

REGIONAL HOUSING NEEDS ALLOCATION



TO: Housing Methodology Committee

DATE: July 9, 2020

FR: Deputy Executive Director, Policy

RE: Revisiting Income Allocation Approach Options for 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.¹ In May 2020, the HMC began discussing different approaches for the income allocation component of the RHNA methodology and considered metrics to help evaluate different methodology outcomes. At the June 2020 meeting, the HMC provided input on their current preferences for the income allocation approach. This memo summarizes the HMC's recent discussions on income allocation approaches and provides analysis to help the HMC with recommending an income allocation approach for the RHNA methodology.

Updates from June 2020 HMC Meeting

At the June HMC meeting, staff presented possible RHNA methodologies related to two different approaches for allocating units by income: the *Income Shift* approach and the *Bottom-Up* approach. For the *Income Shift* approach, a factor-based methodology first allocates the total number of units to a jurisdiction, and the income allocation methodology is then used to distribute that total among the four income categories. The *Income Shift* compares a jurisdiction's distribution of households by income to the region's distribution and then moves the local income distributions closer to or beyond the regional distribution, depending on the income shift multiplier.

An income shift multiplier of 100 percent 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. At the May meeting, HMC members expressed the most support for an income shift multiplier between 100 percent and 150 percent. Accordingly, the staff presentation at the June HMC focused on the impacts of applying income shift multipliers of 100 percent, 125 percent, and 150 percent.

¹ 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

In contrast to the *Income Shift* approach, the *Bottom-Up* 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. 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. For the June HMC meeting, staff developed two concepts for the *Bottom-Up* approach using some of the same methodology factors that have received the most attention and support from the HMC for use in the total allocation.

The *Bottom-Up 2-Factor Concept* uses two factors, weighted equally at 50 percent, for each combined income group (see **Table 1**). It includes the *Jobs-Housing Fit* and *High Opportunity Areas* factors to determine the allocation of affordable units (very low- and low-income units). The two factors used to determine the allocation of market-rate units (moderate- and above moderate-income units) are the *Jobs-Housing Balance* and *Job Proximity-Auto* factors. The *Bottom-Up 3-Factor Concept* uses three factors to determine the allocation for each income category. 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.

Table 1: Factors and Weights for Bottom-Up Income Allocation Variations

Bottom-Up 2-Factor Concept <i>Affordable: Very Low and Low</i>	Bottom-Up 3-Factor Concept <i>Affordable: Very Low and Low</i>
<ul style="list-style-type: none"> • Access to High Opportunity Areas 50% • Jobs-Housing Fit 50% 	<ul style="list-style-type: none"> • Access to High Opportunity Areas 40% • Jobs-Housing Fit 40% • Job Proximity – Transit 20%
<i>Market-Rate: Moderate and Above Moderate</i>	<i>Market-Rate: Moderate and Above Moderate</i>
<ul style="list-style-type: none"> • Job Proximity – Auto 50% • Jobs-Housing Balance 50% 	<ul style="list-style-type: none"> • Job Proximity – Auto 50% • Job Proximity – Transit 30% • Jobs-Housing Balance 20%

Results from Polling HMC Members

During the June meeting, staff showed analyses comparing the outcomes produced by different income shift multipliers and the two *Bottom-Up* concepts. Staff then polled the HMC members to assess the committee's current attitudes toward the income shift multiplier and the factors selected by staff for the *Bottom-Up* concepts, as well as the committee's overall preference for the income allocation approach. Voting results are displayed in **Figure 1**, **Figure 2**, **Figure 3**, and **Figure 4**.

Figure 1: Feedback About Income Shift Multiplier

If ABAG staff uses an Income Shift methodology, what income shift multiplier would you feel most comfortable with?

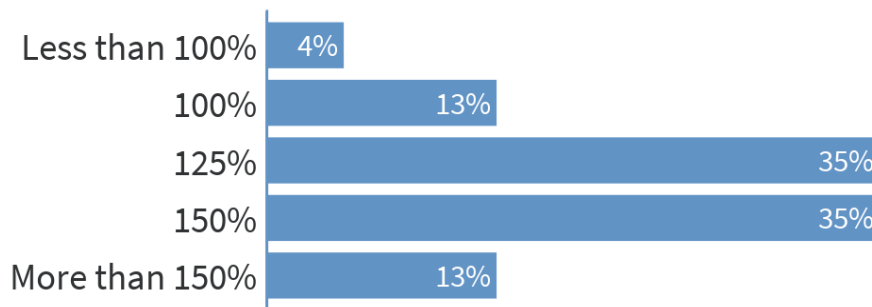


Figure 1 suggests that the HMC members are narrowing in on a preferred income shift multiplier that would be paired with a total allocation methodology if ABAG uses the *Income Shift* approach. 70 percent of the HMC prefers using either the 125 percent multiplier or the 150 percent multiplier, with committee members evenly split between these two options. In response, analyses prepared for the July HMC meeting that examine the outcomes produced by potential *Income Shift* methodologies focus only on the 125 percent multiplier and the 150 percent multiplier.

