

REGIONAL ALLOCATION FORMULA POSITION PAPER

In the fall of 2011, due to extensive public comment, the Texas Department of Housing and Community Affairs (TDHCA, Department) came to realize that its Regional Allocation Formula (RAF), the formula that governs the amount available in each region for Housing Tax Credits, HOME Investment Partnership Program (HOME) and Housing Trust Fund (HTF) programs, needed to be updated. Each fall, the Department takes the RAF methodology out for public comment. Staff received comments and questions on the way the RAF calculates funds available from sources other than TDHCA, the urban and rural definitions, a cap for resource adjustments, and minimum amounts required per region. As a result of the public comment, the Department underwent an internal review process in the spring of 2012 to determine how to make the RAF easier to explain and how to better allow developers and the community to estimate the amounts of funding in each region from year to year.

This paper outlines the internal process undertaken by staff and will be an instrument to allow further discussion with developers and stakeholders. The points discussed internally will be presented below and the paper will be posted in an online forum from August 10, 2012 to September 10, 2012, allowing for further discussion by developers and stakeholders.

Brief History of the RAF

In 1999, the 76th Legislature enacted Senate Bill 1112 (§2306.111 Government Code), requiring the Department to use a formula to regionally allocate its HOME, Housing Tax Credit, and Housing Trust Fund (HTF) programs:

(a) To allocate housing funds under Section 2306.111(d), the department shall develop a formula that:

(1) includes as a factor the need for housing assistance and the availability of housing resources in an urban area or rural area;

(2) provides for allocations that are consistent with applicable federal and state requirements and limitations; and

(3) includes other factors determined by the department to be relevant to the equitable distribution of housing funds under Section 2306.111(d).

(b) The department shall use information contained in its annual state low income housing plan and other appropriate data to develop the formula under this section.

The RAF was created in 2000. At the direction of the Legislature, population was not the only consideration for the formula. The original formula included the following housing need factors:

1. Poverty (50% weight): Percent of the State's population in poverty

2. Severe Housing Cost Burden (25% weight): Unassisted renters with incomes below 50% of the median income, who pay more than half of their income for housing costs.
3. Substandard Housing (25% weight): Households (renter and owner) with incomes below 50 percent of the area median income that live in severely substandard housing.

Since 2000 there have been multiple changes to the RAF. A summary of the major changes are below:

- 2002 inclusion of availability of subsidized housing factors, such as Section 8 Housing Choice Vouchers and US Department of Agriculture (USDA) Tenant-Based Rental Assistance (TBRA);
- 2002 added overcrowded households as a need factor;
- 2003 clarified the use of only renter data for rental housing programs (e.g. HTC) and the inclusion of owner data for programs that include homeownership options (e.g. HOME and HTF);
- 2004 included rural and urban/exurban definitions;
- 2005 added a resource funding adjustment limit to reduce large swings in funding as a result of availability of housing resources (e.g. funding) awarded the previous year;
- 2006 included the option for a development to petition to be designated as rural or urban designation and added additional factors to qualify for a rural designation;
- 2007 use of Census Designated Place boundaries was clarified;
- 2009 established November as the last date to update funds awarded;
- 2012 removed the resource funding adjustment limit.

Throughout the life the RAF, there were different versions of the formula to address the specifics of different programs. For example, the HOME RAF included only data for non-Participating Jurisdictions, since non-Participating Jurisdictions are the areas in which 95% of the HOME funds can be spent.

The most current version of the RAF from 2012 has the following need factors:

1. Poverty (50% weight): Number of persons in the region who live in poverty
2. Cost burden (36% weight): Number of households with a monthly gross rent or mortgage payment to monthly household income ration that equals 30 percent.
3. Overcrowded Units (12% weight): Number of occupied units with more than one person per room.

4. Units with incomplete kitchen or plumbing (2% weight): number of occupied units that do not have a sink with piped in water, range or cook top and oven, refrigerator, hot and cold piped water, flush toilet, and bathtub or shower.

