

BUSINESS OF THE COUNCIL OF THE CITY OF HALF MOON BAY

AGENDA REPORT

For meeting of: **September 4, 2018**

TO: Honorable Mayor and City Council
VIA: David Boesch, Interim City Manager
FROM: Jill Ekas, Community Development Director
TITLE: **HOUSING WORK PLAN CONFIRMATION**

RECOMMENDATION:

By motion, confirm the components of a two-year Housing Work Plan, including priorities and general direction on specific measures.

FISCAL IMPACT: The Housing Work Plan includes a range of initiatives that can be developed primarily by Community Development Department staff. In some cases, collaboration with other departments will be required, including the City Manager, City Attorney, and Administrative Services. City Attorney support could have a modest fiscal impact if legal support expends more hours than were budgeted for FY 2018-19.

STRATEGIC ELEMENT:

This action supports all Elements of the Strategic Plan: Infrastructure and Environment, Healthy Communities and Public Safety, Fiscal Sustainability, and Inclusive Governance.

BACKGROUND:

The City's 2015-2023 certified Housing Element includes goals, policies and implementation programs supportive of the development and preservation of affordable housing. Several Housing Element programs have been or are in the process of being implemented, including the on-going effort to utilize the City's Below Market Rate program to require affordable units to be built within market rate projects (program 2-1); current work on updating the accessory dwelling unit ordinance (program 2-3); ongoing effort to support small lot development (2-4); and completed zoning amendments addressing requirements for transitional and emergency housing (program 3-6) among other ongoing efforts. Based on recent City Council direction, described below, other implementation programs are becoming ripe. These include utilization of the City's Affordable Housing Fund (program 2-7); continued removal of constraints (program 3-1); revising development standards such as parking requirements (program 3-8); and a variety of other programs that pertain to the production of diverse housing options.

Because this is such an active area of interest for City Council and the community, staff is proposing to establish a Work Plan for Council's consideration to prioritize and track these various efforts. The Work Plan is not meant to serve as a growth plan or any other land use initiative. It will be an implementation tool for addressing housing insecurity for Half Moon Bay residents, consistent with the City's LCP and certified Housing Element, and reflective of City Council's interests.

Recent City Council direction about housing insecurity and affordable housing came out of the priority setting process for FY 2018-19. At the City Council listening sessions and retreat this past spring, community members highlighted a range of concerns about housing affordability in Half Moon Bay and on the Midcoast. At the retreat, Council directed staff to bring back options for establishing stronger tenant protections, allocating the City's Affordable Housing Fund, and supporting the production of diverse and more affordable homes in and around Downtown and within established neighborhoods.

After the retreat, Council and staff have continued to engage the community and to work on Council directed initiatives including the following:

- *Process Streamlining:* The Mayor has been hosting meetings with community members, real estate professionals, and others with direct knowledge of and interest in the development entitlement process. One purpose of the sessions has been to gather input with a view to support economic development, including ways to improve the City's entitlement review process, especially for mixed-use and multi-family development within the town center area. City staff members have attended some of these sessions and have also been working with developers, architects and community members to gain insight into various aspects of the entitlement process for projects that are consistent with the City's Local Coastal Program (LCP) and City Council's interest in encouraging infill development in the downtown area.
- *Accessory Dwelling Units:* Over spring the Planning Commission held four sessions to oversee preparation of a comprehensive update to the City's accessory dwelling unit (ADU) ordinance. The updated ordinance is now being considered by Council. Once an updated ordinance is finalized and approved by City Council it will be submitted expeditiously to the Coastal Commission for their review and action.
- *Community Conversation about Housing:* The City has partnered with Home for All of San Mateo County to help broaden and deepen the community's understanding of housing conditions and needs. A first "Community Conversation about Housing" was held July 15, 2018. The session intended to provide community members from diverse backgrounds a chance to talk with each other and to develop a common appreciation of housing challenges in Half Moon Bay and on the Midcoast. It was well-attended by about ninety participants and a detailed summary is provided in Attachment 1. A second Community Conversation is being planned for October 23, 2018 and its content will be relevant to the Housing Work Plan options considered in this report.

