REGIONAL HOUSING NEEDS ALLOCATION

Association of Bay Area Governments

TO: Housing Methodology Committee   DATE: June 19, 2020

FR: Deputy Executive Director, Policy

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

Overview

The Regional Housing Needs Allocation (RHNA) methodology must assign a total number of housing units to each Bay Area jurisdiction and distribute each jurisdiction's allocation among four income categories that include households at all income levels. In a letter dated June 9, 2020, the California Department of Housing and Community Development (HCD) provided ABAG with the Regional Housing Needs Determination (RHND) for the Bay Area (**Table 1**).

Table 1: ABAG Regional Housing Needs Determination from HCD

Income Category	Percent	Housing Unit Need
Very Low	25.9%	114,442
Low	14.9%	65,892
Moderate	16.5%	72,712
Above Moderate	42.6%	188,130
Total	**100%**	**441,176**

The RHNA methodology's income allocation component is crucial for creating a methodology that successfully achieves the statutory objectives of RHNA. This memo delves deeper into the income allocation methodology approaches that received the most support from Housing Methodology Committee (HMC) members and the audience at the May HMC meeting. For the purpose of the memo and analysis, we have updated the numbers to reflect the RHND from HCD.

Refresher on Statutory Requirements

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. State law also requires the RHNA methodology to improve coordination between the locations of low-wage jobs and housing affordable to low-wage workers (jobs-housing fit). The RHNA methodology must also affirmatively further fair housing, which will require allocating more lower income units to communities that historically have not provided affordable housing.

Potential Income Allocation Methodologies Presented at May HMC Meeting

At the May HMC meeting, staff presented several possible methodologies for allocating units by income that are aligned with the statutory objectives of RHNA. The options presented represent two fundamentally different processes for determining units by income:

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

- **Income Shift.** In this approach, the total number of units allocated to a jurisdiction is identified first, and the income allocation methodology is used to distribute that total among the four income categories.[2] Two variants of this approach can be seen in other regions' RHNA methodologies: *Income Shift* (used by the San Diego region and ABAG last RHNA cycle) and *Income Shift Plus Equity-Focused Factors* (used by the Los Angeles and Sacramento regions).
- **Bottoms-Up.** In this approach, the income allocation methodology is used to identify the number of units for each income category, and the sum of units in the four income categories equals a jurisdiction's total allocation. This approach was developed based on feedback provided by HMC members.

After presenting these options, staff asked HMC members and members of the audience for feedback about which income allocation approach they preferred and which multiplier they liked best for the *Income Shift* approach. Voting results are displayed in **Figure 1** and **Figure 2**. The comment received by email is in **Appendix A**.

Figure 1 shows that the *Bottom-Up* and *Income Shift* approaches received the most support. There was only minimal support for the *Income Shift Plus Equity-Focused Factors* approach, which indicates this approach is not as complementary to the total allocation methodologies the HMC is considering. Notably, the regions that used the *Income Shift Plus Equity-Focused Factors* approach used equity-related factors solely in the income allocation methodology. The HMC, however, has expressed support for using equity-related factors in the total allocation methodology, which makes the addition of equity-related factors in the income allocation less imperative.

Figure 1: Feedback About Income Allocation Methodology Approaches
Based on today's presentation and your experience using the online visualization tool, do you feel that using the income shift approach in ABAG's RHNA methodology will successfully achieve the statutory objectives?


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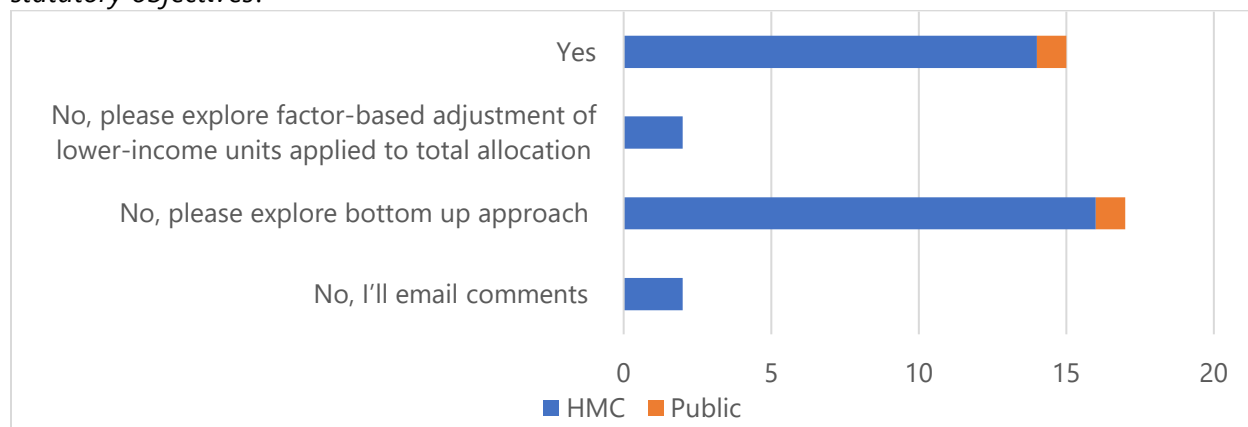
[2] State law defines the following RHNA income categories:
- Very Low Income: households earning less than 50 percent of Area Median Income (AMI)
- Low Income: households earning 50 - 80 percent of AMI
- Moderate Income: households earning 80 - 120 percent of AMI
- Above Moderate Income: households earning 120 percent or more of AMI

