

# **RESIDENTIAL DEVELOPMENT CONTROL SYSTEM BIENNIAL REVIEW**

**Planning Commission 5/10/2016**

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## **BACKGROUND:**

The number of allotments available for the Residential Development Control System (RDCS) is determined on a biennial basis, as required by Section 18.78.030 (Development Allotments) of the Morgan Hill Municipal Code. The rate of growth is accomplished by allocating approximately 250 new dwelling units annually to not exceed a population of 48,000 by the year 2020.

In accordance with Section 18.78.184 (Procedures) of the Morgan Hill Municipal Code, no later than May of each year, the Planning Commission is required to provide a recommendation to the City Council regarding the total number and distribution of building allotments for a given RDCS evaluation year.

## **ANALYSIS:**

### **BIENNIAL REVIEW**

The City received the California Department of Finance (DOF) Population and Housing Estimates report dated May 1, 2016 to utilize in determining the number of allotments that will be available for Fiscal Year 2018/19 and Fiscal Year 2019/20 (Attachment 2).

The RDCS requires the DOF population estimate be adjusted for any relevant housing backlog not included in its population estimate, the population of any existing county subdivision enumerated in Section 18.78.030.A of the Municipal Code that has been annexed, and any other quantifiable factor that improves the accuracy of the estimate. The adjusted population is then subtracted from the year 2020 RDCS population cap of 48,000. The result is divided by the DOF persons per household in Morgan Hill, and then divided by the number of years remaining between that population estimate date and 2020. This gross annual allotment number is then reduced for any fiscal year by its previously awarded allotments (awarded in prior years) and the number of exempt units anticipated for that fiscal year.

The population for the City of Morgan Hill, as of January 1, 2016 was 43,645. The average number of persons per household was determined to be 3.17. There are 121 backlog units that had a commence construction date of June 30, 2015. In 2006, 47 homes were annexed to the City in the El Dorado III neighborhood. In May 2009, the voters approved Measure A, exempting up to 500 dwelling units in a 20-block area in the Downtown from the RDCS. There are 107 approved Measure A units. The Lodge of Morgan Hill has begun construction of Phase II, which will add 114 units. Six units need to be subtracted to account for the one dwelling unit exempt developments that are built each year. The population should be adjusted to factor in these projects, as shown on the attached spreadsheet (Attachment 3).

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The City of Morgan Hill adjusted population is:

<b>Table 1: RDCS Biennial Adjusted Population</b>			
<b>Housing Type</b>	<b>Units</b>	<b>Persons Per Household (PPH)</b>	<b>Population</b>
			43,645
Backlog	121	3.17	383
Annexed Units	47	3.17	(-148)
Measure A	107	3.17	339
The Lodge II	114	1.60	182
SFR	6	3.17	19
<b>Adjusted Population</b>			<b>44,420</b>

The following is the proposed Annual Allotment:

2020 Population Cap: 48,000  
 Adjusted 2016 Population:  $\frac{-44,420}{3,580}$

Adjusted to Year 2020:  $3,580/4=895$

Adjusted for PPH:  $895/3.17=282$  estimated new dwellings

Adjust to RDCS annual max.: **250 allotments**

Section 18.78.182 (Rate of growth) of the Morgan Hill Municipal Code provides the method by which controlled growth will be accomplished within the City which involves building approximately 250 new dwellings annually to reach a population of 48,000 by the year 2020. The number of building allotments authorized under the RDCS may be less than 250 units per year because of other housing which would be exempt from the RDCS (construction of single family dwellings, etc.). It is recommended that the annual allotment not exceed the maximum allotment specified within the Municipal Code. For FY 2018/19 allotments would need to be adjusted to account for 85 multi-family rental allotments that have been awarded in the 2015 RDCS competition year. Fiscal Year 2018/19 would be adjusted to 165 allotments. Staff is recommending a one year competition for FY 2018/19 allotments.

The City, as part of the Morgan Hill 2035 Project, is in the process of drafting a comprehensive update of the RDCS with the goal of placing the new RDCS on the November 2016 ballot for voter consideration. With voter approval of the new RDCS, as currently drafted, there would be 250 allotments available for FY 2019/20. Should the new RDCS not be approved by the voters, one more competition cycle would occur under the current RDCS in 2017 for FY 2019/20 allotments. The current RDCS is set to expire at the end of FY 2019/20.

**DEVELOPMENT ALLOTMENTS AND COMPETITION CATEGORIES**

In accordance with Section 18.78.030.C (Development allotments) of the Morgan Hill Municipal Code, building allotments are to be divided between conventional single-family dwellings, mobile homes and multiple-family dwellings, with no less than thirty-three percent of all allotments

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awarded to single family dwellings. The City's General Plan also requires that 20 percent of allotments be reserved for affordable projects.

