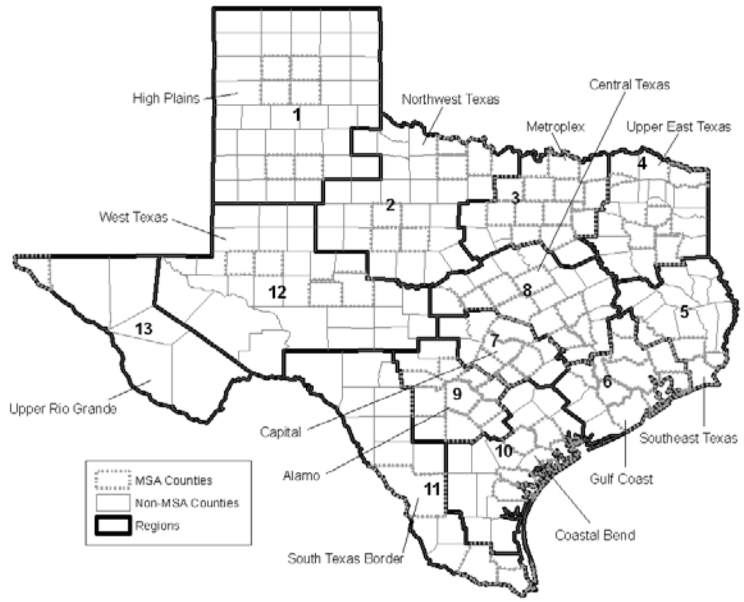
2013 REGIONAL ALLOCATION FORMULA PROPOSED METHODOLOGY

Legislative Requirement

Sections 2306.111 and 2306.1115 of the Texas Government Code require that TDHCA use a Regional Allocation Formula (RAF) for the HOME Investment Partnership Program (HOME), Housing Trust Fund (HTF) and Housing Tax Credit (HTC) funding. The RAF presented below analyzes of housing need and availability in the State's urban and rural areas and distributes funding accordingly.

Figure 1: TDHCA Regions



TDHCA's governing statute §2306.111 states:

(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 methodology below outlines the need for housing assistance and the availability of housing assistance in urban and rural areas, in keeping with the statute's requirements.

Methodology

Affordable Housing Need

Affordable housing need will be measured by variables that relate to the types of assistance available through TDHCA programs.

HTC and HOME both offer reduced-rent apartments. HOME and HTF offer Tenant-Based Rental Assistance. Therefore people in need of rental assistance should be included. The renters with cost burden measures the number of people in Texas that pay over 30% of their income on rent. Renter experiencing overcrowding measures the number of units with more than one person per room, including the kitchen and bathroom. Both rent burden and overcrowding will be used as a variable in the RAF.

HOME also offers homebuyer assistance and single family development. For single-family development, typically the homes are built by nonprofits or units of local government and the homes are often purchased by low-income homeowners. HTF offers the Bootstrap Loan Program for potential homeowners who use sweat equity along with low interest loans to build their homes. Households who are ready to own and qualify for home buying are efficiently measured by an income measurement. In addition, areas with high numbers of homeowners experiencing cost burden or overcrowding may signify a need for homebuyer assistance to reduce the number of future homeowners with cost burden or overcrowding. Therefore, an income measurement, homeowner cost burden and homeowner overcrowded units will be included in the RAF.

HOME offers homeowner rehabilitation assistance. However, there is a lack of available data to measure the need for homeowner rehabilitation at the regional level. Units lacking kitchen and plumbing did not have sufficient accuracy; the margins of error were larger than the estimates in some regions. Age of housing stock was considered, but there is no data to substantiate the correlation between specific household age with need for rehabilitation. Therefore, numbers of units with substandard conditions and numbers of units over 30 or 50 years of age could not be included for HOME.

Income is the primary measurement of eligibility for housing assistance through TDHCA. HTC serves households who earn 0-60% Area Median Family Income (AMFI). HOME and HTF serve households who earn 0-80% AMFI. Therefore, as already determined to measure the need for homebuyer assistance, an income measurement will be used in the RAF. While eligibility for housing assistance is measured by Area Median Family Income (AMFI), the AMFI datasets are available only every other year, while the measurement of people in poverty is measured yearly. In order to use the most up-to-date data, poverty measurements will be used. The percentage of people at 200% poverty is highly correlated with the percentage of people earning 0-80% AMFI. People at or below 200% of the poverty level will qualify for a majority of housing assistance offered through TDHCA. Need for affordable housing will be determined by three variables:

1. Cost burden (renters for HTC and HOME; owners for HOME and HTF)
2. Overcrowding (renters for HTC and HOME; owners for HOME and HTF); and
3. People at or below 200% of the poverty rate.

Housing Availability

Affordable housing availability will be measured by variables that relate directly to housing resources. In order to take into account both market-rate and subsidized units, rental vacancies will be used. High numbers of vacancies indicate the market has a supply of housing. Vacancies show a direct measure of housing availability.

Need for affordable housing is determined by:

1. Vacant units (rental units for HOME and HTC; homes for sale for HOME and HTF)

Urban and Rural Areas

In TDHCA's governing statute, §2306.004 states:

> 28-a) "Rural area" means an area that is located:
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> (A) outside the boundaries of a primary metropolitan statistical area or a metropolitan statistical area;
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> (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
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> (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.

County-level data is a more complete and informative dataset than place-level data because the place-level count excludes people and units not located in any census-designated place. Limiting the data to only places in each region substantially hinders the decision-making capabilities of the RAF as an allocation tool. County-level data is easily obtained and is derived from the designations of primary metropolitan statistical areas (MSA) and metropolitan statistical areas as discussed in the 2306.004 (28-a) definition of "rural area." Using the county-based 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.

According to 2306.1115(b), TDHCA must use appropriate data to develop the formula, and county-level data is most appropriate data. However, the RAF is not stating that MSA vs Non-MSA analysis will always coincide with urban and rural designations for specific sites. The rural and urban designation for site-specific applications applying for funding will be at the place-level.

Weights

To allocate funds, the RAF will use each sub-region's ratios of the State's total. First, the number of persons or units for each variable is summed for the State. Then a ratio is calculated for each sub-region to show the ratio of persons/units that is in that sub-region. The ratios are then weighted.

In order to minimize population distribution as a variable, all the factors will be of equal weight. Furthermore, a successful allocation formula will provide more funding for high housing need and remove funding for an abundance of housing resources. In order to get the right relationship between housing and need, the housing availability variable will have negative weight. If the weights were equal, 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%, giving the appropriate relationship between funding and current availability of resources.

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 aides 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 TDHCA 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, one more deal for 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.