

**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



September 30, 2013

Mr. Carlos Yamzon
Executive Director
Stanislaus Council of Governments
1111 I Street, Suite 308
Modesto, CA 95354

Dear Mr. Yamzon,

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

This letter provides the Stanislaus Council of Governments (StanCOG) its fifth cycle regional housing need assessment (RHNA) determination for the projection period January 1, 2014 through September 30, 2023. The Department of Housing and Community Development (Department) is required to determine StanCOG'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 regional housing and transportation planning by requiring Metropolitan Planning Organizations (MPOs) to develop and incorporate a new sustainable community strategy (SCS) in the Regional Transportation Plan (RTP) to achieve greenhouse gas emission reductions and accommodates the RHNA for the region. SB 375 also amended the RHNA schedule and methodology requiring that the due date for local governments to update their housing elements be no later than 18 months from the date StanCOG adopts the RTP.

The Department has prepared StanCOG's RHNA determination based on StanCOG's estimated RTP adoption date of March 19, 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 changes 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 StanCOG's regional housing need to be 21,330 for the 9.75-year projection period, from January 1, 2014 to September 30, 2023. In assessing StanCOG's regional housing need, the Department considered the critical role housing plays in developing sustainable communities and supporting employment growth. The Department further considered StanCOG'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.

The Department and representatives of StanCOG completed the consultation process specified in statute through correspondence, meetings and conference calls conducted between February 25, 2013 and September 30, 2013. The consultation process included the Department attending StanCOG's September 3, 2013 public meeting of the RHNA Methodology Committee to discuss RHNA. The Department appreciates the assistance provided throughout the consultation process by StanCOG representatives which included you, Ms. Rosa Park, Deputy Executive Director, Mr. Jaylen French, Associate Planner, and Mintier Harnish consultants, Mr. Ted Holzen, Senior Project Manager, and Ms. Chelsey Norton, AICP, Project Manager. The Department also received assistance from Mr. Walter Schwarm, demographics expert with the Department of Finance's Demographic Research Unit.

In completing StanCOG'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.

Data, assumptions, and draft forecasts of population, employment and housing provided by StanCOG in regards to the above factors were considered. Assumptions made about 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 was determined based on consultation with StanCOG.

The Attachments to this letter describe details of the Department's methodology and RHNA income category for StanCOG to distribute the 21,330 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, StanCOG is responsible for developing a RHNA distribution methodology and adopting a RHNA Plan for the projection period of January 1, 2014 through September 30, 2022. Housing element law (Government Code Section 65584, et. seq.) requires StanCOG'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), StanCOG 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, StanCOG 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.

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 StanCOG 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.

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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 (StanCOG). The Department must be notified of all transfers; jurisdictions affected by RHNA transfers must amend their housing element within a specified timeframe.

The Department commends StanCOG's efforts to meet the objectives of SB 375 and especially appreciates the assistance provided by Mr. Jaylen French and Ms. Chelsey Norton. We look forward to a continued partnership with StanCOG 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,

A handwritten signature in blue ink that reads "Glen A. Campora". The signature is fluid and cursive, with the first name being the most prominent.

Glen A. Campora
Assistant Deputy Director

Enclosures

HCD - ATTACHMENT 1

StanCOG 5th CYCLE REGIONAL HOUSING NEED DETERMINATION Projection Period: January 1, 2014 through September 30, 2023

Income Category	Percent	Regional Housing Need (rounded) ⁽¹⁾
Very-Low	24.5%	5,225
Low	15.7%	3,350
Moderate	17.2%	3,670
Above-Moderate	42.6%	9,085
Total	100.0% ⁽²⁾	21,330 ⁽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 and 80% non-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 of 21,330 or more decided by StanCOG 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 21,330 determination (see Attachment 2) reflects StanCOG's projected minimum housing need (rounded), using an adjustment (-4,860) for existing excess vacant units in estimating 80% of vacant units will not be absorbed before 2014. This column represents the minimum housing need that StanCOG's RHNA Plan must address in total and also for very-low, low, and moderate income categories.

