



City of Morgan Hill

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CITY COUNCIL STAFF REPORT MEETING DATE: JANUARY 25, 2017

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APPROVED BY: City Manager

RESIDENTIAL DEVELOPMENT CONTROL SYSTEM (RDACS) DRAFT COMPETITION MANUAL - PROGRESS REPORT

RECOMMENDATION(S)

1. Receive a progress report on the development of the RDACS Competition Manual; and
2. Provide direction as needed.

COUNCIL PRIORITIES, GOALS & STRATEGIES:

Ongoing Priorities

Protecting the environment
Maintaining fiscal responsibility
Preserving and cultivating public trust

2016 Focus Areas

Planning Our Community
Developing Our Community
Improving Our Communication

REPORT NARRATIVE:

The purpose of this item is 1) to provide the City Council with a report on the progress the Planning

Commission has made to date on the development of the Draft RDCS Competition Manual (attached) and 2) to receive input and direction on the questions posed by staff. The RDCS Competition Manual contains the criteria and standards that the City will use to award residential allotments to projects consistent with the RDCS ballot measure (Measure S) that was approved by voters in November 2016. The Competition Manual will also serve as the official City Council Policy document for implementation of the RDCS and will replace existing City Council RDCS policies.

The progress report is divided into the following nine (9) topic areas with questions at the end of each section for the City Council to consider.

1. Process Moving Forward with Planning Commission

Over the past four months, between October 11, 2016 and January 17, 2017, the Planning Commission has held 10 workshops to review the Draft RDCS Competition Manual. On January 10, 2017 the Planning Commission completed its review of the Competition Manual (see attached) and on January 17, 2017 reviewed a proposed test approach (to test the draft manual scoring implications) using a standard testing template (similar to the Measure C Narrative). The template will be used to test a range of project types in different geographic locations.

After Planning Commission approval of the proposed test approach, with help from a number of volunteers from the development community, staff will conduct project tests to determine if adjustments are necessary to the competition criteria and points. The objective is to determine whether different types of projects in a variety of locations can feasibly obtain a minimum score, and to ascertain whether the costs to obtain allotments are generally consistent with costs under the existing system.

The Planning Commission will review the test results and changes (if any) to the Competition Manual proposed by staff at workshops in February and March 2017. The City Council will review a final draft of the Competition Manual for final approval at one or more meetings planned for April 2017. At this time, it has been discussed that the schedule for completion of the manual may cause the schedule for the mandatory pre-application process and the annual competition deadline to be a little later than the schedule employed for the 2016 competition. The development community is concerned about having adequate time to get the final document and develop consistent applications.

Question: Does the City Council have any requested changes to the planned process and schedule to complete the Competition Manual?

2. Affordable Housing

Competition Criteria for affordable housing in the Competition Manual are found under Objective 3 (Affordable Housing) and less directly under Objective 4 (Housing Diversity). Projects may receive a maximum of 24 points under Objective 3, which is 12 percent of the total maximum points achievable. The proposed criteria maintains the City's current 8% affordable housing production goal.

Unlike criteria under other objectives, the Competition Manual requires projects to receive a minimum score of 18 affordable housing points to be eligible for allotments. This can be achieved either by making a contribution to the City's affordable housing fund (Criteria 3-A) and/or constructing affordable units (Criteria 3-B). Given the importance of using the RDCS to produce affordable housing in Morgan Hill, the Planning Commission determined setting a minimum required score for affordable housing points is necessary. The City Attorney has considered this new requirement and finds no significant legal concerns.

Criteria 3-A awards the minimum required score (18 points) to projects which contribute the baseline amount to the City's affordable housing fund, currently proposed to be set at \$12.92 per square foot of livable space of the entire project. For a project with an average home size of 2,000 square feet, this translates to \$25,840 per unit and \$1,435 per point.

Criteria 3-B awards points for constructed affordable units with specific point values based on the level of affordability pledged. Staff is currently working with developers to ensure that these point values are appropriate given the cost to the developer to construct the affordable units and obtain the minimum 18 required points. Staff may propose to the Planning Commission changes to Tables 13 through 16 under Criteria 3-B given the outcome of these discussions.

