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
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December 30, 2013

Ms. Marjie Kirn
Executive Director
Merced County Association of Governments
369 W. 18th St.
Merced, CA 95340

Dear Ms. Kirn,

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

This letter provides Merced County Association of Governments (MCAG) its 5th 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 MCAG's existing and projected housing need pursuant to State housing law, Government Code (GC) Section 65584, et. seq..

As you know, Senate Bill 375 (Chapter 728, Statutes of 2008) further strengthened the existing coordination of regional housing and transportation planning. Metropolitan Planning Organizations (MPOs) are now required to develop and incorporate a new sustainable community strategy (SCS) in their Regional Transportation Plans (RTP) to achieve greenhouse gas emission reductions and accommodate the region's housing need. SB 375 amended the RHNA schedule and methodology requiring the due date for local governments to update their housing elements be no later than 18 months from the date MCAG adopts the RTP.

The Department has prepared MCAG's RHNA determination based on MCAG's estimated RTP adoption date of June 26, 2014. 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 reflect RTP adoption date changes on its website at: http://www.hcd.ca.gov/hpd/hrc/plan/he/web_he_duedate.pdf.

For your information, GC 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 (Attachment 1). An objection and proposed alternative must be based on demographic and methodology factors set forth in the statute.

The Department determined MCAG's regional housing need to be 15,850 for the 10-year projection period, from January 1, 2014 to December 31, 2023. In assessing MCAG's regional housing need, the Department considered the critical role housing plays in developing sustainable communities and supporting employment growth.

Housing element law (GC Section 65584, et. seq.) requires MCAG'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 GC Section 65584.05(h), MCAG is required to submit its RHNA Plan to the Department for approval within three days of adopting the RHNA Plan. Upon approval by the Department of the RHNA Plan, MCAG 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.

When 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 its 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 to avoid other rezoning pursuant to GC sections 65583(c)(1)(A), and 65583(f).

Regarding transfers of housing need among local governments, AB 242 (Chapter 11, Statutes of 2008) amended provisions of GC Section 65584.07. RHNA transfers agreed between local governments may occur until adoption of the RHNA Plan. Once MCAG has adopted its RHNA Plan, RHNA 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 numbers 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 (MCAG). The Department must be notified of all transfers; jurisdictions affected by RHNA transfers must amend their housing element within the timeframe specified in the statute.

The Department commends MCAG's efforts to meet the objectives of SB 375 and especially appreciates the assistance provided by Mr. Matt Fell. We look forward to a continued partnership with MCAG 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

ATTACHMENT 1

HCD REGIONAL HOUSING NEED DETERMINATION: Merced CAG
Projection Period: January 1, 2014 through December 31, 2023

Income Category	Percent	Regional Housing Need (rounded) [1]
Very-Low	24.3%	3,850
Low	17.3%	2,740
Moderate	16.0%	2,535
Above-Moderate	42.4%	6,725
Total	**100.0%** [2]	**15,850** [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.

For this RHNA cycle only (due to unique conditions not expected to recur to impact future RHNA cycles), the housing need was adjusted downward to account for an estimated 20 percent absorption level of unprecedented high vacancies in existing stock due to extraordinary conditions including high foreclosures and economic uncertainties.

(2) The income category percentages reflect the minimum percentage to apply against the total RHNA decided by MCAG 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 15,850 allocation (see Attachment 2) reflects MCAG's projected minimum housing need (rounded) and an adjustment (-2,230) for existing excess vacant units in estimating 80% of vacant units will not be absorbed before the start of the projection period. This column represents the minimum housing need that MCAG's RHNA Plan must address in total and also for very-low, low, and moderate income categories.

Based on the region's estimated RTP adoption date of June 19, 2014 (subject to change):

