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September 30, 2013

LAFCO of Santa Clara County 70 West Hedding Street 11th Floor, East Wing San Jose, CA 95110

SUBJECT:

MORGAN HILL URBAN SERVICE AREA (USA) AMENDMENT 2012 MONTEREY - SOUTH OF

WATSONVILLE

Dear LAFCO Commissioners,

Over the past few months, each of you has graciously offered your valuable time to meet individually with representatives from the City of Morgan Hill. We greatly appreciated the opportunity to better familiarize you with Morgan Hill and highlight how the goals of the City align with those of LAFCO. Our goal is to ensure the City grows in a manner that is logical, efficient, and fiscally sustainable. We share LAFCO's principles of encouraging orderly boundaries, discouraging urban sprawl, and preserving agricultural and open space lands. The City carries out these principles in a variety of ways, but most notably, as we discussed at our meetings with you, through our Residential Development Control System (RDCS). Through the RCDS competition process and scoring criteria, Morgan Hill has an established record of prioritizing infill development, preserving open space, and ensuring that new residential growth can be supported by the City's infrastructure systems. This unique and progressive tool has allowed the City to grow at a controlled pace while providing Morgan Hill residents with high-quality services and amenities.

The City Council and staff Leadership Team is committed to safeguarding Morgan Hill's long-term fiscal health and sustainability. The City continuously seeks to improve service levels and efficiencies through land use actions, including the regularization of the City's boundaries. We thus felt it was critical to meet with each of you in advance of your consideration of the Monterey-South of Watsonville application in order to present the City's commitment to wise land use planning priniciples and to discuss how the specific proposal is consistent with those principles. Accordingly, we also feel it is necessary to address some of the issues identified in the April 3 staff report and provide you with updated and/or corrected information (please refer to Attachment A of this letter) so that the he LAFCO Commissioners will have a broad and complete picture of the City of Morgan Hill's efforts to grow responsibly when evaluating the proposed USA expansion request.

It is hoped you will agree that inclusion of the Monterey-South of Watsonville area is consistent with the goals of the City of Morgan Hill and LAFCO, and that as a result the subject properties should be included in the USA boundary. If you have any questions regarding the contents of this letter, please contact Leslie Little, Assistant City Manager, at (408) 776-7384. Thank you for your consideration.

Respectfully submitted

Steve Tate, Mayor City of Morgan Hill

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#### **ATTACHMENT A**

The following discussion addresses specific sections of the April 3 staff report.

### **Project Action**

In the Project Action section of the staff report, only two options are presented for the Commission's consideration, and neither option includes approval of the application as requested. In addition to addressing the subject property, the LAFCO staff report Project Action section also recommends that Morgan Hill withhold submitting applications for USA expansion until after completion of its General Plan Update process and develop target strategies that encourage better utilization of vacant lands within the City's existing boundary. To provide due process, LAFCO commissioners should have the opportunity to consider a reasonable range of options beyond the LAFCO staff recommendations, including the property owner's request. Therefore, we respectfully request that all possible options be presented for the Commission's consideration.

As described in the City's application, more than half of the Monterey-South of Watsonville project area is already in the City limits and receiving city services, but is outside of the City's USA boundary. The northern portion of the project area is surrounded on three sides by the City limits but remains within County jurisdiction. This incongruity of jurisdictional and service boundaries creates confusion and service delivery inefficiencies. The intent of the boundary adjustment is not to add to the City's land inventory; the intent is to regularize our boundaries, improve service delivery efficiencies and implement the goals of the existing General Plan. Approval of the proposed USA boundary adjustment would result in orderly growth and facilitate efficient service delivery as generally recommended by LAFCO staff for such expansions. While the City agrees that it is generally beneficial to avoid outward expansions of the City's USA, there are also specific and unique property situations where such expansions will promote overall efficiencies, facilitate more efficient delivery of services to the County's residents and promote the overall health and safety of the community. LAFCO should continue to be able to consider expansions requests, such as the subject application, in order to review the specific conditions and make a judgment as to the potential benefit of a particular adjustment to the USA boundary.