The housing availability measurements included:

- Housing Tax Credits (4% and 9%)
- Housing Trust Fund Rental Development Funding
- HUD HOME Funds (TDHCA and Participating Jurisdictions)
- HUD Housing for Persons with AIDS Funding
- HUD Public Housing Authority (PHA) Capital Funding
- Multifamily Texas Housing Trust Fund
- Multifamily Tax-Exempt Bond Financing
- USDA Multifamily Development Funding
- USDA Rental Assistance
- USDA 502 and 504 Loans and Grants
- Single Family Bond Financing (TDHCA and Housing Finance Corporation)

The 2012 RAF methodology and spreadsheets are included with this Position Paper as Exhibit A and Exhibit B.

It should be noted that §2306.1115 includes references to “urban and rural areas”. Rural areas are defined by §2306.004. A discussion of urban and rural allocation designations is included on page 10.

Changes in Data Availability

Besides the public comment received and the need for greater transparency in the RAF process, another reason the RAF needs to be updated is due to the changes in the availability of data. The 2012 RAF used several different sources of demographic data, including the decennial census, the American Community Survey (ACS) estimates, comprehensive housing affordability strategy (CHAS), and third-party projections via Ribbon Demographics.

Any discussion of data for housing purposes has to acknowledge some inherent limitations. For example, the demographic data will be outdated from the time of award to the time of construction. This is unavoidable because of the nature of housing delivery: several months to several years may pass in order to secure funding for a development that will take several months to over one year to

construct. Given the inherent limitations on the availability of the data, the Department makes every effort to make its decisions on the most up-to-date information when allocating funds.

The original RAF used to use only decennial census data from 1990, since that was the only nationally-recognized demographic data that was available when the RAF was created. Starting in 2009, the ACS provided updated data for all places and counties yearly. While the decennial census provides an actual population count, the ACS provides an estimate of the population using statically-sound sampling methods. The 2012 RAF used both decennial census and ACS data. More information on the decennial census and ACS can be found on the U.S. Census Bureau's website at <http://www.census.gov>.

When the RAF was originally formulated, the CHAS data was updated every ten years using special tables from the decennial census. With the advent of the ACS estimates, the CHAS data will be released every two years, starting in 2011, and will use data from the ACS and not the decennial census. The new frequency with which the data will be released increases data accuracy.

Because of the advent of new datasets and the release of updated datasets on a regular basis, there will be no need to buy or apply projections from third-party providers.

Legislative Requirements

The legislation requires three main factors to be included in the RAF:

1. The need for housing assistance;
2. The availability of housing assistance;
3. Division of need and assistance by urban and rural areas.

Each of these factors will be addressed below.

Need for Housing Assistance Discussion

The need for housing assistance could be measured by a number of variables. The 2012 RAF used cost burden, overcrowded units, units with incomplete kitchen and plumbing, and poverty as variables of need for assistance. When considering variables for the 2013 RAF, staff made an effort to measure affordable housing need in a way that related to the types of assistance available through TDHCA HOME, HTC and HTF programs. Activities available to consumers from these programs include reduced-rent apartment units, Tenant-Based Rental Assistance (TBRA), homebuyer assistance (including contract-for-deed conversions), owner-builder assistance, single-family development, housing rehabilitation assistance, and accessibility modifications for persons with disabilities. However, as listed on page 14 in *Exceptions to the RAF*, funds relating to contract-for-deed conversions, certain set asides and persons with disabilities are not subject to the RAF. Staff considered the measurements below for assistance. Staff's recommendations of which measurements to use are on page 12 under *Staff Proposal*.

1. *Area Median Family Income (AMFI)*

AMFI is the primary measure used to qualify for housing assistance. For HTC, households can only be served if their incomes are at or below 60% AMFI. For HOME and HTF, households can be served up to 80% AMFI. While the Department recognizes that low income does not automatically correspond into a need for housing assistance, low-income households have higher rates of cost burden, which does indicate a need for housing assistance. In addition, income is one measurement to help determine if households are ready for homeownership, and is a qualifying factor for homebuyer assistance, owner-builder assistance or to purchase a home through an organization that has participated in the single-family development program. It should be noted that AMFIs differ dramatically from county to county because the ranges of income is so wide. Staff recognizes this variable as appropriate for the RAF.