Figure 2 shows there is strong support for an income shift multiplier between 100% and 150%, if the Income Shift approach is selected to move forward.

*Figure 2: Feedback About Income Shift Multiplier*
What level of income shift combined with the HMC's total allocation methodologies from March seems to most effectively accomplish the statutory objectives and further regional planning goals?
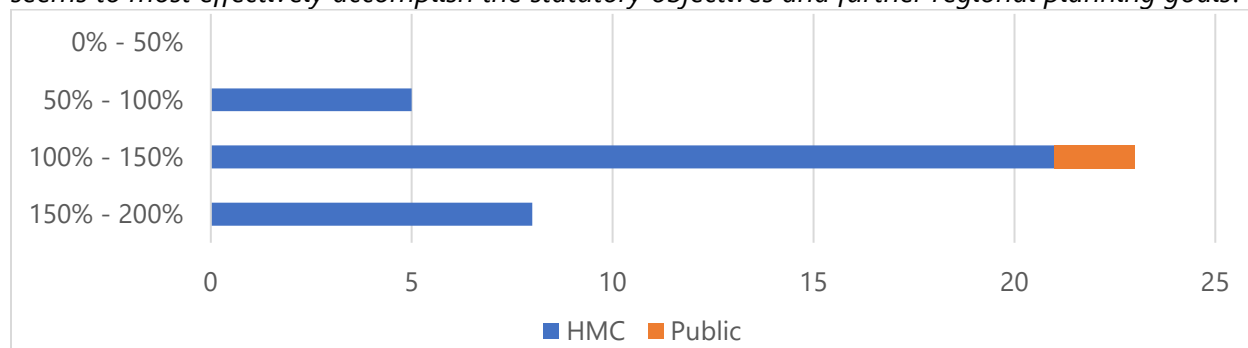
Income Shift
In the *Income Shift* approach, a jurisdiction's distribution of households by income is compared to the distribution for the region. The *Income Shift* moves the local income distributions closer to or beyond the regional distribution, depending on the income shift multiplier. A jurisdiction that has a higher percentage of existing households in a given income category compared to the region receives a smaller share of units in that income category, and vice versa. 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."[3] **Figure 3** shows the steps in the *Income Shift* process. This process is repeated for each of the four income categories.

