STATE OF CALIFORNIA - BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY EDMUND G. BROWN JR., *Governor*

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF HOUSING POLICY DEVELOPMENT
2020 W. El Camino Ave
Sacramento, CA 95833-1829
916) 263-2911 FAX: (916) 263-7453
www.hcd.ca.gov

October 30, 2013

Ms. Maura F. Twomey, Executive Director
Association of Monterey Bay Area Governments
445 Reservation Road, Suite G
Marina, CA 93933

Dear Ms. Twomey,

RE: 5th Cycle Regional Housing Need Determination for Housing Element Updates

This letter provides the Association of Monterey Bay Area Governments (AMBAG) its fifth cycle regional housing need assessment (RHNA) determination for the projection period January 1, 2014 through December 31, 2023. The Department of Housing and Community Development (Department) is required to determine AMBAG's existing and projected housing need pursuant to State housing law (Government Code Section 65584, et. seq.)

As you know, Senate Bill 375, Chapter 728, Statutes of 2008 (SB 375) amended housing and transportation statutes to further strengthen the coordination of regional housing and transportation planning. Amendments also revised the housing element schedule to require AMBAG jurisdictions and all others on an 8-year housing element planning period to adopt the 5th cycle housing element no later than 18 months from the adoption date of the current RTP update.

The Department has prepared AMBAG's RHNA determination based on receipt of AMBAG's notification and estimate that the RTP will be adopted June 11, 2014. The resulting housing element due date is December 15, 2015 based on AMBAG's estimated June 2014 RTP adoption date. Please note that in the event the RTP is adopted on a different date, the RHNA and projection period will not change but the housing element planning period and element due date will change accordingly. The Department must be notified of any change to the RTP adoption date and will update the housing element schedule information on its website at: http://www.hcd.ca.gov/hpd/hrc/plan/he/web_he_duedate.pdf.

For your information, Government Code Section 65584.01(d)(1) allows 30 days from the date of this letter to file an objection and proposed alternative to the Department's determination. An objection and proposed alternative must be based only on demographic issues set forth in the statute.

The Department determined AMBAG's regional housing need to be 10,430 for the 10-year projection period, from January 1, 2014 to December 31, 2023. In assessing AMBAG's regional housing need, the Department considered the critical role housing plays in developing sustainable communities and supporting employment growth. The Department further considered AMBAG's growth forecast, socio-economic base and potential for recent household formation trends to generate housing demand at a changing pace.

In determining the regional housing need, consideration was also given to the extraordinary uncertainty regarding national, State, local economies and housing markets. As a result, for this RHNA cycle only, the Department made an adjustment to account for abnormal vacancies and unique market conditions due to prolonged recessionary conditions, high unemployment, and unprecedented foreclosures. However, for AMBAG, such an adjustment was not necessary because the effective vacancy per the 2010 Census data did not exceed the number of vacancies associated with a healthy housing market. (Please see Attachment 2 for more information.)

The Department and representatives of AMBAG completed the consultation process specified in statute through correspondence, meetings and conference calls conducted between February and September, 2013. The consultation process included the Department attending AMBAG's August 15, 2013 board meeting to provide an overview of the RHNA. The Department appreciates the assistance provided throughout the consultation process by AMBAG representatives which included you, Ms. Heather Adamson, Principal Planner, Ms. Anais Schenk, Associate Planner, and Mr. Bob Leiter, consultant. The Department also received assistance from Mr. Walter Schwarm, demographics expert with the Department of Finance's Demographic Research Unit. Data, assumptions, and draft forecasts of population, employment and housing provided by AMBAG in regards to the above factors were considered.

In completing AMBAG's RHNA, the Department applied methodology and assumptions regarding the following factors (Government Code Section 65584.01(c)(1)):

- anticipated household growth associated with projected population increases;
- household size data and trends in household size;
- rate of household formation, or headship rates, based on age, gender, ethnicity, or other established demographic measures;
- vacancy rates in existing housing stock, and for healthy housing market functioning and regional mobility, as well as housing replacement needs;
- other characteristics of the composition of the projected population; and
- the relationship between jobs and housing, including any imbalance between jobs and housing.

