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December 10, 2004

Ms. Lucetta Dunne, Director
California Department of Housing and Community Development
1800 Third Street, Suite 430
P.O. Box 952053
Sacramento, California 94252-2053

SUBJECT: Implementation of Government Code Section 65584.02 - Request to Coordinate the Fourth Revision of Regional Housing Need Allocation Process with the 2007 Regional Transportation Plan (RTP) Process for the Southern California Association of Governments Region

Dear Ms. Dunne:

We are writing at the direction of the Executive Committee of the Regional Council to request that the allocation of shares of regional housing need in the six county Southern California Association of Governments (SCAG) region be coordinated with the Regional Transportation Plan process. Approval of this request would implement the new portion of the Housing Element statute that was created through the Housing Element Working Group Process, and included in Assembly Bill 2158 by Assembly Member Lowenthal.

We were pleased to be able to participate in the Housing Element Working Group deliberations in 2002 and 2003. Our leadership within the Regional Council was fully engaged in Housing Element reform discussions as exampled by the 2001 approval of SCAG's slate of Housing Element Reform priorities. Not coincidentally, coordination between the housing need allocation process and the RTP was SCAG's top priority. We believe our collaboration with your staff on crafting the law which allows this RTP coordination and subsequent Working Group approval and legislative adoption of the concept illustrates the soundness and importance of this coordination.

Specifically, our request is as follows:

1. That the forecast being developed by SCAG for the 2007 RTP update be used as the basis for allocating housing need
2. That the duration of the planning period for the subsequent 196 local Housing Elements in our region be 6 years
3. That the deadline for the submission of the revised local Housing Elements to HCD be July 1, 2008.

The proposed schedule and approach for the upcoming Housing Element updates will result in the best possible housing planning process for the region by facilitating a credible process with substantial local buy-in, and by building on SCAG's momentum and increasing experience in coordinating land use with transportation planning. The results will be improved regional performance in providing housing and improved performance in the transportation system.

As with the Housing Element reform discussions, our Regional Council is fully prepared to work constructively in Secretary of Business, Transportation, and Housing (BTH) Sunne Wright McPeak's efforts regarding the best way to approach housing planning and implementation in California. We would also like to request a meeting, as soon as is convenient, to discuss how we can comply with the existing statute while also carrying out the broad concepts proposed by the Secretary. We intend to pursue these discussions notwithstanding the status of this request. It is our shared understanding with the Secretary that we need to move forward immediately.

At the same time, we believe this request is a vital part of working with the Secretary. The proposed schedule will allow us to incorporate further improvements to the process, including those proposed directly by the Secretary. SCAG is prepared to promote the goals discussed by the Secretary:

- Easily understood, transparent housing need allocation for all localities based on population and employment growth,
- Clear local responsibilities to act in response to need, enabling jurisdictions to "take care of their own,"
- Longer range land planning/housing site availability focus to promote closer housing element and land use element integration in local General Plans
- Potential to partner and share responsibility to meet housing need allocations among neighboring jurisdictions.

The planning period proposed by SCAG will allow us the time needed to clearly establish common goals, expectations and responsibilities between all parties including our 196 member jurisdictions, as well as to participate in refining housing need allocation process improvements at the State level.

The statute calls for a number of submittals as part of this request. They are included as attachments to this letter, as follows:

> ATTACHMENT A: Proposed data and assumptions for factors contributing to housing need beyond household growth identified in the forecast.

ATTACHMENT B: A proposed planning period that is not longer than the period of time covered by the RTP or plans of the region pursuant to Section 14527, but a period not less than five years, and not longer than six years.

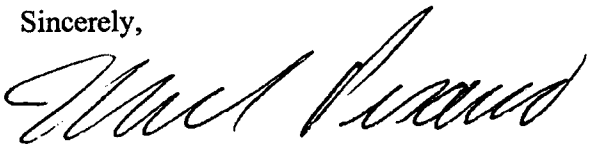
A request to extend the deadline for the Housing Element by a period not to exceed two years.

ATTACHMENT C: A comparison between the population and household assumptions used for the Regional Transportation Plan with population and household estimates and projections of the Department of Finance.

ATTACHMENT D: Additional considerations including brief description of our on-going Compass growth visioning effort.

Please don't hesitate to contact me directly at 213 236 1808 or Lynn Harris, Manager of Community Development at 213 236 1875 if you have any questions or require further information. We look forward to hearing from you at your earliest convenience.

Sincerely,



Mark Pisano
Executive Director

CC: Hon Sunne Wright McPeak, Secretary BTH
CC: Hon Ron Roberts, SCAG President

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ATTACHMENT A – Proposed data and assumptions for factors contributing to housing need beyond household growth identified in the forecast

Vacancy Need

Section 65584.02 directs a proposed method for accounting for vacancy and replacement need as part of the region's share of statewide housing need. The primary determinant of housing need for the region is household growth, which will be determined, pending approval of this request, by the region's RTP growth forecast. Beyond, accommodating household growth, however, the region must maintain an adequate supply of vacancies, and replace units in the existing stock that can be expected to be lost, in order to meet the need for housing. To our knowledge, inclusion of these factors has been part of all previous allocation processes in the state.