Upon confirming with the City Council that the City's general preference is for the construction of affordable units over contribution to the City's affordable housing fund for, in most cases, only fractional unit obligations of less than 0.5, staff intends to set point values in Criteria 3-A and 3-B such that the typical cost to an applicant to receive one point under Criteria 3-B (Construction of Affordable Units) is less than the typical cost to receive points under Criteria 3-A (Contribution to Affordable Fund).

Unlike the current system, the proposed criteria allows developers more flexibility to choose how they earn points by either constructing affordable units and/or contributing to the City's affordable housing fund. The proposed system does not specify that certain types of projects (e.g., large lot single-family detached, small, or micro) can choose to only contribute to the affordable housing fund.

Question: Does the City Council have any input, direction, or concerns on the approach currently proposed for affordable housing points under the new RDCS?

3. Downtown and Monterey Road Projects

Section 18.78.060 of the RDCS Ordinance (attached) states that through the year 2035, 500 allotments are set aside for projects within the Downtown Specific Plan area and that no more than 100 allotments are available for Downtown projects in a single year. To be eligible for allotments, a Downtown project must receive at least 80 percent of the total maximum score in the RDCS competition criteria. Eligible Downtown projects are not required to compete for allotments. Instead, allotments are awarded to Downtown projects on a first-come, first-served basis up to the total number of available set-aside allotments per year. The RDCS ordinance approved by the voters under Measure S in 2016 states that any changes to these requirements for Downtown projects require voter approval.

The RDCS Ordinance addresses the Monterey Road corridor not as a "set aside", but rather as a potential "competition category" where projects compete for allotments only with other similar projects within the competition category. As described in Section 18.78.090, each year the City Council may establish competition categories for certain types of projects such as projects in the Monterey Road corridor, small projects, senior housing, vertical mixed use, and multi-family rental.

For each competition category, the City Council identifies the number of allotments available for projects competing in the competition category. Like the Downtown provisions, the RDCS ordinance approved by the voters under Measure S in 2016 states that any changes to these requirements for competition categories require voter approval.

RDCS competition criteria related to Downtown and Monterey Road corridor projects are under Objective 2 (Location) beginning on page 11 of the Competition Manual. Criteria 2-A awards up to 10 points for projects located in or near Downtown and Criteria 2-B awards 5 points for projects in the Monterey Road corridor.

Concerns have been raised that it may be difficult or prohibitively expensive for Downtown projects to achieve the minimum 80 percent score under the new RDCS competition criteria. Similar concerns have been raised for Monterey Road corridor projects. These locations are generally constrained by site size to provide amenities, requirements for assembly of land, cost of acquiring improved land vs. vacant land, and smaller projects without enough units to bear the cost of major offsite improvement requirements such as undergrounding of utilities. The units in these areas often have a more affordable sale price.

The Planning Commission and staff are aware of this concern, and will include Downtown and Monterey Road corridor projects in the test of the new RDCS competition criteria. If the test results show that it is overly difficult or prohibitively expensive for Downtown and Monterey Road corridor projects to achieve a minimum score, staff will work with the Planning Commission on modifications to the competition criteria and/or points to create additional scoring opportunities for these projects.

Question: Should the RDCS Competition Manual maintain the current draft approach to points for Downtown and Monterey Road Corridor projects, with adjustments made as necessary after testing to ensure that it is feasible for projects to achieve the minimum required score?

4. Cost Calibration of Points

The new RDCS Competition Manual includes a number of criteria that are opportunities to award points for a project contributing funds to the City or for constructing off-site, non-project related physical improvements. As shown in Attachment 3, approximately 20 percent of available points are available for funds contributed to the City and 16 percent for the construction of physical off-site, non-project related improvements. The remaining 64 percent of points are available for location and on-site project features.

