

The Inevitable Failure of RHNA



“You never want to let a serious crisis go to waste.

What I mean by that is it gives you an opportunity to do things that you could not do before.”

- Rahm Emanuel, Former White House Chief of Staff (2009 to 2010) under Barack Obama, and former mayor of Chicago (2011 to 2019)

Presentation Overview



- Terminology
- What is RHNA?
- What has been the Progress on the 6th Cycle RHNA so far?
- Executive Summary

- 7 Assertions and Corresponding Evidence

- **RHNA: Regional Housing Needs Allocation**

- The number of housing units (by income category expressed as a percentage of Area Median Income - AMI) that the State Housing and Community Development Agency (HCD) “determines” is necessary to build in an 8-year cycle in regional areas of California
- Units can be either rental or owned

- **Affordable Housing**

- Refers to housing units in a development that are set aside for residents at income levels that are not sufficient to rent at local market rates. These housing units are “deed restricted” so that they cannot be rented At market rates. AKA Below Market Rate (BMR) Housing
- Income tiers are relative, based on Area Median Income (AMI):
 - Very Low Income (VLI) <50% AMI
 - Low income (LI) 50-80% of AMI
 - Moderate Income (MI) 80% to 120% AMI
 - Above Moderate Income (or Market Rate) >120% AMI

- **Inclusionary Zoning (IZ) (aka Inclusionary Housing)**

- Refers to municipal and county planning laws that require a given percentage of units in a new housing development be affordable by people at different income levels.

- **SCAG: Southern California Association of Governments**

- Legal entity that develops long-range regional transportation plans and improvement programs, growth forecast components, regional housing needs allocations and a portion of the South Coast Air Quality management plans.
- Members are elected by a vote of the cities in each SCAG district that are members of SCAG.
- Represents 47% of the state’s population (6 counties in SoCal - 19 million residents) and is the largest such organization in the state.

Introduction

RHNA **IS** a narrative that allows consolidation of land use power
at the state level

RHNA **DOES NOT** have methodologies that, taken together, have any process
validity

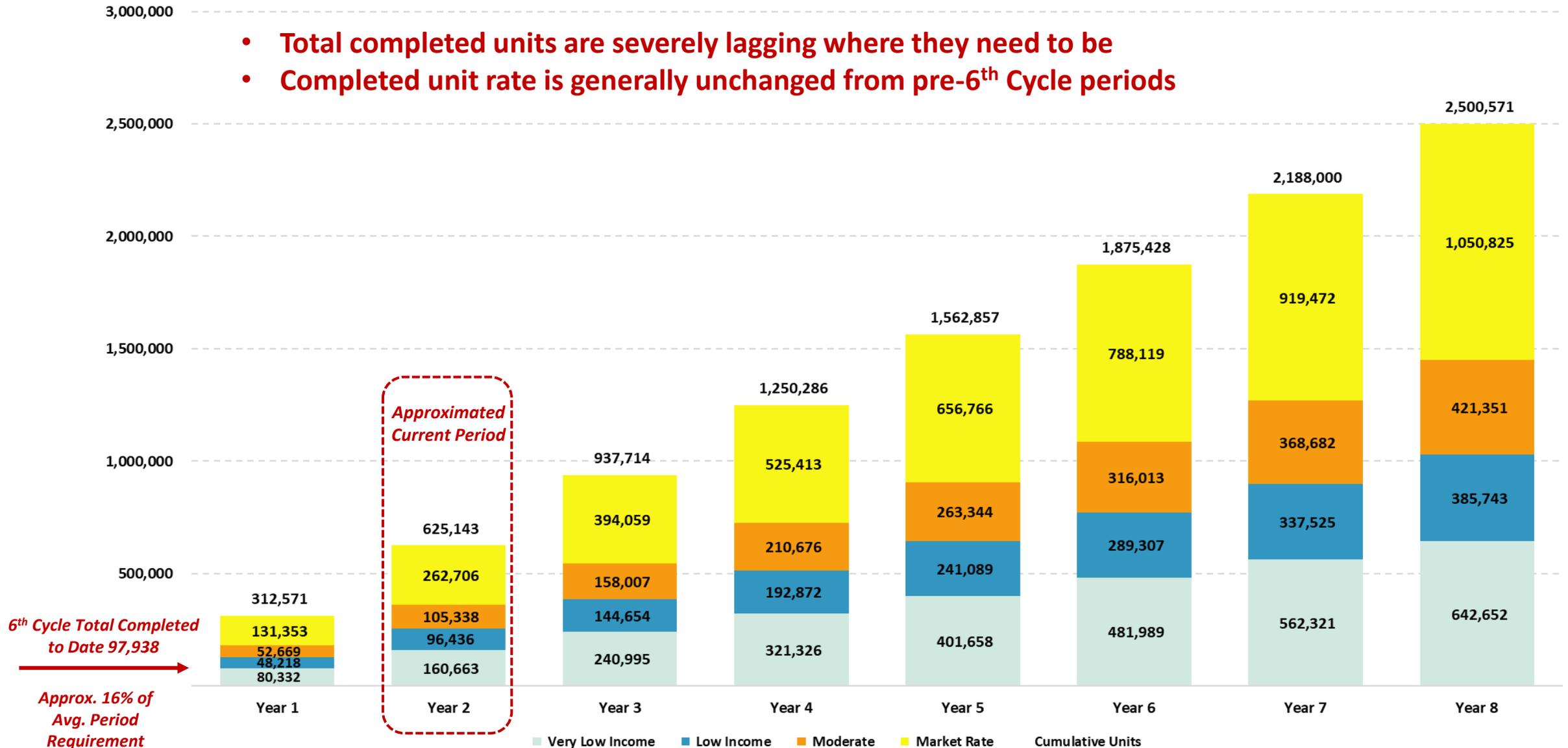
Therefore...

RHNA **IS NOT** a framework to define, or solve, the affordability problem

Introduction

What has been the progress on the 6th Cycle (about 2 years in)?

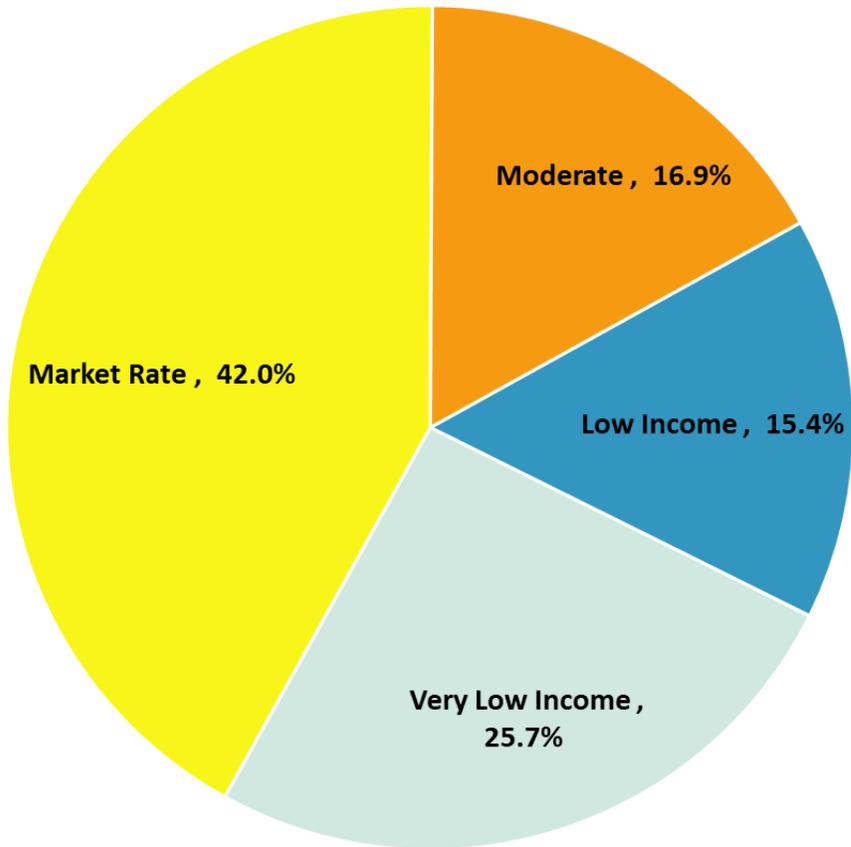
- Total completed units are severely lagging where they need to be
- Completed unit rate is generally unchanged from pre-6th Cycle periods



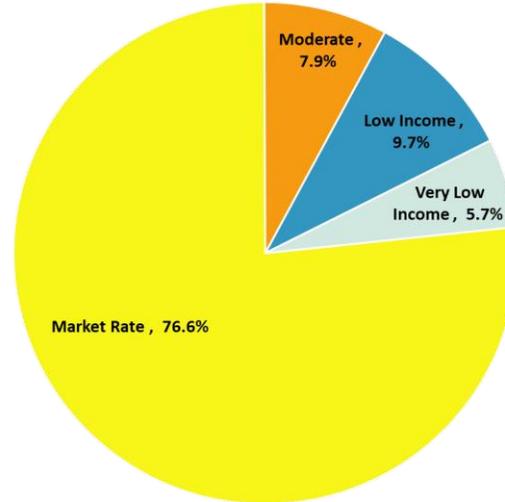
Source: HCD Housing Element Implementation Dashboard 02-07-2024

<https://www.hcd.ca.gov/planning-and-community-development/housing-open-data-tools/housing-element-implementation-and-apr-dashboard>

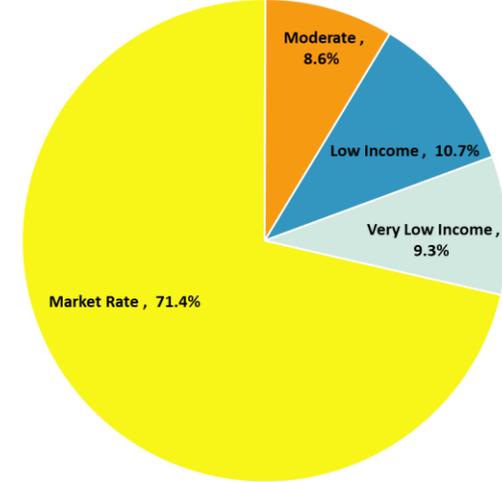
6th Cycle RHNA REQUIREMENT Inclusionary Rate: 58%



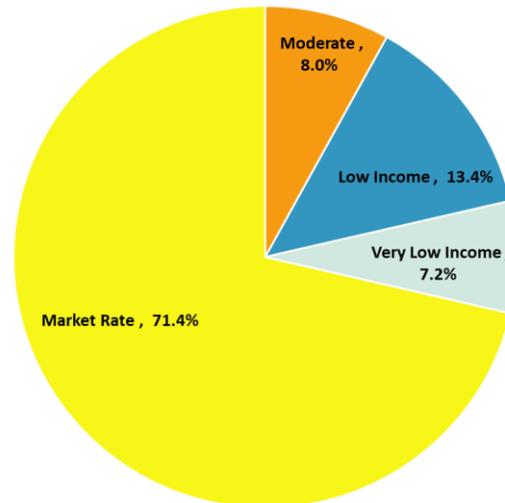
6th Cycle RHNA SUBMITTED Inclusionary Rate: 23%



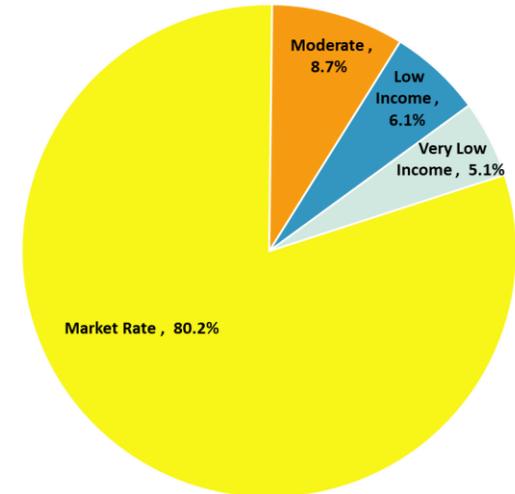
6th Cycle RHNA PERMITTED Inclusionary Rate: 29%



6th Cycle RHNA ENTITLED Inclusionary Rate: 29%



6th Cycle RHNA COMPLETED Inclusionary Rate: 19%



Source: HCD Housing Element Implementation Dashboard 02-07-2024
<https://www.hcd.ca.gov/planning-and-community-development/housing-open-data-tools/housing-element-implementation-and-apr-dashboard>

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1. **RHNA consolidates land use power at the state level with no substantiated link to addressing affordability** (*other than a narrative*)
2. **The housing crisis is a shortage of AFFORDABLE housing for wage earners...** it is NOT a shortage of market rate supply.
3. **RHNA mandates have been justified by discretionary narratives** of “Projected Need” and “Existing Need.”
4. **RHNA is economically untethered and internally conflicted:** Assumes construction continues in declining price environments!
 - In success...RHNA fails!
5. **RHNA’s Affordable Housing mandates are unfunded despite being the core justification;** requires “inclusionary” development
6. **Developer economics and density bonus structures create RHNA outcomes that are overwhelmingly Market Rate and are multiples of state allocations;** invisible in RHNA environmental analyses and sets cities up for accumulating financial and environmental stress
7. **Process has been captured by special interests and is essentially inaccessible to the public...** by design

Assertion #1

RHNA consolidates land use power at the state level with no substantiated link to addressing affordability

Yet, RHNA is entirely justified by the affordability problem.

The RHNA justification is anchored on improving affordability by market-provided supply

“California has a housing supply and affordability crisis of historic proportions.”

SB330 §3: Code 65589.5(a)(2)(a)

“The crisis has grown so acute in California that supply, demand, and affordability fundamentals are characterized in the negative: underserved demands, constrained supply, and protracted unaffordability.”

SB330 §3: Code 65589.5(a)(2)(C)

“California’s housing picture has reached a crisis of historic proportions despite the fact that, for decades, the Legislature has enacted numerous statutes intended to significantly increase the approval, development, and affordability of housing for all income levels, including this section.”

