DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
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September 26, 2011

Mr. Mike McKeever
Executive Director
Sacramento Area Council of Governments
1415 L. Street, Suite 300
Sacramento, CA 95814

Dear Mr. McKeever:

RE: Regional Housing Need Determination for Housing Element Updates

This letter provides the Sacramento Area Council of Governments (SACOG) its Regional Housing Need Assessment (RHNA) Determination for the projection period beginning January 2013 and ending October 2021. Pursuant to State housing element law (Government Code Section 65584, et seq.), the Department of Housing and Community Development (Department) is required to determine SACOG's existing and projected housing need.

As you know, Chapter 728, Statutes of 2008 (SB 375) strengthened coordination of housing and transportation planning and requires Metropolitan Planning Organizations (MPOs) to develop a new sustainable communities strategy (SCS) in the Regional Transportation Plan (RTP) to achieve greenhouse gas emission reductions and ensure the SCS accommodates the regional housing need determination. Amendments to the law included revisions to the Department's RHNA schedule and methodology and also definitions addressing the RHNA projection period, housing element planning period, and coordination with updating the regional transportation plan. For SACOG, the Department's RHNA Determination is made on the basis of partial demographic data available at this time from Census 2010 complemented by American Community Survey (ACS) data. In assessing SACOG's regional housing need, the Department considered the critical role housing plays in developing sustainable communities and supporting employment growth.

Working in coordination with SACOG, the Department has determined a range of new housing need (104,970 – 117,850 units) for the period 2013-2021. This range considered the extraordinary uncertainty regarding national, State, and local economies and housing markets. For this RHNA cycle only, the Department made an adjustment to account for abnormally high vacancies and unique market conditions due to prolonged recessionary conditions, high unemployment, and unprecedented foreclosures.

The RHNA low range (104,970) reflects the Department's acceptance of SACOG's projections and assumptions as the minimum need after evaluating the reasonableness of data, assumptions and support documentation submitted by SACOG. This figure considers household growth for the projection period using derived household formation rates based on State 2005-2009 ACS estimates and existing high unit vacancies resulting from the unusual turmoil in housing markets. The low range also accounts for SACOG assessing housing need due to unbundling of "doubled-up" households, resumption of more normal household formation rates, and vacancy rates returning to normal historical levels for the region before the end of the projection period. The RHNA high range (117,850) reflects the Department's consideration of SACOG's strong socio-economic base and potential for demographic trends to grow at a faster and more diverse pace, particularly among older age groups, to generate higher housing demand. The Department encourages SACOG to plan for housing need above the minimum of the range to accommodate potential higher demand.

SACOG's methodology and plan to allocate to each locality a share of new housing need must, in the aggregate, at least equal the total of the low range in Attachment 1. The plan must also allocate to each jurisdiction a share of very-low, low, and moderate-income at least equal the income category figures of the low range. For each jurisdiction, the RHNA represents the *minimum* amount of residential development capacity to zone for; RHNA figures are not to be used within local general plans as the maximum amount of residential development to plan for or approve.

In determining SACOG's housing needs, the Department applied methodology and assumptions that considered all of the factors specified in Government Code Section 65584.01(c)(1). In addition, the Department consulted with SACOG staff and Department of Finance (DOF) as required by statute. The first meeting occurred in late January 2011 with Mr. Greg Chew, SACOG Senior Planner. Subsequent meetings and correspondence involved Mr. Gordon Garry, SACOG Research Manager and Ms. Tina Glover, SACOG Demographer. The Department also consulted with Mr. Stephen Levy, Director for the Center for Continuing Study of the California Economy (CCSCE), who prepared employment, population, and household projections for SACOG.

