

BUSINESS OF THE COUNCIL OF THE CITY OF HALF MOON BAY

AGENDA REPORT

For meeting of: **September 21, 2021**

TO: Honorable Mayor and City Council
VIA: Bob Nisbet, City Manager
FROM: Jill Ekas, Community Development Director
TITLE: **2021 MEASURE D ALLOCATIONS TRANSFER**

RECOMMENDATION:

Adopt a resolution approving a transfer of twenty Downtown base Measure D allocations, comprising all of the Downtown base allocations remaining as of September 2021, to be used for new dwelling units proposed outside of the Downtown area, prioritized according to affordability and readiness (Attachment 1), and provide input on potential Measure D ordinance updates.

FISCAL IMPACT:

There is no fiscal impact associated with this update.

STRATEGIC ELEMENT:

This action supports the Inclusive Governance Element of the Strategic Plan.

BACKGROUND:

Half Moon Bay’s residential growth management system is referred to as “Measure D.” Measure D caps the maximum annual percentage increase in residential population at 1 percent, with an additional 0.5 percent allowed on development sites located within a defined “Downtown Area.”¹ Measure D is administered through an allocation system whereby “Measure D Certificates” are issued to eligible applications. One certificate represents one allocation, which is required for each new residential unit (including each new Accessory Dwelling Unit, or ADU and Junior Accessory Dwelling Unit, or JADU). The total number of certificates made available each year is determined according to Chapter 17.06 of the Municipal Code (Residential Dwelling Unit Allocation System). The calculations are reviewed and authorized annually by City Council every December for the next calendar year.

¹ The Downtown Area defined through the ballot measure consists of the City’s former Redevelopment Area.

At its meeting on December 1, 2020, the City Council authorized a total of 66 allocations for 2021. This includes 44 allocations inside Downtown (22 “base” allocations, and 22 additional or “bonus” allocations allowing for a 0.5 percent increase in this area as provided for by the ballot measure and associated implementing ordinance) and 22 allocations outside Downtown. As of April 28, 2021, all 22 allocations for outside Downtown and 2 Downtown base allocations had been issued. Twenty Downtown area base allocations and all 22 of the bonus allocations remain available. As of the drafting of this report, 17 additional applications requesting a total of 27 Measure D certificates for sites outside the Downtown area have been submitted. They include 10 applications for individual ADUs, one application for an individual JADU, 5 applications for a single-family residence with an ADU, and one application for 6 units (comprised of a duplex with two ADUs and one single-family residence with an ADU on a site containing two parcels).

Municipal Code section 17.06.120.F (Distribution of residential dwelling unit allocations) provides for reallocation of Downtown base allocations in September as follows:

*If the maximum number of residential dwelling unit allocations has not been applied for by September 1st, any unused **base allocations** granted for the downtown area as provided in Section 17.06.020 may be transferred to projects located outside of the downtown area. Additional allocations granted for the downtown area as provided in Section 17.06.020 shall not be transferred to projects located outside the boundaries of the downtown area. (Emphasis added.)*

Thus, as of September 1, 2021, the 20 Downtown base allocations could potentially be made available for sites outside Downtown.

At its meeting on September 17, 2019, the City Council approved a process for considering potential transfers (Attachment 2). The process specifies that Council is not obligated to approve transfers; however, if it chooses to do so, transfers must be approved by resolution based on findings. The process is also consistent with the Municipal Code with respect to timing wherein transfers are to be considered during the months of September or October. The procedure intended to provide flexibility for years in which all Measure D allocations outside Downtown have been issued when base allocations for inside Downtown remain. The City Council also opted to emphasize housing affordability and project readiness in the process. The required findings are as follows:

- That there are no known pending applications for a project(s) within Downtown needing Measure D Downtown base allocations.
- That the transfers are prioritized for projects outside Downtown that include some form of more affordable housing, including but not limited to accessory dwelling units, duplexes, triplexes, or other multi-family units.
- That the applicant applying for a Measure D allocation for outside Downtown demonstrates that the application(s) for the associated permit(s) have been prepared, including but not limited to a Coastal Development Permit or a Building Permit.