SB330 §3: Code 65589.5(a)(2)(J)

Why RHNA IS NOT a framework to solve the affordability problem

- **As implemented, RHNA has been described ^[1] as:**
 - Ad-hoc, rather than model-based
 - Reliant on simple rules of thumb
 - “Moderate” in the exercise of administrative discretion
- **The ad-hoc process unleashes market development without any reference to market economics**
 - The ad hoc approach does not offer any *a priori* understanding what the RHNA allocations would actually achieve against any target versus what an economic model-based approach would project.
 - The key benefit to HCD of “ad hoc” is that it’s “transparent” and “easy to implement.” ^[2]
 - RHNA is implemented by a department without staff economists^[1]
 - Absence of economically-driven models is by design (AB 1771)
- ***HCD has no idea what the specific housing cost outcomes would be if the unit mandates were achieved***
- **RHNA is internally conflicted. If housing prices actually start declining, construction stops!**

^[1] Background paper prepared for the California State Auditor in relation to the audit ordered by the Joint Legislative Audit Committee on Oct. 11, 2021 (p12), ^[2] p20

- **Chris Elmendorf**, Professor of Law, UC Davis School of Law; **Paavo Monkkonen**, Associate Professor of Urban Planning & Public Policy, UCLA Luskin School of Public Affairs; **Nicholas J. Marantz**, Associate Professor of Urban Planning & Public Policy, UC Irvine School of Social Ecology

- https://law.ucdavis.edu/sites/g/files/dqvnsk10866/files/inline-files/RHNA-Audit-Cover-Letter-2022.01.04_0.pdf

- <https://law.ucdavis.edu/sites/g/files/dqvnsk10866/files/inline-files/RHNA-Audit-Background-Paper-2021.01.04.pdf>

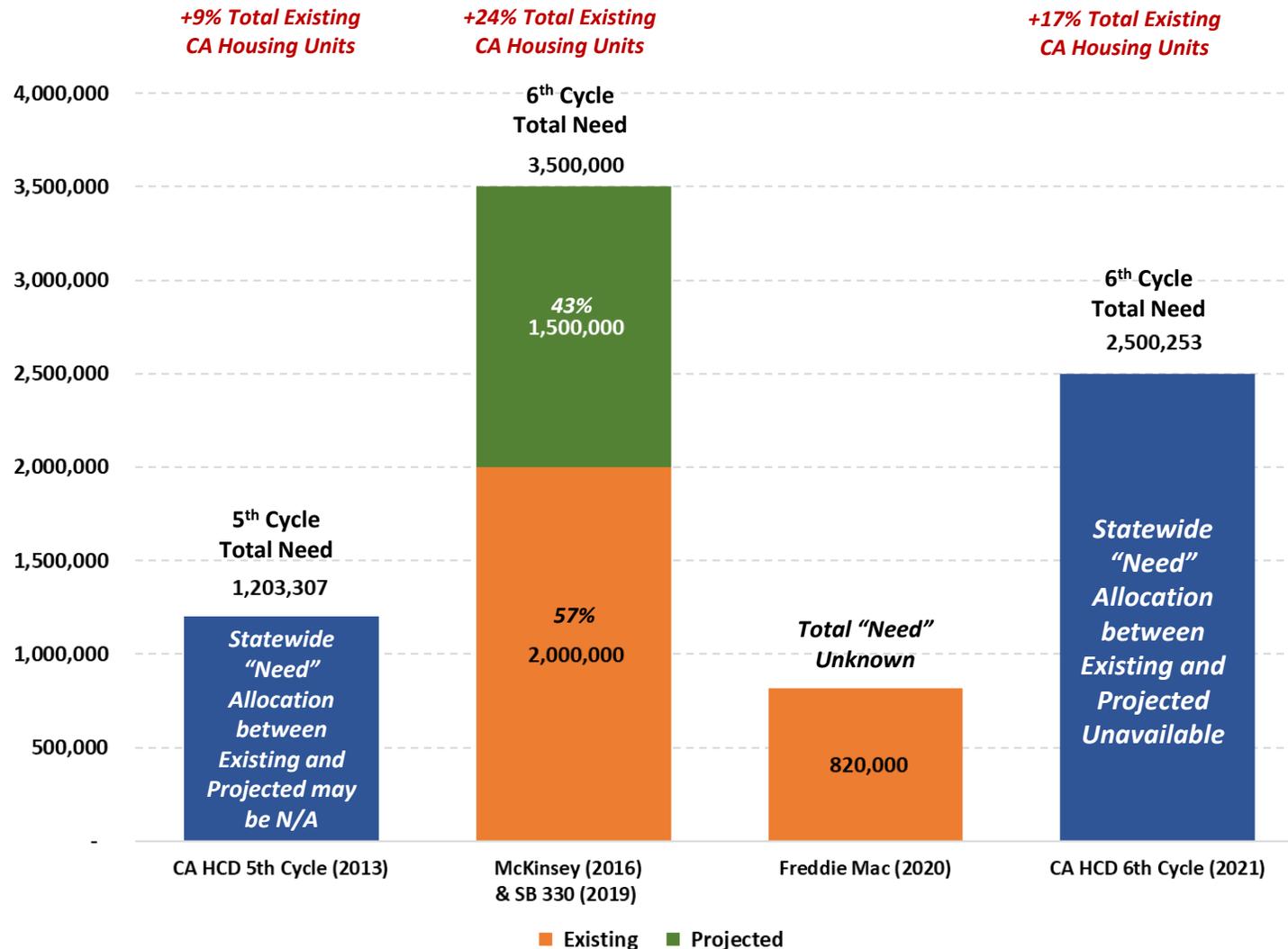
**“... A Lot More Housing
– Especially Multifamily Housing –
But Setting Targets Depends on Messy Guesswork”^[a]**

^[a] Background paper prepared for the California State Auditor in relation to the audit ordered by the Joint Legislative Audit Committee on Oct. 11, 2021 (p12)

- Chris Elmendorf, Professor of Law, UC Davis School of Law; Paavo Monkkonen, Associate Professor of Urban Planning & Public Policy, UCLA Luskin School of Public Affairs; Nicholas J. Marantz, Associate Professor of Urban Planning & Public Policy, UC Irvine School of Social Ecology

Non-standard methodologies have created wildly different California “shortage” estimates

- Nonstandard “...methodologies have arrived at estimates of California’s present housing shortage that range from 1.1 - 3.4 million homes”^[a]
- Unexplained 29% decline from 2016 McKinsey/2019 SB330 to final 2021 6th Cycle total



- Complete absence of a standard, peer-reviewed and recognized methodology that is used as a common currency in the “needs” discussion.
- Proliferation of models from every invested lobby group comes up with a different number to suit their objectives
- CA HCD does not provide summary state-level model outcomes of Existing and Future “Needs” to allow assessment of reasonability

Sources:

The Housing Supply Shortage: State of the States – Freddie Mac – Feb 2020
<https://www.freddiemac.com/fmac-resources/research/pdf/202002-Insight-12.pdf>

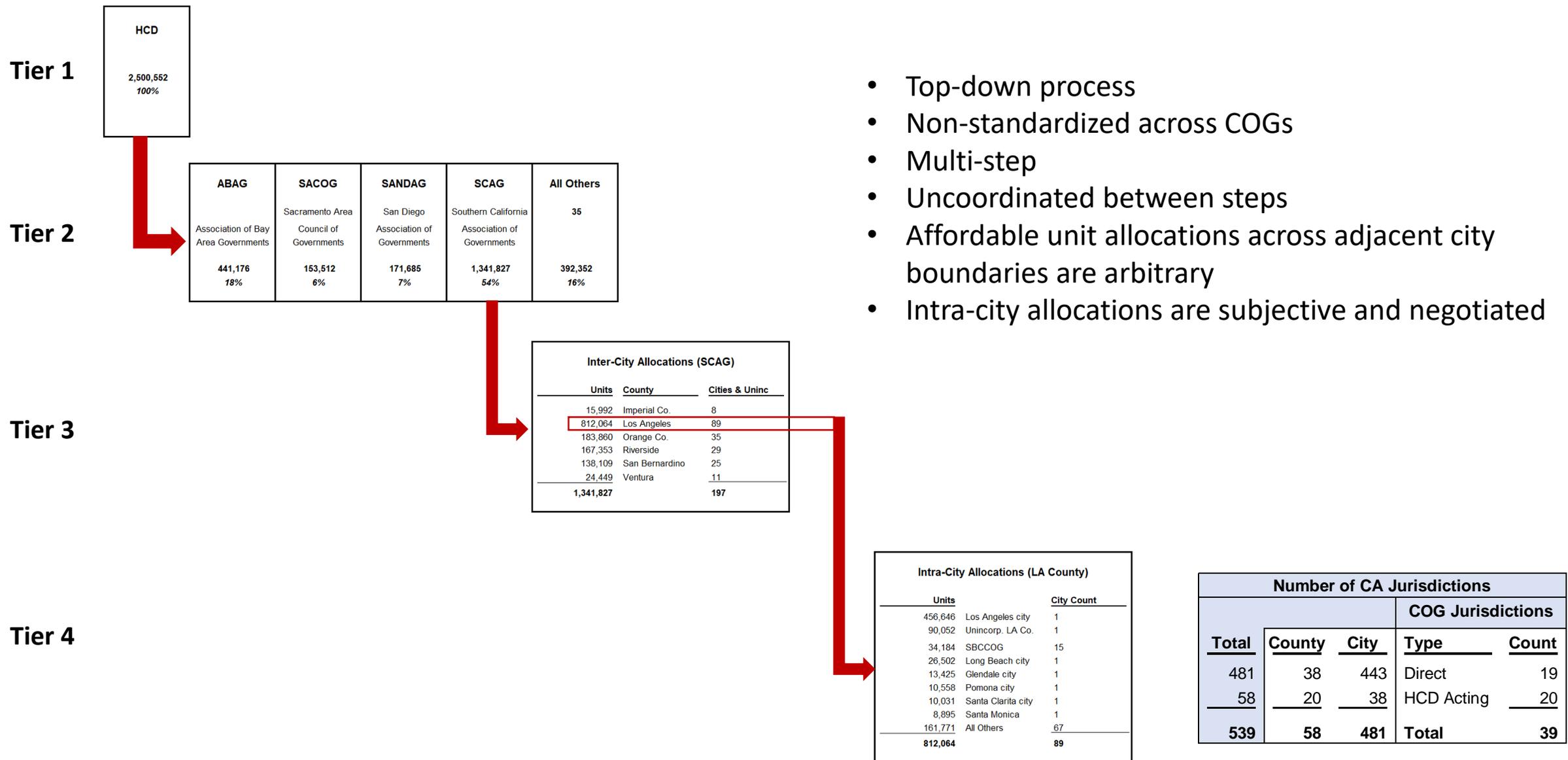
CA HCD 5th Cycle
<https://www.hcd.ca.gov/community-development/rhna/index.shtml#6thcycle>

2021 CA HCD 6th Cycle
<https://www.hcd.ca.gov/community-development/rhna/index.shtml#6thcycle>

McKinsey Global Institute: A Tool Kit To Close California’s Housing Gap: 3.5 Million Homes By 2025 - Oct 2016
<https://www.mckinsey.com/~media/McKinsey/Industries/Public%20and%20Social%20Sector/Our%20Insights/Closing%20Californias%20housing%20gap/Closing-Californias-housing-gap-Full-report.pdf>

^[a] Background paper prepared for the California State Auditor in relation to the audit ordered by the Joint Legislative Audit Committee on Oct. 11, 2021 (p12)
 - Chris Elmendorf et. al.

Disjointed top-down ad hoc approach is completely incompatible with delivering predictable outcomes



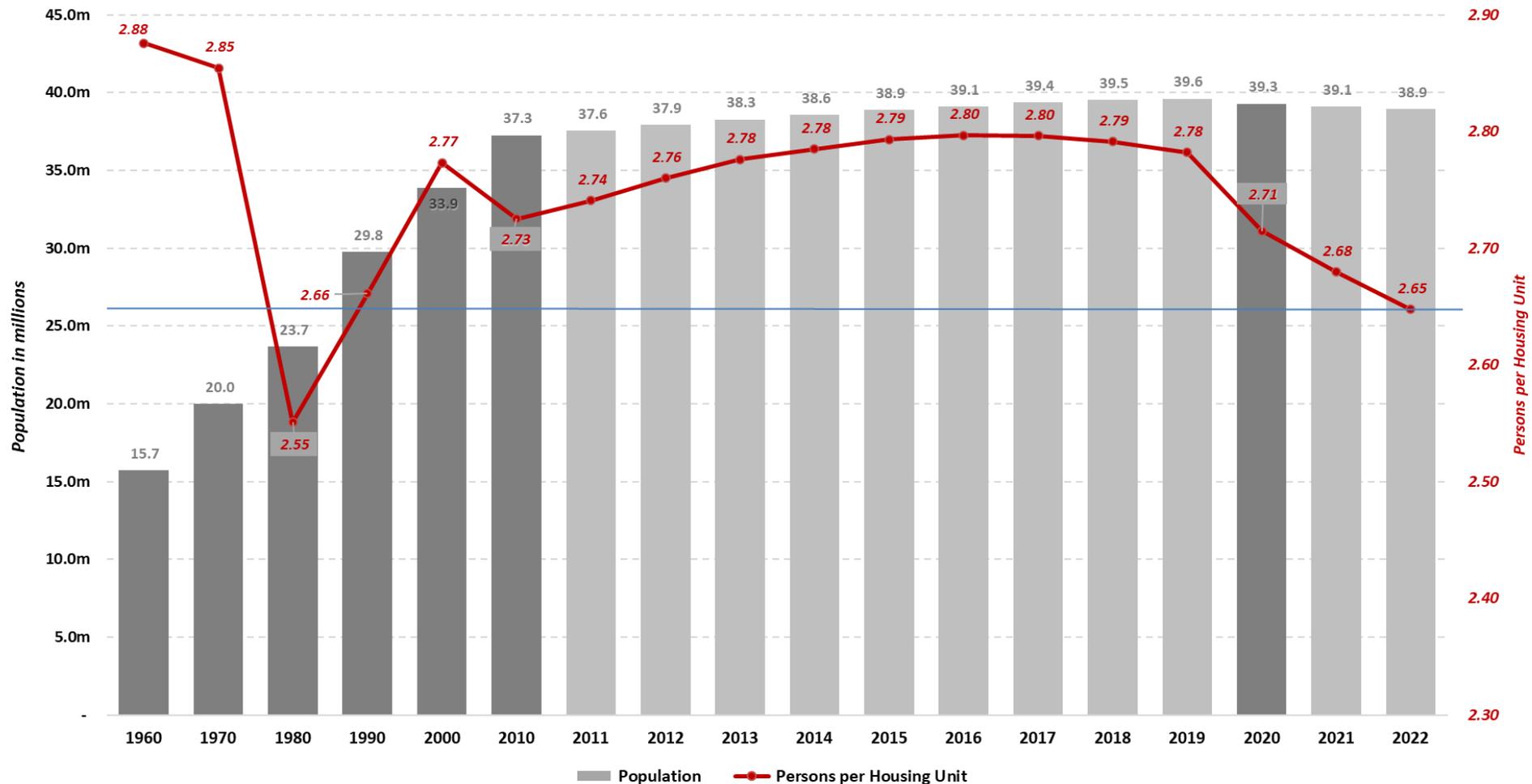
- Top-down process
- Non-standardized across COGs
- Multi-step
- Uncoordinated between steps
- Affordable unit allocations across adjacent city boundaries are arbitrary
- Intra-city allocations are subjective and negotiated

The housing crisis is a shortage of AFFORDABLE housing for wage earners....