## Background

The Background discussion contained in the LAFCO staff report is intended to summarize the actions taken by the Morgan Hill related to the USA expansion. The staff report indicates that the final vote of the Planning Commission was 6-1 recommending denial of the USA application. However, the report does not adequately explain the reason for the 'no' vote. The majority of the dissenting Planning Commissioners recommended denial of the project because they disagreed with the land use designation proposed for the project area, and not because they were opposed to the USA expansion. In fact, the Planning Commission voted unanimously to adopt the environmental documents, including the Mitigated Negative Declaration and Mitigation Monitoring and Reporting Program, acknowledging the adequacy of the documents and its analysis of the proposed boundary adjustment.

# **Existing and Proposed Land Uses and Designations**

In a number of areas within the staff report, it is stated that no information has been provided on the maximum potential development that would be allowed upon annexation under the proposed designations. This information was however provided to LAFCO staff on January 8, 2013, and no additional request for information was made. Also, a thorough analysis based on reasonably foreseeable development of the project area was provided in the adopted environmental document as required by the California Environmental Quality Act (CEQA). Additional analysis based on a theoretical but impractical maximum development potential would be inconsistent with CEQA and would not accurately reflect anticipated future development of the project area.

### City's Desirable Infill Policy

The staff report makes reference to the City of Morgan Hill's Desirable Infill Policy; this policy establishes the criteria for evaluating USA expansion requests when the City has more than a five-year supply of vacant residential land. The City Council must find a project in compliance with the Desirable Infill Policy in order to approve a USA expansion request. For residentially planned properties, the Desirable Infill Policy identifies three criteria for inclusion in the USA: physical characteristics of the property, provision of services to the property, and benefits to the City from inclusion of the property. The City Council reviewed the Monterey-South of Watsonville project and made the findings required to approve the USA expansion based on the project's consistency with these three criteria.

## Availability of Vacant Land within Existing Boundaries

As part of the LAFCO Urban Service Area expansion application process, LAFCO considers the availability of suitable vacant lands within the existing USA based upon information provided by the City. While this information may have less bearing on LAFCO's consideration of the efficient delivery of services for the subject application, it is worth noting that for several reasons, the information upon which LAFCO staff made this consideration significantly inflated the perceived amount of land available for new residential development within Morgan Hill.

First, the methodology used for this evaluation overstated the amount of land currently available for new residential development and also overstated the actual yield of residential units that can be reasonably expected for that land. LAFCO staff considers lands to be vacant if they are underutilized and/or undeveloped, and if there are no active building permits. Based on this definition, "vacant" lands could include projects that are fully entitled, but have not yet obtained building permits or have only constructed a portion of a larger, multi-phase development. In contrast, the State (HCD) for the Regional Housing Needs Assessment process will not consider lands available for new development if they have land use planning entitlements in place. Using LAFCO's definition of vacant land, the City currently has 1,793 acres of vacant land within the City limits. (Refer to the attached map entitled, *LAFCO Defined Vacant Parcels*) Please note this figure has been updated from the original application submittal, as a number of projects have obtained building permits and, in many cases, begun construction since January of this year because the economy has improved.

In order to determine how many years of residential growth could be accommodated by the amount of vacant residential land, LAFCO staff directed the City to multiply the acreage by the maximum density allowed per land use designation, which would determine the number of residential units that could be generated. Based on 1,793 acres of vacant land, there is a maximum residential development potential of 5,401 residential units.

However, lands very rarely are developed at the maximum allowable density due to market conditions and the physical site constraints. For other land use project purposes (e.g., CEQA analysis, General Plan capacity) it is common to use a project yield based upon the mid-point of a density range or upon actual historical trends rather than the theoretical maximum.