The Attachments to this letter describe details of the Department's methodology and RHNA income category for AMBAG to distribute the 10,430 regional housing unit need among all its local governments. Each locality must receive a RHNA share of very-low and low-income units. The distribution of RHNA for lower income, moderate-income, and above-moderate income categories cannot be less than the total for each of these income categories shown in Attachment 1. The RHNA represents the *minimum* amount of residential development capacity all jurisdictions must plan to accommodate through zoning and appropriate development strategies. RHNA is not to be used within local general plans as a maximum amount or cap of residential development to plan for or approve.

Upon receipt of the Department's final RHNA determination, AMBAG is responsible for developing a RHNA distribution methodology and adopting a RHNA Plan for the projection period of January 1, 2014 through December 31, 2023. Housing element law (Government

Code Section 65584, et. seq.) requires AMBAG's methodology and RHNA Plan to be consistent with the following objectives:

- increasing the housing supply and mix of housing types, tenure, and affordability;
- promoting infill development and socio-economic equity, protecting environmental and agricultural resources, and encouraging efficient development patterns;
- promoting an improved intraregional relationship between jobs and housing; and
- balancing the distribution of households by income category.

Pursuant to Government Code Section 65584.05(h), AMBAG is required to submit its RHNA Plan to the Department for approval within three days of adopting the RHNA Plan. Once the Department has approved the RHNA Plan, AMBAG is to distribute to all its local government members their income category shares of new housing needs to be addressed in their housing element updates covering the 2015 - 2023 planning period.

Transfers of housing need among local governments are permitted pursuant to Government Code Section 65584.07. RHNA transfer agreements between local governments may occur until adoption of the RHNA Plan. Once AMBAG has adopted its RHNA Plan and until the housing element due date, transfers meeting specified conditions may only occur from the county to cities within the county. Transfers after the due date of the housing element are restricted to annexations and incorporations and must be completed within specified timeframes. The number of units by income to be transferred are determined either based on mutual agreement between affected local governments, or, when no agreement is reached, by the entity responsible for allocating housing need (AMBAG). The Department must be notified of all transfers; jurisdictions affected by RHNA transfers must amend their housing element within a specified timeframe.

In updating their housing elements, local governments may only take RHNA credit for units approved (entitled or permitted) since the January 1, 2014 start date of the RHNA projection period. Localities are also required to describe how units were credited to different income categories based on actual or projected sale price or rent level data.

Any city planning to accommodate a portion of RHNA on sites within a city's Sphere of Influence (SOI) needs to include an annexation program in the housing element. The annexation program needs to demonstrate SOI sites can be annexed early enough in the planning period to make adequate sites available before triggering penalties pursuant to Government Code sections 65583(c)(1)(A), and 65583(f).

The Department commends AMBAG's efforts in its election to meet the objectives of SB 375 and especially appreciates the assistance provided by Ms. Heather Adamson. We look forward to a continued partnership with AMBAG and its member jurisdictions in planning efforts to accommodate the region's housing need. If you need assistance or have any question, please contact me or Anda Draghici, Housing Policy Senior Specialist, at (916) 263-2911.

Sincerely,

Glen A. Campora

Glen A. Campora
Assistant Deputy Director

Enclosures

HCD - ATTACHMENT 1

AMBAG 5th CYCLE REGIONAL HOUSING NEED DETERMINATION
Projection Period: January 1, 2014 through December 31, 2023

Income Category	Percent	Regional Housing Need (rounded) (1)
Very-Low	24.1%	2,515
Low	15.7%	1,640
Moderate	18.2%	1,900
Above-Moderate	42.0%	4,375
Total	**100.0%** (2)	**10,430** (3)

(1) The statutory objective regarding RHNA requires HCD, in consultation with Department of Finance (DOF) and councils of governments (COGs), to determine projected household growth and housing need based on DOF population projections and COG regional population forecasts and requires regional and local jurisdictions to plan to accommodate capacity for all of the projected RHNA. The Legislature recognizes that different assumptions and variances in methodologies can be used that can result in different population projections. Projection of housing need developed by DOF and HCD for RHNA purposes does not consider local government constraints.