The evidence indicates that it is NOT a shortage of market rate supply

From 1960 to 2020, California added housing at 2.62 new residents per new unit, accommodating 23.8M new residents

- *Housing supply increases occurred during the height of zoning restrictions (no material housing supply change 2020-2022)*
- *Persons per housing unit has declined 8% since 1960*
- *Persons per HH during this period has never been below 3.0 (Slide 33)*

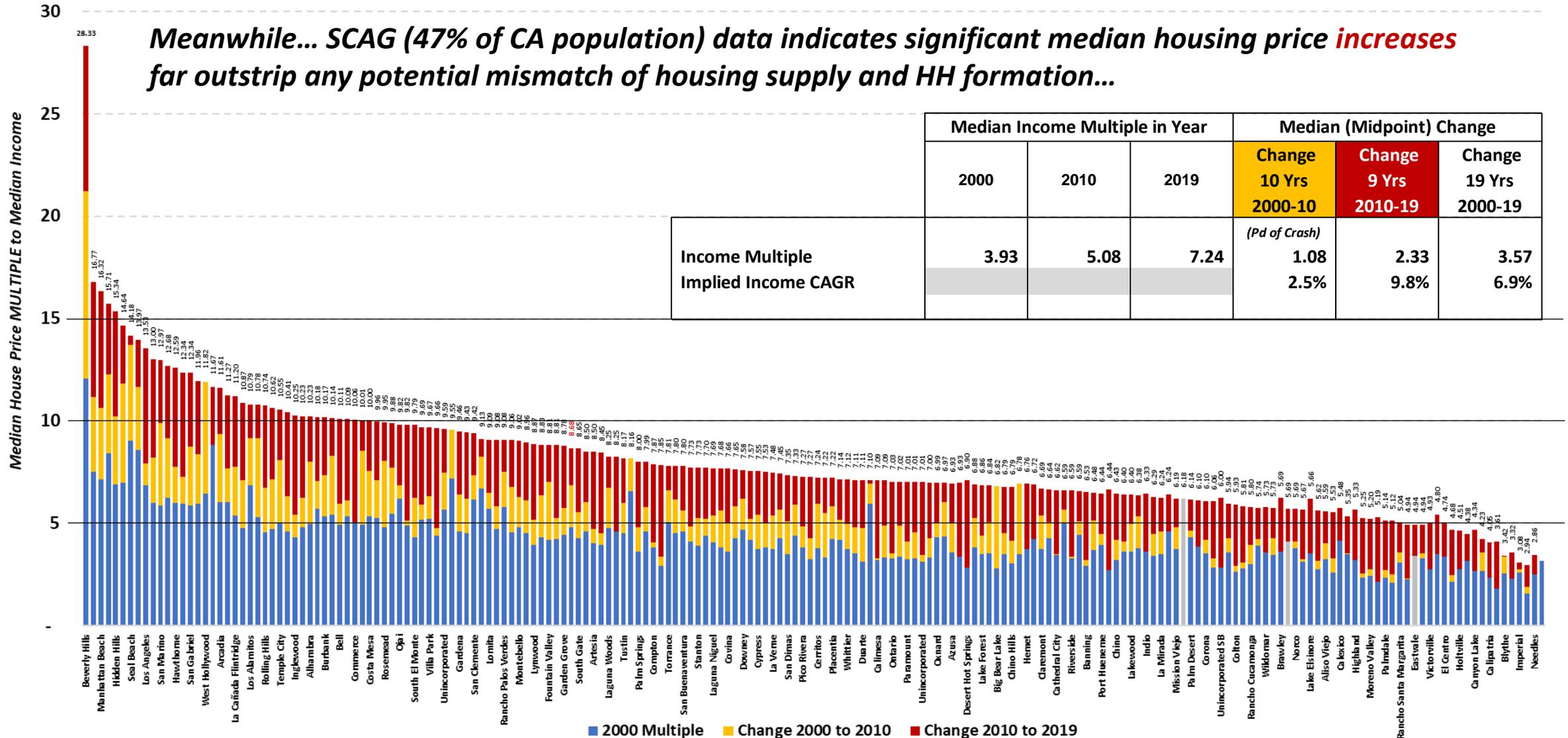


CA population increased by 17% since 2000

Sources:
 CA DoF Table 1: E-5 City/County Population and Housing Estimates, 1/1/2021
 CA DoF Table 1: E-5 City/County Population and Housing Estimates, 5/1/2023
 US Census

2000-2019 Ratio of Median House Price to Median Income (SCAG Region – 197 jurisdictions)

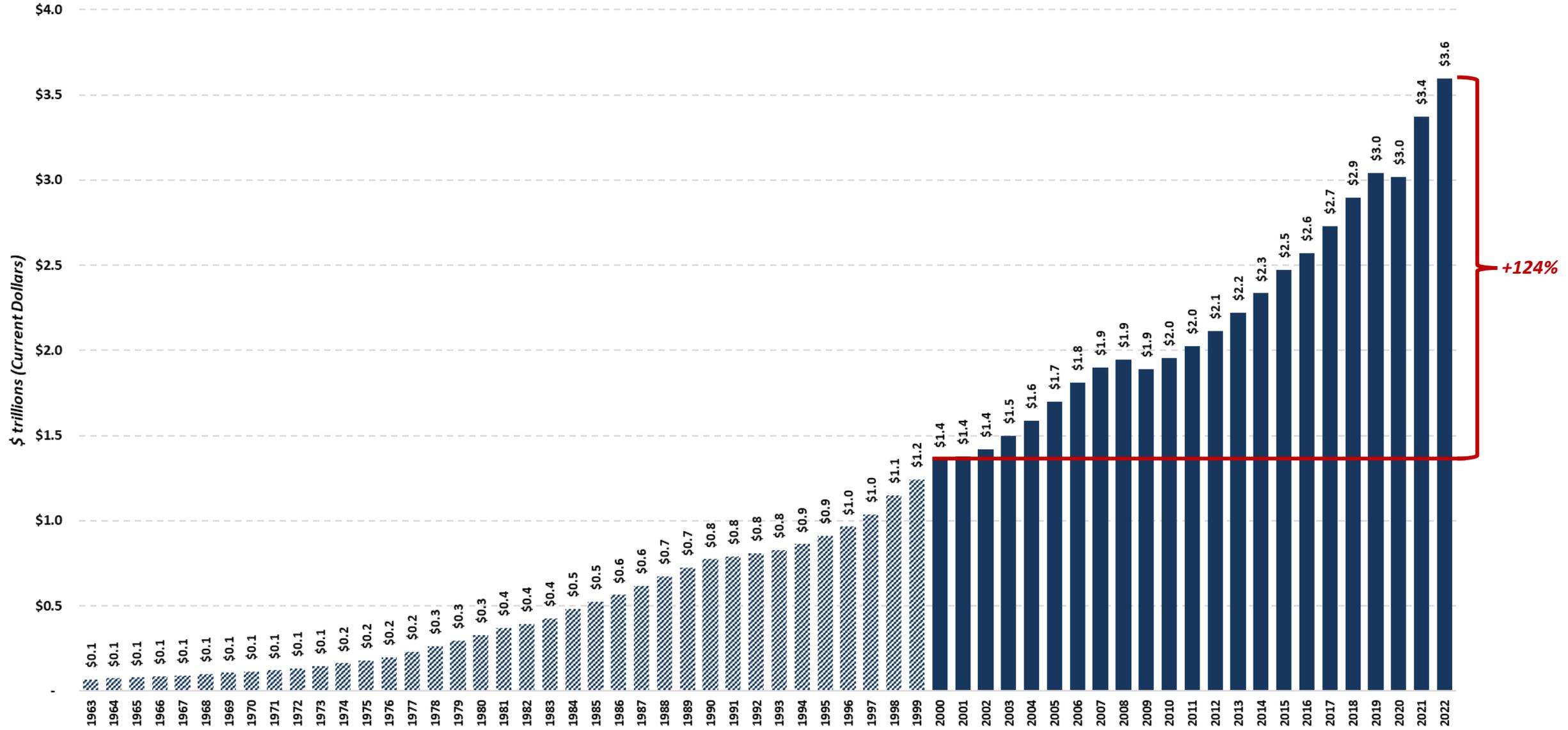
Meanwhile... SCAG (47% of CA population) data indicates significant median housing price **increases** far outstrip any potential mismatch of housing supply and HH formation...



Data Source: Southern California Association of Governments (SCAG) Local Profiles
https://scag.ca.gov/sites/main/files/file-attachments/2021_local_profiles_dataset.xlsx?1661892901

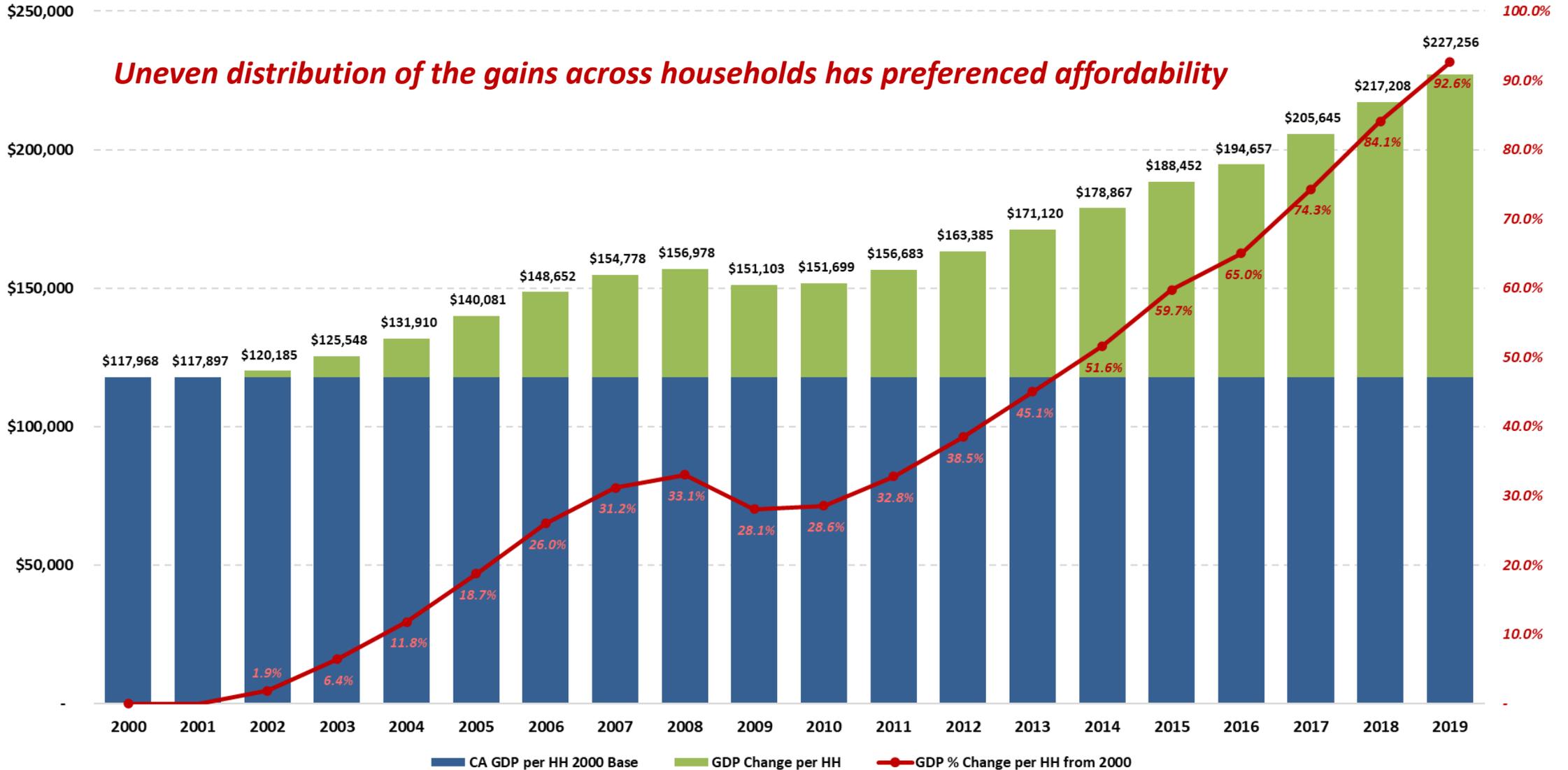
Location: C:\Documents\Santa Monica\Development\Valuations\Multiples Analyses\2021 Local Profiles Dataset - Working - SCAG Subregions.xlsx>Data 2021 - Mults - City Sort

California GDP more than doubled from 2000 to 2019 while the population grew by only 15%



Location: C:\Documents\California\Economics\CA-GDP 1963 to 2023 DoF.xlsx\CA GDP Formatted

California GDP per Household also doubled since 2000, increasing amount available to spend on housing



Location: C:\Documents\California\Economics\CA-GDP 1963 to 2023 DoF.xlsx\CA GDP Formatted

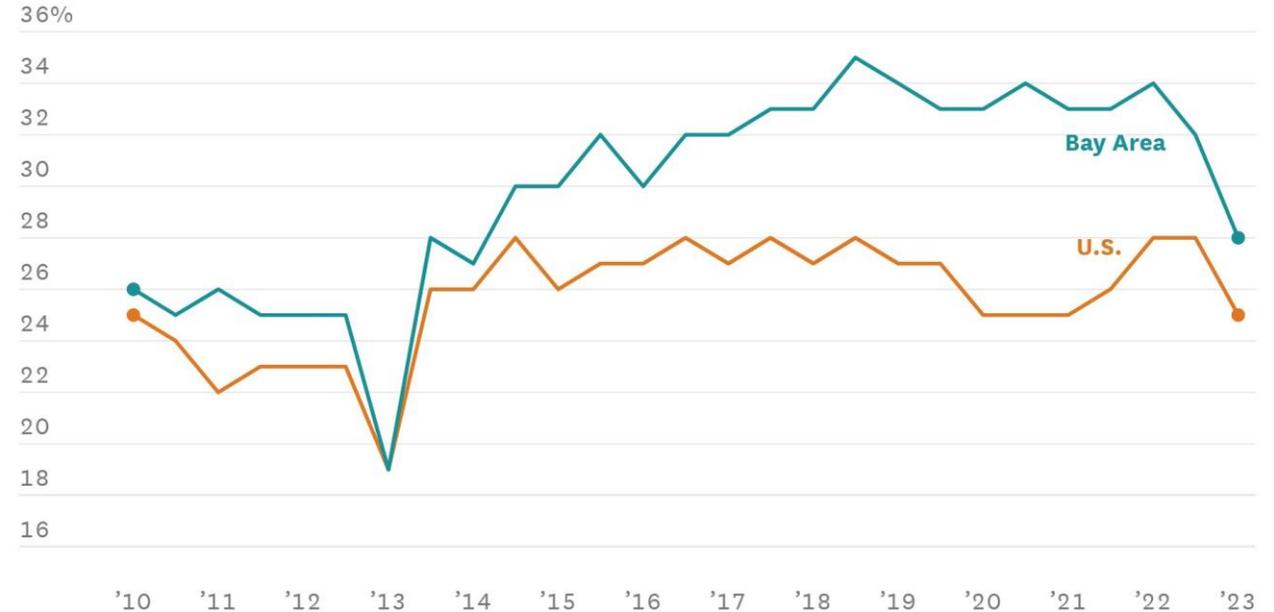
The surge in home prices from 2000-19 far outstripped growth in wage-based employment purchasing power

Non-wage capital and increasing income inequality are the driver of the housing affordability issue

- GDP growth reflected in equity-based compensation in Tech, Finance and Entertainment (likely not captured in median Income measures)
- Interest rate declines
- Intergenerational wealth transfers (i.e., cash inheritances, home purchase financing assistance) 
- International Investors – entities and individuals
- Institutional investors (traded funds, pension funds)
- Private equity investors

Share of FHA loans with family-assisted down payments

By six-month periods



Data includes instances in which relatives of the borrower paid at least part of the down payment. FHA stands for Federal Housing Administration.

