

2009 REGIONAL ALLOCATION FORMULA METHODOLOGY

BACKGROUND

Sections 2306.111(d) and 2306.1115 of the Texas Government Code require that TDHCA use a Regional Allocation Formula (RAF) to allocate its HOME, Housing Trust Fund (HTF), and Housing Tax Credit (HTC) funding. This RAF objectively measures the affordable housing need and available resources in 13 State Service Regions used for planning purposes. These regions are shown in “Figure 1. State Service Regions.” The RAF also allocates funding to rural and urban areas within each region.

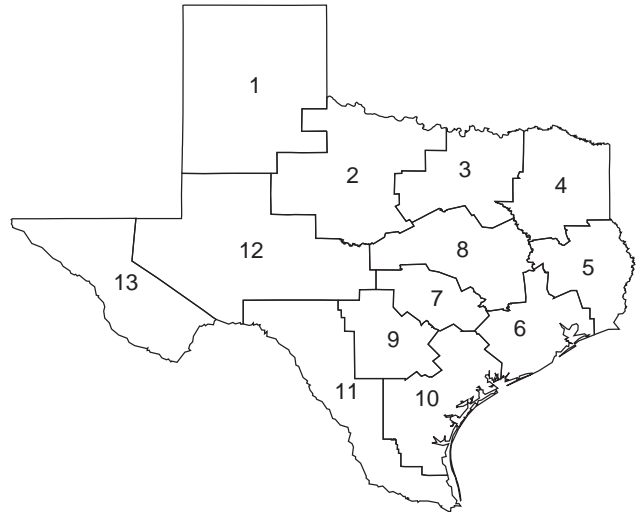


Figure 1. State Service Regions

As a dynamic measure of need, the RAF is revised annually to reflect updated demographic and resource data; respond to public comment; and better assess regional housing needs and available resources. The RAF is submitted annually for public comment.

The HOME, HTF and HTC RAFs use slightly different formulas because the programs have different eligible activities, households, and geographical service areas. §2306.111(c) of the Texas Government Code requires that 95 percent of HOME funding be set aside for non-participating jurisdictions (non-PJs). Therefore, the HOME RAF only uses need and available resource data for non-PJs.

METHODOLOGY

Consideration of Affordable Housing Need

The first part of the RAF determines the funding allocation based solely on objective measures of each region’s share of the State’s affordable housing need. The RAF uses the following 2000 US Census data to calculate this regional need distribution.

- Poverty: Number of persons in the region who live in poverty.
- Cost Burden: Number of households with a monthly gross rent or mortgage payment to monthly household income ratio that exceeds 30 percent.
- Overcrowded Units: Number of occupied units with more than one person per room.
- Units with Incomplete Kitchen or Plumbing: Number of occupied units that do not have all of the following: sink with piped water; range or cook top and oven; refrigerator, hot and cold piped water, flush toilet, and bathtub or shower.

Non-poverty data is for households at or below 80% of the Area Median Family Income (AMFI).

- Because the HTC program supports rental development activities, renter household data is used for the HTC RAF.
- Because the HOME and HTF programs support renter and owner activities, both renter and owner data is used in the HOME and HTF RAFs.

The following steps are used to measure regional need.

1. Need data is adjusted to current year levels by applying a growth factor based on the growth experienced since 2000.¹
2. Each need measure is weighted to reflect its perceived relevance in assessing affordable housing need. Half the measure weight is associated with poverty because of the significant number of persons in poverty and the use of this factor in the HUD Community Planning and Development Program Formula Allocations. The remaining measure weight is proportionately allocated based on the relative size of the other three measure populations. The resulting need measure weights are: poverty = 50 percent, cost burden = 36 percent, overcrowding = 12 percent, and substandard housing = 2 percent.
3. The following steps calculate the funding distribution based on the need measures.
 - a. The total RAF funding amount is multiplied by each need measure weight to determine the amount of funding distributed by that measure.
 - b. Each measure's amount of funding is regionally distributed based on the distribution of persons or households in need.
4. The resulting regional measure distributions are then combined to calculate each region's need-based funding amount.
5. Each region's need based funding amount is divided by the total RAF funding amount. This quotient is the region's need percentage.

Consideration of Available Housing Resources

In addition to TDHCA, there are many other sources of funding that address affordable housing needs. To mitigate any inherent inequities in the way these resources are regionally allocated, the RAF compares each region's level of need to its level of resources.

