences of the Potential Income Methodology Approaches

The approaches represent different ways to distribute a jurisdiction’s RHNA across the four income categories. Approaches A and B both start with a total allocation and then divide it into income groups. Approach A uses an income shift multiplier to bring a jurisdiction’s income distribution toward the regional income distribution. Approach B, however, relies on how a jurisdiction scores relative to the region on two factors (high opportunity areas and jobs-housing fit), which impacts the allocation of lower income units. Approach A may be the simpler and more mechanical approach: it does not use factors and focuses solely on rebalancing income distributions in jurisdictions. Approach B, on the other hand, uses factors to move the income distribution rather than just shifting it towards the regional distribution.

Unlike the first two options, Approach C does not start with a total allocation created by a factor-based methodology. While it uses the same factor-based data as the other approaches, Approach C could become more complex since the HMC needs to select factors and weights for each of the four income groups. Consequently, Approach A may be preferable for having a more standardized method for assigning the total allocations to jurisdictions. However, Approach C may offer more control over the allocations to individual income groups within jurisdictions. Approach B represents somewhat of a hybrid of the other two: this approach builds off a factor-based methodology for total allocation like Approach A, but offers more flexibility than Approach A’s straightforward income shift.

Table 2 Summary of Benefits and Drawbacks for Income Allocation Approaches

Income Allocation Approach	Benefits	Drawbacks
Approach A: Income Shift	<ul style="list-style-type: none"> • Builds on work HMC has already done on total allocation • Allows narrative focus to be on factors for total allocation • Simpler concept, easier to explain • Directly related to statutory objective • Multiplier can be adjusted to complement underlying total allocation methodology 	<ul style="list-style-type: none"> • Does not include ability to finetune income allocations based on factors
Approach B: Factor-Based	<ul style="list-style-type: none"> • Builds on work HMC has already done on total allocation • Retains the two-step methodology approach of total income first, then income allocation, which may be more familiar from other RHNA methodologies • Allows opportunity to finetune results for a particular income category 	<ul style="list-style-type: none"> • Using factors also included in the total allocation methodology may result in overweighting those factors • Additional complexity compared to Income Shift Approach may not be warranted, given that equity-related factors already included in total allocation
Approach C: Bottom-Up	<ul style="list-style-type: none"> • Allows more fine-grained control over allocations for a particular income category • Could be simpler than Approach B, depending on number of factors used 	<ul style="list-style-type: none"> • New approach that departs from work HMC has done to date • Could be more complex, depending on number of factors used

Next Steps

At the May HMC meeting, committee members will have an opportunity to use the online visualization tool to apply the income shift approach to hypothetical total allocation methodologies and explore the impact of selecting different income shift multipliers (Approach A). Staff will also seek feedback from the committee about pursuing the other approaches presented here.