Data: AMFI data comes from the CHAS dataset, which is released every two years. CHAS includes the 0-30% AMFI, >30-50% AMFI, >50-80% AMFI, and >80-100% AMFI categories. CHAS also correlates AMFI to certain housing needs, such as cost burden, overcrowding, and lack of kitchen or plumbing.

2. *Cost Burden*

Cost burden is defined as households paying more than 30% of their income on rent or mortgages. The RAF will focus on renters with cost burden for HTC and HOME, since these persons can be helped with lower rents which can be provided by reduced-rent units or TBRA. For HOME and HTF, need for homebuyer assistance and owner-builder programs may be measured by the number of homeowners with cost burden. A high number of homeowners with cost burden could be reduced by providing TDHCA programs and lowering future homeowners' costs. This is a direct measurement of need for assistance that the Department can provide. See Exhibit C for a map of renters with cost burden. Staff recognizes this variable as appropriate for the RAF.

Data source: CHAS and ACS both release cost burden data. CHAS data offers a correlation between cost burden and income level by showing how many households are in each AMFI category and are cost burdened. The ACS does not correlate cost burden to AMFI. However, CHAS is only released every other year. The CHAS data will be outdated every other year, compared to ACS data, which is released yearly.

3. *Overcrowded Units*

Overcrowded units are defined as more than one person per room, including kitchen and bathroom. Households that own their homes may experience overcrowding, signifying a need for HOME's and HTF's homebuyer assistance programs to help reduce the number of future homeowners with overcrowding. Homebuyer assistance may help future homeowners buy larger homes to accommodate the household size that is going to be living at the property. Building reduced-rent units may alleviate overcrowding if people in overcrowded conditions

move into the new units. A map of the renters with overcrowding can be seen in Exhibit D. Staff recognizes this variable as appropriate for the RAF.

Data source: CHAS and ACS. These data sources have the same limitations as listed under the variable “Cost Burden” above.

4. *Population Growth*

Housing is often needed as the population grows. To determine need for housing, historical population growth would not be as useful as projected population growth. The housing assistance that TDHCA awards to provide new housing stock, such as developments with reduced-rent units and single-family development, would be available approximately three years after the award date, due to construction time. Therefore, population projections for approximately three years from the date of the each RAF would be appropriate. For example, if projections were used for the 2013 RAF, the 2016 population projection would be used. Staff recognizes this variable as appropriate for the RAF.

Data source: Texas State Demographers Office projections based on census data. This data is only available at the county level.

5. *Poverty*

The 2000 decennial census showed only the number of persons at the poverty level. In the ACS data, new measurements are available, such as the number of persons at 200% of poverty. The 200% poverty level equals approximately \$44,380 for a family of four, according to the 2010 Poverty threshold from U.S. Census Bureau. The Department’s housing programs use AMFI as their measurement for income. The highest AMFI that HTC can serve is 60% AMFI and the highest AMFI that HOME and HTF can serve is 80% AMFI. There is a strong overlap between persons at 200% of poverty and households between 50-80% AMFI¹: approximately 38% of Texans are at 200% of poverty (2006-2010 ACS) and approximately 24% of households earn 50% AMFI and 42% of households earn up to 80% AMFI (2005-2009 CHAS, Table 5). Poverty data can be used as an income measurement in lieu of CHAS data, if needed. A map of this variable can be seen in Exhibit E. Staff recognizes this variable as appropriate for the RAF.

Data: Poverty data is released yearly with the ACS and is shows the number of people at 50%, 100%, 125%, 150%, 185% and 200% of the poverty level.

¹ There is no data source that provides the number of households at 60% AMFI. CHAS provides data on the number of households in each AMFI but it does not include 60% AMFI as an income category; it offers 0-30%, >30-50%, >50-80% and >80-100% AMFI categories.