Figure 2 and Figure 3 indicate that nearly all HMC members supported using the factors selected by staff for the *Bottom-Up* methodology concepts. Accordingly, staff will continue to use the *Bottom-Up 2-Factor Concept* and *Bottom-Up 3-Factor Concept* for analyses prepared for the July meeting.

Figure 2: Feedback About Factors in Bottom-Up Concepts for Allocating Affordable Units

If ABAG staff uses a Bottom-Up methodology, do you like the factors staff selected for allocating affordable units (Access to High Opportunity Areas, Jobs-Housing Fit, Job Proximity – Transit)?

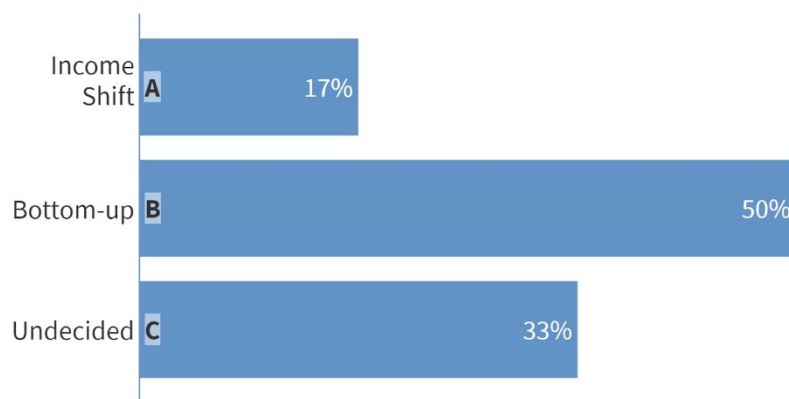


Figure 3: Feedback About Factors in Bottom-Up Concepts for Allocating Market-Rate Units
If ABAG staff uses a Bottom-Up methodology, do you like the factors staff selected for allocating market-rate units (Jobs-Housing Balance, Job Proximity – Auto, Job Proximity – Transit)?



Figure 4 illustrates that the HMC currently prefers the Bottom-Up approach to the Income Shift approach, with 50 percent of HMC members indicating a preference for the Bottom-Up approach. However, one-third of the HMC is still undecided about which income allocation approach they prefer. In response, staff has designed an activity for HMC members to complete individually prior to the July meeting, which will guide HMC members through using the [RHNA online visualization tool](#) to create potential RHNA methodologies using both income allocation approaches. This activity will ideally give HMC members a better sense of which income allocation approach they prefer, which income shift level produces the best output, and which factors and weights are best for the total allocation methodology and/or bottom-up methodology.

Figure 4: Feedback About Income Allocation Methodology Approaches
Do you prefer the Income Shift approach or the Bottom-Up approach?



Deciding Between Income Allocation Approaches Currently Under Consideration

As noted earlier, the HMC's June meeting focused on comparing the *Income Shift* approach and the *Bottom-Up* approach. At the end of the meeting, one-third of the HMC was still undecided about which income allocation approach they prefer for ABAG's RHNA methodology. Thus, this

memo contains additional analyses to assist the HMC with moving toward a recommendation for the income allocation approach.

To examine the outcomes produced by the *Income Shift* approach, staff paired the *Housing/Jobs Crescent* total allocation methodology with the 125 percent income shift multiplier and the 150 percent multiplier, as the majority of the HMC indicated a preference for these multipliers at the June meeting.² Additionally, staff continued to use the *Bottom-Up 2-Factor Concept* and *Bottom-Up 3-Factor Concept* to explore outcomes produced by the *Bottom-Up* approach since most HMC members indicated they approved of the factors used in these concepts.

