

DATE: May 14, 2020
TO: OHCS and Advisory Committee
FROM: Lorelei Juntunen, Beth Goodman, Mike Wilkerson
SUBJECT: Considerations for the Oregon Method

Oregon Housing and Community Services (OHCS) contracted with ECONorthwest to develop a regional housing needs analysis (RHNA) methodology for the State of Oregon, in response to the requirements of House Bill 2003. One of the outcomes of this work is a set of recommendations on how best to perform a regional housing needs analysis in Oregon (*the Oregon Method*). This memorandum describes our preliminary thinking about how we would structure those recommendations, for discussion with an advisory group OHCS has formed to support the process.

This memorandum accompanies a separate memorandum titled "Guiding Principles," which describes in more detail the required and desired features of the Oregon Method.

Summary: What must the Oregon Method accomplish?

The Oregon Method is intended to be a statewide approach to calculating regional housing need and allocating that need to the cities in each region. Specifically, the Oregon Method must result in a quantification of housing need that reflect regional demand by income and account for existing housing shortages. If implemented, the method could become a cornerstone of a comprehensive housing implementation framework; local governments could use its results to inform land use plans and newly required housing production strategies to advance equitable access to housing.

Overall, this framework is meant to lead to local actions that: (1) support and enable the construction of sufficient units to accommodate current populations and projected household growth, and (2) reduce geographic disparities in availability of housing (especially affordable and publicly-supported housing). At the highest level, the Oregon Method will be successful if it contributes data and housing need estimates that, together with land use plans and housing production strategies, advance these two goals.

The eventual method's utility will depend on the availability of complete and accurate data, and on the degree to which its results enable improved local decision-making. A useful methodology will therefore be built upon the best quality data that can practically be made available in the near-term. Equally important, its relationship to existing and developing parts of the larger housing implementation framework, including regulatory structures, should be explicit, so that it is clear how the new information could inform local decision-making. Each of these challenges calls for clarity and transparency in communication to stakeholders and decision-makers. This memorandum exposes our initial thinking about many of the

methodological and implementation challenges that the Oregon Method will face, to support and advance discussions with stakeholders.

Structure for the inquiry

The rough process for developing the Oregon Method:

1. Learn from the RHNA Version 1 analysis, the project team's effort to produce the required research outcomes with available data across the entire state. This step will include documentation of the strengths and shortcomings of the initial approach we used for the RHNA.
2. Identify options for changes in methodology that account for available data and interaction with the implementation framework.
3. Discuss these options with OHCS's advisory committee and broader stakeholders to get feedback and alternative ideas for the options.
4. If possible, complete the analysis using method(s) developed in one or more regions of the state.
5. Produce a set of recommendations, which may include advancing multiple options that hold promise for a RHNA methodology for Oregon and that improve on the Version 1 attempt.

This memorandum provides initial thinking on steps 1 and 2, to support a conversation with stakeholders (step 3). Separate presentations and documents have described our methodology and findings for step 1 in detail; they are not covered here.

What we've learned so far from RHNA Version 1 method

RHNA Version 1 meets the requirements of HB 2003 and provides a learning laboratory for understanding how the methodology could be improved. Based on an initial review of the results of the Version 1 methodology, we would like to explore the following areas for improvement, and are seeking input from the Advisory Committee to add to this list.

- **Regions.** The regions we selected for this analysis may not represent housing markets accurately. For example, in our initial review, findings in the Central Oregon region appear to be skewed by the very strong growth in Deschutes; we are testing how results for other cities in the Central Oregon region change if Deschutes County becomes its own region.
- **Unit types.** The results expose several issues with including unit types, such as lack of comprehensive and recent information about housing costs by different unit types, and other challenges. As a result, the distribution of unit types may not reflect actual or desired unit type allocation, especially in more rural areas and for those at the lowest end of the income spectrum. Our observations lead us to question whether we should include unit types in the recommended Oregon Method at all.