At this time, SCAG proposes use of the same method for vacancy and replacement need that was applied in the recently completed allocation process for the San Diego Association of Governments (SANDAG). The method used for SANDAG was simple and generally consistent with common practice.

The primary approach for this method is to determine an appropriate level of vacancy for rental units, and for ownership units. An additional assumption is that portions of the housing stock can be determined to be unavailable for use as permanent housing. The permanent housing rate can be determined from Census data by using the ratio of occupied units plus vacant units for rent or sale compared to the total unit count.

The method for determining vacancy need is as follows:

- Determine vacancy need associated with household growth for the planning period: [(Household Growth x Ownership Rate x owner vacancy rate) + (Household Growth x Renter Rate x rental vacancy rate]

- Determine Base Year Vacancy Credit/Deficit:
  -Determine Base Year Permanent Housing: (Base Year Housing Units X Permanent Housing Rate)
  -Determine Base Year Vacancies: (Base Year Permanent Housing – Base Year Households)
  -Determine Adequate Vacancy Level: [(Base Year Home Owners x owner vacancy rate) + (Base Year Renters x rental vacancy rate]
  -Determine Credit Deficit: (Base Year Vacancies – Base Year Adequate Vacancies) Positive Number is Credit, Negative is Deficit

- Determine Total Vacancy Need: (Vacancies Associate With Household Growth – Vacancy Credit) OR (Vacancies Associate With Household Growth + Vacancy Deficit)

Proposed data sources for the above method are as follows:

- Household Growth – 2007 RTP Growth Forecast
- Ownership Rate – 2000 Census (constant)
- Renter Rate – 2000 Census (constant)
- Base Year Housing Units – 2006 Department of Finance Estimate
- Permanent Housing Rate – 2000 Census
- Base Year Households - 2006 Department of Finance Estimate
- Owner and rental vacancy rate to be determined

Replacement Need

A factor to account for replacement of housing units that can be expected to be lost is typically added to the region's housing need. Unit loss is due to demolition, natural disaster, and conversion to non-housing units.

In the prior cycle, SCAG's regional housing need allocated 40,019 units for replacement, or 5,336 units per/year over the 7.5 year planning period. This amounts to .0945% of the housing stock per year. This determination was based on a sample of demolition permit date from 1990-94.

To date, SCAG is unaware of any newer, comprehensive data on demolition or unit loss in our region. Should a newer comprehensive sample become available, SCAG would determine replacement need based on observed losses for the most recent representative time period. Barring that, we are proposing determining replacement need by applying the same factor from our prior assessment (.0945% of the housing stock annually).

Current Housing Stock	Annual Loss Factor	Years	Total
5,651,705	0.000945	8	42727.27

ATTACHMENT B – Proposed Planning Period, Request to Extend the Housing Element Deadline

The proposed planning period will be six years, coinciding with each alternate Regional Transportation Plan update performed by SCAG.

The requested Housing Element deadline is July 1, 2008, an extension of 2 years from deadline currently in Section 65588.

The schedule of major milestones for Housing Element program, pending approval of this request will be.

Consultation on Region's Share of Statewide Housing Need	November1, 2005[1]
Determination of Region's Share of Statewide Housing Need	May 1, 2006
Final Determination of Local Shares	July 1, 2007
Housing Element Submittal	July 1, 2008

[1] Assumes sub-regional delegation. Without delegation consultation begins January 1, 2006.

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ATTACHMENT C – A comparison between the population and household assumptions used for the Regional Transportation Plan with the population and household estimates and projections of the Department of Finance

The following discussion compares the current SCAG and Department of Finance forecast results, and briefly describes the differences in method and assumptions between the two. The numerical comparison is for demonstration purposes only, as both the SCAG and DOF forecasts will be updated prior to the next housing need allocation process, should this request be approved.

- The California Department of Finance (DOF) released a new population projection series for the year 2000-2050 on May 2004. This is the first projection series to incorporate 2000 Census information. Table 1 shows the recent trends of population growth in the SCAG region and compares 2005/2010 population projections of both DOF and SCAG. According to the table 1, the new 2010 population projection for the SCAG region is approximately 150,000 lower than the 2004 RTP population forecast adopted by the Regional Council on April 2004. This difference represents 0.8% of the SCAG regional population forecast in 2010. Table 2 shows the recent trends of household growth and 2005/2010 household forecasts in the SCAG region.

Table 1: Population Estimates and Projections for the SCAG Region: DOF vs. SCAG

	2000 (4/1)	2001 (1/1)	2002 (1/1)	2003 (1/1)	2004 (1/1)	2005 (7/1)	2010 (7/1)
DOF Estimates	16,516,703	16,794,615	17,127,185	17,446,807	17,742,481		
DOF Projection						18,011,848	19,058,559
SCAG Forecast						18,117,604	19,208,661
Diff (DOF Proj. - SCAG Forecast)						(105,756)	(150,102)

Source: US Census Bureau, 2000 Census of Population and Housing, 2001.
CA DOF E-5 County/State Population and Housing Estimates, 2001-2004.
CA DOF, Population Projections 2000-2050, May 2004.
SCAG, SCAG 2004 RTP Growth Forecast, April 2004.