As noted in the memo for the previous agenda item, the baseline allocation used in the RHNA methodology has a significant impact on the methodology's output. The baseline allocation is used to assign each jurisdiction a share of the Regional Housing Needs Determination (RHND) as a starting place for the methodology. The factors and weights selected for the RHNA methodology are then used to adjust a jurisdiction's baseline allocation up or down, depending on how a jurisdiction scores on a factor compared to other jurisdictions in the region.

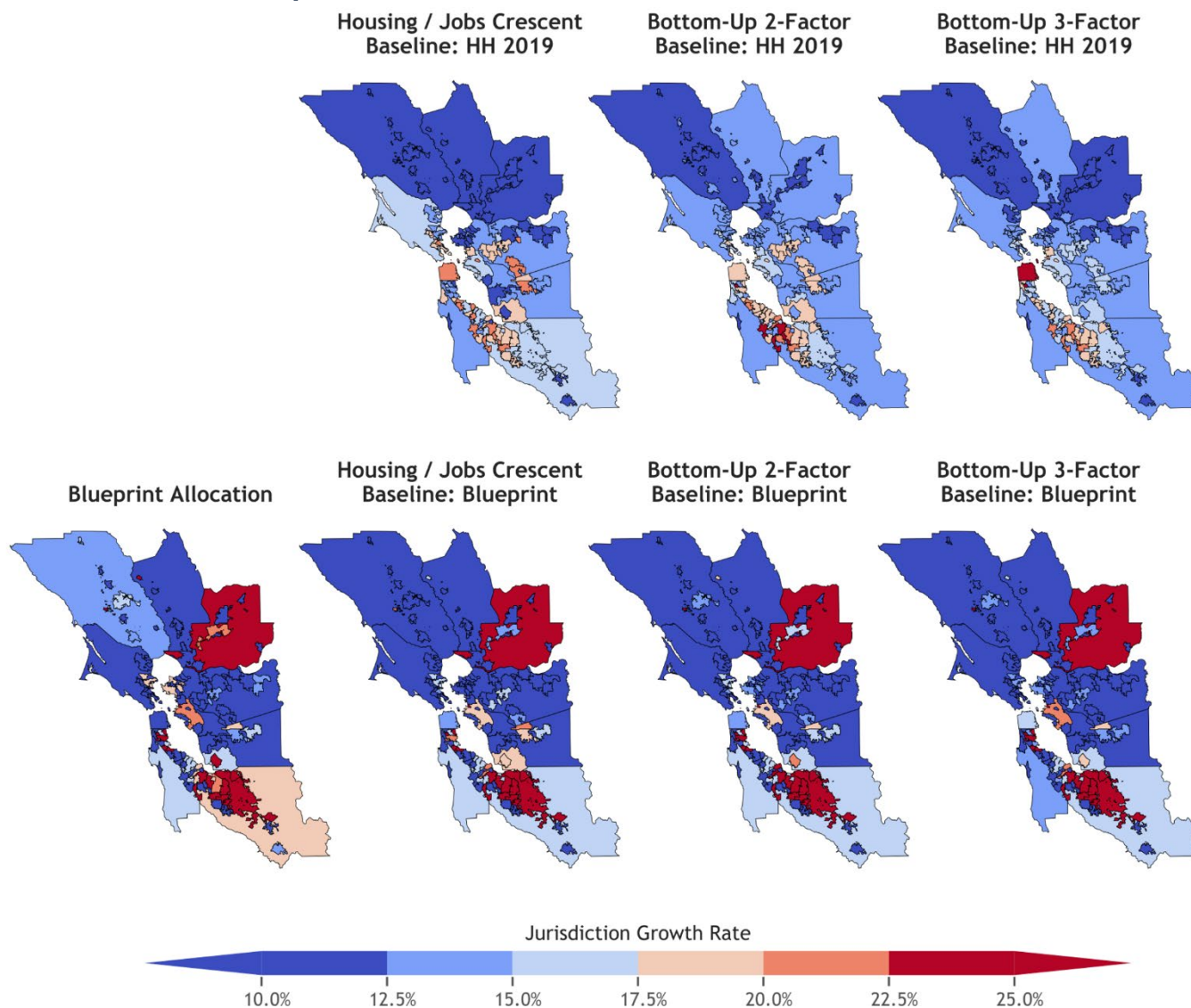
To date, all the methodology options the HMC has been discussing for both income allocation approaches have used the jurisdiction's share of total households in 2019 as the baseline allocation. However, the HMC could choose to use each jurisdiction's share of household growth from 2010 to 2050 from the Plan Bay Area 2050 Draft Blueprint as the baseline. To assist the HMC with choosing an income allocation approach, staff paired the different *Income Shift* and *Bottom-Up* methodologies discussed in previous meetings with both baseline options (2019 households and Draft Blueprint) to explore the outcomes produced by these different combinations. Staff also paired the *Income Shift* approach with the Blueprint Allocation methodology, where the growth pattern in the Draft Blueprint allocates the RHND without any additional methodology factors.