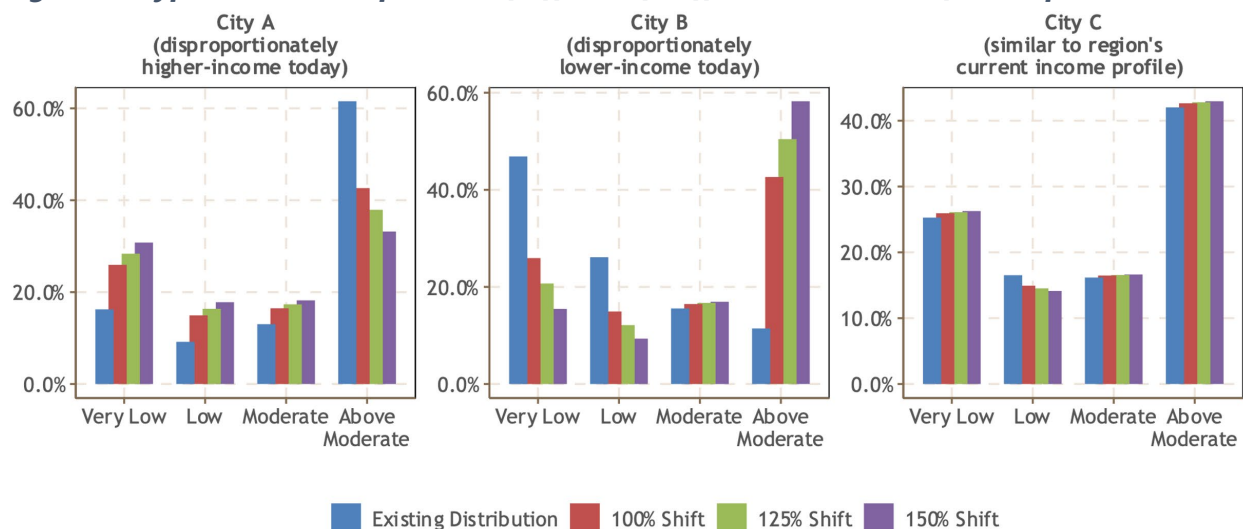*Figure 3: Income Shift Methodology*
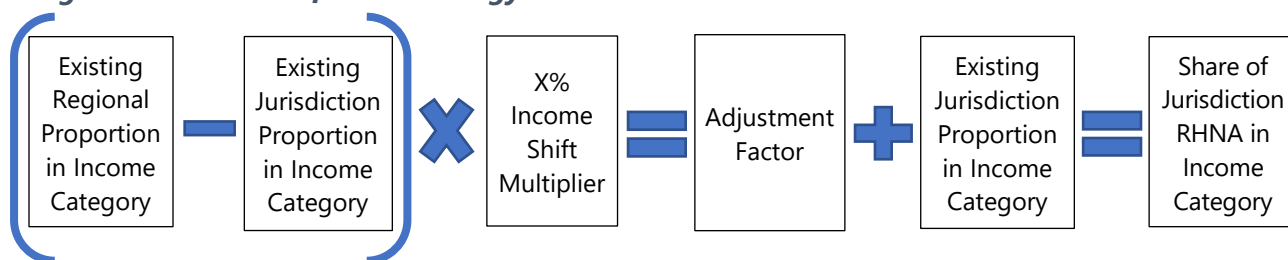
An income shift multiplier of 100% results in every jurisdiction's RHNA mirroring the region's existing income distribution. In theory, setting the income shift multiplier above 100 percent could close the gap between a jurisdiction's income distribution and the region's distribution in a shorter period of time. However, 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.

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[3] See California Government Code Section 65584(d)(4).

Based on the feedback from the May meeting, staff has developed charts to demonstrate the impacts of applying the income shift multipliers of 100 percent, 125 percent, and 150 percent. **Figure 4** shows the results for cities with different income profiles.[4] City A's residents are largely higher-income households and the city has 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.

Figure 4: Hypothetical Comparison of Effects of Different Income Shift Multipliers

Bottom-Up Income Allocation to Build the Total Allocation

In contrast to the *Income Shift*, the *Bottom-Up* 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. Staff has developed two concepts for the *Bottom-Up* approach, using some of the same factors that have received the most attention and support from the HMC for use in the total allocation (see **Table 2**). Staff also chose factors where there was more variation in the scores that jurisdictions received, since greater variation increases the factor's impact in creating distinctions between the allocations jurisdictions receive. A jurisdiction's allocation within each income category 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.

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[4] Figure 4 shows the results from applying the three Income Shift multipliers to the Balanced Equity-Jobs-Transportation methodology developed by HMC members at the March meeting. The results from the three sample methodology options from March were very similar, so staff is only presenting one set of results for the sake of simplicity. The use of the Balanced Equity-Jobs-Transportation option is not an endorsement of this option. View a summary of the sample methodology options from the March meeting for more information.

Table 2: Factors and Weights for Bottom-Up Income Allocation Variations

Bottom-Up 2-Factor Concept		Bottom-Up 3-Factor Concept	
Affordable: Very Low <u>and</u> Low		**Affordable: Very Low <u>and</u> Low**	
• Access to High Opportunity Areas	50%	• Access to High Opportunity Areas	40%
• Jobs-Housing Fit	50%	• Jobs-Housing Fit	40%
		• Job Proximity – Transit	20%
Market-Rate: Moderate <u>and</u> Above Moderate		**Market-Rate: Moderate <u>and</u> Above Moderate**	
• Job Proximity – Auto	50%	• Job Proximity – Auto	50%
• Jobs-Housing Balance	50%	• Job Proximity – Transit	30%
		• Jobs-Housing Balance	20%