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- **Data quality.** In Oregon, we have no comprehensive and current dataset that provides information about unit replacement rates and the distribution of unit types in the housing stock, meaning that data may not accurately describe the distribution of units. Census data for unit types are based on data collected over a 5-year period and neither give a clear picture of recently built units or the composition of the entire housing stock by unit type.
 - **Unit preferences and price points.** Observations about the past intersection of unit type with income types fail to provide information about occupant preferences and broader market realities. The risks include: (1) conflating multi-family unit types with affordability, which is not true in all markets and in all instances; and (2) reinforcing a status quo in which lower income individuals lack housing choice.
 - **New policies are not reflected in past data.** The implementation of HB 2001 further complicates forward-looking unit type projections.
 - **Time period.** The methodology projects twenty years of need, but doesn't account for changes in affordability of individual units over time. Units built today that are affordable 120% of MFI may be affordable to households below 100% of MFI in the future. It also presents local governments with a large number of units to develop across all incomes. A shorter time period would be more actionable and likely more accurate, but would be more difficult to tie into long-range planning efforts.
 - **Current deficit of affordable and publicly supported units.** When distributing current underproduction and future housing need into income categories, the methodology assumes that the currently missing units should be "made up" with new units that match regional income. While this is certainly a step toward a supply of units that better match regional (not local) incomes, it doesn't directly quantify missing publicly-supported or affordable units to generate targets that overcome those deficits.
 - **People experiencing homelessness.** The methodology begins with the Point in Time (PIT) Count to estimate the number of people experiencing homelessness, and scales those results to 160%. The literature on people experiencing homelessness is clear that PIT counts undercount people experiencing homelessness, estimating an undercount of 130% to 160%; we opted for the higher end of this spectrum to address this under count.¹ There may be opportunities to further improve on this approach.

¹ PIT counts are a census taken at a specific time. They undercount for at least two reasons. First, they simply miss individuals and households at the time that the census is taken. The limited research on this topic suggests that they may undercount by 130 – 160% for this reason. Second, because many households experience homelessness for only a period of months, counts taken at a specific time do not represent the total number of people who may be experience homelessness over the course of an entire year. One study conducted in Portland suggested that the annualized number of households experiencing homelessness may be as much as 190% of the PIT count. The RHNA research seeks not to count the number of households that are experiencing homelessness, but rather to estimate the *number of units* that would be needed to house them. For that reason, we have chosen to reference the literature that scales the PIT count itself, rather than to estimate an annualized number.

In addition, the literature on people experiencing homelessness also provides broader definitions of people experiencing homelessness, beyond the PIT count's definitions, to include overcrowding, the fact that some people

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- **Growth outside of urban growth boundaries.** The methodology allocated units outside of urban growth boundaries. In practice, some new growth will occur outside of UGBs, but the amount and unit type mix this methodology suggests for areas outside of UGBs is inconsistent with expectations. Further, it assumed that growth outside of UGBs will include multifamily housing types, which is rare (but not unheard of) in unincorporated areas.
 - **Household size adjustments.** The income categories used for this analysis assume a static household size, while in practice, HUD guidelines for determining affordability scale with household size.
 - **Implementation challenges.** In addition to the data and methodology issues, stakeholders and others have raised a number of challenges that local governments will face with using the RHNA results as targets or goals for new housing development. Many of these issues cannot be resolved with changes to the methodology itself, but must be resolved through other parts of Oregon’s evolving housing implementation framework, which includes local land use plans and housing need analyses, if the methodology is to be useful to local governments. Some of these challenges include:
 - *Interaction with local housing needs analyses.* Currently, cities produce housing needs analyses that provide an estimate of local housing need using a different methodology than is proposed in the RHNA. These methodologies will result in different findings and will need to be reconciled.
 - *Equitable access to housing.* While we have documented inequities in cost burdening, we have not directly connected those findings to our methodology and to local government housing targets. Housing Production Strategies should reference these datasets to inform actions to reduce barriers to housing for the populations most affected by housing inequities.
 - *The big number problem.* For all communities, the results produce large targets for unit production affordable at incomes below 80% of MFI, which will be challenging to meet. This is also a criticism of the California method, which provides targets for 6 – 8 years of production rather than twenty. Given most that governments don’t build housing, but rather support within a private market system for housing production, this challenge can be quite acute.
 - *Not all units are income-qualified.* New unit production will include production of income-qualified units and market-rate units. Cities have limited policy options to support development of newly built market-rate housing that is affordable below 80% of MFI. And cities have no policy options require market units to be rented or

experience homelessness for a portion of a year, and other indicators of homelessness. The literature suggest a scaling factor of 2.5 to 10.2 times the PIT count to get to a fuller estimate of the broader definition of people experiencing homelessness. The RHNA method addresses issues such as overcrowding through the estimate of underproduction of housing.

sold at specific price points, or to address renting or buying down for market-rate housing.