The income allocation approach used for the RHNA methodology not only affects how a jurisdiction's RHNA is divided among the four income categories, but it also influences the total number of units assigned to each jurisdiction. At the June meeting, HMC members requested more specific information on how total unit allocations to jurisdictions vary under the different methodology scenarios. Accordingly, **Figure 5** illustrates the differences in the growth rates that jurisdictions experience due to the total unit allocations received within the different income

² Though staff continued to use the *Code Red to Address Housing Need* and *Balanced Equity-Jobs-Transportation* methodologies in analyses presented to the HMC in May and June, staff decided not to include these methodologies for the July meeting materials based on the feedback received at the June HMC meeting that the RHNA methodology should not include a factor related to natural hazards. These methodology options both included the *Natural Hazards* factor weighted at 10 percent. If the HMC is interested in revisiting these two conceptual methodologies from March and reallocating the 10 percent to other factors, staff can make these adjustments and use revised versions of these methodologies for future analyses. See a [summary of the sample methodology options from the March meeting](#) for more information.

allocation methodologies. In these maps, jurisdictions shaded with the darkest blue experience the lowest growth rates, while the jurisdictions shown in the darkest red experience the highest growth rates.

Figure 5: Comparison of Growth Rates due to the Total Allocations Produced by Different Income Allocation Options



The maps on the left side of Figure 5 represent RHNA methodologies that would pair with the *Income Shift* approach (Blueprint Allocation and Housing/Jobs Crescent), while the maps on the right side of Figure 5 represent *Bottom-Up* RHNA methodologies. The map in the lower left corner (labeled "Blueprint Allocation") shows the total unit allocations that would result from using the growth pattern in the Draft Blueprint to allocate the RHND without any additional methodology factors. If ABAG were to use the Plan Bay Area 2050 Blueprint to allocate total

units, it would likely pair this allocation methodology with the *Income Shift* approach to divide jurisdictions' allocations among the RHNA income categories.

To the right of the "Blueprint Allocation" map are two maps showing growth rates from RHNA using the *Housing/Jobs Crescent* methodology, which would also be paired with the *Income Shift* approach. The top map reflects the growth pattern in the *Housing/Jobs Crescent* methodology if 2019 households is used for the baseline allocation, while the bottom map uses the Draft Blueprint for the baseline allocation. To the right of the *Housing/Jobs Crescent* maps are maps for the two *Bottom-Up* approach concepts developed by staff. Similar to the *Housing/Jobs Crescent* maps, the top maps for the *Bottom-Up* methodologies use 2019 households for the baseline allocation, while the bottom maps use the Draft Blueprint for the baseline allocation.

Figure 5 illustrates the Draft Blueprint's emphasis on housing growth in Silicon Valley, as the Draft Blueprint directs a significant share of the region's expected housing growth to jurisdictions in Santa Clara County (41 percent) and San Mateo County (10 percent). Accordingly, jurisdictions in this part of the region experience the most growth in all of the methodologies that use the Draft Blueprint for the baseline allocation in addition to the methodology that solely uses the Draft Blueprint to allocate RHNA. At a high-level, there do not appear to be significant differences in the patterns of housing growth between the *Income Shift* methodologies and the *Bottom-Up* methodologies when the Draft Blueprint is incorporated in the RHNA methodology. The methodologies that use 2019 households as the baseline have growth occurring in more locations throughout the region, which is particularly evident in the *Housing/Jobs Crescent* methodology and *Bottom-Up 2-Factor Concept*.