(2) The income category percentages reflect the minimum percentage to apply against the total RHNA of 10,430 or more decided by AMBAG in determining housing need for very-low, low, and moderate income households. Each category is defined by Health and Safety Code (Section 50093, et seq.). Percentages are derived from the 2007-2011 American Community Survey's number of households by income, over 12 month periods. Housing unit need under each income category is derived from multiplying the portion of households per income category against the total RHNA determination.

(3) The 10,430 determination (see Attachment 2) reflects AMBAG's projected minimum housing need (rounded). This column represents the minimum housing need that AMBAG's RHNA Plan must address in total and also for very-low, low, and moderate income categories.

Housing Element schedule (Subject to change if estimated RTP adoption date changes):
Estimated Housing Element Due Date: December 15, 2015

HCD - ATTACHMENT 2
2014-2023 REGIONAL HOUSING NEED DETERMINATION: AMBAG

	HCD Determined Population, Households, & New Housing Need: January 1, 2014-December 31, 2023(10 years)				
1	**Population: December 31, 2023** (aggregate of DOF Population Projections)				**731,880**
2	*less: Group Quarters Population - DOF Projections*				**32,007**
3	**Household (HH) Population December 31, 2023 (DOF Projections)**				**699,873**
	Household Formation Groups	**HH Population**	***HH Formation or Headship Rate***	**2023 Households**	
	All Age Groups (DOF)			**237,363**	
	Under 15				
	15 - 24 years	**96,980**	**8.63%**	**8,369**	
	25 - 34 years	**94,205**	**33.84%**	**31,879**	
	35 - 44 years	**91,448**	**46.30%**	**42,339**	
	45 - 54 years	**76,056**	**52.10%**	**39,622**	
	55 - 64 years	**77,003**	**56.30%**	**43,354**	
	65 -74 years	**71,190**	**59.14%**	**42,102**	
	75 - 84 years	**34,544**	**65.03%**	**22,462**	
	84+	**10,720**	**67.50%**	**7,235**	
4	**Projected Households-December 31, 2023**				**237,363**
5	*less: Households at Beginning of Projection Period (January, 2014, DOF Projection)*				227,346
6	**Household Growth: 10 Year Projection Period**				**10,017**
7	**Vacancy Allowance**	Owner	Renter	Total	
	Tenure Percentage per 2010 Census	**53.70%**	**46.30%**		
	HH Growth by Tenure	5,379	4,638	10,017	
	Healthy Vacancy Rate	2.00%	5.00%		
	Vacancy Allowance	108	232	339	339
8	**Replacement Allowance (minimum)**	0.70%		10,357	73
					10,430
9	*less: Adjustment for Absorption of Existing Excess Vacant Units*				
	Estimate Vacant Units Not Absorbed by 2014	Effective Vacant Units	Healthy Market Units	Differential	
	Derived (2012 Census, HH Growth, & Vacancy Rate)	(7,161)	7,811	649	
	Total 2012 Housing Stock	243,294			
	Existing Vacant Unit (Others) Adjustment	1.74%	1.80%		
	Total Adjusted Existing Vacant Units (Others)	(4,240)	4,379	139	
	Estimated Units (Others) Not Absorbed by 2014	N/A		789	N/A
	FINAL REGIONAL HOUSING NEED DETERMINATION (10 year RHNA Projection Period)				**10,430**

1 **Population**: Pursuant to Government Code Section 65584.01(b), and in consultation with AMBAG, the December 31, 2023 is based on State of California, Department of Finance, Report P-2: State and County Population Projections by Race/Ethnicity, and 5-year age-group, 2010-2060. Sacramento, California, January 2013 avilable at: http://www.dof.ca.gov/research/demographic/reports/projections/P-2/

2 **Group Quarter Population**: Estimate of persons residing either in a group home, institution, military, or dormitory using 2010 Census data for group quarters. As this population doesn't constitute a "household" population generating demand for a housing unit, the group quarter population is excluded from the calculation of the household population, and is not included in the housing need.