Chart: Christian Leonard / The Chronicle · Source: [Federal Housing Administration](#)

Source: *How are Bay Area home buyers financing their down payments? For many, it's family money* - SF Chronicle 10-05-2023
<https://www.sfchronicle.com/bayarea/article/home-buyers-family-money-18394710.php>

**RHNA mandates have been justified by discretionary narratives of
“Projected Need” and “Existing Need.”**

***The concept of housing “Need” is neither demographic nor economic, providing huge
scope for administrative discretion***

If either or both are wrong, there is no redress.

RHNA Housing “Needs” categories are created with differing methodologies

Projected Need

Example Jurisdictions

38% SCAG

29% Los Angeles City

13% Santa Monica

Existing Need

Example Jurisdictions

62% SCAG

71% Los Angeles City

87% Santa Monica

Total RHNA Units

- **Projected Need** is based on projected household growth
 - Dependent on subjective interpretations of household changes on underlying population changes
 - Was the only category in the 5th Cycle RHNA
 - May be “ad hoc” based on past practice^[a]
- **Existing Need** is an estimate of an accrued housing shortage in the existing population
 - New to 6th Cycle
 - Created on an ad hoc basis rather than being model based^[a]
 - Ignores any “induced demand” that would fill units with new arrivals from other areas, including those from out of state

[a] Background paper prepared for the California State Auditor in relation to the audit ordered by the Joint Legislative Audit Committee on Oct. 11, 2021, Elmendorf p3; [b] p20

SCAG allocation process was crude, reflecting HCD’s ad-hoc, rule-of-thumb approach^{[a][b]}

- Simple 90/10 split used to allocate HCD-determined unit increase to the narrative drivers
- No economic analysis to support any of the allocations (*HCD has no staff economists*)^[a]

SCAG Region Reconciliation <small>(n = 197 jurisdictions)</small>	Housing Units	
5th Cycle	412,137	Entirely "Projected Need"
6th Cycle	<u>1,341,836</u>	
6th Cycle Increase over 5th Cycle	929,699	225.6%

Allocation of 6th Cycle Increase			
"Projected Need"	10.0%	92,833	Increased "Projected Need" despite decelerating growth trends New "Need" category designed to justify massive expansion
"Existing Need"	90.0%	<u>836,866</u>	
Total Increase		<u>929,699</u>	

[a] Background paper prepared for the California State Auditor in relation to the audit ordered by the Joint Legislative Audit Committee on Oct. 11, 2021, Elmendorf p20
 [b] SCAG accounts for 47% of the total California population

Projected Need

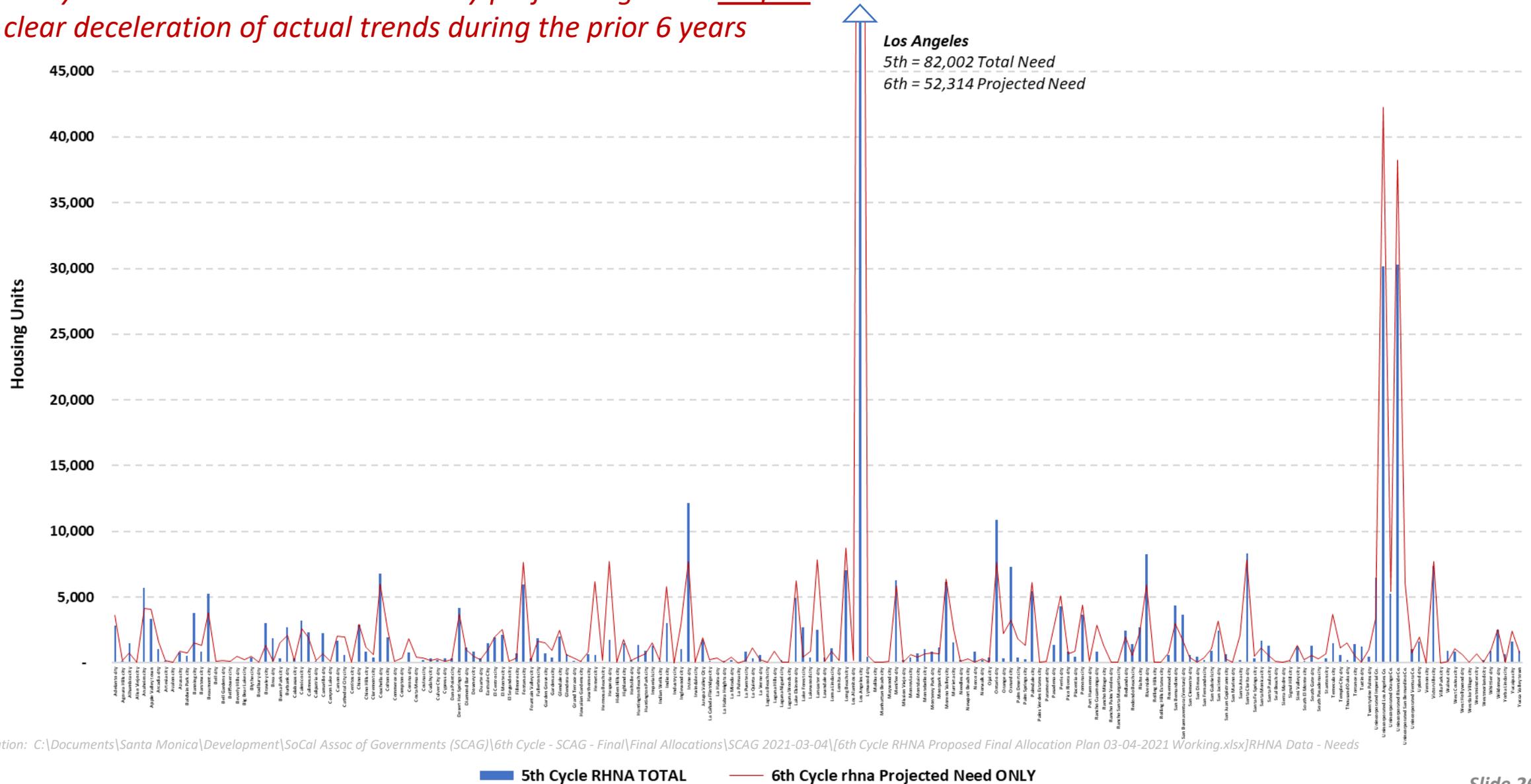
State population projections have obvious overstatement bias with modeling dominated by reliance on optimistic interpretation of historical trends ^[a]

^[a] *Historical trend policy approach for demographic and economic projections is irrelevant as the new state Insurance Commissioner agreement has just demonstrated on proposed rate reform*

^[b] *Draft Technical Methodology to Estimate Greenhouse Gas Emissions for Connect SoCal (2024-2050 Regional Transportation Plan/Sustainable Communities Strategy) – SCAG 01-23-2023*

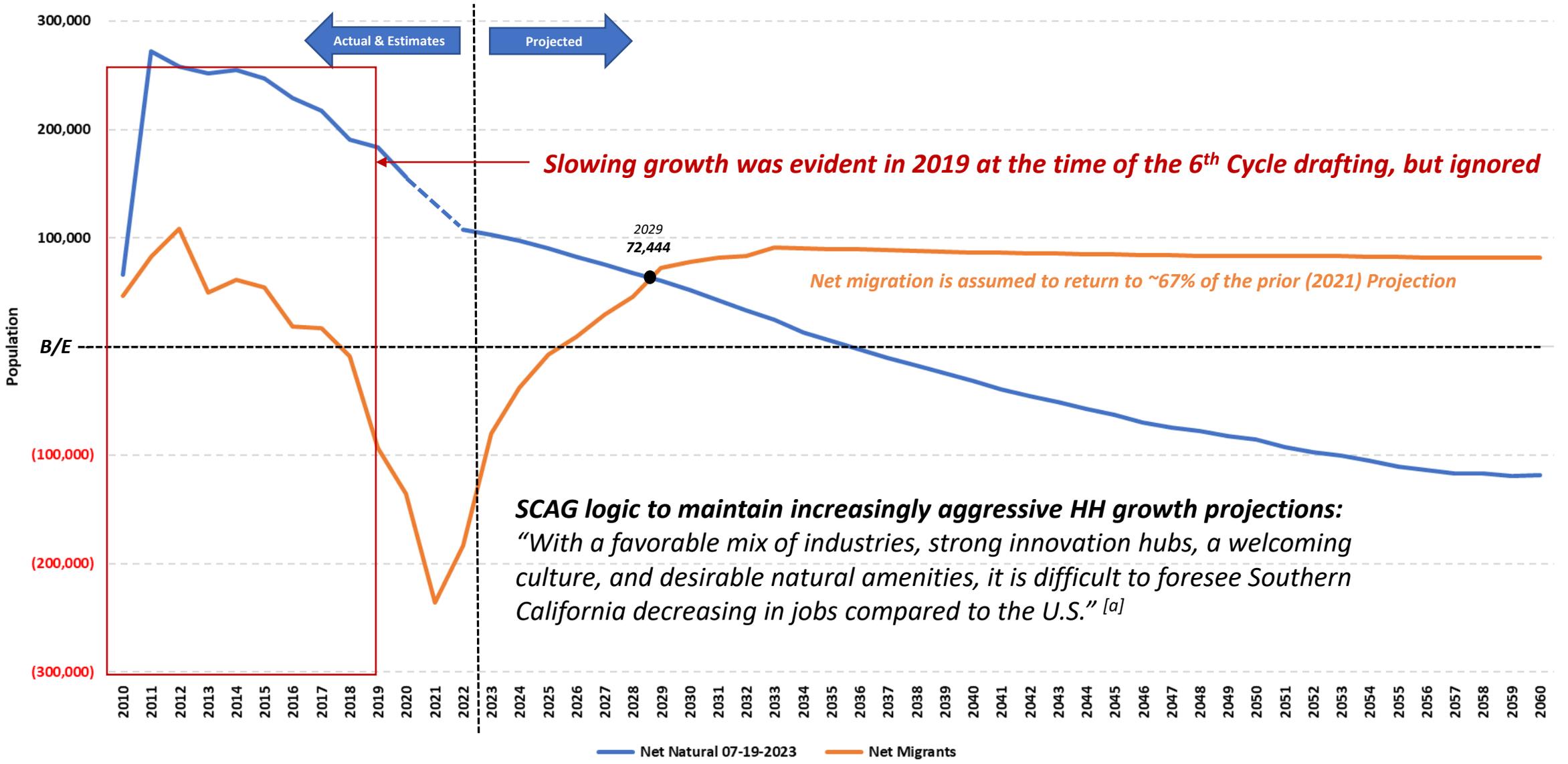
SCAG's 6th Cycle **PROJECTED NEED** is essentially the TOTAL 5th Cycle plus 23% (correlation = 0.97)

6th Cycle increased the units driven by projected growth despite clear deceleration of actual trends during the prior 6 years



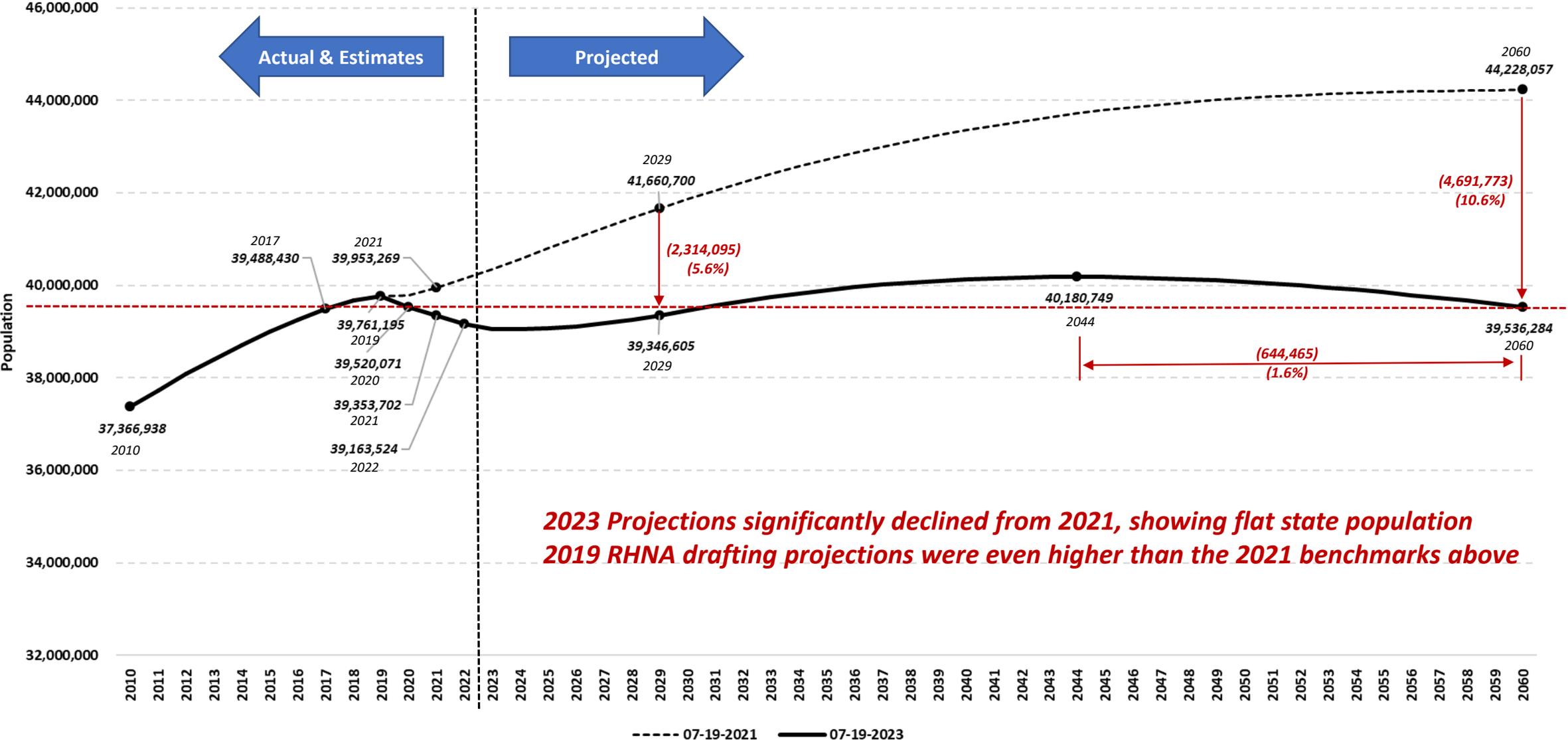
Location: C:\Documents\Santa Monica\Development\SoCal Assoc of Governments (SCAG)\6th Cycle - SCAG - Final\Final Allocations\SCAG 2021-03-04\6th Cycle RHNA Proposed Final Allocation Plan 03-04-2021 Working.xlsx\RHNA Data - Needs