Appendix 1 provides a more detailed look at how both total allocations and the share of units in each income category vary for all 109 Bay Area jurisdictions using the different methodology options. Each graph in Appendix 1 shows the allocations received under ten different scenarios:

- Scenarios using the *Bottom-Up* income allocation approach
 - *Bottom-Up 2-Factor Concept* with 2019 households as the baseline allocation
 - *Bottom-Up 2-Factor Concept* with the Draft Blueprint as the baseline allocation
 - *Bottom-Up 3-Factor Concept* with 2019 households as the baseline allocation
 - *Bottom-Up 3-Factor Concept* with the Draft Blueprint as the baseline allocation
- Scenarios using the *Income Shift* income allocation approach
 - Total allocation based on the Draft Blueprint paired with a 125% income shift
 - Total allocation based on the Draft Blueprint paired with a 150% income shift
 - *Housing/Jobs Crescent* methodology with 2019 households as the baseline allocation and paired with a 125% income shift
 - *Housing/Jobs Crescent* methodology with 2019 households as the baseline allocation and paired with a 150% income shift
 - *Housing/Jobs Crescent* methodology with the Draft Blueprint as the baseline allocation and paired with a 125% income shift

- *Housing/Jobs Crescent* methodology with the Draft Blueprint as the baseline allocation and paired with a 150% income shift

Differences in Performance on the Evaluation Metrics

For the May HMC meeting, staff prepared a set of potential metrics for evaluating RHNA methodology options. These metrics intend to assist the HMC with assessing whether a proposed methodology will meet the statutory RHNA objectives and further regional planning goals. Staff based some of these metrics on the analysis conducted by the Department of Housing and Community Development (HCD) in evaluating the RHNA methodologies completed by other regions in California.³ Other metrics reflected input from stakeholders and staff's interpretation of statutory language. After receiving feedback from the HMC in May, staff revised the initial set of proposed metrics based on what appeared to be most relevant or useful to HMC members. **Table 2** displays this revised set of metrics, all of which are currently incorporated in the [RHNA online visualization tool](#).

Table 2: Evaluation Metrics Currently Available in the RHNA Online Visualization Tool

Statutory Objective	Metric	Measurement
Objective 1: Does the allocation increase the housing supply and the mix of housing types, tenure, and affordability in all cities and counties within the region in an equitable manner?	Do jurisdictions with the most expensive housing costs receive a significant percentage of their RHNA as lower-income units?	Percent of RHNA as lower-income units for the 25 jurisdictions with the most expensive housing costs
Objective 2: Does the allocation promote infill development and socioeconomic equity, the protection of environmental and agricultural resources, the encouragement of efficient development patterns, and the achievement of the region's greenhouse gas reductions targets?	Do jurisdictions with the largest share of the region's jobs have the highest growth rates resulting from RHNA?	Average growth rate resulting from RHNA for the 25 jurisdictions with the largest share of the region's job
	Do jurisdictions with the largest share of the region's Transit Priority Area acres have the highest growth rates resulting from RHNA?	Average growth rate resulting from RHNA for the 25 jurisdictions with the largest share of the Transit Priority Area acres

³ For copies of letters HCD sent to other regions, see [this document](#) from the January 2020 HMC meeting agenda packet.

Statutory Objective	Metric	Measurement
Objective 3: Does the allocation promote an improved intraregional relationship between jobs and housing, including an improved balance between the number of low-wage jobs and the number of housing units affordable to low wage workers in each jurisdiction?	Do jurisdictions with the most low-wage workers per housing unit affordable to low-wage workers receive a significant percentage of their RHNA as lower-income units?	Percent of RHNA as lower-income units for the 25 jurisdictions with the most low-wage workers per housing unit affordable to low-wage workers
Objective 4: Does the allocation direct 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?	Do jurisdictions with the largest percentage of low-income residents receive a smaller share of their RHNA as lower-income units than jurisdictions with the largest percentage of high-income residents?	Percent of RHNA as lower-income units for the 25 jurisdictions with the largest percentage of households below 80% of Area Median Income compared to the percent of RHNA as lower-income units for the 25 jurisdictions with the largest percentage of households above 120% of Area Median Income
Objective 5: Does the allocation affirmatively further fair housing?	Do jurisdictions with the largest percentage of households living in High or Highest Resource tracts receive a significant percentage of their RHNA as lower-income units?	Percent of RHNA as lower-income units for the 25 jurisdictions with the largest percentage of households in High or High Resource tracts
	Do racially and economically exclusive jurisdictions receive allocations proportional to their share of the region's households	Share of the jurisdictions with above-average divergence scores and percentages of households above 120% of Area Median Income that receive allocations at least proportional to their share of the region's households

Appendix 2 contains charts illustrating how the 10 methodology scenarios from Appendix 1 perform on the evaluation metrics in Table 2. Overall, the methodologies using the *Bottom-Up* approach tend to perform well on the evaluation metrics most consistently across the different statutory objectives, which remains true whether 2019 households or the Draft Blueprint is used as the baseline allocation with these methodologies. Below is a summary describing which methodology options appear to most effectively achieve each of the five statutory objectives:

- **Objective 1:** All *Bottom-Up* approaches perform best on this metric. The *Bottom-Up 2-Factor Concept* results in the jurisdictions with the most expensive housing costs receiving the highest share of their RHNA as affordable housing. These jurisdictions receive 50 percent of their allocation as lower-income units when the *Bottom-Up 2-Factor Concept* uses either baseline allocation (2019 households or Draft Blueprint).

