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

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF HOUSING POLICY DEVELOPMENT
1800 Third Street, Suite 430
P. O. Box 952053
Sacramento, CA 94252-2053
(916) 323-3177 / FAX (916) 327-2643
www.hcd.ca.gov

June 28, 2012

Mr. Ronald L. De Carli, Executive Director
San Luis Obispo Council of Governments
1150 Osos Street, Suite 202
San Luis Obispo, CA 93401

Dear Mr. De Carli:

RE: Regional Housing Need Determination for the Fifth Housing Element Update

This letter provides the San Luis Obispo Council of Governments (SLOCOG) its fifth cycle regional housing need assessment (RHNA) determination for the projection period January 1, 2014 through June 30, 2019. The Department of Housing and Community Development (Department), is required to determine SLOCOG'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) further strengthened the existing coordination of housing and transportation planning by requiring Metropolitan Planning Organizations (MPO) to develop and incorporate a new sustainable community strategy (SCS) in the Regional Transportation Plan (RTP) to achieve greenhouse gas emission reductions and ensure the SCS accommodates the RHNA.

SB 375 also amended the RHNA schedule and methodology and, among other things, strengthened rezoning requirements. For the local governments under the jurisdiction of SLOCOG which is an attainment MPO on a five-year RTP update, the Department determined the RHNA process timeline and the housing element due date pursuant to Government Code 65588(e)(2)(D).

In assessing SLOCOG's regional housing need, the Department considered the critical role housing plays in developing sustainable communities and supporting employment growth. Since only partial demographic data was available from Census 2010 and the Department of Finance (DOF), the Department's RHNA determination also utilized American Community Survey (ACS) data. The Department determined SLOCOG's regional housing need to be 4,090 units for the 5.5-year projection period from January 1, 2014 through June 30, 2019. This RHNA reflects the Department's consideration of SLO COG's strong socio-economic base and potential for recent household formation trends to generate housing demand at a changing and more diverse 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.

In assessing SLOCOG's regional housing needs, the Department and representatives of SLOCOG completed the consultation process specified in statute through a meeting in Hollister on June 14, 2012, and correspondence and conference calls conducted between May and June 2012. SLOCOG participant included Mr. Steve Devencenzi, Planning Director. The Department also consulted with Ms. Mary Heim, demographic expert, and the DOF's Demographic Research Unit.

In finalizing SLOCOG'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.

For this cycle only, assumptions also included the rate with which existing vacant "for sale" and "for rent" housing units may be absorbed for occupancy by the beginning of the projection period in 2014.

The Attachments to this letter describe details of the Department's methodology and RHNA income category distribution for SLOCOG to allocate 4,090 housing unit need among all its local governments. As you know, SLOCOG must provide each locality a RHNA share of very-low, low-, and moderate-income units that at least equals the total for each of these income categories shown in Attachment 1 and also distribute housing need for above-moderate income households. The RHNA represents the *minimum* amount of residential development capacity a jurisdiction 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.

SLOCOG's RHNA projection period (also described in the attachments) was determined pursuant to Government Code Section 65588(e)(6). The housing element due date schedule is updated periodically and made available on the Department's website at: *http://www.hcd.ca.gov/hpd/hrc/plan/he/he_time.htm* .

SLOCOG is responsible for developing a RHNA distribution methodology and adopting a RHNA Plan for the period of January 1, 2014 through June 30, 2019.

Housing element law (Government Code Section 65584, et. seq.) requires SLOCOG'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), SLOCOG 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, SLOCOG 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 2014 - 2019.

In updating their housing elements, local governments may only take RHNA credit for units 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).

Regarding transfers of housing need among local governments, AB 242 (Chapter 11, Statutes of 2008) amended certain provisions of Government Code Section 65584.07. RHNA transfers agreed between local governments may occur until adoption of the RHNA Plan. After SLOCOG has adopted its RHNA Plan and before the housing element due date, transfers meeting specified conditions may only occur from a 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 (SLOCOG). The Department must be notified of all transfers; jurisdictions affected by RHNA transfers must amend their housing element within a specified timeframe.

We commend SLOCOG for its effort to implement SB 375 and proactive approach in developing its own SCS, and look forward to a continued partnership with SLOCOG and its member jurisdictions in planning efforts to accommodate the region's housing need. If you have any questions or need additional assistance, please contact me or Anda Draghici, Senior Housing Policy Specialist, at (916) 445-4728.