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

HCD Determined Population, Households, & New Housing Need: January 1, 2014-September 30, 2023 (9.75 years)				
1	Population: September 30, 2023 (DOF Projections 2023)			622,030
2	<i>less: Group Quarters Population as average between StanCOG (8,894) and DOF (7,634) 2023 GQ</i>			8,264
3	Household (HH) Population September 30, 2023			613,766
	Household Formation Groups	Population with DOF age	Derived HH Formation or Headship Rate	2023 Households
	All Age Groups (DOF)			201,104
	Under 15			
	15 - 24 years	86,539	8.48%	7,341
	25 - 34 years	90,355	38.27%	34,575
	35 - 44 years	76,182	48.68%	37,082
	45 - 54 years	66,712	52.44%	34,983
	55 - 64 years	66,586	54.46%	36,264
	65 - 74 years	51,586	57.42%	29,623
	75 -84 years	25,475	62.89%	16,022
	85 years +	8,125	64.16%	5,214
4	Projected Households-September 30, 2023			201,104
5	<i>less: Households at Beginning of Projection Period - DOF Projection</i>			175,784
6	Household Growth: 9.75 Year Projection Period			25,320
7	Vacancy Allowance	Owner	Renter	Total
	Tenure Percentage per 2010 Census	60.15%	39.85%	
	HH Growth by Tenure	15,231	10,089	25,320
	Healthy Vacancy Rate	1.50%	4.00%	
	Vacancy Allowance	228	404	632
8	Replacement Allowance (minimum)	0.90%		25,952
				26,185
9	<i>less: Adjustment for Absorption of Existing Excess Vacant Units</i>			
	Assumes 20% Absorbed, 80% Not Absorbed by 2014	Effective Vacant Units	Healthy Market Units	Differential
	Derived (2010 Census, HH Growth, & Vacancy Rate)	(8,902)	4,620	-4282
	Total 2012 Housing Stock	179,745		
	Existing Vacant Unit (Others) Adjustment	2.10%	1.1%	
	Total Adjusted Existing Vacant Units (Others)	(3,769)	1,977	-1,792
	Estimated Vacant Units Not Absorbed by 2014	80%		-6,074
				-4,860
	StanCOG FINAL 2014 - 2023 REGIONAL HOUSING NEED DETERMINATION			21,330

- Population:** Pursuant to Government Code Section 65584.01(b), and in consultation with StanCOG, the September 30, 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 available at: <http://www.dof.ca.gov/research/demographic/reports/projections/P-2/>
- Group Quarter Population:** Estimate of persons residing either in a group home, institution, military, or dormitory using 2010 Census data for group quarters, calculated as an average between DOF group quarters projection and StanCOG forecast for 2023. 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.
- Household (HH) Population:** The portion of population projected to reside in housing units after subtracting the group quarter population from total projected population.
- Projected 2023 Households (HHs):** The September 2023 number of households is projected by applying (to 2023 HH population by age, race and ethnicity) DOF-calculated household formation rates. The HH Population composition by age was provided by DOF, while the composition by race and ethnicity represents an average between DOF's composition and the composition in the StanCOG Forecast. The use of the average is a result of consultation between HCD, DOF and StanCOG and agreement that both StanCOG's and DOF's assumptions are equally reasonable and as likely to occur during the projection period. HH formation or 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: StanCOG

- 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 StanCOG). As such, the 2014 household number was interpolated using 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 (0.9%) reflects the housing losses (demolitions) based on 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 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, in deriving a downward adjustment of (- 4,860). 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 below the differential, the adjustment was applied in calculating the RHNA determination.

RHNA Projection Period January 1, 2014 to September 30, 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 StanCOG 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 September 30, 2015 to September 30, 2023: Subject to change, as it is based on the estimated March 19, 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 StanCOG's Regional Transportation Plan, as notified by StanCOG 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 March 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.