6. *Units with Incomplete Kitchen or Plumbing*

Households that own or rent units with incomplete kitchen or plumbing need either housing rehabilitation assistance or rental assistance in order to move to housing that is more sanitary and safe. The percent of the units with this issue comprises only 1% of the total units in Texas (2006-2010 ACS). Because this variable affects such a small percentage of the population, the margin of errors were larger than the estimated number in certain regions. For example, Region 13 renters in non-MSA counties lacking kitchens are estimated at 59 renters, but the margin of error is 83. Furthermore, Region 13 renters in non-MSA counties lacking plumbing are estimated at 135 renters but the margin of error is 274. Because of the uncertainty of the data at the regional level, staff recommends not using this variable for the RAF.

Data source: CHAS and ACS. These data sources have the same limitations as listed under the variable "Cost Burden" above. However, due to the small size of the population that is affected by this variable, the margins of error were larger than the estimated households affected. Therefore, the data accuracy and relevance when summed to the regional level is in question.

7. *Units' Age*

Households that own or rent units in older houses or apartment buildings may need housing rehabilitation assistance to repair their homes or rental assistance in order to move to housing that is more sanitary and safe. The greater the age of the home, the more likely the home will need home repair. The age of the home could be measured in two increments: the number of units built 30 years ago and the number of units built 50 years ago. However, there is no commonly-recognized standard linking housing age to need for rehabilitation assistance. While one 30-year-old unit may be in dire need of assistance, another 30-year-old unit may be in better condition than some new housing units. Staff could not find data to make a correlation between a specific housing age and a need for rehabilitation assistance. Therefore, staff recommends not using this variable in the RAF.

Data source: ACS.

8. *Wait lists*

For rental housing, housing need could be measured using the number of people on the wait lists for the current affordable housing inventory. The major problem with this measurement is availability of the data; no single data source exists to obtain the number of people on these wait lists. To gather this data, staff would have to contact each organization and ask about their wait lists each year. For an example of the enormity of this endeavor, there are 413 public housing authorities in Texas each with their own wait lists. Statewide, for programs outside of TDHCA's purview, the Department has no authority to compel or regulate the accuracy of this data. Another problem with wait lists is that, in areas in which wait lists are closed and are not

accepting requests from persons wanting to be on the wait list, the current wait list does not accurately reflect the need in the area. Staff recommends not using this variable in the RAF.

Data: No reasonable way to collect.

The Availability of Housing Assistance Discussion

Similarly to the need for housing assistance, the availability for housing assistance could be measured by a number of variables. The 2012 RAF uses the funding awarded to each sub-region for the previous year by federal and state housing programs. Staff considered the measurements below for availability. Staff's recommendations of which measurements to use are on page 14 under *Staff Proposal*.

1. Building permits

Construction of housing begins with obtaining a building permit. Determining how many building permits are issued would affect the availability of housing. Building permit data includes information on single and multifamily housing. A drawback in using building permits as a variable is that the measurement does not show if the new homes are affordable to the targeted population (e.g. households between 0-80% AMFI). However, a positive aspect in using building permits is that the variable measures market-rate housing, which provides a choice to consumers in need of housing assistance. Staff recognizes this variable as appropriate for the RAF.

Data: The U.S. Census Bureau collects building permit data through the Building Permits Survey. Annual and monthly data is available.

2. Federal and State Housing Program Awards

Measuring the funds awarded from federal and state housing programs helps TDHCA determine the future affordable housing production in an area, since the majority of the funds are for construction for reduced-rent apartment, which can take several years to complete. Awards for development do not measure current availability of affordable housing on the ground. Nor do awards for development measure availability of market-rate housing on the ground. A small percentage of the awards, such as Section 8 funds, Tenant-Based Rental Assistance (TBRA) or homebuyer assistance, provide an immediate benefit for the client that translates directly into assistance and, therefore, availability of housing to those in need. However, awards do not account for cost differences in each region. For example, when a person attempts to use their renter-assistance voucher or buy a home, or when developers attempt to build housing, housing costs or construction costs play a huge factor. In addition, because awards can vary widely year to year due to changes in award requirements or decisions by state and federal agencies, this measurement causes large swings in each sub-region from year to year. For an example, see the 2011 and 2012 HTC RAF comparison which is both based on an allocation of \$40,000,000 (Exhibit F). Finally, funding awarded in each region does not automatically translate into units

built. The housing industry is competitive and precarious. Therefore some awarded deals may not receive enough funding to move forward, so the construction may never occur. Staff recommends not using this variable for the RAF.