- That transfers may be allocated to single-family homes that include a component of affordability including an accessory dwelling unit or a City approved deed restriction.

The procedure further specified that City Council consider any other criteria it deems applicable for allowing transfers for projects outside Downtown that meet stated City objectives.

DISCUSSION:

Council is being asked to consider transferring the 20 remaining Downtown base allocations to projects proposed on sites located outside Downtown. At this time, all 22 certificates for outside Downtown have been issued, including 6 for three applications including both a single-family home and an ADU (thus two allocations per application), and the remaining 16 for ADUs. As stated above, there are now 17 additional applications for 27 total Measure D certificates for sites outside Downtown that have not yet been issued. Two of the 2021 Downtown allocations (total of 44, including 22 base allocations) have been issued and no significant pending projects within Downtown are anticipated before the end of the year. There are no known pending applications for projects within Downtown that need Measure D base allocations at this time.

Staff recommends that City Council transfer all of the remaining 20 base Downtown allocations to support development of 20 new dwelling units proposed outside Downtown.

Prioritization of Transfer Allocations: Measure D allocations are initially offered in the first quarter of each calendar year following application submittals in January. In the event where more applications are received than applications available, a ranking process must be followed with Planning Commission confirmation. This part of the Measure D ordinance is quite detailed and includes timelines and other criteria to regulate administration of these initial allocations. This year, 29 outside Downtown allocations were requested in January and 22 (the maximum available) were awarded by the Planning Commission in March based on the ranking process. However, while the ordinance allows the City Council to make transfers in September, it does not mandate use of the ranking process nor does it obligate Council to approve transfer requests.

Since the Planning Commission ratification of the January 2021 Measure D applications, two applications for Downtown allocations were received and issued which resulted in fewer applications available for potential transfer. Additional applications were also received from applicants interested in a potential transfer, including several of those who were not awarded certificates from the March ratification process as well as a number of new applications. Staff informed applicants seeking transferred Measure D allocations that they would need to wait until September to find out if Council would transfer any allocations. Staff established and published a schedule and procedure for applying for transfers. Applicants were strongly encouraged to submit plans and to fill out the Measure D scoring criteria to help with application ranking.

If City Council decides to allow transfers, staff recommends that they be allocated to specific applications according to the following criteria consistent with the 2019 adopted transfer procedures:

- **Affordability:** Exemplified by projects that propose to include a deed restricted affordable dwelling unit, and those that include ADUs and JADUs and thus conform to the basic Council criteria seeking more affordable types of housing; and
- **Project readiness:** Exemplified by providing a full plan set with the Measure D application.
- **Town Center:** Where a project does not exemplify both affordability and readiness, those that are located within the Town Center as defined by the 2020 Local Coastal Land Use Plan (LCLUP) are prioritized over those that are outside the Town Center. Attachment 3 provides a map showing how the projects requesting Measure D transfer allocations align with the Town Center boundary.

Projects that meet both criteria – affordability and readiness - are recommended for approval. Three applications for a single-family residence with an ADU (six allocations total) did not demonstrate readiness and are not recommended for approval. One application for an ADU outside Town Center, which does not have well-developed plans, is also not recommended for approval.

Summary: Staff recommends approving the transfer request for the following Measure D applications:

Project Type	Number of Allocations Requested	Number of Allocations Recommended per Ranking
Multi-family units	2	2
Single-family units with ADUs (Each such application is for two allocations)	12	6*
ADUs (with existing an existing single-family home)	12	11
JADUs	1	1
Totals	27	20

**Note: Four of these units are proposed to be deed-restricted affordable.*

Applicants who do not receive allocations at this time may apply again in January 2022. These include:

- 1049 Railroad Ave. (Single-family residence + ADU)
- Grove & 1st (Single-family residence + ADU)
- Poplar & 4th (Single-family residence + ADU)
- 415 Myrtle (ADU)

Staff will assist these applicants with the January submittal process. Because none of these applications included well-developed plans, better preparation is expected to improve application scores under the current system, as well as with any proposed update to the scoring system, such as the concept described in the next section of this report.