Under the current RDCS, points are also awarded for projects that contribute funds to the City or construct improvements beyond project conditioned improvements. The current process does not ask the applicant to target a commitment to actually build vs. pay the fee, but rather seeks a pledge of a certain contribution towards improvements. Applicants may suggest improvements that they believe the funds should construct. During the project development review process, land development engineering, using CIP information and priorities as well as a menu of projects, may request the developer to make certain improvements, which are then credited against the pledge, or contribute the pledge in cash. These dollars are often leveraged in collaboration with contributions from another project and potentially other City funds to complete a large scale improvement, such as utility undergrounding. Separating the pledge into a construct and/or payment option could become difficult to execute as small projects may not contribute enough to complete an improvement by itself. In this case the City may just request a cash payment. A review of recent projects receiving allotments found an average commitment of approximately \$31,000 per unit with a range of \$13,050 per unit for a large multi-family rental project to \$51,413 per unit for small project (see Attachment 4).

For projects contributing funds to receive points, the Competition Manual currently awards 1 point per \$1,000 contributed per unit. For example, a project receiving points under Criteria 5-A (Park Fund

Contribution) would receive 1 point for every \$1,000 contributed per unit to a maximum of 3 points.

Based on preliminary testing of criteria, staff believes that the standard point “cost” of 1 point for every \$1,000 contributed is likely too high and would require projects to make financial contributions significantly greater than are being made today to receive allotments. After the formal testing of the new competition criteria, staff will propose to the Planning Commission revised point “costs” that will enable applicants to receive allotments while making roughly similar financial contributions to the City as they do today. The one exception may be cost to receive minimum required affordable housing points, which will be based on the new standard BMR in-lieu housing fee set by the City Council.

Question: Should the RDCS competition criteria set the “cost” of points such that projects may receive allotments while making roughly the same financial contributions to the City as under the current RDCS?

5. Exercising Allotments with Recording of Final Map

Section 18.78.160 of the RDCS Ordinance states that “allotments must be exercised within 30 months of approval or by any alternative date specified in the Development Agreement. An allotment is considered exercised with the recordation of a final map, issuance of a grading permit, or the commencement of construction if no final map or grading permit is required.” This is a change from the existing RDCS, which requires commencement of construction within 30 months of allotment approval. This change was recommended by the RDCS Working Group and included in the RDCS Ordinance to reduce the need for projects to request allotment extensions.

To record a Final Map, a project does receive all entitlements, prepares improvement plans and records a Subdivision Improvement Agreement on a property which is secured by bonds and insurance. Typically a subdivider agrees to perform and complete all improvements within eighteen (18) months from the date of the recording of the Final Map; provided however, the City Manager may extend the deadline for completion by not more than six (6) months at his reasonable discretion and determination that granting the extension will not be detrimental to the public welfare. Additional completion date extensions may be granted by the City Council, with adequate justification.

Concerns have been raised that this change may allow applicants to officially lock-in allotments but then delay construction to a later date, possibly resulting in spikes in residential construction related to market demand that could be alarming to the public. With this kind of investment, it would be unlikely, unless financing and or market conditions make building impossible, but pacing could be impacted.

Section 18.78.160 is a portion of the RDCS Ordinance which may be modified by the City Council without voter approval.

Question: Should the City Council consider changes to 18.78.160 (Expiration of Allotments) of the RDCS Ordinance to require commencement of construction, not just recordation of Final Map or issuance of grading permit, within 30 months of awards of allotment or is the completion of improvements provisions required by the Subdivision Improvement Agreement satisfactory?

6. Agriculture Preservation and Open Space Funds

Competition criteria under Objective 5 (Parks and Open Space) award points that contribute funds for parks and open space, preserve open space and agricultural land, and provide parkland and

recreational amenities for residents. Criteria 5-D awards points to projects that either contribute to the City's Agricultural Preservation Fund or to the City's Open Space Fund. Currently agricultural and open space preservation contributions are maintained in a single fund. Criteria 5-D would require the City to establish two separate funds each dedicated for the separate purposes of agricultural preservation and open space preservation rather than continue with one fund as recently decided by Council.

Question: Should the City establish separately maintained funds for agricultural preservation and open space preservation rather than continuing to aggregate in a single fund where expenditures are made depending upon opportunity, policy goals, timing and implementation documents such as master plans?