City Council Policy CP-07-04 (Attachment 4) provides guidance in the implementation of the RDCS for matters not specifically addressed in Chapter 18.78 of the Morgan Hill Municipal Code. The following are the RDCS competition categories:

- a. Small Projects
- b. Micro Projects
- c. Custom Lots
- d. Multi-family Rental
- e. Small Vertical Mixed Use
- f. Senior Housing
- g. Open/Market Rate Housing

Although not included within Policy CP-07-04, the City Council did add the Monterey Corridor Area as a competition category in 2013.

In addition, City Council Policy CP-09-03 (Attachment 5) reserves a portion of the annual building allotment for on-going projects. These are projects that have previously competed and are partially built out.

### **SET-ASIDE RECOMMENDATIONS**

To determine the set-aside categories and distribution of the 250 allotments for the 2016 RDCS competition, the Planning Commission should consider the following criteria:

- A. **On-going:** In accordance with Policy CP-09-03, eligible on-going projects can receive up to 15 allotments in-lieu of competing within the RDCS competition. Staff is aware of one project that may qualify as an ongoing project.
- B. **Small projects:** The City encourages small infill development. Small projects are residential developments of 7 to 15 dwelling units that are proposed on a site which has an ultimate development potential of no more than 15 units. Staff is aware of one project that will compete within this category in the 2016 RDCS competition.
- C. **Micro projects:** The City has typically set-aside allotments for micro projects. These are projects that consist of a maximum of six dwelling units and are located on a site with no additional potential for development beyond the current request. There are no known micro projects at this time.
- D. **Multi-Family:** Housing Element Policies HE-1e and HE-1f requires the set-aside of allotments for multi-family units. An average of 30 percent of new housing allotments are required to be designated for multi-family units. The multi-family category is also traditionally divided into two sub-categories, a 150 unit + category and a category for smaller multi-family projects. A minimum of 30 percent of new multi-family units are to be rentals. In the 2015 RDCS competition, a large multi-family rental project was awarded multi-year allotments, and awarded 85 allotments for FY 2018/19. That would be 34 percent of the 2016 RDCS allotments. This project will be re-competing for the balance of

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their project. Staff is aware of another large multi-family rental project which is expected to compete in the 2016 RDCS competition.

- F. **Open/Market:** The open/market rate competition category applies to housing of any type typically consisting of projects of more than 15 dwellings units at build-out. There are 7 known projects that are expected to compete in the open/market category in the 2016 RDCS competition.
- G. **Affordable:** Housing Element Policy HE-1p requires that a minimum of 20 percent of the annual RDCS building allotment be reserved for projects that are 75 percent affordable. Staff is not aware of an affordable project competing in the 2016 RDCS competition.
- H. **Monterey Corridor:** The Monterey Corridor area has been defined as the area outside the Measure F (14 block) and Measure A (20 block) areas. Eligible projects could be any housing type. There are no known Monterey Corridor projects.

Based on required set-asides, and project assumptions, the following is the recommended set-asides based on competition category:

<b>Competition Category</b>	<b>Proposed Allotment</b>	<b>% of Allotment</b>
On-going	15	6%
Small	5	2%
Micro	5	2%
Multi-Family Rental (>150)	95*	38%
Multi-Family Rental	10	4%
Open/Market	65	26%
Affordable	50	20%
Monterey Corridor	5	2%
<b>Total Allotments</b>	<b>250</b>	<b>100%</b>

\* 85 Multi-Family Rental Allotments previously awarded to MC-15-18 (San Pedro-Presidio) for FY 2018/19.

## Conclusion

Staff recommends adoption of the attached Resolution, recommending a one year competition and the RDCS set-aside allotments for FY 2018/19 for approval by the City Council.

Section 18.78.125.D (Award and Issuance of Allotments) of the Morgan Hill Municipal Code requires that allotments be issued no less than 16 months prior to the start of the fiscal year (March 1st) in which the allotments must be used. To accommodate this statutory deadline, the RDCS application filing deadline is scheduled for **September 1, 2015**.

## CEQA (California Environmental Quality Act):

Review and distribution of RDCS allotments is not a project subject to the California Environmental Quality Act (CEQA) as no physical changes in the environment will occur as a result of the proposed action.

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## LINKS/ATTACHMENTS:

### Attachments

1. Resolution
2. California Department of Finance (DOF) Population and Housing Estimates report dated May 1, 2016
3. RDCS Biennial Review
4. City Council Policy CP-07-04
5. City Council Policy CP-09-03