CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

915 Capitol Mall, Suite 485
Sacramento, CA 95814
p (916) 654-6340
f (916) 654-6033
www.treasurer.ca.gov/ctcac

TO: TCAC Stakeholders

FROM: Mark Stivers, TCAC

RE: Responses to opportunity mapping comments

DATE: November 17, 2017

Dear TCAC stakeholders:

TCAC appreciates the comments it received on the proposed opportunity maps and methodology. I carefully read each letter and discussed the methodology concerns and suggestions with our co-sponsor HCD and the independent organizations and research centers whom we asked to recommend a methodology. In addition, the taskforce's primary researchers were joined by the Terner Center for Housing Innovation research team for a full review of the opportunity tool's methodology, including the domain metrics and filters. The collaborative taskforce[1] revisited the methodology to consider revisions that could respond to public comments through an evidence-based approach.

This process led to the following revisions to the opportunity mapping methodology:

- Improved data consistency and case-by-case review of tract-level data inconsistencies;
- Minor modification to the employment rate indicator;
- Removal of the commute variable;
- Revision of the job proximity variable that incorporates regional median travel distance for low-wage workers;
- Identification of qualifying rural tracts and re-mapping of tracts to a single rural statewide map (and removal of rural tracts from other regional maps);
- Adjustments to the filter capturing high levels of poverty concentration and racial segregation; and
- Removal of the student poverty filter.

---

[1] The taskforce collaborative convened by HCD and TCAC included Enterprise Community Partners, the Haas Institute for a Fair and Inclusive Society, the California Housing Partnership, UC Davis Center for Regional Change, and the Terner Center for Housing Innovation.

For a detailed explanation of the new approach, please see the Revised Methodology document. TCAC will release the updated opportunity maps in December reflecting the revised methodology.

This memo is intended to respond generally to the more common or more significant concerns and suggestions. I note that many of the comments did not relate to the mapping methodology but rather to how TCAC may use the maps in its competitive process. Those issues are more appropriate for the regulation change proposals for which TCAC separately solicited comments and will not be addressed here. I plan to issue my revised regulation change proposal and responses to regulation change comments around December 1.

Gentrification

One of the more common concerns raised about the mapping methodology is that the "Lowest Resource" tracts do not account for gentrifying neighborhoods and planned job growth. The general argument is that while a census tract may now fall under the "Lowest" resource designation, it may be subject to intense demographic or economic change that will alter the designation in the near term and that creating new affordable family housing in gentrifying tracts is critical to avoid displacement of current low-income residents. Public comments noted that many tracts in the "Lowest" resource category appear to be gentrifying. Since TCAC is proposing a soft cap on credits that can be used in the "Lowest Resource" tracts, this may limit affordable housing in these neighborhoods.

TCAC, HCD, and the taskforce are sympathetic to this concern, and the task force conducted extensive analysis and revision of the original filters to mitigate the likelihood that gentrifying neighborhoods are classified as "Lowest Resource." Quantifying gentrification is a difficult task as neighborhoods are often changing at a faster pace than data collection, and there isn't a universally accepted definition of gentrification in the literature. Instead of rushing to adopt an imperfect measure of gentrification in the short-term, the task force has proposed significant revisions to the filter that designates the "Lowest Resource" tracts (see below). These revisions will result in fewer tracts identified as being in the "Lowest Resource" category and will ensure that these tracts are those with the highest poverty rates and greatest levels of racial segregation.

In addition, TCAC, HCD, and the taskforce are committed to investigating a robust gentrification measure, as well as other metrics of neighborhood change (e.g., job growth) in future iterations of the maps.

Transit

Some public comments raised concerns that the methodology was filtering out tracts located near transit. In consideration of the State's commitment to transit oriented development, TCAC is proposing in its regulation changes to exempt projects receiving at least six transit amenity points from the housing type goals for large family new construction projects in "Lowest Resource" tracts. In addition, although this version of the index does not include access to transit as an opportunity indicator because transit proximity is already incentivized in TCAC's regulations, TCAC, HCD, and the task force will consider including it as an indicator in future iterations of the tool.

Rural Areas

Another series of comments related to whether the opportunity mapping methodology is applicable to rural areas. Commenters expressed concern that the large geographic nature of rural census tracts can mask significant variances of opportunity within a census tract. They suggested using block group data or even judging opportunity at a parcel-specific level. TCAC, HCD, and the taskforce share the concern about overly large tracts and raised the possibility of using smaller area data with the researchers. Unfortunately, very few of the indicators used in the methodology are available or reliable at the block group level. Evaluating projects at a parcel level, as TCAC does with site amenity points, would still require referring to some census tract or block group data to capture the surrounding neighborhood characteristics. In the interests of fairness, TCAC must use an objective standard universally applied and cannot evaluate individual parcel circumstances.