The *Bottom-Up 2-Factor Concept* uses two factors, weighted equally at 50 percent, for each combined income group. [5] It includes the *Jobs-Housing Fit* and *High Opportunity Areas* factors to determine the allocation of affordable units (very low- and low-income). 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.
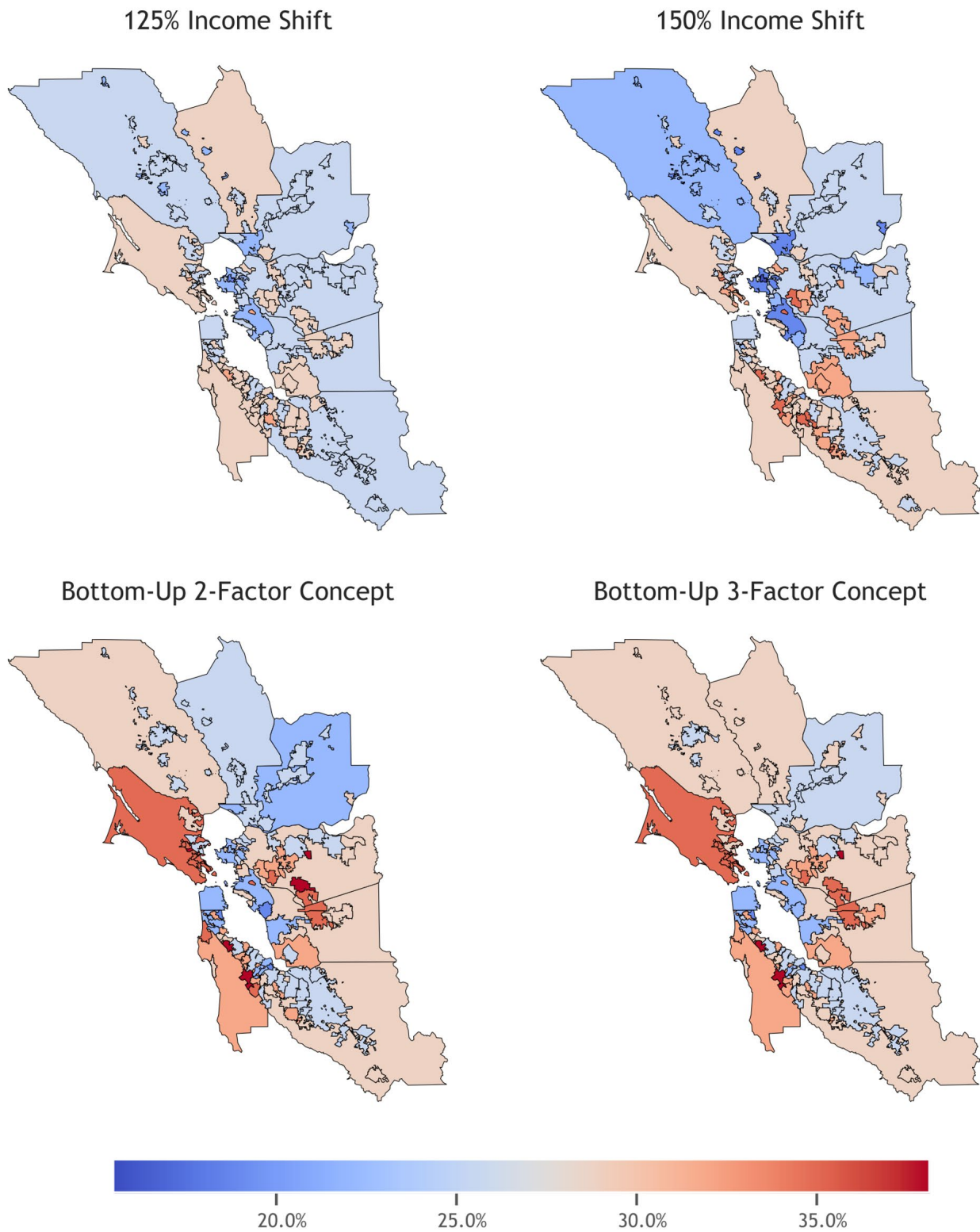
The two factors used to determine the allocation of market-rate units (moderate- and above-moderate income) are the *Jobs-Housing Balance* and *Job Proximity-Auto* factors. The *Jobs-Housing Balance* and *Job Proximity-Auto* factors are included in the methodology for higher-income units because of their emphasis on the relationships between housing and jobs. Locating market-rate housing close to jobs can provide more options for these households to live near their work, which aligns with the statutory objectives and the HMC's policy priorities.

The *Bottom-Up 3-Factor Concept* uses three factors to determine the allocation for each income category. It includes the *High Opportunity Areas* (40 percent weight), *Jobs-Housing Fit* (40 percent weight), and *Job Proximity – Transit* (20 percent weight) factors for allocating affordable units. The market-rate units are allocated using the *Job Proximity – Auto* (50 percent weight), *Job Proximity – Transit* (30 percent weight), and *Jobs-Housing Balance* (20 percent weight) factors. This concept includes the same factors as the Bottom-Up 2-Factor Concept, but with different weights. It also adds *Job Proximity – Transit* as the third factor to encourage more housing near transit, in alignment with the goal of reducing greenhouse gas emissions.