Because the resources used in the RAF reflect the three programs' eligible households and activities, the following data is used.

- The HTC RAF uses rental funding sources.
- The HTF RAF uses sources of rental and owner funding.
- The HOME RAF uses sources of rental and owner funding in non-PJs.

The following resources are used in the HOME, HTF and HTC RAFs.

- Housing Tax Credits (4% and 9%)²
- Housing Trust Fund Rental Development Funding
- HUD HOME Funds (TDHCA and Participating Jurisdiction)
- HUD Housing for Persons with AIDS Funding
- HUD Public Housing Authority (PHA) Capital Funding
- HUD §8 Tenant-Based Rental Assistance (TDHCA & PHA)
- Multifamily Texas Housing Trust Fund

1 The 2008 HISTA data, or Households by Income, Size, Tenure and Age, from Ribbon Demographics is utilized in the final RAF. HISTA data is based upon special tabulations of 2000 US Census data with demographic projections provided by Claritas.

² Estimated capital raised through the syndication of the HTCs. For the Final Methodology, this figure is \$0.80 based upon a survey of HTC applicants. The Final RAF will utilize the most current award data available.

- Multifamily Tax-Exempt Bond Financing³
- United States Department of Agriculture (USDA) Multifamily Development Funding
- USDA Rental Assistance

The HOME and HTF RAFs also include the following sources of owner funding.

- USDA 502 and 504 Loans and Grants
- Single Family Bond Financing (TDHCA and Housing Finance Corporations)

These steps calculate the regional distribution of available housing resources.

1. The available resources are summed by region and for the state. The resulting sums are the regional and state resource totals.
2. The regional resource total is divided by the state resource total. This quotient is the region's resource percentage.

Comparison of Regional Need and Available Resource Distributions

In theory, if the measurement of regional need is accurate, then the region's need percentage should reflect its resource percentage. A region with a negative resource and need difference is considered to be "under allocated." This region should have received a larger portion of the available resources to address their need. Similarly, a region with a positive difference is considered "over allocated." Conversely, it should have received a smaller portion of the available resources.

To address differences between the regional need and resource distributions, the RAF uses a resource funding adjustment to shift a portion of the need based funding distribution from over allocated to under allocated regions.

A resource funding adjustment limit is used to ensure that a particular region or geographical area is not overly penalized or benefited by the resource funding adjustments. A region's need based funding amount cannot be reduced or increased by more than the percentage of the state's available resources that are not already regionally distributed. This percentage is calculated by finding the average difference between each funding source's regional distribution and the regional need percentages. Sources whose average of the regional differences exceeds five percent or that are not distributed to all regions are included in the resource funding adjustment limit.

The following steps calculate the resource funding adjustments.

1. The regional resource percentage and regional need percentage differences are calculated.
2. The resulting over allocated (positive) resource differences are summed to calculate the state resource difference.
3. The state resource difference is multiplied by the total RAF funding. This product is the state over allocated resource amount.
4. Each over allocated resource difference is divided by the state resource difference. This quotient is the over allocation percentage.
5. Each over allocation percentage is multiplied by the state over allocated resource amount to determine the base resource funding adjustment.

³ The value of the bonds is 62 percent of the total bond amount. This is an estimate of the capital required to fill an affordability gap that remains after the capital raised through the syndication of the 4% HTC's is deducted from the total development cost. The Final RAF will utilize the most current award data available.

6. The region's need based funding amount is multiplied by the resource funding adjustment limit. This product is the maximum resource funding adjustment.
7. The lesser of the base resource funding adjustment and the maximum resource funding adjustment is the over allocated region's resource funding adjustment.
8. The over allocated regions' resource funding adjustments are summed. This total is the state under allocated resource amount.
9. Each under allocated (negative) resource difference is divided by the state resource difference to determine the under allocation percentage.
10. Each under allocation percentage is multiplied by the state under allocated resource amount. This product is the under allocated region's resource funding adjustment.

Consideration of Rural and Urban Need⁴

There are a number of factors that affect the distribution of resources to rural and urban areas. These include rural area feasible development sizes, allowable rent and income levels, and proximity to developers, contractors, and materials. Access to resources is also an issue because some funding, such as multifamily tax-exempt bond financing, does not work very well in rural areas. As required by §2306.111(d) of the Texas Government Code, to ensure an equitable distribution of funding to both rural and urban areas, the RAF analyzes the distribution of rural and urban need and resources at the regional level.