MEASURE D ORDINANCE STUDY SESSION:

As briefly discussed during the ADU ordinance update process, staff recommends updating the Measure D ordinance. As it stands, the Measure D ordinance provides some support for ADUs and smaller, more affordable dwelling units. However, the increase in demand for Measure D certificates for ADUs and the need for stronger affordable housing incentives has driven interest in updating the Measure D ordinance from both the community and the City. The Measure D ballot measure language cannot be changed without going back to ballot, but there are opportunities for improving the Measure D review and approval process within the ordinance language. Staff suggestions include updating both the ranking criteria and allocation requirements. City Council policy guidance is sought now in advance of the additional research and full legal review required for this work. It is also of note that some of these approaches, as well as ideas that may be suggested by City Council, may be foreclosed by specific ballot measure language. That said, staff believes that it is possible to make highly effective improvements to these complex regulations.

Ranking System: Staff's initial assessment is that the ranking system can be significantly updated because the ranking system is not part of the ballot measure language. The current ranking categories include infill sites; home size scale and clustering; design for walking and biking; design for safety and social gathering; design for diverse households; and landscaping. While all of these criteria remain valid, the associated point values skew away from City Council's priorities, and some of the specific criteria have been superseded by various laws and City policies. To simplify the ranking system, align it to City Council priorities (especially with respect to affordable housing), and establish consistency with the LCLUP, staff recommends focusing on the following categories: Town Center, affordability, accessibility, sustainability, LCLUP consistency, and readiness.

- **Town Center:** Project sites located in the Town Center would rank higher than those outside the Town Center. This would simplify the assessment of infill sites. Town Center contains most of the "Downtown Area" specified in the ballot measure, but is larger and includes parts of town that City Council chose for infill development over the course of the LCLUP update. Similarly, infill sites within established neighborhoods as presented in the LCLUP would rank higher than sites in the substantially undeveloped areas. Workforce Housing Overlay units would be considered infill units if outside the Town Center.
- **Affordability:** Units made affordable through deed restrictions or other mechanisms to extremely low, very low, and low income households, including

Workforce Housing Overlay units, would receive significantly more points than any other units. Units that are more affordable by design (e.g. ADUs, mobile homes, smaller units, multi-family units) would also receive points related to affordability even if they are not deed restricted.

- **Accessibility:** A significant number of points should be available for wholly accessible units; and a modest number of points could be awarded for “visitable” units. It is notable that accessibility is also a sustainability measure in that accessible design results in homes will require less retrofitting in the future in the event that a household’s need for accessibility change, saving resources and money over time.
- **Sustainability:** Sustainability is a broad topic. The current ranking system recognizes solar access, passive cooling, use of recycled materials, and water conservation. For an update, points could be awarded for projects that significantly exceed State Title 24 requirements which address energy conservation and relevant standards of the forthcoming Climate Action and Adaptation Plan. However, it is noted that at this time the City is also developing an electrification ordinance that will accomplish such an outcome relative to energy conservation and associated reductions in greenhouse gas emissions. Instead of a broad-brush approach to ranking projects relative to sustainability measures, staff suggests that this category be simplified to focus on water conservation, which is a highly pertinent local need.
- **Local Coastal Program (LCP) Consistency:** Sites would be eligible for consistency points if the proposed project would not be anticipated to have an impact on environmentally sensitive habitat areas, coastal access, visual resources, or otherwise require a variance or exceptions.
- **Readiness:** Projects that demonstrate readiness by submitting a full draft plan set with their Measure D application would rank modestly higher than projects that submit a partial plan set, site plan only, or no plans. The importance of readiness has become increasingly significant. Some applicants who receive Measure D allocations do not proceed with their projects within the one-year effective period during which a complete application for a coastal development permit or building permit (as applicable) must be submitted. At the end of the year, the allocations expire, unless they qualify for a one-time six-month extension associated with building permit review. Several have expired and are thus wasted.