7. Zoning Consistency

RDCS Ordinance Section 18.78.120.D states that the City must find a proposed project consistent with the General Plan and Zoning Code to consider the project for award of allotments. This requirement has been carried forward from the existing RDCS. Historically, the City has varied in its interpretation of this requirement, but in more recent history has interpreted it to mean that a proposed project must fully comply with the standards of the applicable zoning district and that a project which requires or desires a Planned Development (PD) zoning would not be eligible for allotments. It should be noted that projects compete in the RDCS under the base zoning district for their site, but later during the entitlement stage, nearly all seek a Planned Development (PD). Section 18.78.120.D is included in a portion of the RDCS ordinance that may be amended by the City Council without voter approval.

There is a need to clarify for the new RDCS the precise meaning of the zoning code consistency requirement in Section 18.78.120.D. Staff has identified several options:

1. Maintain the current interpretation of zoning consistency, which requires a project to comply with all applicable Zoning Code standards and precludes projects that require PD Zoning, a Zoning amendment, or a variance.
2. Modify the current interpretation of zoning consistency to include projects requiring PD Zoning after the award of allotments to be consistent with the Zoning Code. Although RDCS is not an entitlement process, the development community could presume that a PD would be automatically approved for their project if accepted through the RDCS for obtaining allotments.
3. Modify the current interpretation of zoning consistency to allow for certain limited/minor deviations from the zoning regulations (e.g., setbacks) at the RDCS application stage with the understanding that at the entitlement stage the project would either be modified to be fully consistent with zoning regulations or the project would need to secure approval of a PD Zoning to establish modified development standards.

Question: Should the City modify its current interpretation of the RDCS zoning consistency requirement?

8. On-Going Projects

Under the current RDCS, to be considered "on-going", a project would have typically completed a phase, have pulled 50 percent of the building permits for a phase and been in compliance with the adopted development schedule, been partially built, or have completed all planning entitlements

within one year of receiving allotments. These projects would have been eligible to receive allotments from a separate "On-going" category. Projects in this category, if they met the specified criteria, could receive allotments without submitting a new application.

On January 10, 2017, the Planning Commission awarded allotments for the 2016 RDCS competition. The goal of this year's awards was to complete as many projects as was possible under the current RDCS (Measure C) criteria. With the award of allotments as specified in Planning Commission Resolution No. 17-01 (attached), there were four (4) projects that were not completed. The following table demonstrates the total award to date and the allotments needed to complete each project:

Project	Total Allotments Awarded	Allotments Needed for Completion
RDCS2016-0014 Laurel-DeRose	31	14
RDCS2016-0015 Cochrane-Borello	71	173
RDCS2016-0016 Jarvis-MWest	10	373
RDCS2016-0018 Condit-Presidio Evergreen	88	14

Historically up to 15 allotments have been set-aside for this category.

With the proposed changes in the Measure S Competition Manual, if these projects are not considered on-going, they will have to compete using different standards than the other phases of their project. If they are considered on-going they also impact allocation distribution and availability.

Question: Should the concept of an "On-going" category be carried forward into Measure S and should the number of units in this category be increased to help complete projects that qualify?

COMMUNITY ENGAGEMENT: Collaborate

The Planning Commission workshops are open to the public and include opportunities for community members to participate in discussions by asking questions and providing input on the development of the RDCS Competition Manual.

ALTERNATIVE ACTIONS:

N/A

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

The Planning Commission held 10 workshops between October 11, 2016 and January 17, 2017 to review and provide feedback on the Draft RDCS Competition Manual.

FISCAL AND RESOURCE IMPACT:

Development of the RDCS Competition Manual, including staff and consultant time to support the Planning Commission workshops, is within the budget and work plan for this component of the Morgan Hill 2035 Project.

CEQA (California Environmental Quality Act):

Project, Description of CEQA requirements

An Environmental Impact Report (EIR) for the Morgan Hill 2035 Project, which included the Residential Development Control System (RDCS) Update, was prepared in accordance with the California Environmental Quality Act (CEQA) and certified by the Morgan Hill City Council on July 27, 2016. (SCH #2015022074)

LINKS/ATTACHMENTS:

1. New RDCS Ordinance (Chapter 18.78)
2. Draft RDCS Competition Manual
3. Objectives/Criteria Points by Category Spreadsheet
4. Summary of Measure C Funding Commitments (per unit) for Past Competition
5. Planning Commission Resolution No. 17-01