

## CENTER FOR CONTINUING STUDY OF THE CALIFORNIA ECONOMY

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DATE: March 14, 2015

TO: Palo Alto City Council, PTC and Staff

FROM: Stephen Levy

SUBJECT: Regional Housing Needs Allocation Process History and Issues

Housing policy will be a major topic in the upcoming Comp Plan update. There are a variety of viewpoints regarding what is best for Palo Alto.

This memo focuses on the **regional** housing needs allocation process, results and issues. A subsequent memo will discuss the allocation of the regional housing needs total to local jurisdiction such as Palo Alto.

I am interested to see if the community can come to agreement about the **regional housing needs process** separate from a discussion of Palo Alto choices.

### Summary

- 1) State law requires the Department of Housing and Community Development (HCD) to determine “the existing and projected housing need for each region” (Cal. Gov. Code 65584).
- 2) The HCD projection of future needs is primarily based on a) population projections from the California Department of Finance (DOF), b) household formation rate and vacancy projections prepared by HCD and c) discussions with regional planning agencies.
- 3) The current RHNA projection for the ABAG region was based on an **outdated set of DOF projections and without consultation with ABAG and prior to and apart from the adoption of Plan Bay Area.**
- 4) The new formal RHNA/DOF methodology requires that DOF develop regional migration and population projections incorporating job growth projections developed by regional planning agencies such as ABAG. This process is reflected in a new and higher set of DOF population projections for the ABAG region released in December 2014.

- 5) Based primarily on recent job growth trends within the region, the current (2014-2022) regional housing planning target would have been higher if job growth trends had been taken into account (public statement of lead HCD staff). The next regional RHNA target for the 2022-2030 years will almost certainly reflect a catch up to meet the shortfall in the 2014-2022 target and will also reflect that current job growth is running far ahead of the ABAG regional projections, which are currently being updated.

### **Issues for the Next Memo**

- 1) The relationship of SB 375 and Plan Bay Area to addressing the allocation of regional housing needs to local jurisdictions
- 2) The interaction of city Housing Elements and the RHNA
- 3) Demographic considerations in the region and Palo Alto

### **A Short RHNA History**

I defer to the Planning Director and City Attorney for any corrections to the legal aspects of the RHNA. I have direct first person knowledge of and participation in the actual events regarding DOF, HCD and ABAG with regard to the current and next RHNA.

The requirement for HCD to develop regional housing needs projections is set forth in California Government Code section 65584 <http://codes.lp.findlaw.com/cacode/GOV/1/7/d1/3/10.6/s65584>. The first section begins

a) (1) For the fourth and subsequent revisions of the housing element pursuant to Section 65588, the department shall determine the existing and projected need for housing for each region pursuant to this article. For purposes of subdivision (a) of Section 65583, the share of a city or county of the regional housing need shall include that share of the housing need of persons at all income levels within the area significantly affected by the general plan of the city or county.

### **The Determinants of Regional Housing Needs**

This section deals with the overall regional totals and not the allocation by income level.

The major determinants of projected regional need are

- 1) Department of Finance population projections by age and ethnic group
- 2) Household formation rate projections by age and ethnic group

- 3) Assumptions about vacancy rates
- 4) Consultation with regional planning agencies. Each regional agency is allowed to use a population projection that is within 3% of the DOF projection. If the regional agency projection is outside this range, it can provide information to HCD to support the regional projection.

### **The Current ABAG Regional Housing Need Allocation from HCD**

Early in 2012 HCD provided ABAG with a preliminary regional housing need projection for 2014-2022. The projection was based on the then current DOF regional population projection. There was no interchange between HCD, DOF and ABAG and, as a result the HCD projection was completely independent of the ongoing ABAG analysis, which resulted in the adoption of Plan Bay Area in July 2013.

At a spring 2013 public meeting at ABAG, Glen Campora, the HCD person in charge of the technical work, acknowledged that the HCD regional housing allocation would have been higher had it been based on the adopted ABAG regional growth forecast.

### **Recent Changes in the Development of Regional RHNA Projections**

The principal change, not reflected in the ABAG 2014-2022 projection, is the requirement for DOF migration and population projections to be developed in consultation with regional planning agencies. Below is the methodology statement published by DOF in December 2014 in connection with their most recent population projections.

[http://www.dof.ca.gov/research/demographic/reports/projections/P-3/documents/Projections\\_Methodology\\_2014.pdf](http://www.dof.ca.gov/research/demographic/reports/projections/P-3/documents/Projections_Methodology_2014.pdf).

This is the relevant history. In 2010 the Southern California Association of Governments (SCAG) received an initial regional housing needs projection based on then existing DOF population projections. The DOF projections were much higher (800,000) than the ones developed by SCAG based on job growth as part of their regional growth forecast, which I helped prepare.

I participated in discussions with HCD, which led to their acceptance of the rationale for using regional job growth projections as an input to DOF population projections and to the current methodology language. Subsequently DOF did incorporate job based migration assumptions from SCAG, ABAG and other cooperating regions in their December 2014 updated projections. As a result, the current DOF Bay Area population projections are consistent with Plan Bay Area.

### **Recent and Expected Bay Area Job and Population Growth**

When the ABAG regional housing needs allocation was completed by HCD in early 2012, the region had regained approximately 100,000 of the jobs lost during the recession. As of January 2015, the region has added more than 530,000 jobs in the past five years and now has more than 250,000 more jobs than at the pre-recession peak. Last week the state Employment Development Department revised estimates for 2013 and 2014 and found that Bay Area job growth was higher than previously estimated.

Based on recent UCLA forecasts for the state and region, at least another 250,000 jobs will be added through 2017. After that job growth will slow as baby boomers retire but this slowdown was anticipated on Plan Bay Area.

Since the Plan Bay Area projection of job growth for the 2010-2020 decade was approximately 600,000, the region will be ahead of the 2020 projected job level (which was above what was used in the 2014-2020 RHNA) by the end of 2017.

Regional population growth accelerated in 2013 and 2014 averaging 85,000 residents a year. And this was when some of the job gains were filled by existing residents who were previously unemployed. The next rounds of job growth will bring higher levels of migration to the region as the current regional unemployment rate is near 5%.

The DOF regional population projection released in December 2014 reflected the early portions of recent job and population growth.

DOF projection used in the 2012 RHNA---8.4 million

Current DOF regional population projection—9.2 million

DOF projection for the 2022-2030 RHNA—almost certainly higher

So there is a very strong likelihood that the 2022-2030 RHNA will reflect two upward adjustments—1) to make up for the under projection for 2014-2022 and 2) to reflect the stronger than expected job and population growth since 2012.

More will be known about regional trends and the new ABAG job, population and household projections later in 2015 as an updated set of projections to 2040 is currently being developed.