A conceptual update to the ranking system is presented as Attachment 4.

Allocation Requirements: As a second part to this effort, the allocation requirements could also be updated. Measure D allocation requirements contribute to an annual population growth rate that is less than the permitted 1 to 1.5 percent, with allocations

not fully utilized, even in years where demand exceeds supply. This condition is a result of how the system is currently administered per the requirements of the ordinance. While ensuring consistency with the ballot measure, the focus in updating allocation requirements will be to make the most of the available allocations. Timing for this work is better enabled now that 2020 census data is coming forth; it will be an important part of the planning analysis. Staff intends to prepare the following updates to the allocation requirements, subject to a robust review of legal feasibility:

- Partial Allocations: Measure D could be updated to allow for partial allocations for different types of housing units. Persons per household is on average lower for certain types of units, including ADUs. Staff’s initial recommendation is to focus on ADUs:
 - ADUs - One-half Allocation: This would be consistent with the certified LCLUP wherein ADUs were modeled as one-half of a single-family home based on their occupancy and infrastructure demands.
 - JADUs – No Allocation: JADUs are created by converting existing space within a residence and can be no more than 500 square feet. For permitting purposes, they are treated like tenant improvements, do not require a coastal development permit, and typically provide improved living conditions for household members already living in the primary dwelling.
- Phasing: For larger projects involving ownership units in subdivisions, the process currently allows for phasing Measure D allocations over multiple years. It has rarely been used. For a larger residential rental project, such as an apartment building, no subdivision is included and therefore phasing for this type of development is not specifically allowed. Some means for supporting such developments, which would likely include affordable units, should be included in an update to the allocation requirements.
- Transfers: As previously noted, sometimes allocations are granted and then not used. A transfer process could better assure that allocations are utilized when there is demand, especially for affordable units. Transferred allocations would first need to be relinquished to the City, and then the City would reallocate to another qualifying project during the same allocation year. Transfers directly from one property to another would not be allowed.
- Banking: Unused allocations from any given year do not “roll over.” Staff is evaluating a mechanism whereby unused allocations would roll over **to the City** and be banked for affordable housing. The City could then give these allocations to developers seeking to build qualifying units. This mechanism would support implementation of the City’s Regional Housing Needs Allocations (RHNA) in the forthcoming RHNA cycle 6 Housing Element, which has a significantly greater

requirement for affordable unit production than in the previous cycle 5. Of all the recommendations, banking is likely the most meaningful change in support of affordable housing; however, it may also be the most challenging to implement in alignment with the ballot measure language.

Other updates include:

- **September Transfer Process:** The discretionary September transfer process is not well defined. Updates would establish an application window and deadline for requesting a Measure D transfer, as well as clarification about if and what scoring criteria should be used for review of Measure D transfer requests.
- **Fees for Measure D Allocations:** The current fee is \$610/unit for all types of dwelling units, except ADUs and JADUs. At this time, there is no fee for Measure D allocations for ADUs or JADUs. The Measure D ranking process is time consuming, even for ADUs. The updated ADU ordinance approved by City Council in August would allow a fee to be charged for processing Measure D allocations for ADUs. ADUs will be added to the fee schedule for next year's fiscal year budget, for 50 percent of the standard fee. More importantly, there are no fee reductions for affordable units. Staff recommends that Measure D fees be waived for any units affordable to extremely low, very low, and low income households, including Workforce Overlay units.

Next Steps

Updating the Measure D ordinance is included in this year's work plan for supporting City Council's priority for affordable housing. Assuming Council's direction is to move forward, a draft ordinance will be presented to the Planning Commission. Planning Commission and City Council public hearings would follow. Any update to the Measure D provisions will require California Coastal Commission certification.

ATTACHMENTS:

1. Resolution for 2021 Measure D Transfer of Twenty Allocations
2. Resolution C-2019-81 Procedure for Transferring Measure D Allocations
3. 2021 Measure D September Transfer Projects Map
4. Conceptual Measure D Ranking System