Furthermore, LAFCO should more carefully consider the actual availability or suitability for development of lands identified as vacant in this analysis. In addition to lands which already have entitlements, other properties accounted for in Table 1 are not actually available for development due to environmental or ownership conditions. Approximately 40 percent of the 1,793 acres is not available to developers looking to build in Morgan Hill for reasons that include the following:

- 1) The land has received building allotments through the City's Residential Development Control System (RDCS) and is already planned for a specific project. RDCS projects with building allotments would not be considered vacant because they are required to wait two years before being allowed to occupy the units based on RDCS requirements. Therefore, while construction may not have commenced, the land is no longer available for other homebuilders looking for land to develop.
- A site has received full entitlements such as planned development zoning, development agreement, subdivision approval and/or design permit for a specific project, or may have an earlier phase of a multiphase development already built; or
- 3) There are unique circumstances such as environmental constraints, legal judgments, or property owners that are unwilling to sell and/or develop. The City would not consider these lands to be vacant because they are not available for development purposes.

Land that is no longer available for future development in Morgan Hill is identified in the map entitled, *Vacant Parcels Unavailable for Development*. The corresponding acreages are provided in Table 2, below. When the unavailable sites are subtracted from the land considered vacant by LAFCO's definition, the vacant land total is reduced from 1,793 acres to 1,076 acres. Table 2 also provides the more probable number of units that would be built on the vacant land based on the average allowed density. In Morgan Hill, most residential projects build between the low end to middle of the allowed density range. Using the middle of the density range, a total of 1,258 units would be built on the 1,076 acres of available, vacant land.

Secondly, the vacant land capacity analysis understates the consumption rate for the current vacant land supply. The City was asked by LAFCO staff to base its analysis upon the number of residential building permits issued over the past 12 years. Between 2002 and 2006, the city issued permits for more than 250 housing units a year. Between 2007 and 2009, Morgan Hill, like most of the nation, experienced an extreme drop in housing production, with the city issuing permits for just 58 units in 2008 and 25 units in 2009. Construction activity began to return to normal in 2010 and 2011 and in 2012, the number of residential building permits issued jumped to 431 permits. For 2013, the year to date number of permits issued is 227 residential building permits.

As previously noted, Morgan Hill relies upon a unique Residential Development Control Ordinance which generally limits new residential construction to an annual average of 250 units citywide with additional allowances for projects in the Downtown or on small lots. The actual number of units is established by formula based upon population and the number of units that can be constructed so as to not exceed the City's population cap of 48,000 by the year 2020. These units are allocated through a competitive system and because considerable cost is incurred by would be developers to obtain those allocations, they are almost always fully utilized once received. Because of the unusual housing market conditions of the past few years,

the analysis was based upon an average annual consumption rate of 200 residential permits per year, which is lower than what should be expected in normal market conditions.

Based upon dividing 5,401 potential residential units by an average annual consumption rate of 200 residential permits, the City of Morgan Hill in theory would have a 27-year supply of vacant residential land within its existing boundaries. (Refer to Table 1, below, for more detailed analysis using the standard LAFCO methodology). As noted, the total capacity has been updated in just a few months (since January 2013) to be a 27-year supply rather than a 33-year supply as the housing market was correcting and continues to correct for the recent housing market collapse.

Table 1
SEPTEMBER 2013
MAXIMUM DWELLING UNITS PER LAFCO'S VACANT LANDS INVENTORY

LAND USE	LAFCO ACREAGE	ALLOWED DENSITY (UNITS/ACRE)	MAXIMUM POTENTIAL UNITS
RESIDENTIAL			
Single-Family Low	200.85	1-3	603
Single-Family Medium	264.56	3-6	1,587
Single-Family High	15.97	5-10	160
Residential Estate	246.38	0-1	246
Multi-Family Low	129.46	5-14	1,812
Multi-Family Medium	21.07	14-21	442
Multi-Family High	2.71	21-40	108
MIXED USED DISTRICTS			
Mixed Use <sup>1</sup>	16.61	8-20	166
Non-Retail Commercial <sup>1</sup>	30.62	8-18	276
OTHER			
Commercial	197.33	244	
Industrial	411.36	(##	22
Public Facilities	13.61		
Open Space	242.03		H=:
TOTAL	1,793		5,401

For the purposes of the mixed-use districts (Mixed Use and Non-Retail Commercial) it is assumed that 50% of the acreage would be developed with residential uses).