3 **Household (HH) Population**: The portion of population projected to reside in housing units after subtracting the group quarter population from total projected population.

4 **Projected 2023 Households (HHs)**: The December 31, 2023 number of households is projected by applying (to 2023 HH population by age, race and ethncity) DOF-calculated household formation rates. The HH Population composition by age was provided by DOF. The use of the HH population is a result of consultation between HCD, DOF and AMBAG.The headship rates reflect the propensity of different population groups (age, racial and ethnic) to form households.

HCD - ATTACHMENT 2
2014-2023 REGIONAL HOUSING NEED DETERMINATION: AMBAG

5 **Households at Beginning of Projection Period (2014):** The baseline number of households at the beginning of the projection period (January 2014) must be projected, as a direct effect of amendment to Section 65588(e)(6) specifying the new projection period to start on either June 30 or December 31 whichever date most closely precedes the end of the current housing element period (June 30, 2014 for AMBAG). As such, the 2014 household number was provided by DOF's Projections.

6 **Household (HH) Growth:** Projected HH growth calculated as difference between households at the end and at the beginning of the RHNA projection period.

7 **Vacancy Allowance:** An allowance (unit increase) is made to facilitate availability and mobility among owner and renter units. Owner/Renter % is based on Census 2010 data. A smaller rate is applied to owner units due to less frequent mobility than for renter households. Information from a variety of authoritative sources supports an acceptable range of 1 to 4% for owner units and 4 to 8% for renter units depending on market conditions.

8 **Replacement Allowance:** Rate (0.7%) reflects the housing losses (demolitions) based on localities annually reported to DOF each January for years 2003-2011.

9 **Adjustment for Absorption of Existing Excess Vacant Units:** Not applicable to AMBAG because the effective vacancy rate per 2010 Census was higher than the vacancies associated with the 2% and 5%, respectively, healthy vacancy rates. For this RHNA cycle only (due to extraordinary uncertainty regarding conditions impacting the economy and housing market not expected to similarly impact future RHNA cycles), a one-time adjustment was made where unprecedented high vacancies in existing stock due to unusual conditions including high foreclosures and economic uncertainties exceeded normal levels. Existing housing stock consists of two components: (1) housing units for sale and rent in existing housing stock that are above the housing units required to maintain the healthy market condition, calculated as the number of units in housing stock (for sale + for rent + sold, not occupied+rented, not occupied + occupied units), (2) housing units in the "vacant units others" category of existing housing stock above the level of 2000 (using Census 2000). The Department used 2010 Census Demographic profile data (DP-1) and "normal" vacancy rates by tenure, in conjunction with the region's household growth and proposed household formation rates. The vacancy adjustment is limited to not exceed the differential between the 2010 Census vacant units and the healthy market vacant units rate associated with the region's annual household growth. As the adjustment was above the differential, a downward adjustment was not necessary.

RHNA Projection Period January 1, 2014 to December 31, 2023: Pursuant to SB 375, the start of the *projection* period (in effect January 1, 2014) was determined pursuant to GC 65588(e)(6), which requires the new projection period to start on June 30 or December 31 that most closely precedes the end of the current housing element period, which for AMBAG region is June 30, 2014. The end of the projection period was determined pursuant to GC 65588(e)(5) to be the end of the housing element planning period. *Note: For projection purposes the end of the projection period is rounded to the end of the month.*

***Estimated* Housing Element Planning Period December, 2015 to December, 2023: Subject to change, as it is based on the estimated June 11, 2014 RTP adoption date.** Pursuant to SB 375, the start of the *planning* period was determined pursuant to GC 65588(e)(5), 18 months from the estimated adoption date of AMBAG's Regional Transportation Plan, as notified by AMBAG to HCD, with the date rounded to the end of month for projection purposes. The end of the planning period was calculated pursuant to GC 65588(e)(3)(A), 18 months after the adoption of the second RTP, provided that it is not later than eight years from the adoption of the previous housing element. If the actual RTP adoption date differs from the estimated date of June 11, 2014, the RHNA determination and the projection period will not change, however the housing element due date, and implicitly, the housing element planning period would change accordingly.