Commenters also expressed a concern that rural areas, as defined by TCAC, exist in almost all of the original mapping regions, which creates an uneven playing field for projects competing in the Rural Set-Aside because rural areas in higher resource regions may have a higher standard to meet to be considered "High" or "Highest" resource. In the original maps, only tracts in 22 counties were designated as falling within a "Counties Not Within a Region" category, missing many rural areas of the state.

In response, the taskforce has made significant revisions to the assignment of tracts into rural areas, and has created a new "Rural Areas" category that includes many more tracts. First, TCAC accepts the suggestions to move Butte, Shasta, Sutter, and Yuba Counties from the Capital and Northern Region opportunity map into this new "Rural Areas" region. (Note that opportunity map regions are sometimes distinct from geographic regions used for tax credit allocation purposes.) Second, the task force approximated additional census tracts that, as closely as possible, would qualify as "rural" under the criteria that TCAC uses to identify rural eligible projects.

The new "Rural Areas" opportunity map now includes:

- The existing non-metropolitan counties;
- Butte, Shasta, Sutter, and Yuba Counties;
- Area designated as rural on the the USDA mulitifamily map (https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do;jsessionid=X5eLtgVAcgqf8FWsq+kJ-MgZ). While this map does not track Section 515 eligibility with 100% percent accuracy, it is the closest approximation available. As a result, while the opportunity maps will incorporate the USDA map, the USDA map is not sufficient to establish eligibility for the TCAC Rural Set-Aside; and
- Small cities (less than 40,000 population as per the Department of Finance estimates) that fall outside of an "urbanized" area.

The implications of this shift is that these tracts now all fall in a rural-only opportunity map where rural tracts are assessed relative to other rural tracts and do not compete with urban geographies in higher resourced areas. In addition, the rural-only opportunity map assesses resource level

designations within each county, so that higher resource designations are distributed across the rural region which encompasses communities from the Mexico to the Oregon borders.

This has led to significant changes in the assignment of opportunity categories for rural areas. First, the number of rural tracts in the state has increased from 342 to 1,053. As a result, the number of tracts that fall within "Highest" and "High" resource designations has increased from 135 to 399. Second, the share of tracts filtered into the "Lowest" designation has dropped from 13 to 10 percent.

The task force also made some other changes to the opportunity map methodology that have implications for tracts in rural areas. The commute variable was dropped from the Economic Domain, meaning that tracts in which longer commute times are the norm (as in rural areas) are no longer penalized. In addition, the Job Proximity variable was modified to use the median distance that a low-wage worker travels within the designated region as the benchmark. Using a regional median as a benchmark (instead of the originally proposed five- or ten-mile benchmark) provides a more realistic representation of low-wage worker commute distances, especially in rural areas. TCAC and HCD also commit to working with rural stakeholders in the next iteration of the maps to explore alternative methodologies for identifying opportunity areas in rural areas.

Filters

The original opportunity maps proposed two filters: one that identified areas of concentrated poverty and racial segregation and a second that identified tracts with more than 80% of students receiving free and reduced price lunch. The use of a filter is grounded in the guiding policy goals of the tool: to avoid further segregation and to increase access to opportunity for low-income families. Applying a filter aligns with the federal Affirmatively Further Fair Housing (AFFH) designation of Racially/Ethnically Concentrated Areas of Poverty (RECAPs). However, the federal RECAP standard does not effectively reflect California's racial and ethnic diversity nor its relatively high income levels relative to the nation.

In response to public comments and particularly the concerns that the filters were capturing too many gentrifying neighborhoods, the taskforce carefully reviewed the purpose, methodology, and application of the filters. This review led to significant changes in the filtering approach.

First, the taskforce decided to modify the first filter identifying racially segregated and poverty concentrated neighborhoods. The taskforce identified a more accurate measure of racial segregation, and shifted to using a measure of poverty rather than median income to identify the "Lowest Resource" tracts. Under the revised methodology, only tracts with both high levels of racial segregation and high levels of concentrated poverty (over 30%) will be filtered into the "Lowest Resource" category within each region. Therefore, regardless of a region's resource-level, there is a statewide absolute measure for identifying racially segregated and poverty concentrated neighborhoods that research consistently shows are most detrimental to childhood development and economic mobility. For more information on this new filter, please see the Revised Methodology document.

Second, after extended analysis and discussion, the taskforce came to consensus to remove the student poverty filter entirely. While expanding access to educational opportunity for low-income children is still a key objective of the policy, concerns over data quality, the diversity of school assignment policies across districts, and significant regional differences in the association between school poverty rates

and educational attainment led the task force to agree that this filter should not be applied as a statewide absolute threshold. Access to educational opportunity remains in the domain scores and plays a role in identifying "Highest" and "High" resource tracts.