California State Demographic Trends Net Natural and Migration DoF Projections 07-19-2023



[a] Draft Technical Methodology to Estimate Greenhouse Gas Emissions for Connect SoCal (2024-2050 Regional Transportation Plan/Sustainable Communities Strategy) – SCAG 01-23-2023

California State DoF Projections 2020-2060 07-19-2021 vs 07-19-2023



**2023 Projections significantly declined from 2021, showing flat state population
2019 RHNA drafting projections were even higher than the 2021 benchmarks above**

Location: C:\Users\mlver\Documents\California\Demographics\CA DoF\DoF P_CC_Components of Change\[DoF Report P-CC CofC & P2A - 07-19-2021 & 07-19-2023.xlsx]Total Population 07-19-21

The inability to update RHNA for new data requires enforcement of completely unsupported mandates

- *The 2023 DoF projections include a significant absolute decline in SCAG that is assumed to be offset by the rest of the state*
- *Even the flatlined projection is based on heroic assumptions of a return to prior migration trends*

<u>COG Name</u>	<u>COG</u>	<u>2020</u>		<u>2060</u>		<u>Change 2020 - 2060</u>	
		<u>Population</u>	<u>Share</u>	<u>Population</u>	<u>Share</u>	<u>Total</u>	<u>Percent</u>
Association of Bay Area Governments	ABAG	7,737,883	19.6%	8,373,877	21.2%	635,994	8.2 %
Fresno Council of Governments	Fresno COG	1,007,344	2.5%	1,095,205	2.8%	87,861	8.7 %
<i>Southern California Association of Governments</i>	<i>SCAG</i>	<i>18,833,663</i>	<i>47.7%</i>	<i>17,394,338</i>	<i>44.0%</i>	<i>(1,439,325)</i>	<i>(7.6)%</i>
Sacramento Area Council of Governments	SACOG	2,210,917	5.6%	2,593,433	6.6%	382,516	17.3 %
San Diego Association of Governments	SANDAG	3,301,513	8.4%	3,322,762	8.4%	21,249	0.6 %
All other COGs / HCD	Other	<u>6,428,751</u>	16.3%	<u>6,756,669</u>	17.1%	<u>327,918</u>	5.1 %
Total California [a]	HCD	39,520,071	100.0%	39,536,284	100.0%	16,213	0.0 %

Source: California State DoF Population Projections 07-19-2023

[a] California 2060 total excludes a 27,792 DoF rounding issue that starts in the 2027 projection year.

Existing Need

Described as the accrued housing shortage...

HCD's "...application of statutory factors was ad hoc rather than model based. That is, the vacancy, overcrowding, and cost-burden adjustments were based on simple rules of thumb, rather than an economic model that yields predictions of how much new housing would be needed to achieve target rates..."^[a]

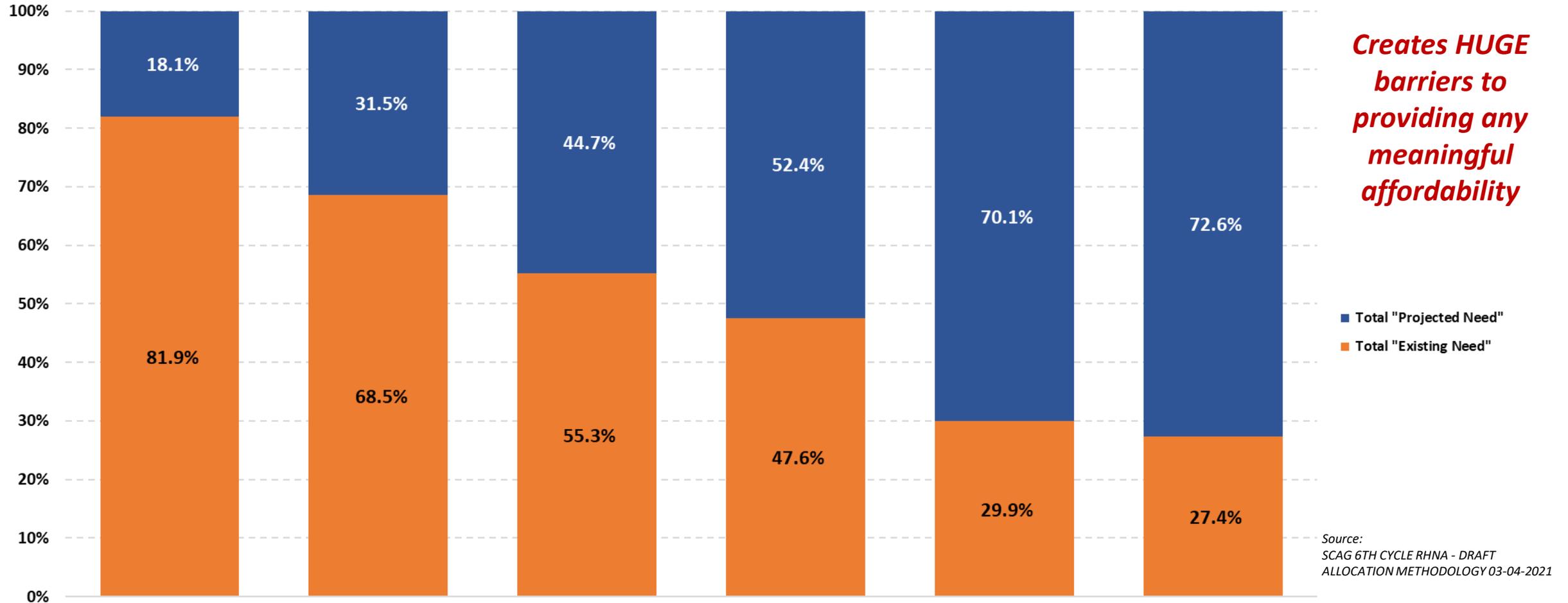
Core issues with the application of this concept that render it unusable include:

- Any such shortage is fundamentally driven by economics, which are not recognized in the process
- There is no agreement on how to measure any such shortage
- Irrationally assumes no "induced" demand (*i.e. new residents moving in*)
- Lack of agreed methods allows rampant administrative "creativity" ...

As used by SCAG, the concept has absolutely no validity

^[a] Background paper prepared for the California State Auditor in relation to the audit ordered by the Joint Legislative Audit Committee on Oct. 11, 2021, p19; [b] p3
- Chris Elmendorf et. al.

SCAG used "Existing Need" to targeted densification in expensive, already developed areas using



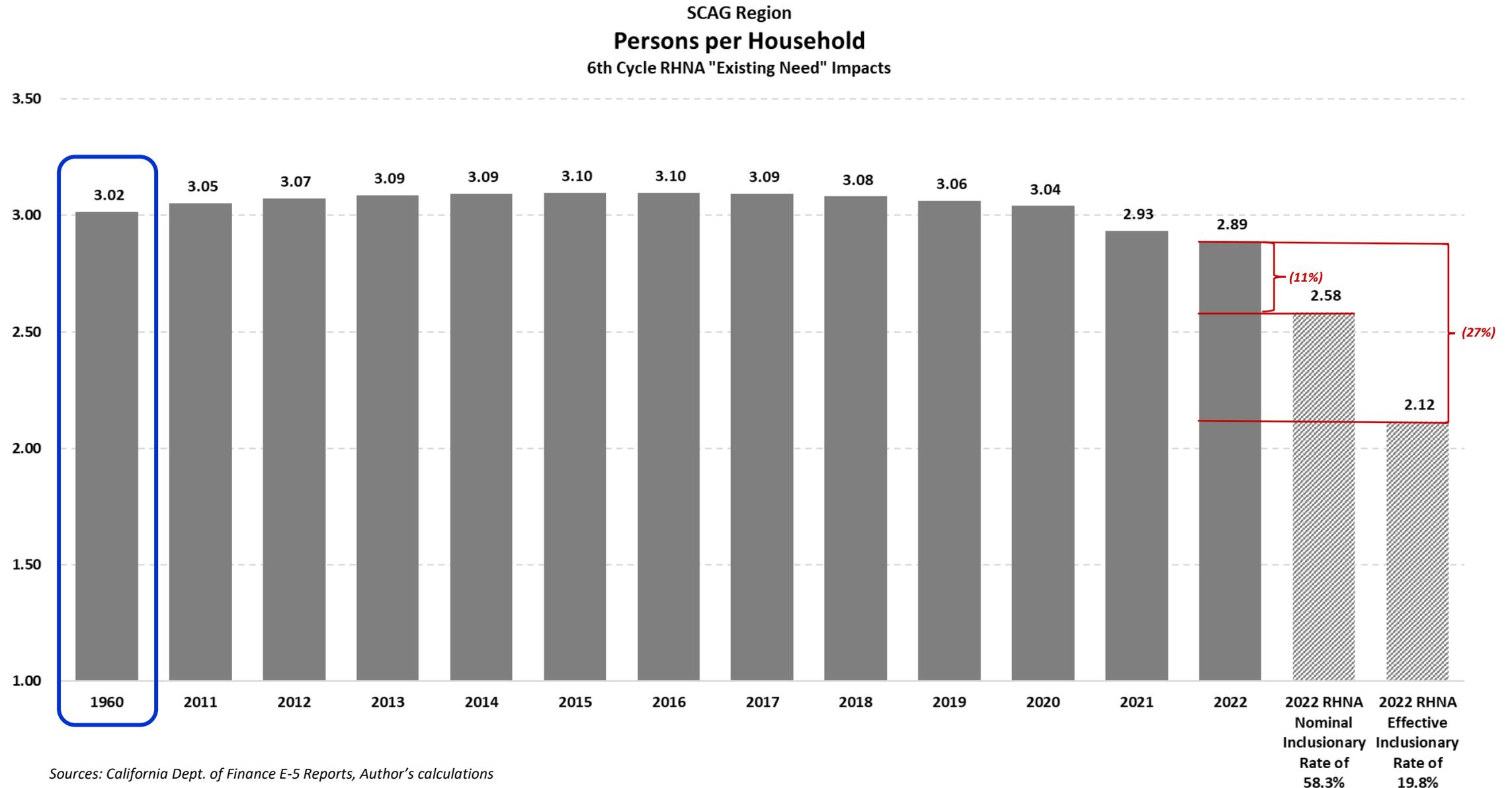
	Orange	Los Angeles	Ventura	San Bernardino	Imperial	Riverside	
Housing Units (HU)	183,861	812,067	24,451	138,110	15,993	167,353	1,341,836
HU Share	13.7%	60.5%	1.8%	10.3%	1.2%	12.5%	100%
Pop Share	18.1%	52.9%	4.2%	11.3%	1.3%	12.3%	100%

Elmendorf admits that there is no rationale other than expediency in assigning “Existing Need” units...

- **HCD and the legislature have created a process that has no guardrails to stop administrative abuse**
- *“SB 828 tells HCD to account for present needs, but... the statute as amended doesn't tell HCD how to account for present needs”^[a]*
- *“Consistent with past practice, (HCD’s) application of statutory factors was ad hoc rather than model based... vacancy, overcrowding, and cost-burden adjustments were based on simple rules of thumb, rather than an economic model that (would) yield predictions of how much new housing would be needed to achieve target rates of vacancy, overcrowding,”^[b]*

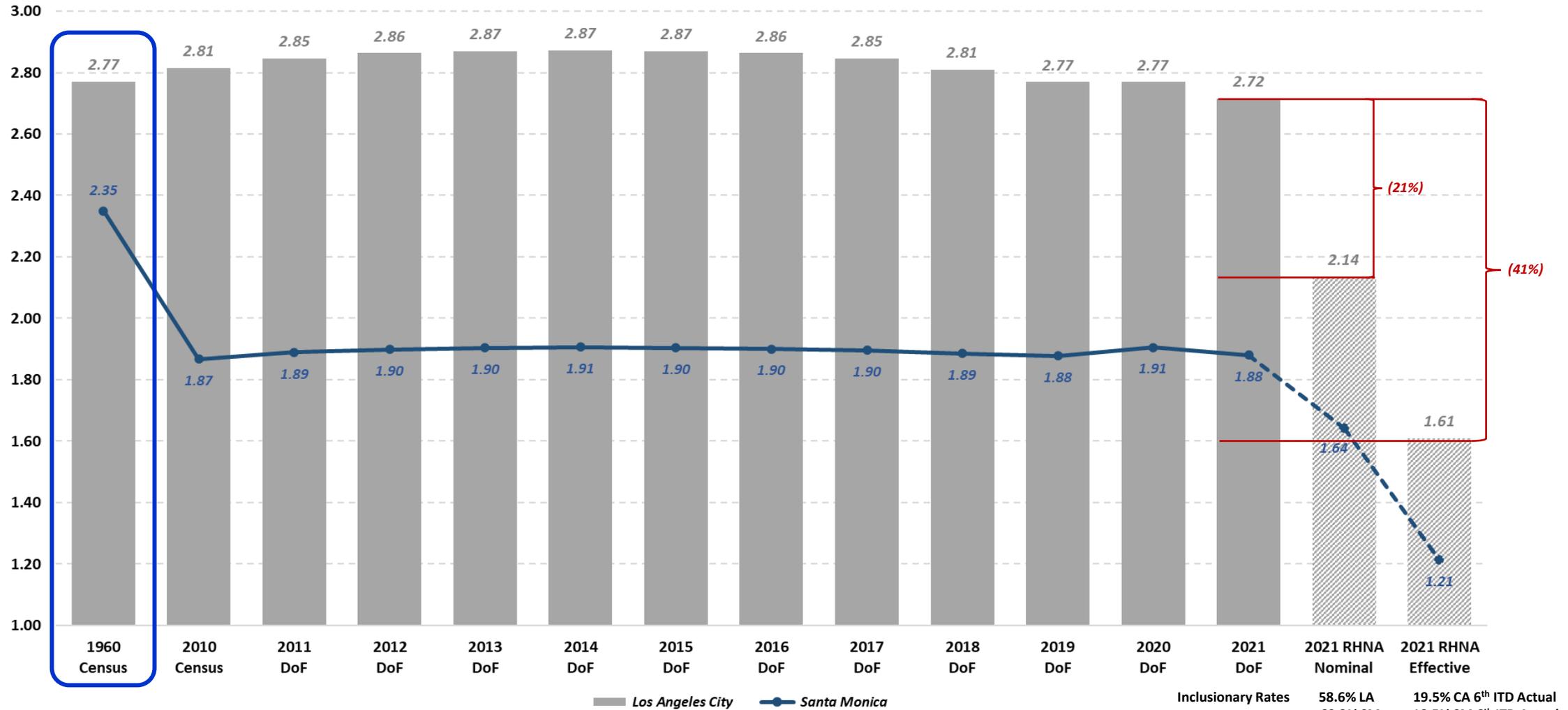
^[a] Background paper prepared for the California State Auditor in relation to the audit ordered by the Joint Legislative Audit Committee on Oct. 11, 2021, p19; [b] p3
- Chris Elmendorf et. al.