Through Council's listening sessions and retreat, the Mayor's streamlining initiative, preparation of the accessory dwelling unit ordinance, and Community Conversation about Housing in July, numerous approaches have come to light for addressing Half Moon Bay's housing needs. This background informs the establishment of a Housing Work Plan. With Council's input on these approaches, staff will prepare the Work Plan and return to Council for further input while the plan is initiated.

DISCUSSION:

Council and the community clearly appreciate that housing affordability is a complex matter. To that end, the Housing Work Plan as proposed in concept includes measures for addressing immediate needs as well as for developing and implementing longer-term policy. The range of policies and programs utilize the same basic tools: new and improved processes, new and updated regulations, and prudent use of funds. As envisioned, the Work Plan will include four categories:

- Immediate: Addressing Current Needs
- Near-Term: Process Improvements
- Near and Mid-Term: Zoning and Other Regulations
- Longer-Term: Policy

Based on Council's recent input, as well as community interest, the following discussion presents an initial set of measures in each category for Council's consideration.

Immediate: Addressing Current Needs -

The July Community Conversation about Housing and other City sponsored dialogues and meetings indicate strong concern and support for helping those in immediate need due to housing insecurity. Three primary approaches are outlined below:

- *Tenant Protections:* Tenant protection measures include minimum lease terms with provisions for enhanced notification and mediation; just cause eviction requirements and relocation assistance payments required in the case of "no fault eviction." San Mateo County and the cities of San Jose, Mountain View and Palo Alto among others have adopted some components of tenant protection measures. Best practices for these measures are well developed. Tenant protection measures tend to be more palatable to landlords and possibly more beneficial than rent stabilization (aka "rent control") measures as explained below.

Some community members have asked about rent stabilization and thus the following information is also provided. Referencing readily available data from the 2015-2023 Housing Element, as of 2011, 29 percent of Half Moon Bay's households rent, which correlates to about 1,300 households. The intent of both tenant protection and rent stabilization measures would be to support these 1,300 households, and there are limitations for doing so. Primarily, pursuant to the Costa-Hawkins Rental Housing Act of 1995, rent stabilization provisions cannot be applied to single-family homes,

condominiums and apartments constructed after 1995. These limitations apply to much of Half Moon Bay’s housing stock as summarized below:

Housing Type	Approximate # of Units	If rented, would unit be eligible for rent stabilization?
Single-Family: <ul style="list-style-type: none"> • Attached • Detached 	3,370	No
2 or More Dwelling Structures: <ul style="list-style-type: none"> • Duplexes/Triplexes/Quadplexes • Multi-family apartments and condos 	720	It depends. See discussion below.
Mobile Homes	450	Possibly, however mobile home park rent control, tenant protections, and conversion topics are complex. Such a discussion is beyond the scope of this report.

Source: 2015-2023 Housing Element, 2011 American Community Survey, rounded to nearest ten.

Approximately 16 percent of the city’s total housing stock, or 720 units, are “multi-family” and comprised of duplexes, triplexes, four-unit complexes, and multi-family housing development with five or more units. Nearly 300 of these 720 units make up the city’s affordable housing inventory, which are restricted for occupancy to households of specified lower income levels. The rental rates are essentially already controlled for these units. Of the remaining approximately 430 multi-family units, an unknown number are owner-occupied; such as in the case of condominiums not accounted for in the single-family attached category, and duplexes and triplexes in which the owner lives in one of the units. More research would be required to determine how many housing units in Half Moon Bay could be subject to a rent stabilization measure; and moreover, what the actual effects of such a measure would be. In any case, it appears that for the 1,300 households that rent, it is likely that significantly more families and household groups can be supported through tenant protection measures than through a rent stabilization approach.

Rent stabilization measures have been difficult to adopt in other jurisdictions, including most recently Pacifica and Burlingame, where in both cases such measures failed to pass as voter initiatives. Because of this challenge, in order to address housing insecurity for renters in the near-term, staff recommends that Council direct preparation of a tenant protection ordinance as part of the Housing Work Plan for review by the Planning Commission and City Council. The draft ordinance could be available for community input as soon as this fall. A State ballot initiative coming forward to voters in November (Proposition 10) may repeal the Costa-Hawkins Act. If Council is interested in discussing rent stabilization, staff suggests waiting until that outcome is determined.