Figure 5 shows the pattern for how very low-income units are allocated throughout the Bay Area for several of the Income Shift options and the Bottom-Up options. Jurisdictions shown in dark red have a higher share of very low-income units as a portion of their allocation. **Figure 6** shows the same information for above moderate-income units.

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[5] These factors used the same definitions and methodology as those used in the total income allocation.

Figure 5: Comparison of Shares of Very Low-Income Units for Income Allocation Options

125% Income Shift

150% Income Shift

Bottom-Up 2-Factor Concept

Bottom-Up 3-Factor Concept

20.0%   25.0%   30.0%   35.0%

Figure 6: Comparison of Shares of Above Moderate-Income Units for Income Allocation Options

125% Income Shift

150% Income Shift

Bottom-Up 2-Factor Concept

Bottom-Up 3-Factor Concept

25.0% 30.0% 35.0% 40.0% 45.0% 50.0% 55.0%
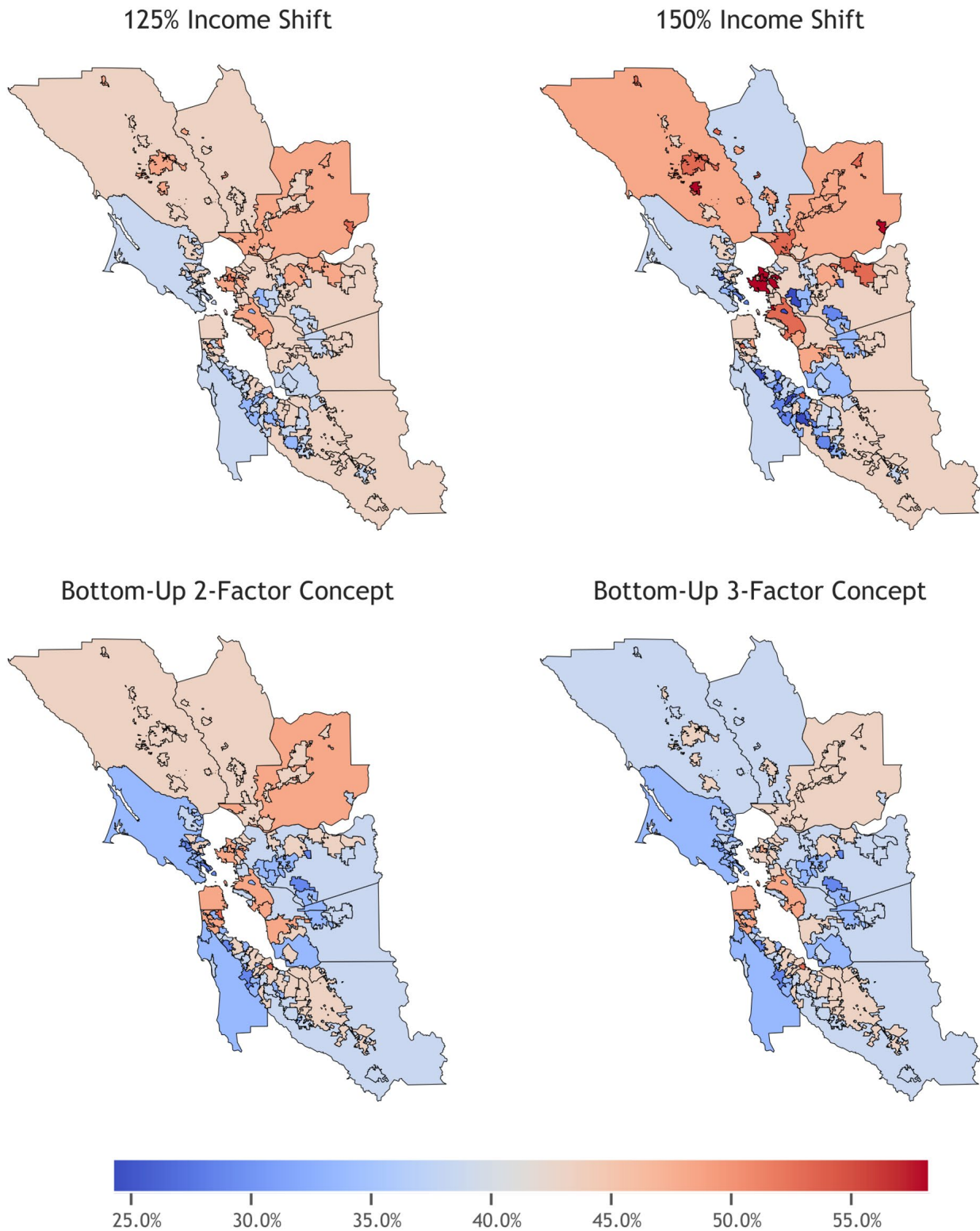
Figure 7 compares the results, including the total allocation and share of units in each income category, for the three multipliers for the *Income Shift* approach and the two concepts for the *Bottom-Up* approach. One issue HMC members have raised about the *Income Shift* is that a higher multiplier is desirable for allocating affordable housing units to communities with more higher-income households but a higher multiplier also directs more market-rate housing to communities with more lower-income households, raising concerns about possible displacement.