Application of RHNA “Existing Need” to the SCAG region produces economically impossible Household results



Application of RHNA "Existing Need" at the city level produces absurd person per Household declines

Los Angeles City and Santa Monica
Persons per Household
6th Cycle RHNA "Existing Need" Impacts

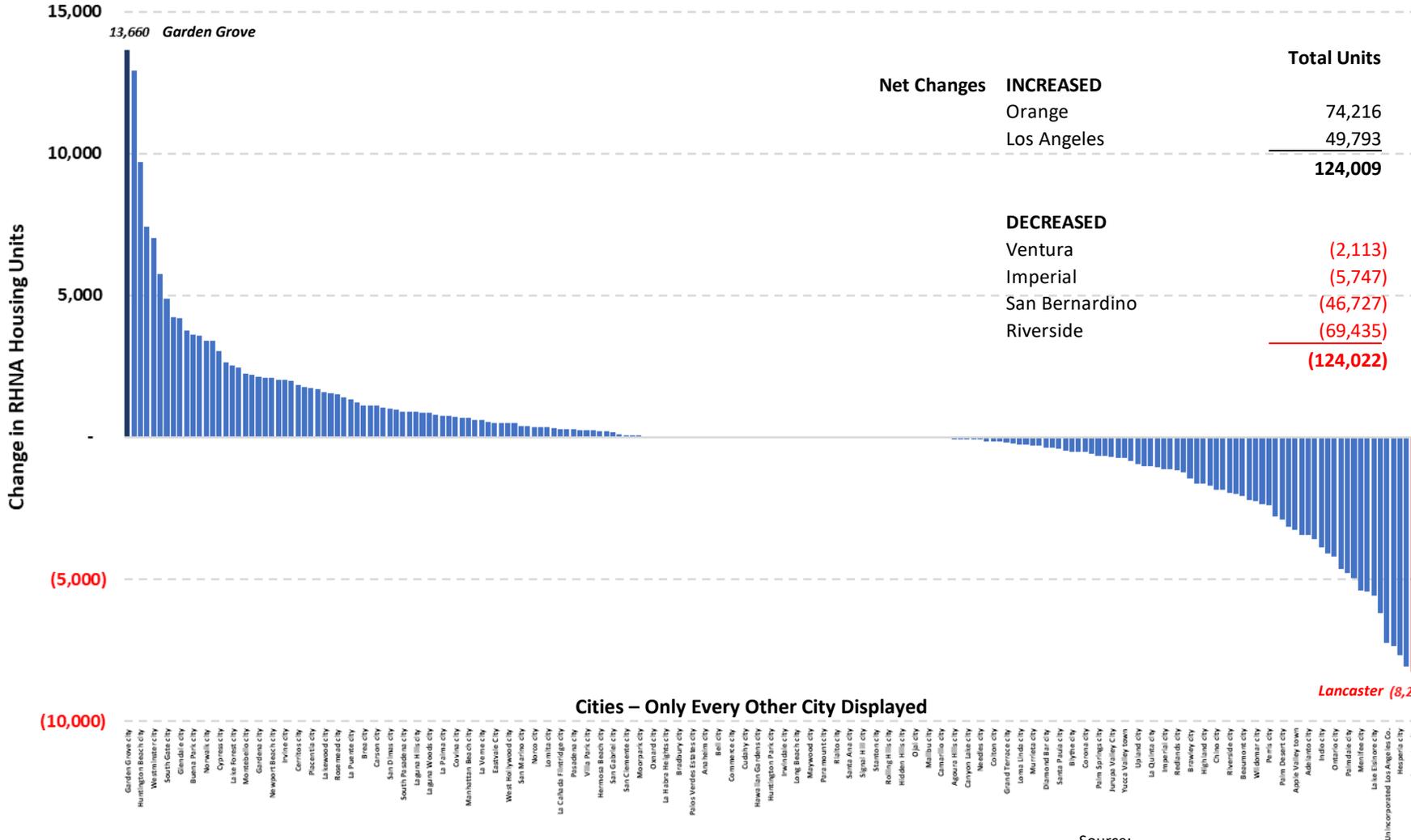


Sources: California Dept. of Finance E-5 Reports, Author's calculations

Inclusionary Rates 58.6% LA 19.5% CA 6th ITD Actual
 69.3% SM 18.5% SM 6th ITD Actual

“Existing Need” was used to reallocate huge numbers of units in the 6th Cycle drafting process

- 2019 Lobbyist during 6th Cycle drafting pressure resulted in a 124,000 unit reallocation to built areas in a 4 week period



- Stable objective methodology would not be subject to this level of fluctuation
- All SCAG changes were made to “Existing Need”
- No Change to total SCAG 1,341,849 Units
- Same lobbyists threatened to advocate for a 56% increase to Santa Monica’s new, higher allocations, **using their own model!**
 - SM Unit progression:
 - 1,674 5th Cycle
 - 4,829 6th Cycle - Oct 2019 Draft (+188%)
 - 9,058 6th Cycle – Nov 2019 Draft (+88%)
 - 14,155 6th Cycle – AHLA (+56%)

Source:
SCAG 6th Cycle Rhna - Draft Allocation Methodology 10-19-5016
<https://www.scag.ca.gov/programs/Documents/RHNA/SCAG-RHNA-Methodology-Worksheet-Oct19.xlsx>

Source:
SCAG 6th Cycle Rhna - Draft Allocation Methodology 11-04-2019
https://www.scag.ca.gov/programs/Documents/RHNA/SCAG_RHNA_MethodologyWorksheet_110419_Submotion.xlsx

[Analysis: SCAG RHNA Worksheet Comparisons: 10-16-2019 vs 11-04-2019 Drafts](#)

RHNA is economically untethered and Internally conflicted...

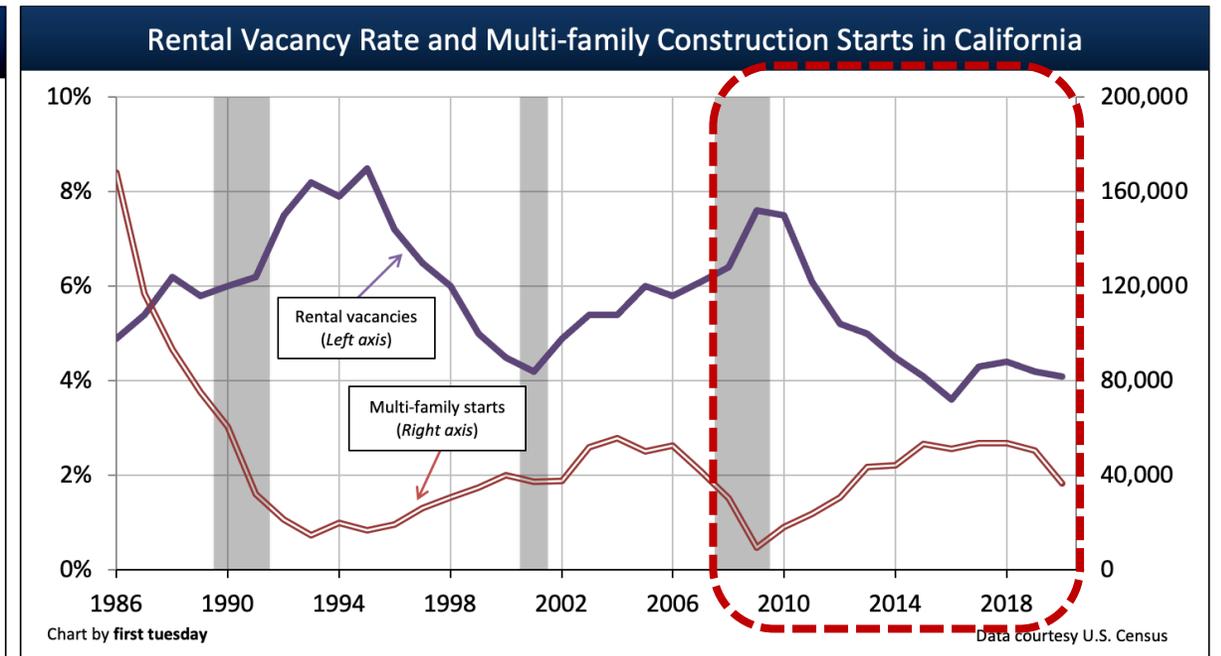
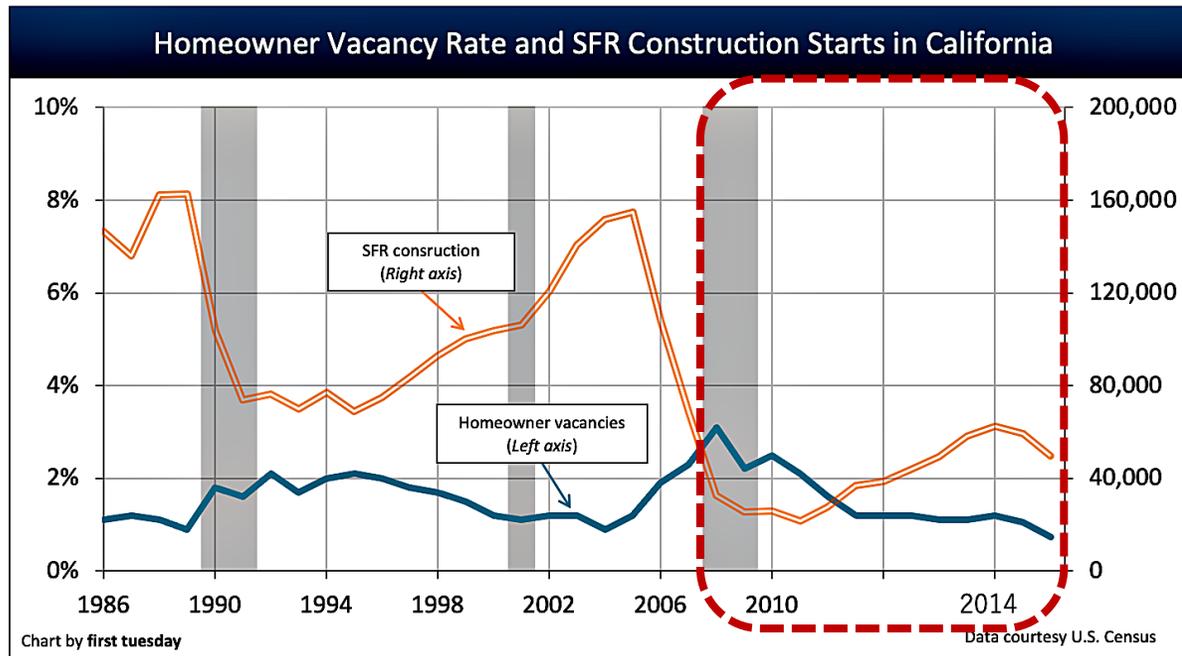
An inclusionary zoning strategy makes it impossible to achieve affordability goals!

If prices actually start declining, construction stops, leaving only token included affordable units!

Absence of basic economics in RHNA framework declining price environments

RHNA narrative requires that investors and developers continue to build in declining price environments...

- That just does NOT happen...



Source: Construction Starts Perform Below Their Historical Average - First Tuesday Journal 07-14-2019
<https://journal.firsttuesday.us/nobodys-home-california-residential-vacancy-rates/7094/#comments>

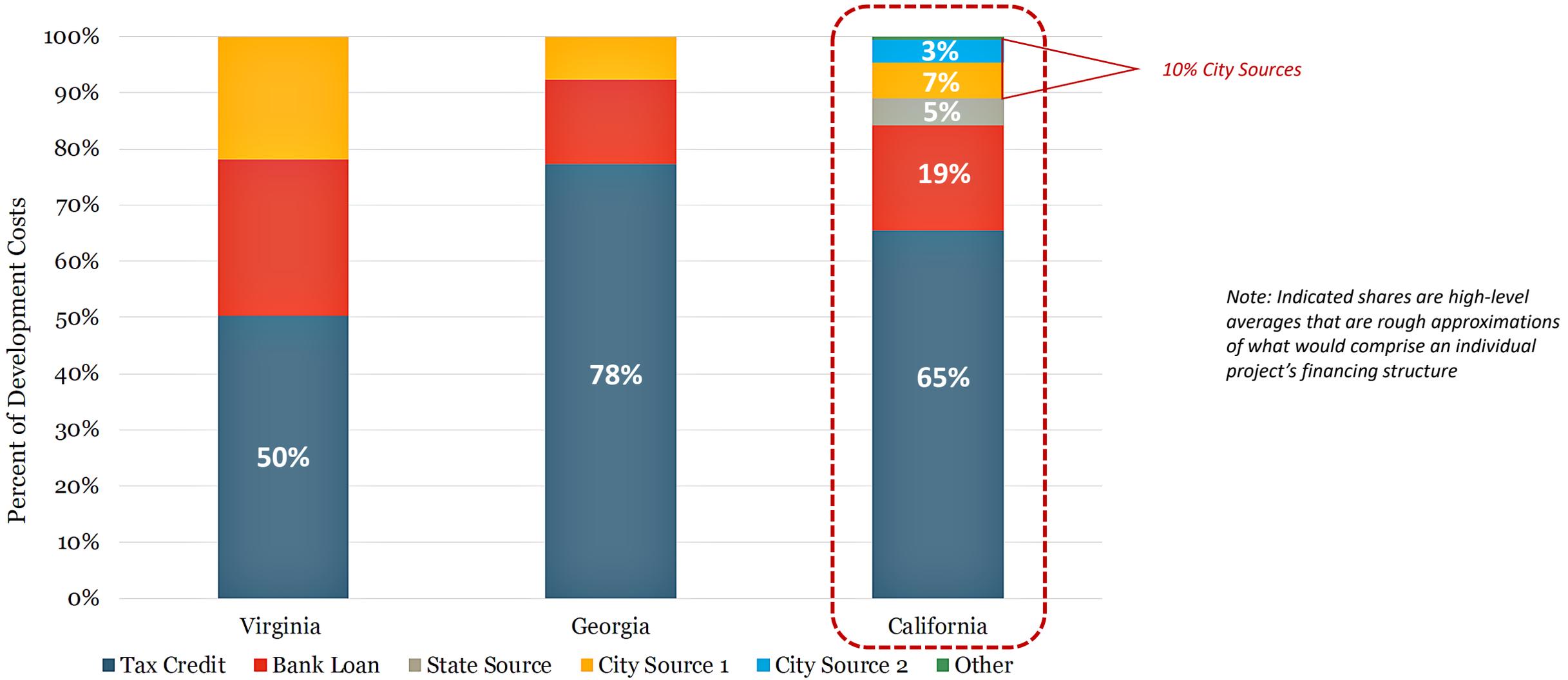
RHNA's Affordable Housing mandates are unfunded and unfocused...