Using an average construction rate of 200 units per year, and based on 1,258 probable number of units identified in Table 2, Morgan Hill has slightly more than a 6-year supply of vacant residential land. In January 2013 this figure was 18 years. If the RDCS capacity is more fully utilized with issuance of 250 units per year, the available supply would last approximately 5 years. Again the number decreased due to the recent flurry of home construction this year and as a result of new projects being awarded RDCS building allotments. The

sharp decrease in the vacant land inventory in just one year supports the City's assertion that lands that have building allotments and are fully entitled should not be considered vacant, nor should they be included in the calculations for determining how many years of growth can be accommodated based on the vacant land inventory.

Table 2
SEPTEMBER 2013
POTENTIAL DWELLING UNITS PER CITY'S VACANT LANDS INVENTORY

LAND USE	LAFCO ACREAGE	CITY ACREAGE	AVERAGE POTENTIAL UNITS
RESIDENTIAL			
Single-Family Low	200.85	46.04	92
Single-Family Med.	264.56	73.91	296
Single-Family High	15.97	0.00	0
Residential Estate	246.38	73.55	74
Multi-Family Low	129.46	51.14	460
Multi-Family Med.	21.07	0.00	0
Multi-Family High	2.71	0.00	0
MIXED USED DISTRICTS			
Mixed Use <sup>1</sup>	16.61	16.61	119
Non-Retail Commercial 1	30.62	30.62	217
OTHER			
Commercial	197.33	170.97	-
Industrial	411.36	408.42	;==
Public Facilities	13.61	7.85	i <del>ra</del>
Open Space	242.03	197.34	
TOTAL	1,793	1,076	1,258

For the purposes of the mixed-use districts (Mixed Use and Non-Retail Commercial) it is assumed that 50% of the acreage would be developed with residential uses).

While the LAFCO methodology arguably overstates the City's supply of residential land, it should be further noted that the amount of multi-family designated land is extremely low, particularly for multi-family medium and multi-family high residential. As shown in Tables 1 and 2, there are currently 0 acres (City definition) to 24 acres (LAFCO definition) of vacant, multi-family medium density or high density designated land. The amount of multi-family residential land has remained relatively constant for over a decade, largely due to the fact that many of the landowners are not interested in selling or developing their property. As a result, there is a growing need for multi-family housing in Morgan Hill, especially market rate, rental, multi-family housing due to a vacancy rate of less than one percent. Inclusion of the 7.5-acre parcel into the USA boundary, and ultimately city limits, could add much needed land to the City's multi-family land inventory, as could the 12

parcels pre-zoned CL-R, Light Commercial-Residential as the zoning allows for mixed-use development with residences above commercial uses.

The addition of lands supply that would accommodate multi-family residential development is particularly important for meeting the City's regional housing needs assessment (RHNA) targets mandated for a Certified Housing Element. LAFCO's USA Adjustment Policy #11 states, "LAFCO will consider: ...a. Whether the proposal creates conditions that promote local and regional policies and programs intended to remove or minimize impediments to fair housing including city/ county general plan housing elements, Analysis of Impediments to Fair Housing or Consolidated Plans for Housing and Community Development and ABAG's regional housing needs assessment and related policies." Inclusion of the Monterey-South of Watsonville project area in the USA and ultimately the city limits would contribute to the land supply for multi-family housing and assist the City in achieving its RHNA targets.

The vacant land inventory does show an ample supply of commercial and industrial land in the City. LAFCO staff has previously argued that lands should be considered for conversion before annexing new lands into the City. However, the City needs to maintain an ample inventory of non-residential lands to ensure a stable jobs/housing balance as well as a solid supply of employment-generating lands. Much of the available employment lands are within planned industrial areas and their conversion would result in checker-board land use patterns with difficult interface issues. Additionally, some of these employment lands could not likely be converted to residential use due to environmental constraints. The need to maintain employment lands has been reinforced through recent actions taken by the City Council to deny three of the last four General Plan Amendment applications to convert industrial land to residential land uses. Also, it is fundamental good land use planning to maintain a balanced supply of land for all land use designations, and critical to the City's fiscal health and sustainable budget policy.