Sincerely,

Glen A. Campora

Glen A. Campora
Acting Deputy Director

Enclosures

ATTACHMENT 1

HCD REGIONAL HOUSING NEED DETERMINATION: SLOCOG
Projection Period: January 1, 2014 through June 30, 2019

Income Category	Percent	Regional Housing Need (rounded) [1]
Very-Low	24.9%	1,020
Low	15.6%	640
Moderate	17.7%	720
Above-Moderate	41.8%	1,710
Total	**100.0%** [2]	**4,090** [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 80 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 applied against the total RHNA by HCD 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 2006-2010 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 4,090 allocation (see Attachment 2) reflects the region's projected minimum housing need (rounded), using household formation rates from 2010 Census and an adjustment (-130) for existing excess vacant units in estimating 20% of vacant units will not be absorbed before 2014. This column represents the minimum housing need that the county's RHNA Plan must address in total and also for very-low, low, and moderate income categories.

ATTACHMENT 2
HCD REGIONAL HOUSING NEED DETERMINATION: SLOCOG

	HCD Determined Population, Households, & New Housing Need: January 1, 2014-June 30, 2019 (5.5 years)				
1	**Population: June 30, 2019** (SLOCOG)				**284,099**
2	*less: Group Quarters Population Census 2010 estimate*				**17,006**
3	**Household (HH) Population June 30, 2019**				**267,093**
	Household Formation Groups	**2019 HH Population**	***HH Formation or Headship Rate (2010 Census)***	**2019 Households**	
	All Age Groups (DOF)	**267,093**		**108,772**	
	Under 15	**47,573**			
	15 - 24 years	**34,682**	**18.22%**	**6,320**	
	25 - 34 years	**35,071**	**42.12%**	**14,770**	
	35 - 44 years	**28,910**	**51.00%**	**14,744**	
	45 - 54 years	**26,213**	**53.77%**	**14,095**	
	55 - 64 years	**39,533**	**58.56%**	**23,150**	
	65 -74 years	**32,856**	**61.39%**	**20,172**	
	75 - 84 years	**15,892**	**68.34%**	**10,860**	
	84+	**6,363**	**73.26%**	**4,662**	
4	**Projected Households-June 30, 2019**				**108,772**
5	*less: Households at Beginning of Projection Period (January, 2014, interpolated)*				104,701
6	**Household Growth: 5.5 Year Projection Period**				**4,071**
7	**Vacancy Allowance**	Owner	Renter	Total	
	Tenure Percentage per 2010 Census	**59.72%**	**40.28%**		
	HH Growth by Tenure	2,431	1,640	4,071	
	Healthy Vacancy Rate	2.00%	5.00%		
	Vacancy Allowance	49	82	131	131
8	**Replacement Allowance (minimum)**	0.50%		4,201	21
					4,223
9	*less: Adjustment for Absorption of Existing Excess Vacant Units*				
	Estimate 80% Absorbed, 20% Not Absorbed by 2014	Effective Vacant Units	Healthy Market Units	Differential	
	Derived (2010 Census, HH Growth, & Vacancy Rate)	(3,735)	3,444	-292	
	Total 2012 Housing Stock	118,075			
	Existing Vacant Unit (Others) Adjustment	1.57%	1.27%		
	Total Adjusted Existing Vacant Units (Others)	(1,856)	1,500	-356	
	Estimated Vacant Units Not Absorbed by 2014	20%		-648	-130
	REGIONAL HOUSING NEED DETERMINATION				**4,090**

1 **Population:** Pursuant to Government Code Section 65584.01(b) and in consultation with the council of government , June 30, 2019 population projection was extrapolated based on Department of Finance (DOF) Interim Projections published in May 2012 for July 2020 and July 2015, and DOF's E5 estimate for January 2012.

2 **Group Quarter Population:** Figure is an 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 2019 Households (HHs):** The June 2019 number of households is derived by applying (to 2019 HH population) household formation rates calculated based on 2010 Census, as provided by DOF. 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: SLOCOG

5 **Households at Beginning of Projection Period:** 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 the county). As such, the 2014 household number was calculated based on 2014 population as an interpolation between DOF's E5 2012 estimate of households and the DOF's 2015 projected population.

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 average housing losses that localities annually reported to DOF each January for years 2002-2011 multiplied by the number of years in the projection period (5.5), 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 economic uncertainties. An absorption rate of 80% 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 20% adjustment to account for units not absorbed, reflected in a downward adjustment of (- 130). In general, existing vacant units in 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 1.27% calculated based on Census data from 2000 and 2010. 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 June 30, 2019: Pursuant to SB 375, the start of the RHNA *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 the county 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.

Housing Element Planning Period June 30, 2014 to June 30, 2019: The housing element *planning* period was determined pursuant to GC 65588(e)(3)(B) and 65588 (f)(1) as a 5-year period between the due date for one housing element and the due date for the next housing element.