Data: Multiple sources, including public award announcements, award data published online and email requests to various government agencies.

3. Vacancies

Rental vacancies in each region indicate a need or lack of need for rental housing assistance. Vacant for-sale housing indicates a supply of homes for potential homebuyers. High numbers of vacancies indicate the market has a supply of housing. A drawback in using vacancies as a variable is that the measurement does not show if the vacant units are affordable to the targeted population (e.g. households between 0-80% AMFI). However, a positive aspect in using vacancies is that the variable measures market-rate housing, which provides a choice to consumers in need of housing assistance. Using the number of vacancies as a measurement of housing availability allows for a measurement of both market-rate and subsidized units available. Vacancies show a direct measure of housing availability. A map of the rental vacancies can be found in Exhibit G. Staff recognizes this variable as appropriate for the RAF.

Data: ACS.

A summary of the data considered for the RAF can be found in Exhibit H.

Phase 1 Analysis of Impediments Recommendations

As approved by the U.S. Department of Housing and Urban Development (HUD) in May of 2011, the *Analysis of Impediments to Fair Housing: Phase I Hurricane Impacted Communities* provides recommendations of factors to include in the RAF. Phase I directly pertains to the communities recovering from the devastation of Hurricanes Dolly and Ike, both of which heavily impacted the Texas Coast during 2008. Phase I suggests that: "TDHCA should include in its regional allocation formula, factors regarding the presence within jurisdictions of members of protected classes, families of extremely low income and opportunity indicators including access to high-quality public education, concentration of poverty, racial segregation, environmental quality, access to health care, access to sustainable jobs and crime rates as defined in rules to be issued" (page 175).

Staff took steps to determine how to measure the variables suggested in Phase I AI and considered including them in the RAF. Due to the multi-county nature of the RAF, the presence of certain variables in each region does not guarantee that any specific development would have access to or avoid those variables. For example, if a region has several counties with high-quality public education, there is no way for the RAF to ensure that the developments awarded in that region are located in those school districts. These variables are more suitable to be included in the site-specific award process, rather than the regional allocation process.

Staff will consider the variables listed in the Phase I AI for inclusion in its application process. For example, HTC could include one or more of the Phase I AI suggestions in its definition of High Opportunity Areas (HOAs), as defined in the 2012/2013 Qualified Allocation Plan:

High Opportunity Area--A Development that is proposed to be located in an area that includes, at a minimum, subparagraphs (A) and (B) of this paragraph along with either subparagraph (C) or (D) of this paragraph:

(A) in a census tract which has a median income that is above median for that county (as designated in the Housing Tax Credit Site Demographic Characteristics Report for the current Application Round) as of the first day of the Application Acceptance Period; and

(B) in a census tract that has a 15% or less poverty rate (as designated in the Housing Tax Credit Site Demographic Characteristics Report for the current Application Round) or, for Regions 11 and 13 with a 35% or less poverty rate;

(C) within a half-mile of an accessible transit stop for public transportation if such transportation is available in the municipality or county in which the Development is located; or (D) in an elementary school attendance zone that has an academic rating, as of the beginning of the Application Acceptance Period, of "Exemplary" or "Recognized," or comparable rating if the rating system changes by the same date as determined by the Texas Education Agency. An elementary attendance zone does not include elementary schools with district-wide possibility of enrollment or no defined attendance zones, sometimes known as magnet schools. However, districts with district-wide enrollment and only one elementary school are acceptable. (pg 74-75)

Proposed developments receive additional points during the application process for locating in a HOA. In the 2012-2013 Qualified Allocation Plan, HOAs already address certain variables listed in the Phase I AI. For instance, HOAs are located in census tracts with poverty rates of 15% or less (or 35% or less in Regions 11 and 13), which is lower than the State's poverty rate of 16.8% (2006-2010 ACS). HOAs may also include access to public transit, creating the Phase I AI's access to health care and jobs through the public transit. HOAs may also be located in an elementary school attendance zone that has an academic rating of "Exemplary" or "Recognized". These examples show that the HOA definition already addresses the factor of concentration of poverty and access to health care, jobs and high-quality education as listed in the Phase I AI. Please note that in 2013, the Department anticipates changes in the Qualified Allocation Plan to implement an Opportunity Index instead of High Opportunity Area; the Opportunity Index will include factors listed above as well as additional factors.