These changes to the filter methodology reduce the number of tracts that are designated as "Lowest Resource." In the original version of the maps, 2,587 census tracts across the state (32%) were filtered into the "Lowest Resource" category. Under the revised methodology, only 1,017 (12.6%) are filtered. On average, filtered tracts have a poverty rate of 39%, and have seen an increase in poverty since 2000. While some may still be experiencing positive change (due to gentrification pressures), currently they fall within the bounds of neighborhood level poverty rates that have a demonstrated negative effect on low-income families.

Health and Environment Indicators

One commenter questioned whether the Health and Environment domain is being diluted by including irrelevant indicators and was concerned that this domain was not effective in differentiating scores in Los Angeles. The CalEnviroScreen tool on which this domain is based has been extensively vetted by the Office of Environmental Health Hazard Assessment and the California Environmental Protection Agency, and each of the indicators included in this domain has been scientifically shown to have a detrimental effect on human, and especially child, health. In addition, the mapping methodology ensures that within each region, areas that have a higher concentration of these pollutants (such as pesticides, ozone, diesel, and PM2.5) respective to other tracts in this same region are given a lower score, even if certain regions have overall lower exposures than others. However, it is possible that the current methodology does not capture all neighborhoods with environmental and health concerns, so the taskforce has recommended that TCAC and the task force will consult with health and environmental pollution experts to review this domain for future iterations of the maps.

Quintiles Based on Population

Various commenters were concerned that designating the top 40% of census tracts as "High" or "Highest" resource does not reflect population distribution as many of the higher resources tracts are in places with lesser population density. The taskforce conducted several tests to assess this concern, and found that it doesn't change the analysis if population instead of tracts is used. While census tracts can vary significantly in population size, the taskforce found that census tracts designated "Highest" resource had the same average population (4,730) as those in the "Lowest" resource category (4,976). As a result, designating 40% of tracts as either "Highest" or "High" resource roughly equates to apportioning 40% of the state's population to those categories.

Zoning Availability

Various commenters noted that the areas designated as highest or high resource have few sites zoned for higher density multifamily housing and suggested that the map should account for zoning opportunities. TCAC strongly opposes this suggestion as it would undermine the very goal TCAC seeks to achieve. The proposed regulation changes seek to balance the distribution of new construction large family projects across resource designations by giving some tiebreaker advantage to such projects in the high and highest resource areas, which historically are severely

underrepresented. The tiebreaker benefit incentives TCAC's highly creative developers to work with cities to rezone properties to accommodate affordable housing in the higher resource areas. Negating the benefit based on current zoning eliminates this incentive. Moreover, TCAC proposes to provide additional site amenities points for large family new construction projects in "Highest" and "High" resource tracts, partly in recognition that these areas are often lower density and may contain fewer multifamily sites in close proximity to amenities identified in the regulations. TCAC and HCD recognize the importance of developing additional tools to encourage cities and counties to zone for and entitle multi-family housing in areas of opportunity, but to exclude "High" or "Highest" resource areas simply due to lack of appropriately zoned sites would merely contribute to the ongoing exclusivity of these areas. Lastly, these opportunity maps provide a tool for advocates and HCD to evaluate a local government's choices for housing element sites or regaional housing need through a fair housing lens, which may lead to more sites in higher resource areas in the future.

TCAC acknowledges the difficulties of entitling properties in higher resource areas for affordable family housing, but if no or few such applications come in, the incentives will be moot and no harm is done. TCAC believes, however, that the incentives will encourage developers to find projects in higher resource areas and may even help open up sites that are not currently zoned for affordable housing.

Appeals

A few commenters suggested that TCAC entertain appeals regarding the resource designation for any particular census tract. TCAC does not support this suggestion for both practical and policy reasons. There are thousands of census tracts in California. TCAC simply does not have the capacity to hear appeals for one census tract, let alone possibly hundreds. More importantly, TCAC needs to apply the mapping methodology consistently to all areas. The commenters suggest that TCAC should accept alternative data as part of an appeal. Not only would that lead to subjective results, but it would be unfair to other tracts for which the alternative data is not available or used. TCAC is open to revising the methodology over time in a way that applies universally but cannot support using different standards for different tracts.

Conclusion

For a full review of the changes to the maps discussed in this memo, please see the Revised Methodology document.

TCAC greatly appreciates the feedback it received on the maps and hopes that some of the initial concerns have been addressed with the revisions outlined above. TCAC looks forward to continuing to work with stakeholders to refine future iterations of the maps so that they contribute to reducing segregation as well as increasing access to opportunity for low-income families.

TCAC will release the final proposed maps based on this revised methodology by mid-December 2017. As stated above, issues relating to the proposed regulation changes that utilize the maps will be addressed and discussed separately as part of the regulation change process.