- *One size does not fit all.* The methodology is applied essentially the same for all regions across Oregon, using the same approaches in the Portland Region as for Oregon's more rural regions. This results in a range of methodological issues. For example, the methodology uses 5-year ACS data for all regions, where more timely 1-year ACS data is available for larger, more urban regions. In addition, the Portland region has better data about housing types available, as part of the RLIS database, that are not available for the rest of Oregon. The results of the methodology are not reflective of market realities in some cities and do not account for the unique situation of cities.

While the RHNA Version 1 approach can certainly be improved, it does provide the first statewide assessment of regional housing needs in using a systematic, data-driven approach that provides a solid base to build from. At a minimum, it includes several improvements to the approach used in California.

Paths to improving on Version 1

We see two paths toward recommendations for improvements to Version 1 findings, each of which can be practically advanced in the near-term: (1) improvements that can be made to the methodology now, with data currently available; (2) improvements that could be made if better statewide datasets were available.

House Bill 2003 leaves unanswered several very important questions about the intended or expected RHNA interaction with the existing land use system. We must at least tentatively answer these interrelated questions if the methodology is to advance to statewide use, because the answers will shape the direction of the development that the methodology takes. We have therefore assumed the following in developing both of these proposed paths, and look forward to testing these assumptions with the Advisory Committee:

RHNA + local allocation replaces a portion of the existing local Housing Needs Analysis. The existing land use planning system builds from a local housing needs analysis, which includes a projection of local housing need, a buildable land inventory, and an analysis to determine whether the jurisdiction has a sufficient supply of land to accommodate projected need. The RHNA and allocation could *replace* the projection of housing need portion of local HNA. The local HNA would continue to include a buildable lands inventory and estimate of housing capacity on vacant buildable land. The result of the local HNA would be a comparison of the forecast for new housing from the RHNA with the capacity of land for new housing, to determine whether the city has enough land to accommodate the forecast of new housing.

The methodology and implementation design should support housing production in the near-term, and also provide projections that can tie into the 20-year system in our land use planning system. The clear intention of HB 2003, based on legislative testimony from the bill's author Tina Kotek, was to influence local planning and encourage housing production that

matches a range of income needs. However, it was also clearly passed in the midst of a housing crisis, and was intended to spur action early in a 20 year planning cycle. The methodology and implementation design must support housing production in the near-term.

The RHNA allocation is a target or goal for production. The RHNA is not just providing information and data to local governments; it is providing them with a specific target for unit production that it must show progress toward achieving. While HB 2003 does not use the words “target” or “goal”, legislative testimony makes clear that this is the intent of the bill. Local governments will be asked to show progress toward production, probably through the land use planning system and oversight of the implementation of newly-required Housing Production Strategies. The implication: the RHNA must be actionable.

1. Improvements to RHNA Version 1 with currently-available data

The goal of this approach is to develop a better version of the RHNA Version 1 approach, using refinements to assumptions or allowing for differing approaches in different areas of the state, such as different approaches for urban and rural areas.

Changes to the methodology

- *Changes to region boundaries.* These changes could be minor, such as moving Deschutes County out of the Central Oregon region. Or the changes could be significant, such as identifying a few “urban” regions (e.g., the Portland region, the Willamette Valley, Southern Oregon, and Deschutes County) and rural region(s) (e.g., the balance of the state or the Oregon Coast and east of the Cascades (except Deschutes County)). It should be noted that certain changes to the region would require a change in our primary data source.
- *Changes to approach to estimate population of people experiencing homelessness.* This could include varying approaches to estimating homeless in different regions, and additional inquiry into scaling the PIT count to more accurately reflect the number of households experiencing homelessness.
- *Vary allocation methods for the underproduction of housing.* The allocation of underproduction of housing could be based on the location of current jobs and population, without consideration of the population projections. It could be organized to more heavily distribute to lower incomes in communities with large shortages of affordable housing.² And, it could be allocated entirely inside of urban growth boundaries. Each of these changes could more accurately recognize the nature of this part of the projection (units that should have been built but have not)