despite housing affordability being *the core* RHNA justification

Lack of meaningful affordable subsidy funding defaults affordable unit construction into market-driven inclusionary development

If market-driven construction actually starts lowering housing prices, construction stops, ensuring cities fail

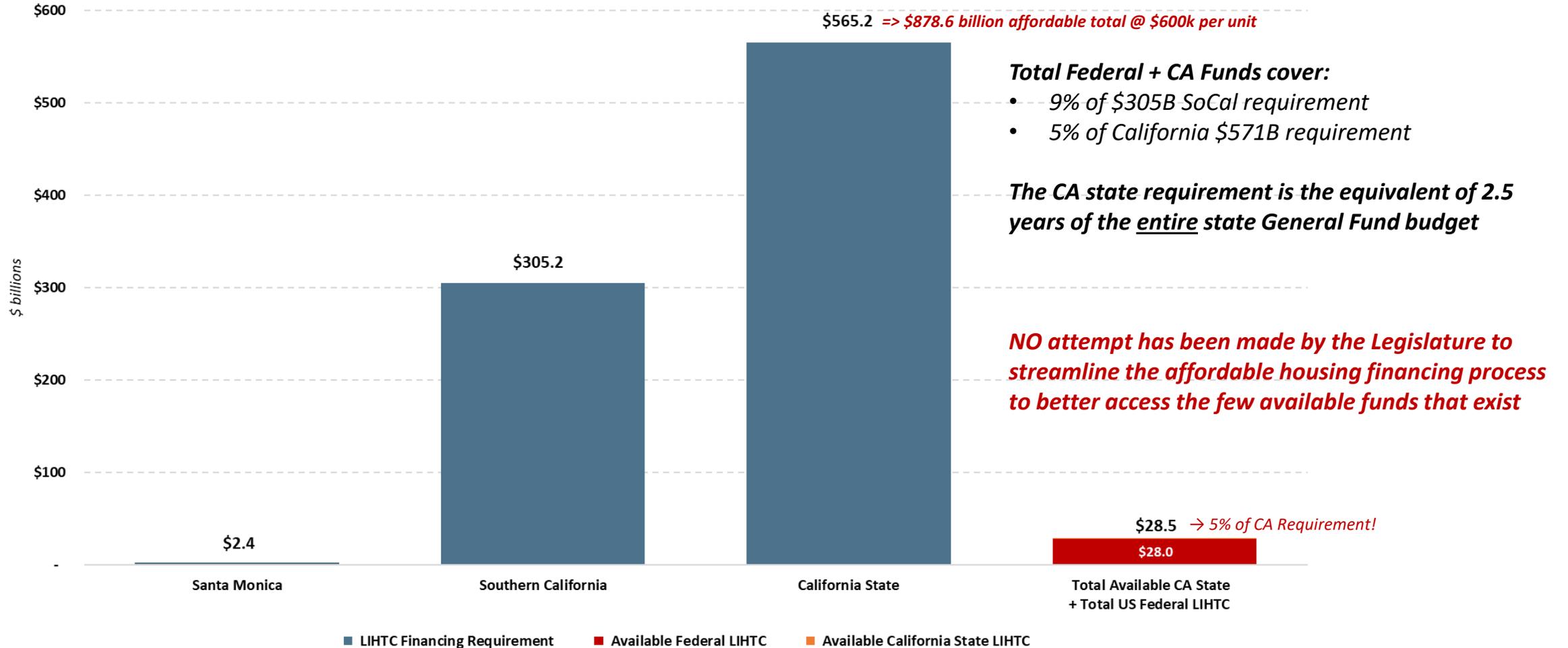
State-Level Affordable Housing Funding Composition in 2019



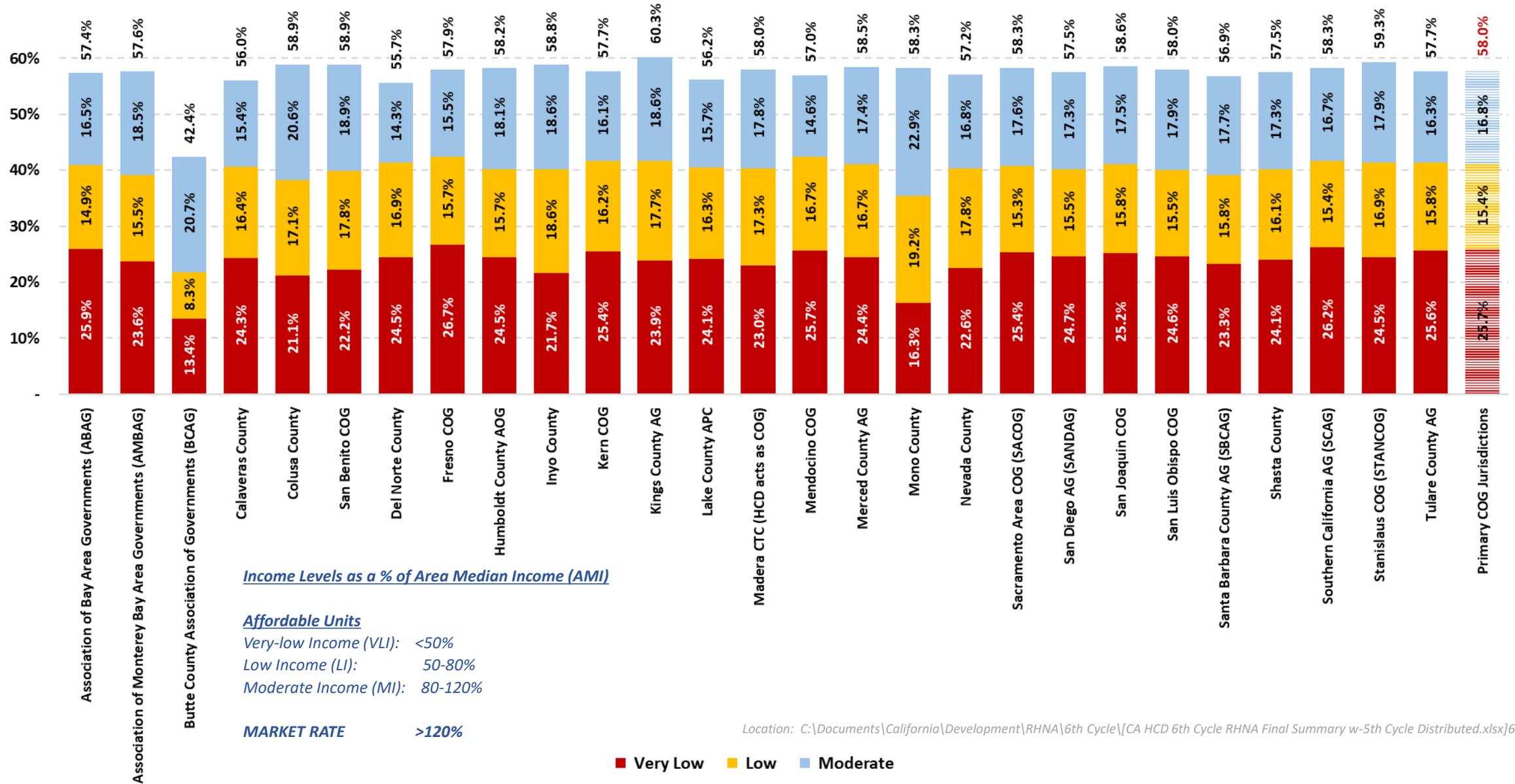
*Note: Capital stack for three 9% New construction large family properties awarded in 2019.
 Source: The Complexity of Financing LIHTC in the US - Turner Center - April 2021. Data scraped from applications posted online. State and federal tax credits have been combined into one category to represent total tax credit equity.*

RHNA Affordable Housing – Required vs Available LIHTC Financing at 65% of Total Cost

Santa Monica's \$2.4B LIHTC requirement alone would absorb 8.4% of the total \$28.5 billion US + CA pool!



RHNA is a one-size-fits-all administrative process in the allocations of affordable units by Income Level *(std dev is 3ppt)*



Location: C:\Documents\California\Development\RHNA\6th Cycle\[CA HCD 6th Cycle RHNA Final Summary w-5th Cycle Distributed.xlsx]6th Cycle

Developer economics and density bonus structures create RHNA outcomes that are overwhelmingly Market Rate and are multiples of state allocations

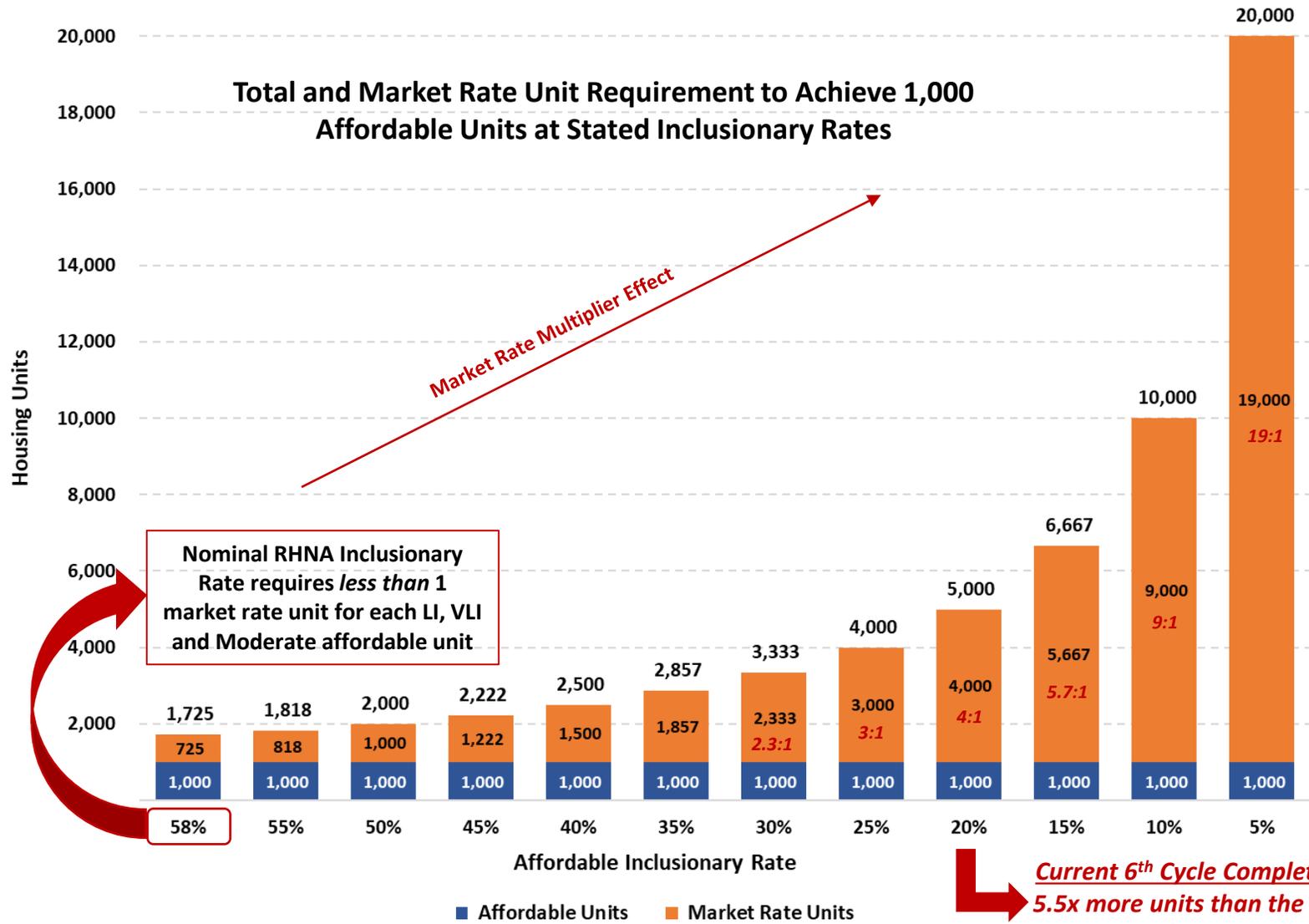
“Excess” units are invisible in RHNA environmental analyses and set cities up for accumulating financial and environmental stress

Unfunded Affordable Housing mandates require the almost exclusive reliance on Inclusionary Zoning to generate affordable units

RHNA's Affordable Housing requirements almost entirely dependent on an inclusionary market rate strategy