The RAF uses the following definitions to categorize rural and urban areas.

1. Area - The geographic area contained within the boundaries of:
 - a. an incorporated place, or
 - b. a Census Designated Place (CDP) as established by the U.S. Census Bureau for the most recent Decennial Census.
2. Rural – An Area that is:
 - a. outside the boundaries of a metropolitan statistical area (MSA); or
 - b. within the boundaries of a MSA, if the Area has a population of 25,000⁵ or less and does not share a boundary with an Urban Area.⁶
 - 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 50,000.⁷
3. Urban – An Area that:

⁴ §2306.111(d) requires the RAF to consider "rural and urban areas" in its distribution of program funding.

⁵ The definition of "population" in state law (Sec. 311.005(3), Government Code) is "the population shown by the most recent federal decennial census." Because of this requirement, the decennial census place population must be used to make the area type determination.

⁶ Applicants may petition TDHCA to update the "Rural" designation of an incorporated area within a metropolitan statistical area by providing a letter from a local official. Such letter must clearly indicate that the area's incorporated boundary touches the boundary of another incorporated area with a population of over 25,000. To treat all applicants equitably, such letter must be provided to TDHCA prior to the commencement of the pre-application submission period for HTC applications, or application submission period for HOME applications.

⁷ TDHCA utilizes the most recent list of designated places produced by the Texas USDA Rural Development State Office. Applicants may petition TDHCA to update the "Rural" designation of an area by providing a letter from a USDA Rural Development official clearly stating that the area is eligible for funding by USDA Rural Development. To treat all applicants equitably, such letter must be provided to TDHCA prior to the commencement of the pre-application submission period for HTC applications, or application submission period for HOME applications.

- a. is located within the boundaries of a metropolitan statistical area (MSA); or
- b. does not meet the Rural Area definition.

Measuring Rural and Urban Affordable Housing Need

The following steps calculate the level of need in rural and urban areas.

1. Need data are adjusted to current year levels by applying a growth factor based on the growth experienced since 2000.
2. The same need measure weights used to determine the regional need distribution are multiplied by the region's funding amount. This product is the measure funding amount.
3. Area level measure data is identified as being rural or urban based on the RAF area definitions.
4. Using the coded area data, each measure's affected number of rural and urban persons or households in the region is calculated.
5. The corresponding measure rural and urban percentages are calculated.
6. For each measure, the regional funding amount is multiplied by the measure rural and urban percentages to calculate the rural and urban measure funding amounts.
7. The rural and urban measure funding amounts are summed for the measures. These totals are the region's rural and urban need based funding amounts.
8. The region's rural and urban need based funding amounts are divided by the region's total funding amount. These quotients provide the region's rural and urban need percentages.

Measuring Rural and Urban Available Resources

The following steps calculate the Rural and Urban distribution of available housing resources.

1. The geographically coded area data is summed to calculate regional rural and urban resource totals. Funding allocated at the county level is proportionately distributed based on the percentage split between rural and urban areas within the county. The resulting totals are the rural and urban resource totals.
2. The corresponding regional rural and urban resource percentages are calculated.

Rural and Urban Available Resources Funding Adjustment

The following steps calculate the rural and urban area resource funding adjustments.

1. The differences between the rural and urban resource percentages and rural and urban need percentages are calculated. The resulting differences show which of the two areas (rural or urban) were over or under allocated.
2. Each over allocated (positive) area resource difference is multiplied by the region's funding amount. For example, if the urban area is over allocated, then the difference is multiplied by the Regional Funding Amount. The resulting product is the area's base resource funding adjustment.
3. The over allocated area's need based funding amount is multiplied by the resource funding adjustment limit. This product is the area's maximum resource funding adjustment.
4. The lesser of the area's base resource funding adjustment or the maximum resource funding adjustment is the area's resource funding adjustment.

Rural and Urban Regional Funding Amounts

The area's over allocated resource funding adjustment is subtracted from the over allocated area's need based funding amount and is added to the under allocated area's need based funding amount.

For the HTC RAF, the regional amount of rural funding is adjusted to a minimum of \$500,000, if needed, and the overall state rural percentage of the total tax credit ceiling amount is adjusted to a minimum of 20 percent, if needed.

QUESTIONS AND COMMENTS

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