² It is challenging to count what is not present. If there are a limited number of people in lower incomes in a community because there is little housing of that type there now, the locally-derived unit shortage may actually be smaller than the regionally-derived shortages that we have used in Version 1 of the methodology. We will want to evaluate this carefully.

and would help to overcome other challenges identified in the results of research to date.

- *Changes to the way the RHNA addresses unit types.* One of the most difficult areas to find data is income by housing types or cost of housing by housing types. This variation in methodology might include less information or no information about housing types. The RHNA might forecast housing need by types of units for the region. And the HPS could require that a city justify deviations in planning for the regional mix of housing.
- *Time periods used in the RHNA.* The RHNA could include a 20-year forecast, which ties to Oregon’s land use system and requirements for planning for a 20-year period. The RHNA could also provide targets for near-term development, in six or eight year increments. These targets could drive HPS.
- *Household size adjustment.* Adjusting income bins by household size would more accurately reflect how households align with HUD requirements. This change might result in substantial shifts in the number of units needed across income bins.

Other implementation ideas to improve the method’s utility for local governments

- *Incorporating equity considerations.* The RHNA provides an opportunity to provide data about housing inequities across demographic and socioeconomic categories of people. For example, the standard ACS tables do not include data about cost burden by racial and ethnic groups. As a result, a city cannot examine differences among racial and ethnic groups for cost burden. The RHNA could at least present this data at the regional level. The HPS may include some requirement to address barriers in access to housing for those who experience systemic bias and racism.
- *“Scorecard”.* Even the most perfectly-performing local governments might fall short of meeting targets for reasons that are out of their control. Local governments cannot control development cycles, affordable housing funding cycles, or many of the other levers that are necessary meet housing production targets. A “scorecard” approach – an identified a set of actions, policies, and programs that cities could put in place through their land use plans and Housing Production Strategies to support production – could help to ensure that local governments are doing all that they can to remove regulatory barriers and focus resources on meeting housing needs. Such a score card would allow some flexibility in local implementation and focus any carrots and / or sticks on those communities that most need encouragement to address systemic housing barriers.

2. Improvements to RHNA Version 1, with better data

The goal of this approach is to bring better data to the discussion. It would build on Approach 1 (above). This data could include better data about housing development, additional information about future demographics and housing preferences, and better information about housing costs. This improved data would lead to clearer and more defensible targets. And, if all of these

data were available, it would substantially improve our ability to provide actionable targets by unit type.

- *Better data about housing development, including housing replacement.* A few regions within the state have high-quality data about existing development, including housing type and when development occurred. These regions include the Portland region (from Metro) and urban areas in Jackson and Josephine County (from RVCOG). We could use this data to better understand the current stock of housing within the regions and within the cities, including specific development of housing types in recent years. This would lead to better informed targets for future unit types.
- *Population projections that include future demographics and housing preferences.* The key determinants of housing choice are income, age, and household composition. This would add more and better information about demographics and housing preferences for existing households and possible future new households, as many new units will be occupied not by new residents of the city but existing residents.
- *Better data about housing rental costs.* Data about housing sales prices is often available in assessor's data and can provide information about recently sold houses. Data about rents is much more difficult to find. In urban areas, sources like CoStar can provide a certain amount of information about rent costs, especially in multifamily buildings. But information about single-family rentals or rental units in smaller cities and rural areas is generally unavailable. One way to obtain this information would be to require rental landlords to report rent costs, such as on an annual basis. While this information will not be available for demonstration in this project, we may demonstrate how we could use more limited information from CoStar to inform the assessment of housing need. If the state collected rental costs, that would provide the foundation, after some years, to better understand how rental costs change over time. In many housing markets, rental costs decrease over time, with rental housing eventually becoming more affordable over 10 to 20 years, as newer and more expensive rental housing is built.