## Logical, Orderly and Efficient Boundaries

The intent of the proposed USA expansion is to regularize the City's boundaries, improve service delivery efficiencies, and implement the goals of the existing General Plan. As previously noted, more than half of the project area is incorporated but is outside the USA boundary, and the northern portion of the project area is surrounded on three sides by the City of Morgan Hill but remains an unincorporated peninsula under County jurisdiction.

The April 3 staff report analyzes the impacts to nearby agricultural land should the City seek to expand the USA boundary to include lands on the *east* side of Monterey Road at some time in the future. This analysis is speculative and unwarranted because the application at hand involves only the properties on the *west* side of Monterey Road. The proposed USA expansion represents a logical, orderly and efficient extension of the city's boundaries as it eliminates an existing unincorporated peninsula and regularizes the City's boundaries. Any future requests for expansion of the USA boundary would require separate application and review by both the City of Morgan Hill and LAFCO. It is inappropriate to speculate at this time what the possible implications could be for a future, unknown expansion request.

The staff report also singles out the Morgan Hill Bible Church for a reason not to approve the proposed USA expansion, as it could open the door for future expansion requests further south. Again, this assumption is speculative and disregards the regulatory process in place to ensure that all boundary adjustments are consistent with the policies of both the City of Morgan Hill and LAFCO. It is also worth noting that Morgan Hill Bible has been a positive impact on the community and would like to expand their facility at their current

location where they can continue to serve the Morgan Hill area. Inclusion would allow the church to eliminate the leach field which creates a health and safety hazard several times a year when the area regularly floods. If denied inclusion in the USA, the church will essentially be denied the right to grow further. While the inclusion of the Morgan Hill Bible Church properties creates a new unincorporated peninsula for the residences on John Wilson Way, the proposed boundary outline respects the direct request of the John Wilson Way property owners to be excluded from the USA expansion and ultimate annexation applications.

It should also be noted that in 2005, at LAFCO's request, the City of Morgan Hill processed 15 island annexations totaling 390 acres in area. Only two island annexations remain. One island was not annexed because it would have resulted in parcels splitting lines of assessment, with one half located in the City of Morgan Hill and the other half remaining in the County; this would be in direct conflict with the goals and policies of LAFCO. The other island is located in the hillsides and would require extensive infrastructure investment if it is annexed into the City, requiring property owners to establish a separate assessment district for the installation and maintenance of the improvements. To date, the property owners have not moved forward with the assessment district.

# Conversion of/Impacts to Prime Agricultural Lands

The April 3 staff report characterizes the project area as being surrounded by agricultural lands. With the exception of the 7.5-acre parcel located within the Watsonville-Royal Oaks subarea, the Monterey-South of Watsonville project area is not prime farmland and is adjacent only on two sides to important farmland, as defined by the State Department of Conservation. The two sides include the area directly south of Morgan Hill Bible Church and the lands west of the 7.5-acre parcel. The remaining project perimeter is surrounded by 'grazing land's or 'urban and built-up land'.

The 7.5-acre parcel was evaluated for agricultural significance as part of the expanded initial study. A LESA (Land Evaluation and Site Assessment) was completed for the property in compliance with CEQA guidelines. Conversion of the 7.5-acre parcel was found to be a less than significant impact under CEQA. Nonetheless, the property owner has agreed to provide mitigation at a ratio of 1:1 consistent with LAFCO's Agricultural Mitigation Policies and the City of Morgan Hill's anticipated agricultural policies. The April 3 staff report, however, does not acknowledge this commitment. It should be noted that the property owner's commitment to provide agricultural mitigation is above and beyond what would be required should the property remain and develop in the unincorporated County. Conversion of agricultural lands within the City of Morgan Hill would be subject to agricultural mitigation measures as part of the citywide effort to preserve viable agricultural lands within our boundaries.