Table 2: Household Estimates and Projections for the SCAG Region: DOF vs. SCAG

	2000 (4/1)	2001 (1/1)	2002 (1/1)	2003 (1/1)	2004 (1/1)	2005 (7/1)	2010 (7/1)
DOF Estimates	5,386,488	5,417,474	5,467,573	5,520,620	5,579,025		
DOF Projection						N/A	N/A
SCAG Forecast						5,673,585	6,072,578

Source: US Census Bureau, 2000 Census of Population and Housing, 2001.
CA DOF E-5 County/State Population and Housing Estimates, 2001-2004.
SCAG, SCAG 2004 RTP Growth Forecast, April 2004.

- Methodology: DOF uses a cohort-component model to project resident population by gender, race/ethnicity and age. Three major components of population growth (births, deaths, and migration) are developed to reflect recent trends. Migration is developed using net migration approach. SCAG uses an economic-demographic projection model to project resident population by gender, race/ethnicity and age. At the first stage, population projection is made using a traditional cohort-component model. This preliminary population projection is adjusted through domestic migration to be influenced by labor

demand derived from the economic shift-share model. Both CA DOF and SCAG models add special populations for prisons, colleges, and military installations to residential population projections to produce total population projection.

- Assumptions

  ⇒ Fertility: CA DOF assumes that County level age and race/ethnic fertility rates merge toward state norms during the forecast period. SCAG assumes that County level age and race/ethnic fertility rates merge toward the regional norms, or remain 2000 rates constant, or follow the US Census Bureau projected Middle-Series fertility rates.

  ⇒ Mortality: CA DOF assumes that life expectancy stabilizes or improves during the forecast period. SCAG assumes that life expectancy improves at the same rate as that of the national life expectancy improvement as determined by the US Census Bureau Middle-Series Projection during the forecast period.

  ⇒ Migration: CA DOF assumes that annual average net migration to California is fixed at 186,000 during the forecast period. Local input or historical migration patterns are used to develop County level migration assumptions. SCAG assumes that domestic migration (domestic inmigration and domestic outmigration) responds to the difference between labor demand and labor supply. More domestic inmigration will result when labor demand exceeds labor supply.

  ⇒ Household Forecast: CA DOF does not project households. SCAG projects households by using year 2000 age and race/ethnic headship rates for each County in the region. The projected County households at a future point in time are computed by multiplying the projected resident population by projected headship rates. Aggregating projected households in each of the six counties in the region derives the regional household projection.

ATTTACHMENT D – Additional Considerations

Performing the RHNA process in coordination with Regional Transportation Plan (RTP) will allow for the best opportunity for a credible process with full local buy-in. This will be the first allocation process conducted under a substantially revised statute. Among the changes in the statute, there are increased requirements for collection of information and participation of local governments. In that vein, it is critical for SCAG that we begin the next allocation along with our next scheduled forecast process. That will allow all the jurisdictions in the SCAG region to fully participate in the process, with an equal understanding regarding the assumptions that will contribute to the allocation of housing.

We have developed considerable experience in the past three years in coordinated planning for land use and transportation. Our Compass program has identified critical growth areas for the region, which will allow us to accommodate projected population growth while maximizing efficiencies in our transportation system. During the current year, we are working closely with selected jurisdictions containing these critical growth areas to recognize mutual benefits, and to develop implementation plans. Allocating housing need as part of the next cycle of our forecast and transportation process will allow us to build off this experience, and collaborate with affected local governments.

In so doing, the availability of housing and affordable housing in our region will be improved markedly. Our on-going planning efforts under the Compass program are focused on removing impediments to housing production, and working with cities to craft development friendly planning approaches in appropriate locations. By bringing this effort to fruition, we believe that we can accommodate a significant number of additional housing units in our region by 2030, compared with a trend scenario. This easing of the supply constraints would have dramatic impacts on affordability. At the same time, by accommodating housing in the right locations, we will be making the most of the region's transportation investments, alleviating jobs/housing imbalance, and improving the region's economic competitiveness.

Further, the SCAG leadership is engaged in the housing planning process currently, and has directed that discussions on the broad policy assumptions that we will use for our next allocation begin immediately. However, were we to enter into the formal allocation process, with its attendant deadlines, at this time, these discussions would be hampered.

The new schedule proposed will allow us to avoid many potential problems under the current schedule. Foremost, there remains uncertainty regarding funding for the upcoming allocation cycle. Beyond this issue, however, are several other practical considerations that underpin how successful our next allocation cycle might be. For example, the new law calls for SCAG to collect substantial amounts of information from local governments to contribute to the methodology. Further, there is an expanded public participation, public hearing, and sub-regional delegation process. Given current circumstances, we would find it near impossible to complete all of the required steps in the process in a compressed time frame.