The data, assumptions, and descriptive information provided by SACOG and CCSCE, included indicators regarding the region's relationship between jobs and housing, and commute patterns. Of particular relevance are SACOG efforts to reassess the job-housing balance as more than a quantitative indicator of the relationship between jobs and housing, and to develop a qualitative approach, the "job-housing fit" concept, to use in its transportation plan update. In addition, assumptions were made about the rate with which existing "for sale" and "for rent" housing units may be absorbed by the beginning of the projection period in 2013.

The Attachments to this letter describe the RHNA methodology used by the Department and the income category distribution to be used by SACOG in allocating among all local governments within the region at least the minimum total RHNA and minimum amounts for very-low, low, and moderate income categories.

The projection period (also described in the attachments) was determined pursuant to Government Code Section 65588(e)(6), to coordinate housing and transportation planning based on notification from SACOG of its *estimated* RTP adoption date of April 19, 2012. As you know, if the actual RTP adoption date significantly differs from the estimated date, the RHNA determination and projection period will not change, however the housing element due date, and implicitly the housing element planning period, would change.

SACOG is responsible for developing a RHNA distribution methodology and adopting a RHNA Plan for the period beginning January 1, 2013 and ending October 31, 2021. Housing element law (Government Code Section 65584, et.seq.) requires SACOG's methodology and RHNA Plan to be consistent with the following objectives:

(1) increasing the housing supply and mix of housing types, tenure, and affordability;
(2) promoting infill development and socioeconomic equity, protecting environmental and agricultural resources, and encouraging efficient development patterns;
(3) promoting an improved intraregional relationship between jobs and housing;
(4) balancing the distribution of households by income category.

Pursuant to Government Code Section 65584.05(h), within three days of adopting the RHNA Plan, SACOG is required to submit its RHNA Plan to the Department for approval. Once the Department has approved SACOG's RHNA Plan, local governments must be notified of their share of the regional housing need, by income category, for use in updating the jurisdiction's housing element for the *planning* period beginning October 2013 and ending October 2021. In updating their housing elements, local governments may credit units permitted since the January 1, 2013 start date of the RHNA projection period. The element must describe the methodology for crediting units to different income categories such as based on the actual or projected sale price or rent level.

The Department applauds SACOG's leadership in improving housing and transportation planning and advancing the State's housing, transportation, and environmental goals. The Department also congratulates SACOG in receiving a HUD Sustainable Community Regional Planning grant to lead a consortium of local organizations to help communities plan and expand housing and transportation choices, particularly housing and employment centers in high frequency transit areas.

The Department especially thanks Mr. Gordon Garry, Mr. Greg Chew, and Ms. Tina Glover for their efforts and assistance. The Department looks forward to its continued partnership with SACOG and its member jurisdictions and assisting SACOG in its planning efforts to accommodate the region's share of housing need. If the Department can provide any additional assistance, or you have any questions, please contact me or Anda Draghici, Senior Housing Policy Specialist, at (916) 445-4728.

Sincerely,

Glen A. Campora

Glen A. Campora
Assistant Deputy Director
Enclosures

ATTACHMENT 1

HCD REGIONAL HOUSING NEED DETERMINATION: SACOG
Projection Period: January 1, 2013 through October 31, 2021

Income Category	Percent	Range of Housing Need (rounded) (1)		
Very-Low	23.4%	24,560	-	27,580
Low	16.4%	17,220	-	19,330
Moderate	18.6%	19,520	-	21,920
Above-Moderate	41.6%	43,670	-	49,020
Total	**100.0%** (2)	**104,970** (3)		**117,850** (4)

(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. The Legislature acknowledges that regional and local jurisdictions have the responsibility to consider economic, environmental, fiscal factors, and community goals in developing regional and local plans, and that future housing production may not equal the regional housing need established for planning purposes.

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 different absorption estimates for unprecedented high vacancies in existing stock due to extraordinary conditions including high foreclosures and recession uncertainties.