5th Update of the Housing Element Due Date: December 31, 2015

ATTACHMENT 2
HCD REGIONAL HOUSING NEED DETERMINATION: Merced CAG

1	**Population: December 31, 2023 (DOF Projections)**				**323,927**
2	*less: Group Quarters Population Census DOF*				**8,342**
3	**Household (HH) Population December 31, 2023**				**315,585**
	Household Formation Groups	**2023 HH Population**		**2023 Households**	
	All Age Groups (DOF)		***HH Formation or Headship Rate***	**97,223**	
	Under 15	**-**	**-**	**-**	
	15 - 24 years	**54,141**	**8.10%**	**4,387**	
	25 - 34 years	**50,268**	**36.22%**	**18,210**	
	35 - 44 years	**41,563**	**47.40%**	**19,701**	
	45 - 54 years	**32,683**	**50.87%**	**16,627**	
	55 - 64 years	**30,700**	**53.12%**	**16,307**	
	65 -74 years	**22,988**	**54.38%**	**12,500**	
	75 - 84 years	**12,149**	**56.87%**	**6,909**	
	84+	**4,555**	**56.73%**	**2,584**	
4	**Projected Households-December 31, 2023**				**97,223**
5	*less: Households at Beginning of Projection Period (January, 2014, interpolated)*				79,698
6	**Household Growth: 10 Year Projection Period**				**17,525**
7	**Vacancy Allowance**	**Owner**	**Renter**	**Total**	
	Tenure Percentage per 2010 Census	**54.46%**	**45.54%**		
	HH Growth by Tenure	9,544	7,980	17,525	
	Healthy Vacancy Rate	**1.50%**	**4.00%**		
	Vacancy Allowance	143	319	462	462
8	**Replacement Allowance (minimum)**	**0.54%**		17,987	97
					18,084
9	*less: Adjustment for Absorption of Existing Excess Vacant Units*				
	Estimate 20% Absorbed, 80% Not Absorbed by 2014	Effective Vacant Units	Healthy Market Units	Differential	
	Derived (2010 Census, HH Growth, & Vacancy Rate)	(4,448)	2,081	-2367	
	Total 2012 Housing Stock	83,979			
	Existing Vacant Unit (Others) Adjustment	**3.05%**	**2.63%**		
	Total Adjusted Existing Vacant Units (Others)	(2,603)	2,183	-420	
	Estimated Total Vacant Units Not Absorbed by 2014	**80%**		-2,787	-2,230
Merced CAG FINAL REGIONAL HOUSING NEED DETERMINATION					**15,850**

1 **2023 Population:** Pursuant to Government Code Section 65584.01(b), and in consultation with MCAG, the 2023 population projections used by the Department were provided by the Department of Finance Population Projections for December 2023.

2 **Group Quarter Population**: Figure is an estimate of persons residing either in a group home, institution, military, or dormitory using based on the average between the 2010 Census group quarters proportion in total population and MCAG's forecast Group quarter, as used in its RTP. 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 **2023 Household (HH) Population:** The portion of population projected to reside in housing units after subtracting the group quarter population from total projected population. The composition by race/ethncity for the household population was calculated as an average between DOF's and MCAG's (Planning Center forecast as used in its RTP) population projections' race/ethnicity compositions.

4 **Projected 2023 Households (HHs):** The December 2023 number of households is derived by applying (to 2023 HH population by age and race/ethnicity) household formation rates calculated by applying half of the 1990-2010 change to the 2010 Census - based household headship rates. HH formation or headship rates reflect the propensity of different population groups (age, racial and ethnic) to form households.

ATTACHMENT 2
HCD REGIONAL HOUSING NEED DETERMINATION: Merced CAG

5 **Households at Beginning of Projection Period:** The baseline number of households at the beginning of the projection period (January 2014) was 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. As such, the 2014 household number reflects the January 1, 2014 DOF-projected number of households.

6 **Household (HH) Growth:** This figure reflects projected HH growth and need for (occupied) new units.

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 (0.54%) reflects the housing losses that localities annually reported to DOF each January for years 2002-2011.

9 **Adjustment for Absorption of Existing Excess Vacant Units:** 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 new one-time adjustment was made to account for unprecedented high vacancies in existing stock due to unusual conditions including high foreclosures and economic uncertainties. An absorption rate of 20% of existing excess vacant units is assumed to occur in shrinking current excess vacant units before the start of the 2014 RHNA projection period. This results in applying a 80% adjustment to account for units not absorbed, reflected in a downward adjustment of (- 2,230). 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 "normal" rate considered to be at the level of 2000, at 2.63% of total housing units, as provided by the 2000 Census. The Department used 2010 Census Demographic profile data (DP-1) and desirable "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 below the differential, the adjustment was applied in calculating the RHNA determination.

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 Merced County 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.*

Housing Element Planning Period December 31, 2015 to December 31, 2023: 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 MCAG's Regional Transportation Plan, as notified 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 19, 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.