Urban vs Rural

The 2012 RAF uses "place" as a measurement of urban and rural as an interpretation of §2306.004, which states:

28-a) "Rural area" means an area that is located:

(A) outside the boundaries of a primary metropolitan statistical area or a metropolitan statistical area;

(B) within the boundaries of a primary metropolitan statistical area or a metropolitan statistical area, if the statistical area has a population of 25,000 or less and does not share a boundary with an urban area; or

(C) in an area that is eligible for funding by the Texas Rural Development Office of the United States Department of Agriculture, other than an area that is located in a municipality with a population of more than 50,000.

When analyzing the variables for the 2013 RAF, the Department found that the place-level data undercounts almost two million people and units compared to the county-level data because the place-level count excludes people and units not located in any census-designated place. For an example of the increased accuracy of county-level data, compare Exhibit I, which shows a place-level map of rent cost burden analysis, to Exhibit C, which shows a county-level rent cost burden analysis. Exhibit C includes 117,352 more renters with cost burden than Exhibit I. As can be seen in the chart below, there are 1,545,555 more people at 200% of poverty counted at the county-level than the place-level; there are 23,033 more units with overcrowding counted at the county-level than the place-level; and there are 28,956 more vacant rental units counted at the county-level than the place-level.

County-Level vs. Place-Level Variable Counts

Variables in Texas	Number of persons or units in Texas*
200% of Poverty by COUNTY	8,957,285 people
200% of Poverty by PLACE	7,411,730 people
Overcrowded Renters by COUNTY	225,636 rental units with overcrowding
Overcrowded Renters by PLACE	202,603 rental units with overcrowding
Rent Burden by COUNTY	1,345,954 renters
Rent Burden by PLACE	1,228,602 renters
Rental Vacancies by COUNTY	348,574 rental units
Rental Vacancies by PLACE	319,618 rental units
Total population by PLACE in Texas	19,199,849 people
Total population by COUNTY in Texas	24,311,891 people

*All data is from 2006-2010 American Community Survey.

County-level data is easily obtained and is derived from the designations of primary metropolitan statistical areas and metropolitan statistical areas as discussed in the 2306.004 (28-a) definition of “rural

area.” For the 2013 RAF, the Department determines that county-level data is a more complete and informative dataset than place-level data. Limiting the data to only places in each region substantially hinders the decision-making capabilities of the RAF as an allocation tool. The Department believes that this methodology meets the requirements of 2306.1115, including (a)(3) “the department shall develop a formula that...includes other factors determined by the department to be relevant to the equitable distribution of housing funds.” The Department will use county-level data for the *process* of achieving an equitable distribution of funds available to urban and rural areas.

In the course of analysis, the Department considered determining if the place-level variables were urban or rural, and then taking the place data out of the county data; whatever remained in the county data could be considered rural, even though there was no statutory guidance on this type of data. However, the Department found that given the large number of variables in this type of analysis and the margin of error that comes with the updated ACS dataset, the data could not be parsed in this manner and retain its accuracy. Accurate, informative data is not available to apply §2306.004(28)(c)(B) or §2306.004(28)(c)(B) when summing up place level data which is why use of county-level data is proposed.

Using the county-level data in MSA vs. Non-MSA to allocate for urban and rural areas allows for a more complete picture of the state’s demographic data. The RAF is not stating that MSA vs. Non-MSA analysis will always coincide with urban and rural designations for specific sites. According to 2306.1115(b), the Department must use appropriate data to develop the formula, and county-level data is the most appropriate data. However, the rural and urban designation for site-specific applications applying for funding will be at the place-level.