(2) The income category percentages reflect the minimum percentage to apply against the total RHNA decided by SACOG (at or above the minimum range) 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 2005-2009 American Community Survey's number of households by income, over 12 month periods, by Metropolitan Statistical Area. 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 104,970 low end of the range (see Attachment 2) reflects SACOG's projected minimum housing need (rounded), using 2005-2009 household formation rates from American Community Surveys (ACS) adjusted to match SACOG population and household inventories. It reflects an adjustment (-16,010) for existing excess vacant units in estimating 85% of vacant units will not be absorbed before 2013. This column represents the minimum housing need that SACOG's RHNA Plan must address in total and also for very-low, low, and moderate income categories.

(4) The 117,850 high end of the range (see Attachment 3) reflects HCD's determined higher housing need (rounded), using the 2005-2009 ACS household formation rates applied to SACOG's population projections. It reflects an adjustment (-3,770) for existing excess vacant units in estimating a faster absorption rate and that only 20% of vacant units will not be occupied by 2013. In planning for RHNA above the low range, income category percentages for very-low, low, and moderate income households remain the same.

ATTACHMENT 2

HCD REGIONAL HOUSING NEED DETERMINATION (LOW RANGE): SACOG

	HCD Determined Population, Households, & Housing Need (rounded): January 1, 2013-October 31, 2021 (8.8 years)				
1	**Population: October 31, 2021** (SACOG Projection)				**2,713,330**
2	*less: Group Quarters Population (SACOG's estimate)*				-57,210
3	**Household (HH) Population**				**2,656,120**
	Household Formation Groups	**HH Population**	***HH Formation or Headship Rate (ACS)***	**Households**	
	Age Groups (DOF)	**2,656,120**		**1,008,780**	
	Under 15	502,318	-	-	
	15 - 24 years	337,782	11.59%	39,130	
	25 - 34 years	360,451	42.07%	151,650	
	35 - 44 years	325,195	51.04%	165,980	
	45 - 54 years	327,870	54.87%	179,900	
	55 - 64 years	343,922	56.27%	193,530	
	65 and older	458,581	60.75%	278,590	
4	**Projected Households**				**1,008,780**
5	*less: Households at Beginning of Projection Period (January 1, 2013 interpolated)*				*-891,770*
6	**Household Growth: 8.8 Year Projection Period (New Housing Unit Need)**				**117,010**
7	**Vacancy Allowance**	Owner	Renter	Total	
	Tenure Percentage	60.73%	39.27%		
	HH Growth (New Unit Need)	71,060	45,950	117,010	
	Vacancy Rate (SACOG)	1.50%	5.00%		
	Vacancy Allowance	1,070	2,300	3,370	3,370
8	**Replacement Allowance (minimum)**	0.50%		120,380	600
9	*less: Adjustment for Absorption of Existing Excess Vacant Units*				
	Estimate 15% Absorbed, 85% Not Absorbed by 2013	Effective Vacant Units	Healthy Market Units	Differential	
	Derived (2010 Census, Vacancy Rates)	(42,110)	25,430	-16,680	
	Total Exisitng (2011) Housing Stock	935,759			
	Existing Vacant Unit (Others) Adjustment	1.72%	1.49%		
	Total Adjusted Existing Vacant Units (Others)	(16,100)	13,940	-2,160	
	Estimated Units (Others) Not Absorbed by 2013	85%		-18,840	-16,010
	FINAL REGIONAL HOUSING NEED DETERMINATION (Low Range of New Housing Unit Need)				**104,970**

Explanation and Data Sources

1 **Population:** Population reflects SACOG's October 2021 projection. Pursuant to Government Code 65584.01(b), SACOG's 2021 population projection was compared to the 2021 population derived from Department of Finance (DOF) 2011 Interim Projections published June 2011 for 2020 and DOF's E5 estimate for 2011. Based on SACOG's population projection being within 3% of the DOF Population Interim projections and consultation with SACOG, SACOG's population projection was used in determining housing need for the region.