#### Conclusion

The April 3 staff report summarizes the proposed USA expansion simply as a request to allow new residential and commercial development on lands upon annexation, and describes the project area as being surrounded by a significant amount of agricultural land. The report neglects to mention one of the primary goals of the USA expansion request: to regularize the City's boundaries by eliminating the incongruity between the USA and city limit lines. The summary also fails to recognize the urban development already built on a majority of the project area, including the Oakwood School (which includes elementary through high school), the Morgan Hill Bible Church and classrooms, various service commercial uses, a strip center consisting of a hair salon and florist shop, a storage yard, miscellaneous single-family homes, and the Royal Oaks Mushroom farm. There is a very limited amount of designated important farmland in the project area vicinity, directly south of the

Morgan Hill Bible Church and west of the 7.5-acre parcel located west of the Santa Clara Valley Water District property.

The summary also characterizes the city as having a significant amount of vacant land. However, as explained earlier in this letter, the City is fast approaching the five-year vacant land supply threshold given the active housing market and the continuing interest to develop residential land. The City understands and fully supports the role of LAFCO to ensure cities grow in an orderly and efficient manner and has an established track record of implementing this goal through Morgan Hill's RDCS process and other municipal operations. The proposed expansion would support Morgan Hill efforts to maintain a fiscally sound and sustainable organization by improving service levels and efficiencies, which includes adjusting and regularizing the City's boundaries.

As a supplemental item to the 2012 LAFCO application, LAFCO staff requested the City to provide information regarding the criteria used by the City in considering USA and annexation requests. The following discussion was provided to LAFCO staff but was not included in the April 3 staff report. The City of Morgan Hill has between 1,000 to 1,800 acres of vacant land to accommodate future growth in the City. There are however a number of constraints on much of the existing vacant lands including size, location, configuration, land use compatibility, and environmental sensitivity that limit land uses and development opportunities. Over the next 20 years, the City's plans for growth and achieving a well-balanced, healthy community, target the priorities listed below, some of which include the need to amend the City's boundaries.

- 1. Priority Development Area (PDA) The PDA is located in Downtown Morgan Hill where higher density development is planned around multi-modal transportation. The General Plan and Downtown Specific Plan include goals and measures to promote higher density development within the PDA.
- 2. Infill Development, including Unincorporated Peninsulas Where possible, the City would like to focus growth to infill sites and eliminate unincorporated peninsulas surrounded on three sides by urban development. Adjusting boundary lines to eliminate unincorporated peninsulas creates more logical development patterns and focuses growth in areas where public services are generally available.
- 3. Areas of Special Need There are a number of geographic areas around the City constrained by deficient infrastructure and/or hazards. In many cases, these areas of special need are located outside the city limits, but have a direct impact on the citizens of Morgan Hill. Incorporating certain areas would give the City the authority and ability to make improvements and enhance the overall community and allow infrastructure improvements that would improve health and safety conditions.
- 4. Overriding Measures The City is committed to proactively preserving the City's natural resources including agricultural lands, hillsides and open space, and improving the overall health of the community by creating economic and recreational opportunities by designating and incorporating lands for sports-recreation-leisure uses.
- 5. Jurisdictional Lines Parcels or developments that straddle jurisdictional boundaries create confusion and the potential for a gap in service. Where possible, it is the City's goal to clean up the City's boundaries to eliminate areas where developed sites or parcels straddle the City of Morgan Hill and unincorporated County.

The Monterey-South of Watsonville application is consistent with the City's priorities for growth as described above. Inclusion of the parcels in the USA would eliminate an unincorporated peninsula, address an area of special need, and clean up the City's boundaries. As previously mentioned, the properties at the north end of the project near Watsonville Road are surrounded on three sides by the city limit line. Also, seven of the 17 parcels are already in the city limits and receive city services, yet they are located outside the USA. Adjustment of the USA boundary to include the project area would represent an orderly and logical boundary for the City and minimize confusion over jurisdictional lines. Approval of the Monterey-South of Watsonville application would benefit the citizens of Morgan Hill as the City could better address historic flooding issues and health and safety issues by extending utilities, eliminating leach fields, and preserving property and protecting it from damage by making improvements to the infrastructure in the area. Lastly, inclusion of the parcels in the USA would provide much needed land for multi-family housing for the Morgan Hill community.