One benefit of the *Bottom-Up* approach is that it allows for the allocations for affordable and market-rate units to be set independently, so directing more affordable units to communities with more higher-income households would not necessarily result in more market-rate units going to communities with more lower-income households. For City A (the disproportionately higher-income hypothetical jurisdiction), the two *Bottom-Up* concepts result in shares of very low- and low-income units that are consistent with the 125 percent *Income Shift*.
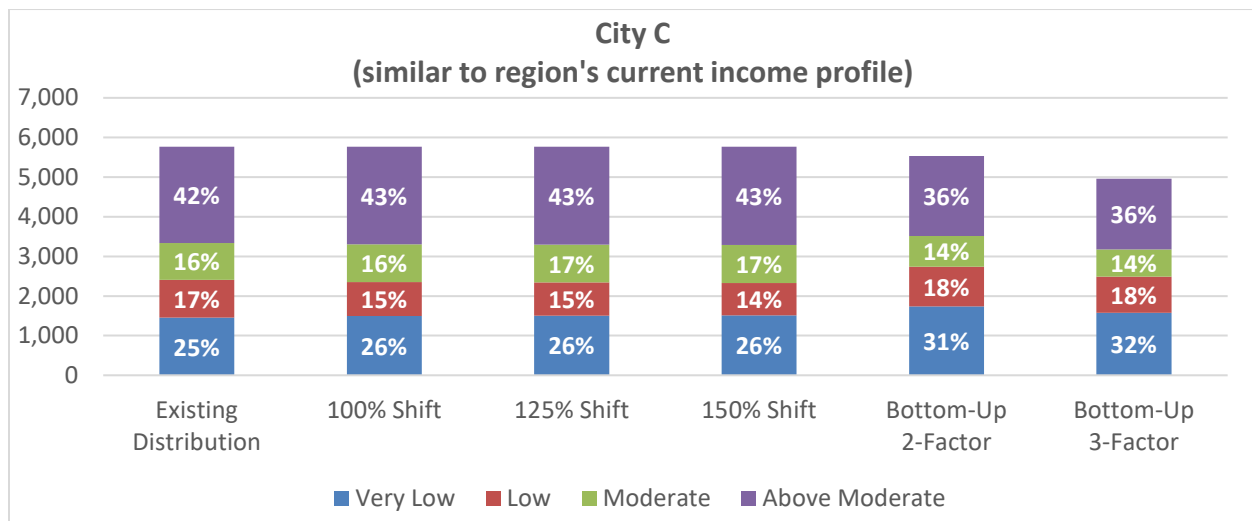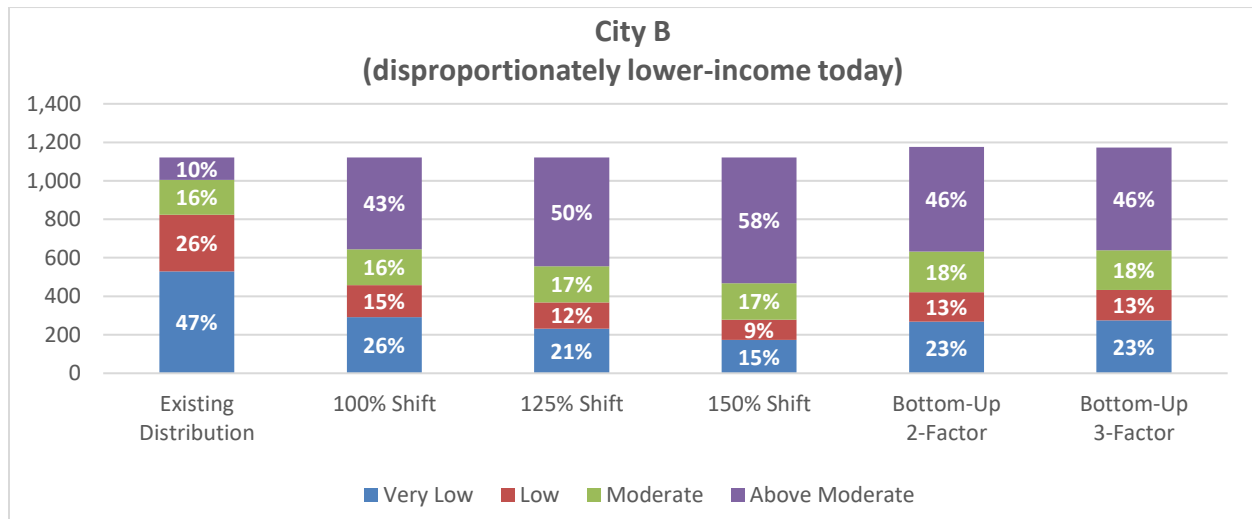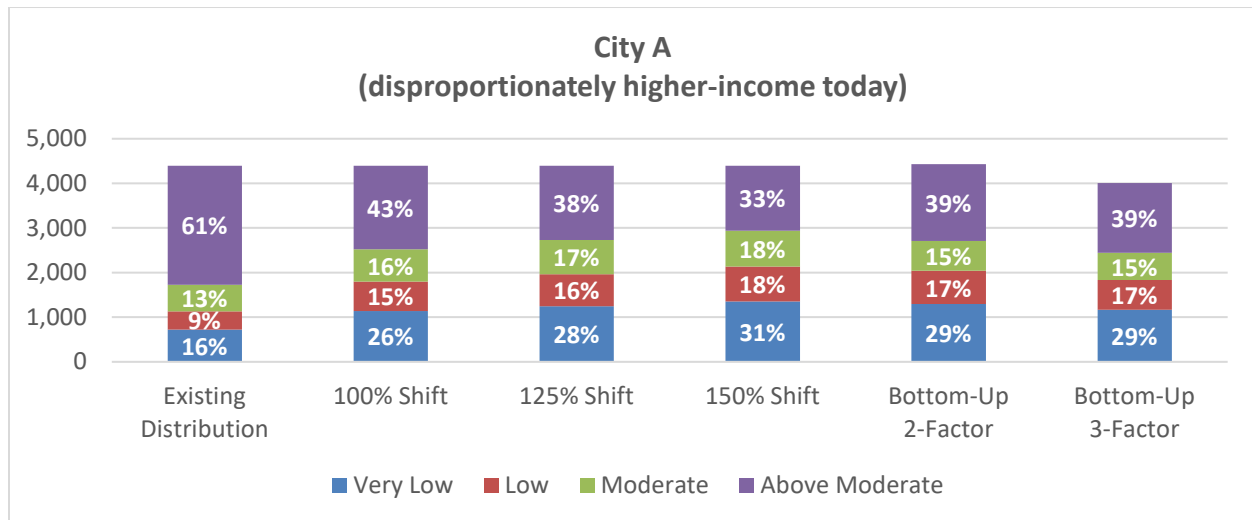
For City B (the disproportionately lower-income hypothetical jurisdiction), the share of Above Moderate-Income units is slightly above the 100 percent *Income Shift*. Although the share of Above Moderate-Income units for City B is smaller in the *Bottom-Up* concepts, City B still receives a higher share of Above Moderate-Income units than City A or City C. The *Bottom-Up* concepts seem to provide balance between directing affordable units to communities with more higher-income households while also directing a smaller share of market-rate housing to communities with more lower-income households.