2 **Group Quarter Population:** Figure is SACOG's estimate of persons residing in a group home, institution, military, or dormitory using the DOF 2010 E5 estimates for 2010, and maintaining its proportion in the total population constant throughout the projection period. 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 population projected to reside in housing units after subtracting the group quarter population from total projected population.

ATTACHMENT 2

HCD REGIONAL HOUSING NEED DETERMINATION (LOW RANGE): SACOG

4 **Projected Households (HHs):** Calculated by applying (to the 2021 HH population) HH formation rates derived by SACOG using the state 2005-2009 American Community Survey (ACS) rates controlled for SACOG population and household inventories. HH formation rates were evaluated for reasonableness in conjunction with ACS HH formation rates for the region provided by DOF and with the vacancy assumptions as described below. For October 2021, the household number and its distribution by age group were estimated based on the 2020 projections.

5 **Households at Beginning of Projection Period:** For the first time since inception of RHNA, the baseline number of households at the beginning of the projection period (January 2013) 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, 2013 for SACOG). As such, the January 1, 2013 household number was calculated as an interpolation between the SACOG 2008 baseline number of households and the projected 2021 number of households, assuming growth at a slower pace between baseline and 2013, and faster pace between 2013 and 2021 (approximating 24,000 annual households between 2008 and 2013, and 31,000 annual households over the projection period 2013-2021).

6 **Household (HH) Growth**: This figure reflects projected HH growth and need for 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 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 (0.5%) reflects housing losses that localities annually reported to DOF each January for years 2000-2010, or 0.5%, whichever is higher.

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 recession uncertainties. A slow absorption rate of 15% of existing excess vacant units is assumed to occur in shrinking current excess vacant units before the start of the 2013 RHNA projection period resulting in applying a 85% adjustment to account for units not absorbed that decreases new housing need by -16,010 units. 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 simple average of 1.49% calculated based on Census data from 1990 to 2010. To evaluate the reasonableness of vacancy adjustments proposed by SACOG to account for the unprecedented economic downturn, 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 proposed 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 vacancy adjustment was applied in calculating the low RHNA range.

RHNA Projection Period January 1, 2013 to October 31, 2021: Pursuant to SB 375, the start of the *projection* period (in effect January 1, 2013) 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 SACOG region is June 30, 2013. 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 nearest start/end of the month.*

Housing Element Planning Period October 31, 2013 to October 31, 2021: 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 the SACOG's Regional Transportation Plan based on SACOG's notice to the Department (April 19, 2012) with the date rounded to the nearest start/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 MTP, provided that it is not later than eight years from the adoption of the previous housing element. If the actual MTP adoption date differs from the estimated date, 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.