- **Objective 2:** Using the Draft Blueprint as the baseline allocation improves how methodologies perform on the evaluation metrics for Objective 2. The *Bottom-Up 3-Factor Concept* using the Draft Blueprint for the baseline and *Housing/Jobs Crescent* using the Draft Blueprint most successfully achieve Objective 2. These methodologies both result in the jurisdictions with the largest share of the region's jobs growing by 21 percent, and the jurisdictions with the largest share of the region's Transit Priority Area acres also grow by 21 percent in both of these methodologies. Moreover, the growth rates in the jurisdictions with the most jobs and access to transit are more than double the growth rates experienced by other regions. When 2019 households is used for the baseline allocation, there is less discrepancy in the growth rates between different types of jurisdictions, though there is still more growth in the jurisdictions with the most jobs and transit access.
- **Objective 3:** Using 2019 households as the baseline results in better performance on the metric for Objective 3. The *Bottom-Up 2-Factor Concept* and *Bottom-Up 3-Factor Concept* are both the most effective methodologies for achieving Objective 3 when paired with the 2019 households baseline allocation. In both scenarios, the jurisdictions with the most low-wage workers per housing unit affordable to low-wage workers receive 49 percent of their RHNA as lower-income units.
- **Objective 4:** All of the *Bottom-Up* methodologies appear to perform best on the Objective 4 metrics regardless of which baseline allocation they are paired with. The *Bottom-Up* methodologies result in the jurisdictions with the most disproportionately large shares of high-income residents receiving the highest percentage of their RHNA as affordable housing, with 51 percent of the allocations for these jurisdictions as lower-income units. Additionally, both of the *Bottom-Up* methodologies also provide the most affordable housing for the jurisdictions with the most disproportionately large shares of low-income residents, with about 39 percent of the RHNA for these jurisdictions being lower-income units. These allocations achieve Objective 4, since the jurisdictions with the largest shares of low-income residents receive smaller percentages of lower-income RHNA than the most disproportionately wealthy jurisdictions. At the same time, the *Bottom-Up* methodologies still allocate more lower-income RHNA to the jurisdictions with significant low-income populations than the other methodology options, which addresses concerns that HMC members have raised about displacement in these jurisdictions.
- **Objective 5:** The different methodology options have somewhat mixed results in terms of their performance on the evaluation metrics for Objective 5. The *Bottom-Up* methodologies are best for allocating lower-income RHNA to jurisdictions with the most access to opportunity, particularly when paired with 2019 households as the baseline allocation. In both *Bottom-Up* scenarios using the 2019 households baseline, jurisdictions with the largest percentage of households living in High Resource or Highest Resource

census tracts receive 51 percent of their RHNA as lower-income units. However, the *Housing/Jobs Crescent* methodology paired with the 2019 households baseline allocation is by far the most effective for ensuring that jurisdictions exhibiting racial and economic exclusion receive allocations proportional to their share of the region's households. Using this methodology, 87 percent of the jurisdictions with both above-average divergence index scores and percentages of high-income households receive RHNA numbers that are at least proportional to their share of the region's households.

Next Steps

At the July HMC meeting, staff will seek feedback from the HMC about which income allocation approach they recommend for the RHNA methodology. When making their recommendation to staff, the HMC may wish to consider the following:

- **Regional growth pattern:** How does the regional growth pattern vary under the different methodology options? Does one of the income allocation approaches lead to methodology outcomes that better serve the region?
- **Variations in income allocations to jurisdictions:** How do the different approaches allocate affordable housing and market-rate units to different jurisdictions?
- **Performance on evaluation metrics:** Does one of the income approaches tend to produce methodologies that seem better suited for achieving the statutory objectives?
- **Combined effect with baseline allocation:** Does using the Draft Blueprint or 2019 households for the baseline allocation influence which income allocation approach has better results for the region?