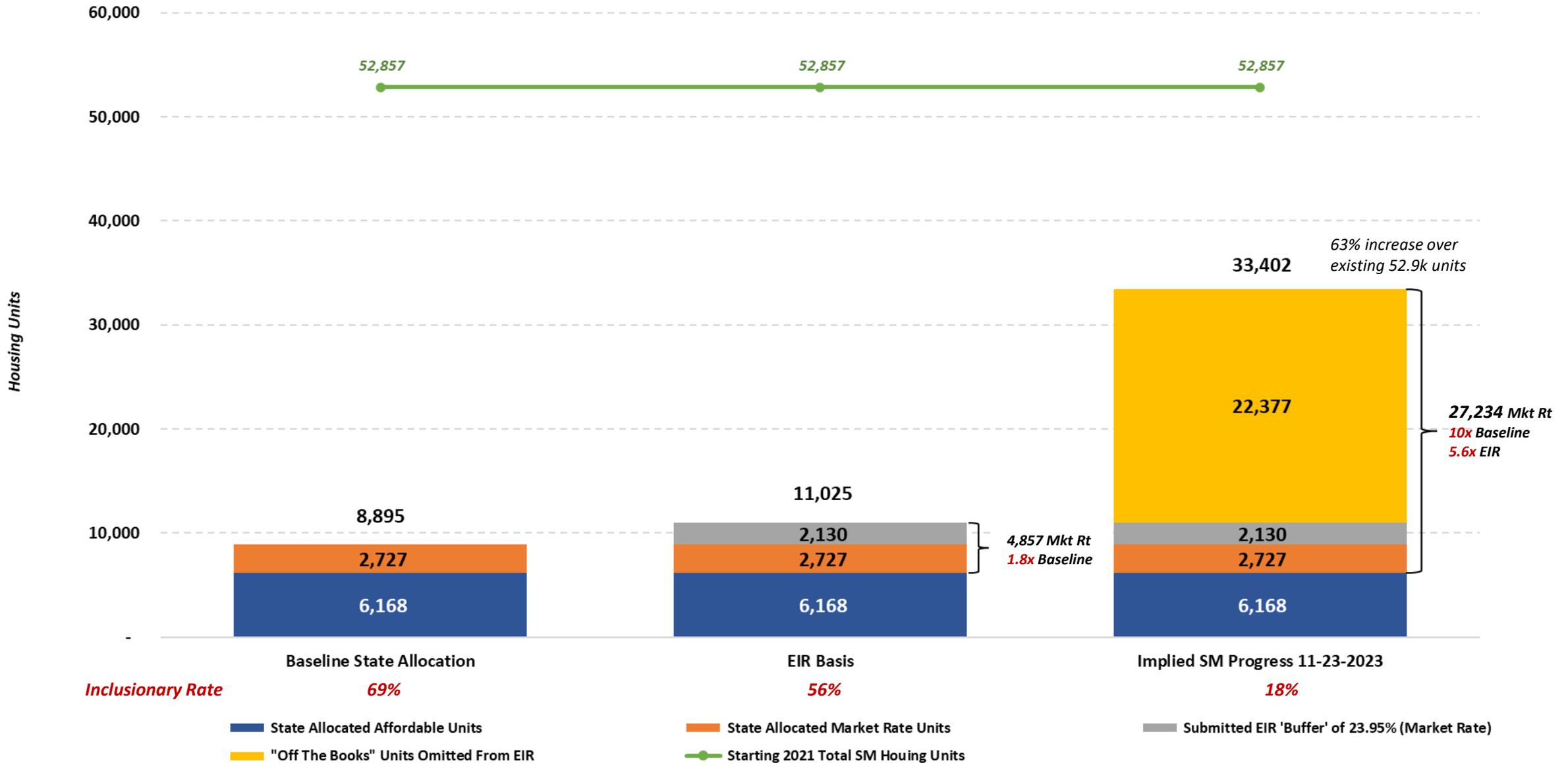
- **The 6th Cycle RHNA Affordable unit mandates assume an impossible 58% inclusion rate; actuals to date are 19%**
- **Non-profit affordable housing developers build 100% of their units as affordable, but taxpayer subsidies for this model are almost non-existent in the scale of RHNA mandates**
- **Inclusionary zoning opens up municipalities to huge market rate development in excess of RHNA with only token affordable production**
 - Developers generally build projects at minimum inclusionary rates to boost profitability
 - Density bonus rules allow developers to build more total units than city zoning laws currently allow
 - None of the “excess” market rate units are required to be addressed in state-mandated Environmental Impact Reports (EIRs)

RHNA outcomes are overwhelmingly Market Rate and are multiples of state allocations



- **Inclusionary zoning** allows the subjective affordable unit mandates to leverage up multiples of the RHNA market rate units
- **Excess market rate units are NOT CAPTURED ANYWHERE** in the RHNA process
- **Reductions in “inclusionary rate” exponentially expand effective production requirements**
 - SB 423 has provisions as low as 10%
- **“Modular” legislative framework allows inclusionary rate changes to be easily implemented at the request of developers/investors**

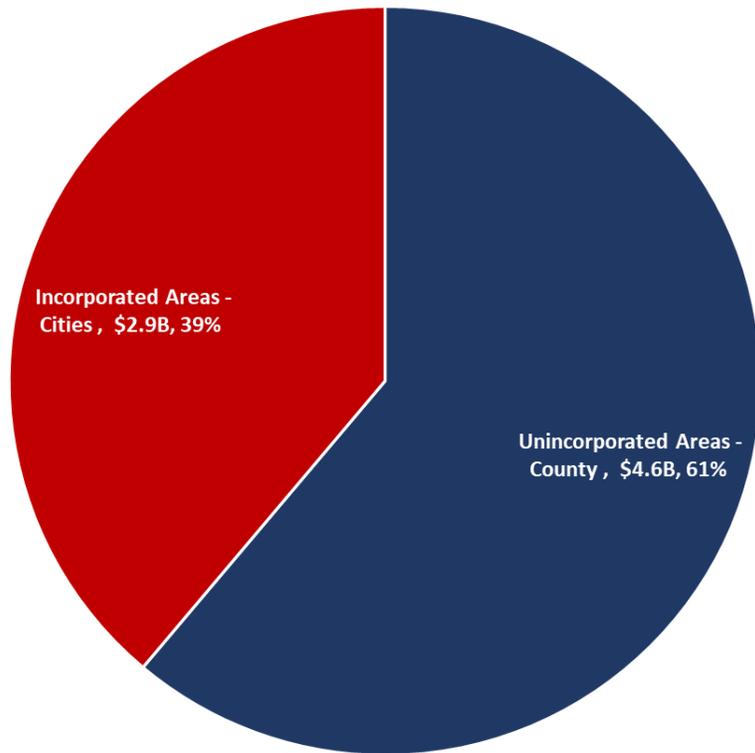
Santa Monica RHNA Unit Allocation Impact Overview



RHNA process sets cities up for financial stress from infrastructure and services requirements driven by the market rate construction in excess of EIR reporting and fixed shares of property tax revenues^[a]

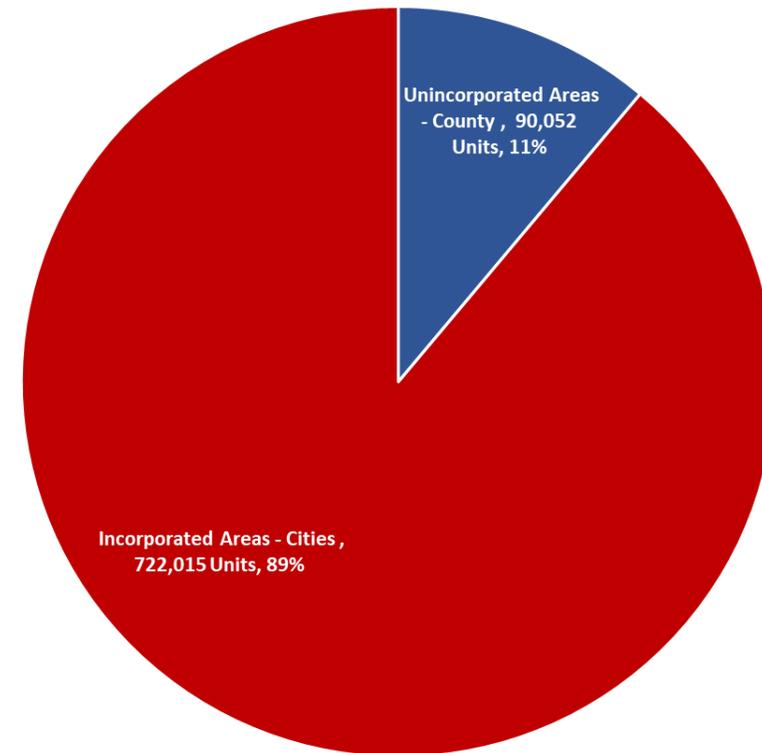
Property Tax revenues to cities and unincorporated areas in Los Angeles County (“Area Allocation”) are 39% of all receipts...

Cities get 39% (of the 39%) Area Allocation Tax Revenue ^[a]...



Cities get 15.2% of total gross receipts (39% x 39%)

... but they have been assigned 89% of RHNA Units



^[a] FY 2022-2023 1% Property Tax Revenue Allocation Summary; LA County Auditor Controller
<https://auditor.lacounty.gov/revenue-allocation-summary/>

Location: C:\Documents\Santa Monica\Taxes\Property Taxes\FY 2022-2023 1.0 Pcnt Property Tax Revenue Allocation Summary - LA County Auditor-Controller.xlsx\Levy Table

**Process is captured by special interests and is
inaccessible to the public by design**

Process is inaccessible to the public by design... 7th Cycle RHNA planning has already started w-public sidelined

HCD's Response to a Public Comment: "We have received your comments and they have been shared with our California's Housing Future 2040 team."

Meeting of Monday May 15, 2023

CALIFORNIA'S HOUSING FUTURE 2040

Engagement Strategy Overview Continued

Stakeholder Engagement Period (March – May 2023)

- 4 Sounding Board Meetings with Technical Experts

 • ~30 technical experts that will include representation from academics, advocates, demographers, local and regional government, state government, and the legislature

 • Can submit written public comment on agenda items
• Not a decision-making body

- Listening Sessions with State Agencies and Other Partners

- Meeting with Council of Government (COG) Partners

- Presentations at Conferences and Recurring State Coordination Meetings

Source: CA Housing Future 2040 - HCD Webinar Presentation 03-09-2023 Slide 16

<https://www.hcd.ca.gov/sites/default/files/docs/planning-and-community/CAHF2040WebinarPresentation030923.pdf>

7th Cycle RHNA planning dominated by pro-development groups, shielded from public view

The 30 “Sounding Board” Invitees to the HCD Meeting announced on 03-09-2023 *(revealed via a public records request)*

Non-Governmental Organizations (16)

Academic Representatives

- o Ben Metcalf – Turner Center for Housing Innovation at the University of California at Berkeley
- o Chris Elmendorf – Professor of Law at the UC Davis School of Law
- o Dowell Myers – Professor of Policy, Planning, and Demography at the USC Sol School of Public Policy
- o Paavo Monkkonen – Professor of Urban Planning and Public Policy at the UCLA Luskin School of Public Affairs

California YIMBY

YIMBY Law

- American Planning Association California Chapter (APA California)
- California Building Industry Association (CBIA)
- California Rural Legal Assistance Foundation (CRLAF)
- Center for Continuing Study of the California Economy (CCSCE)
- Kennedy Commission
- Leadership Counsel for Justice and Accountability
- League of California Cities (Cal Cities)
- Public Advocates
- Public Interest Law Project (PILP)

Governmental Organizations (14)

Assembly Housing Committee

Senate Housing Committee

- Association of Bay Area Governments (ABAG)
- California Air Resources Board (CARB)
- California Association of Councils of Governments (CALCOG)
- California Business, Consumer Services, and Housing Agency (BCSH)
- Demographic Research Unit of the California Department of Finance (DOF)
- Fresno Council of Governments (Fresno COG)
- Governor’s Office of Planning and Research (OPR)
- Merced County Association of Governments (MCAG)
- Rural County Representatives of California (RCRC)
- Sacramento Area Council of Governments (SACOG)
- San Diego Association of Governments (SANDAG)
- Southern California Association of Governments (SCAG)
- Urban Counties of California

Source: The state housing secrecy just keeps getting worse and worse – 48 Hills 05-18-2023
<https://48hills.org/2023/05/the-state-housing-secrecy-just-keeps-getting-worse-and-worse/>

7th Cycle RHNA Planning – Eliminate all affordable RHNA units, weaken AFFH and eliminate local permitting altogether? ^[a]

“Since Yimbys came on the legislative scene circa 2017, California has passed housing laws by the bucketful, yet the state hasn't moved the needle on overall production... Suggested approach: Relentless pragmatism.”

1. “Exempt new construction from local real-estate transfer taxes for 15 years, the same period it's exempt from state rent control”
2. “Preempt any local real-estate transfer tax that varies w/value of the property unless it tracks per-unit value, rather than aggregate value ("mansion taxes are for mansions, not apartments")”
3. “Commission cost-benefit audit of state building code & local codes in a sample of jurisdictions”
4. **“Repeal unfunded BMR (below market rate) mandates from state housing laws”** (note: see #7 below – BMR replaced with complete reliance on “filtering”)
5. **“Pass a remedies bill that disables courts from blocking housing/upzoning on AFFH (Affirmatively Furthering Fair Housing) grounds (and more)”**
6. “Replace "no redevelopment of rent-controlled or tenant-occupied site" provisions of state housing laws w/fair-buyout rules”
7. “Give cities that approve new market-rate housing partial credit toward their low-/moderate-income RHNA targets, based on results of burgeoning ‘chain of moves’ literature”
8. “...require cities to discount claims of ‘site capacity’ to accommodate RHNA using plausible estimates of sites' probability of development during planning period”
9. “Learn from Houston...and mitigate NIMBY opposition to upzoning of low-density neighborhoods by authorizing block-level opt-outs”
10. **“Create a "housing permitting department" within HCD and authorize developers to get entitlements & building permits from state if local gov't takes too long”**
11. “Cap local impact fees & in-kind exactions in random subset of jurisdictions”
12. “Encourage pilots (or better yet randomized controlled trials [RCT]) of congestion pricing of curb & street usage, and of @mattyglesias's proposal for giving curb rights to incumbent homeowners in form of tradable allowances”

[a] A  on what I'd like to see on the housing front from California & other blue-state policymakers in the New Year. Chris Elmendorf | Twitter (X) 01-01-2024
<https://threadreaderapp.com/thread/1741931110203019490.html>

CONCLUSIONS

- 1. RHNA has devolved into a narrative of affordability that overwhelmingly produces market rate units that are multiples of the stated mandates and that are completely absent from EIR analyses**
- 2. RHNA uses a methodology veneer that has absolutely no process validity**
- 3. Cities are set up for failure since stated affordable goals are impossible to achieve:**
 - Developer economics vastly reduce inclusionary units compared to the nominal RHNA allocations
 - Reliance on an inclusionary strategy stops construction of everything if prices actually start to decline
 - The entire California LIHTC affordable housing subsidy program is slated for budget [elimination](#)
 - Property tax realignment has been ignored for development-related infrastructure, services expansion or affordable housing development
- 4. Cities have lost the ability to balance the cost outcomes of residential growth with revenue growth**
- 5. 7th Cycle planning appears to be heading towards emphasizing everything that is wrong with RHNA**



Call to Action!

1. **DIRECT HCD to FIX the flawed RHNA methodology** that exploded housing quotas between the 5th & 6th Housing Element cycles, ignored Dept. of Finance population data trends, and used “ad hoc” methodology because it was “easy to implement”
2. **Request a full audit of HCD’s affordable housing RHNA methodology, processes, and outcomes**
3. **Direct HCD, the AG, and the Governor to STOP threats to jurisdictions that push back on the unsupported, unreliable, and unachievable 6th cycle (2023-2031) mandates** until the methodology is validated and all market rate outcomes from the inclusionary methodology are explicitly recognized and included in EIR requirements; Direct HCD to delay all work on the 7th Housing Element (2032-204) cycle until the methodology is suitably reformed.
4. **OPPOSE 2024 housing laws that:**
 - a. Fail to define the housing crisis and affordable housing requirement in objectively measurable, evidence-based terms
 - b. Reduce parking
 - c. Reduce/eliminate the Low Income Housing Tax Credit (LIHTC) funding
 - d. Threaten safety and the environment
 - e. Remove local control that then exposes cities to financial and environmental degradation