Staff Proposal

Through analysis of several different variables, staff identified several variables that are appropriate for use in the RAF. Please note that lack of kitchen and lack of plumbing are appropriate variables, but could not be included because of lack of data accuracy at the regional level. For housing need, the following variables are appropriate:

- 200% of Poverty
- AMFI
- Cost Burden (renters for HTC and HOME; homeowners for HOME and HTF)
- Overcrowding (renters for HTC and HOME; homeowners for HOME and HTF)
- Population Growth (3 year projection)

For housing availability, the following variables are appropriate:

- Building permits

- Vacancies (rentals for HTC and HOME; homes for sale for HOME and HTF)

Using the least number of variables ensures that their full influence affects the RAF. Staff proposes to use four variables for the RAF. Using more variables reduces the impact of each variable. In the staff's estimation, the four variables for which the data is updated most consistently and which have the biggest impacts on housing need and availability are:

- 200% of Poverty (variable for housing need)
- Cost burden (variable for housing need)
- Overcrowding (variable for housing need)
- Vacancies (variable for housing availability)

Because of the decrease of funding for HOME and HTF and the absence of the \$500,000 adjustment, many of the amounts in each sub-region are smaller than the minimum necessary to administer a successful project. Therefore, HOME and HTF RAFs usually collapse into a statewide allocation amount. Due to this, the draft RAF models will only show the HTC versions of the RAF for this online discussion forum.

Exhibit J shows the calculations to get a distribution for the 2013 HTC RAF model with four variables for HTC. Exhibit K shows the difference between the 2013 HTC RAF model with four variables and the 2012 HTC RAF which allocated \$40,000,000.

Alternative One

While staff recommends using the RAF model with four variables, the advantage of the RAF model with three variables would capture the factors that affect the most people in Texas:

- 200% of Poverty (variable for housing need)
- Cost burden (variable for housing need)
- Vacancies (variable for housing availability)

By leaving out overcrowding, the poverty and cost burden variables have more impact on the final outcome of the allocation. Exhibit L shows the calculations to get a distribution for the RAF model with three variables for HTC. Exhibit M shows the difference between the 2013 HTC RAF model with three variables which is allocating \$40,000,000 and the 2012 HTC RAF which is allocating \$40,000,000. However, this alternative leaves out the need variable of overcrowding.

Relation of Housing and Need

Staff considered several different ways to relate need and availability of housing. Basic subtraction was attempted. For example, the number of households with cost burden was subtracted from the number

of vacancies in order to get an overall number of persons with need. Staff found that the relationship between the need and availability did not have a high enough correlation to justify subtraction. Households with cost burden may not be able to afford the vacancies available. Also, not all the factors are measured by “household”; for example, “poverty” is measured by person. Subtraction was too simplistic to relate the variables.

Staff decided on using ratios within each region in order to fairly distribute funds. For each variable, the number of persons or units with that variable is summed for the State. Then a percentage is calculated for each sub-region in order to show how many persons/units are in that sub-region. The percentages are then weighted (see Weights below for an explanation of the weights).

Weights

A successful allocation formula will provide more funding for high housing need and remove funding for an abundance of housing resources. In order to have a balanced relationship between housing and need, the housing availability variable should have negative weight.

The weights in the 2012 RAF roughly corresponded to the percentage of the population with those problems. Weighting in this fashion effectively added the general population distribution as a variable. In order to ensure that the outcomes are not solely a function of the population distribution, all the factors in 2013 RAFs will be of equal weight, as can be seen in Table 2 of Exhibit J and L. In addition, weighting the variables by population implies that people with one type of need are more important than people with another type of need, based on the number of people with the particular need. In order to equitably distribute funds to those in need, again, all factors will be of equal weight.

For the 2013 RAF, to make the weights equal, for four variables each variable would receive 50% of the weight. Because the availability variable should be negative, the need variables are weighted at 50% each and the availability variable is weighted at -50%, creating equal weight and giving the appropriate relationship between funding and current availability of resources. With three variables, each variable would be weighted at 100%. Because the availability variable should be negative, the need variables are weighted at 100% each and the availability variable is weighted at -100%, creating equal weight.