The *Income Shift* approach has only minimal effects on hypothetical City C, since its share of households in each income category is similar to the shares for the region as a whole. The income shift multiplier is applied to the difference between the region and the jurisdiction, and it has only a minimal impact when this difference is small. The *Bottom-Up* concepts both result in higher shares of affordable units for City C compared to the *Income Shift* options.

One feature of the *Bottom-Up* approach is that there is less predictability about what the total allocation will be. For City A, one variation resulted in a similar number of total units as the *Income Shift*, while the second variation resulted in a smaller total allocation. There is a similar pattern in the results for City C. For City B, both *Bottom-Up* concepts resulted in higher total allocations.

Figure 7: Hypothetical Comparison of Total Allocations by Income

City A
(disproportionately higher-income today)

	Existing Distribution	100% Shift	125% Shift	150% Shift	Bottom-Up 2-Factor	Bottom-Up 3-Factor
Above Moderate	61%	43%	38%	33%	39%	39%
Moderate	13%	16%	17%	18%	15%	15%
Low	9%	15%	16%	18%	17%	17%
Very Low	16%	26%	28%	31%	29%	29%

Legend: ■ Very Low ■ Low ■ Moderate ■ Above Moderate

City B
(disproportionately lower-income today)

	Existing Distribution	100% Shift	125% Shift	150% Shift	Bottom-Up 2-Factor	Bottom-Up 3-Factor
Above Moderate	10%	43%	50%	58%	46%	46%
Moderate	16%	16%	17%	17%	18%	18%
Low	26%	15%	12%	9%	13%	13%
Very Low	47%	26%	21%	15%	23%	23%

Legend: ■ Very Low ■ Low ■ Moderate ■ Above Moderate

City C
(similar to region's current income profile)

	Existing Distribution	100% Shift	125% Shift	150% Shift	Bottom-Up 2-Factor	Bottom-Up 3-Factor
Above Moderate	42%	43%	43%	43%	36%	36%
Moderate	16%	16%	17%	17%	14%	14%
Low	17%	15%	15%	14%	18%	18%
Very Low	25%	26%	26%	26%	31%	32%

Legend: ■ Very Low ■ Low ■ Moderate ■ Above Moderate

Table 3: Pros/Cons for Income Shift and Bottom-Up Income Allocation Approaches

Income Shift	Bottom-Up
Pros - Allows greater control over total unit allocations - Directly addresses statutory objective to balance disproportionate concentrations in each income category	*Pros* Allows more fine-grained control for income allocation: allocations for affordable units and market-rate units can be set independently
Cons - Increasing the share of affordable units in higher-income jurisdictions means more market-rate units must be directed to other jurisdictions - No ability to finetune income allocations using factors	*Cons* Less predictability for the total unit allocations to jurisdictions

Next Steps

At the June meeting, HMC members will have an opportunity to provide feedback about the different income allocation options. The discussion will focus on the following questions:

- Based on the RHND, 41 percent of the units that must be allocated by the RHNA methodology are affordable (very low- and low-income units). What is the right balance for allocating affordable housing?
    - Should jurisdictions that are mostly high-income households receive a larger percentage of their RHNA (above 41%) as affordable housing?
    - Should jurisdictions with significant populations of low-income households receive a larger percentage of their RHNA (above 41%) as affordable housing?
- Based on the RHND, 59 percent of the units that must be allocated by the RHNA methodology are market-rate (moderate- and above moderate-income units). What is the right balance for allocating market-rate housing?
    - Due to concerns about displacement in low-income communities, should jurisdictions that are mostly high-income households receive a larger percentage of their RHNA (above 59%) as market-rate housing?
    - Should communities with more low-income residents receive a larger percentage of their RHNA (above 59%) as market-rate units so that jurisdictions that are mostly high-income households are allocated more affordable housing?
- Feedback to staff about refining options:
    - If ABAG uses an income shift methodology, what income shift multiplier would you feel most comfortable with?
    - If ABAG uses a bottom-up methodology, do you like the factors staff selected for allocating affordable units?
    - If ABAG uses a bottom-up methodology, do you like the factors staff selected for allocating market-rate units?
    - Do you prefer the income shift approach or the bottom up approach?

Appendix A: Comments Emailed to Staff about Income Allocation Approaches

Only one HMC member submitted written comments related to the survey. Response from Pat Eklund:

1. *What level of income shift combined with the HMC's total allocation methodologies from March seems to most effectively accomplish the statutory objectives and further regional planning goals?*

   b. 50% - 100%

2. *Based on today's presentation and your experience using the online visualization tool, do you feel that using the income shift approach in ABAG's RHNA methodology will successfully achieve the statutory objectives?*

   d. No, and I'll email comments to rhna@thecivicedge.com -- We need to re-do today. Due to COVID-19, we need to reduce what we think we can get done in these meetings. Limit them to 2 hours and focus on 1 issue. Maybe do preparation ahead of time if there is a tool that needs to be used. I feel as though my comments have not been captured since I was not able to participate even as a member. This is my 3rd RHNA cycle I have participated in .. and, probably one of the more frustrating ones. We are trying to accomplish too much and what is being sacrificed is our input. There is NO time for input .. My suggestion – limit each meeting to 1 issue .. if we are still on a time crunch .. then meet twice a month. These 3-4 hour meetings are NOT appropriate or good .. again what gets sacrificed is the quality of our input and getting input from all of us. There are some that already have made up their minds and their input is being characterized for the group.

   By the way, my abstention on these items was NOT noted by Brad Paul. I did not vote or really participate because it took me almost the whole time to figure out how to get in to the break out session by phone. That technological glitch was forgotten when this was set up.   I want to thank Paisley for trying to help me .. she did a great job given the challenges .. but, bottom line – we are trying to do too much too fast .. SLOW DOWN! The quality of the input is being sacrificed.