ATTACHMENT 3

HCD REGIONAL HOUSING NEED DETERMINATION (HIGH RANGE): SACOG

HCD Determined Population, Households, & Housing Need (rounded): January 1, 2013-October 31, 2021 (8.8 years)					
1	**Population: October 31, 2021** (SACOG's Projection)				**2,713,330**
2	*less: Group Quarters Population (SACOG's estimate)*				-57,210
3	**Household (HH) Population**				**2,656,120**
	Household Formation Groups	**HH Population**	***HH Formation or Headship Rate (ACS)***	**Households**	
	Age Groups (DOF)	**2,656,120**		**1,058,740**	
	Under 15	502,318	-	-	
	15 - 24 years	337,782	14.31%	48,330	
	25 - 34 years	360,451	46.00%	165,800	
	35 - 44 years	325,195	53.02%	172,420	
	45 - 54 years	327,870	56.43%	185,020	
	55 - 64 years	343,922	58.14%	199,950	
	65 and older	458,581	62.63%	287,220	
4	**Projected Households**				**1,058,740**
5	*less: Households at Beginning of Projection Period (January 1, 2013 interpolated)*				*-941,110*
6	**Household Growth: 8.8 Year Projection Period (New Housing Unit Need)**				**117,630**
7	**Vacancy Allowance**	Owner	Renter	Total	
	Tenure Percentage	60.73%	39.27%		
	HH Growth (New Unit Need)	71,440	46,190	117,630	
	Vacancy Rate (SACOG)	1.50%	5.00%		
	Vacancy Allowance	1,070	2,310	3,380	3,380
8	**Replacement Allowance (minimum)**	0.50%		121,010	610
9	*less: Adjustment for Absorption of Existing Excess Vacant Units*				
	Estimate 80% Absorbed, 20% Not Absorbed by 2013	Effective Vacant Units	Healthy Market Units	Differential	
	Derived (2010 Census, Vacancy Rates)	(42,110)	25,430	-16,680	
	Total Exisitng (2011) Housing Stock	42,110			
	Existing Vacant Unit (Others) Adjustment	1.72%	1.49%		
	Total Adjusted Existing Vacant Units (Others)	(16,100)	13,940	-2,160	
	Estimated Units (Others) Not Absorbed by 2013	20%		-18,840	-3,770
FINAL REGIONAL HOUSING NEED DETERMINATION (High Range of New Housing Unit Need)					**117,850**

Explanation and Data Sources

1 **Population:** Pursuant to Government Code Section 65584.01(b), SACOG's 2021 population projection was compared to the 2021 population derived from Department of Finance (DOF) 2011 Interim Projections published in June 2011 for 2020 and DOF's E5 estimate for 2011. Based on SACOG's population projection being within 3% of the DOF Population Interim projections and consultation with SACOG, SACOG's population projection was used in determining housing need for the region.

2 **Group Quarter Population:** Figure is SACOG's estimate of persons residing either in a group home, institution, military, or dormitory using the DOF 2010 E5 estimates for 2010, and maintaining its proportion in the total population constant throughout the projection period. 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.

ATTACHMENT 3

HCD REGIONAL HOUSING NEED DETERMINATION (HIGH RANGE): SACOG

4 **Projected 2021 Households (HHs):** Projected 2020 HHs are derived by applying (to 2020 HH population) the regional 2005-2009 American Community Survey (ACS) household formation rates as provided by DOF. HH formation or headship rates reflect the propensity of different population groups (age, racial and ethnic) to form households. For October 2021, the household number and its distribution by age group were estimated based on the 2020 projections.

5 **Households at Beginning of Projection Period:** For the first time since inception of RHNA, the baseline number of households at the beginning of the projection period (January 2013) 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, 2013 for SACOG). As such, the 2013 household number was calculated as an interpolation between SACOG's baseline 2008 number of households and its 2020 projected number of households.

6 **Household (HH) Growth:** This figure reflects projected HH growth and need for 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 (0.5%) reflects the housing losses that localities annually reported to DOF each January for years 2000-2010, or 0.5%, whichever is higher.

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 recession uncertainties. A fast absorption rate of 80% of existing excess vacant units is assumed to occur in shrinking current excess vacant units before start of 2013 RHNA projection period resulting in applying a 20% adjustment to account for units not absorbed that decreases new housing need by -3,770 units. 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 simple average of 1.49% calculated based on Census data from 1990 to 2010. To evaluate the reasonableness of vacancy adjustments proposed by SACOG to account for the unprecedented economic downturn, 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 proposed 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 high RHNA range.

RHNA Projection Period January 1, 2013 to October 31, 2021: Pursuant to SB 375, the start of the *projection* period (in effect January 1, 2013) 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 SACOG region is June 30, 2013. 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 nearest start/end of the month.*

Housing Element Planning Period October 31, 2013 to October 31, 2021: 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 the SACOG's Regional Transportation Plan based on SACOG's notice to the Department (April 19, 2012) with the date rounded to the nearest start/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 MTP, provided that it is not later than eight years from the adoption of the previous housing element. If the actual MTP adoption date differs from the estimated date, 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.