Because the 2012 RAF availability variable used awards, the RAF compared the region’s need percentage and its resource percentage. The 2012 RAF considered a region with a negative resource and need difference to be “under allocated.” The 2013 RAF makes no such determination on the reasons behind other agencies’ awards.

Exceptions to the RAF

According to §2306.111(d), there are certain instances when the RAF would not apply to HOME, HTC, and HTF funds. For instance, specific set asides will not be run through the RAF. This includes set asides for contract-for-deed conversions and set asides mandated by state or federal law, if these set asides are less than 10 percent of the total allocation of funds or credits. Set asides for funds allocated to serve

persons with disabilities will not run through the RAF. The total amount available through the RAF will not include funds for at-risk development, with stipulations mentioned in this paragraph.

Also in 2306.111(d), specifically for HTC, 5% of HTC funds must be allocated to developments that receive federal assistance through USDA. Any developments that receive federal assistance through USDA and HTC for rehabilitation compete for funding separately under the “USDA Set-Aside.” This funding is taken from the total tax credit ceiling prior to applying the RAF to allocate funds between each sub-region.

Finally, pursuant to §2306.111(d) specifically for HTF, funds that do not exceed \$3 million for each programmed activity will not run through the RAF.

HOME, HTC and HTF Data Differences

Even though the RAF applies to HOME, HTC and HTF, there are some differences between the programs that need to be addressed within the formulas. For example, HOME and HTF can serve homeowners and those wanting to buy or build a home, while HOME and HTC serves renters. Therefore, renters’ needs would be counted for HOME and HTC; homebuyer needs would be counted for HOME and HTF.

Because HOME and HTC fund rehabilitation, substandard housing units would ideally be included in the RAF. However, at the time of this writing, staff has not identified a data source that would provide an estimate of these units that is accurate at the regional level.

In addition, according to §2306.111(c) (1), 95 percent of the funds for HOME must be spent outside Participating Jurisdictions (PJs). PJs are areas that receive funding directly from HUD. The other 5 percent of State HOME funds must be spent activities that help people with disabilities in any area of the State; this portion of HOME is not subject to the RAF because it is set aside for persons with disabilities (see Exceptions to the RAF above). Because 95 percent of funds cannot be spent within a participating jurisdiction, the housing need and availability in those jurisdictions should not be counted in HOME’s RAF.

The Participating Jurisdiction data is subject to change yearly depending on HUD’s funding. As of this writing, thirty-three of the PJs are cities. The other Participating Jurisdictions are grouped by county. Though the cities in the counties do not encompass the entire county, the cities encompass such a large area of the counties that, with the data available and the current margins of error, the entire county will be counted as the PJ. These PJs will be subtracted from the HOME version of the RAF.

HTC \$500,000 Adjustment

§2306.111 (d-3) is a special stipulation on funding and the RAF that applies only to HTC. This statute requires that the Department allocate at least 20 percent of credits to rural areas and that \$500,000 be available for each urban and rural sub-region, which number 26 in total. The overall state rural percentage of the total tax credit ceiling amount will be adjusted to a minimum of 20 percent only at the time of actual allocation if needed. Usually, the 20 percent allocation to rural areas occurs naturally, but,

if not, additional applications in rural areas will be made from the statewide collapse of the RAF to ensure the requirement is met.

For the HTC RAF, the regional amount of rural and urban funding is adjusted to a minimum \$500,000, if needed. This is done as a final adjustment to the sub-regional allocation amounts available for award. The process proportionately takes funds from sub-regions with initial funding amounts in excess of \$500,000 and reallocates those funds to those sub-regions with initial funding amounts that are less than \$500,000. The process is complete when each sub-region has at least \$500,000.

Next steps

The public can comment on the proposed allocations across the state based on RAF options presented by the staff and the appropriateness of the measurements used. The Department will open an online forum for 30 days from August 10 to September 10, 2012. Input the Department receives will help determine a revised and simpler formula thereby increasing the ability of developers and communities to predict available funding while helping key stakeholder groups gain a better understanding of the process and its results.

The 2013 draft HTC RAF will be presented to the Department's Governing Board on October 9th. Upon approval by the Board, the draft RAF will be open for official public comment.