- *Affordable Housing Fund:* The City currently holds approximately \$2.1 million in a fund established to support affordable housing. The monies were collected from developers paying fees in-lieu of developing affordable housing units within their projects. Commencing use of the Affordable Housing Fund could address both housing preservation and kick-start affordable housing production in the near-term. The following considerations are basic components of how to utilize and manage the affordable housing fund.
 - Tenant and Homeowner Assistance: A portion of the funds could be used to support renters at risk of losing their housing as well as homeowners who are unable to make important maintenance and safety upgrades to their homes. Staff suggests that Council consider allocating a portion of the Affordable Housing Fund to near-term needs, such as 25 percent, to be spent over a four or five-year period. In this case, that would amount to \$100,000 - \$125,000 per year. Most cities, and especially those without a housing department, allocate these funds to local, experienced service providers, and may also seek support from the San Mateo County Department of Housing for housing program implementation services. Providers would convey funds to help tenants facing financial stress which might go to first and last month rent, damage deposits, or other expenses that can result in housing loss; alternately some providers offer legal aide. The allocations could be made annually to the service providers who would demonstrate with each year's application how funds were used in the past and how they will be used over the next year. The funds can be limited to supporting Half Moon Bay residents.
 - Affordable Housing Production: To help produce new affordable housing units, the City could use the remainder of the funds to enable one or more development opportunities. Staff suggests reserving a larger portion of the Affordable Housing Fund to support housing production because it is very difficult and expensive to put these complex projects together. To this end, affordable housing developers often seek and need funding for site acquisition and early design development. City funding is ideal for that phase. Once built, the affordable homes are managed by a non-profit for the useful life of the development and thereby contribute to the City's affordable housing inventory for fifty or more years. To continue with the example started above whereby 25 percent of the Affordable Housing Fund is used for immediate assistance, 75 percent or about \$1.5 million would remain available for production, which could be enough to help initiate one or two projects. Also Note that the City's support of such a project would be but one of many funding sources an affordable housing developer would require to finance such a project.
 - Affordable Housing Fund Allocation Method: A transparent and objective process is essential for allocating funding. For near-term funding allocations, an annual application, distribution, and monitoring/reporting routine would need to

be established. To support one or more affordable housing projects, a separate process would likely include a funding availability announcement when the City is ready. The notice would indicate the City's priorities for use of the funds, such as affordability levels, minimum number of units, or specific locations.

- Affordable Housing Fund Sources: In recent cases, Council has directed that the production of affordable units be included within market rate developments. Thus, these projects are not likely to collect much if any additional contributions to the housing fund via in-lieu fees. Once the City begins to actively utilize the Affordable Housing Fund, such as described above, it could well be depleted within a few years. Staff suggests exploring additional sources for maintaining a useful Affordable Housing Fund. For example, other cities have adopted linkage fees. Fees are collected at the time of Building Permit issuance for residential and/or commercial development. These fees can only be established following completion of a housing affordability nexus study. A County-wide study was completed several years ago and could be a starting point for this work.
- *Emergency Housing:* Community members have been offering up ideas for emergency housing over the past year, especially in conjunction with the recent cleanup of the homeless encampment behind Safeway. Council has been extremely careful with the process for removing the encampment and throughout that process sought ways to provide housing and support services to the people who resided in the encampment. Suggestions for using RVs, setting up temporary shelters, and other approaches have been floated, but are difficult to implement, in particular due to the limited number of available sites and associated constraints.

Staff understands that many homeless Half Moon Bay residents are eligible for rental assistance but have not been able to find landlords willing to accept vouchers. We believe that established voucher program hold promise for vulnerable community members to find housing within existing development. The City Manager's office has been researching means for making this pre-existing and potentially effective method more successful in Half Moon Bay. We recommend that pursuit of this approach be included in the Housing Work Plan.

Near-Term: Process Improvements –

Housing development, including additions and other improvements, typically requires some type of permitting. The City offers many over-the-counter ministerial permits for basic building maintenance and improvements. With the forthcoming ADU ordinance update, shorter entitlement review for those units is also expected; however, it should be noted that the Community Development Department has already been focused on speeding up ADU review and has set a goal of 30 days for Planning entitlements for conforming ADUs. Additional process improvements underway or in consideration include the following:

- *Early, Consistent, Coordinated Review:* Input from applicants, contractors, and developers indicates that the following processes are helpful: pre-applications, early coordinated agency review, and established standard conditions of approval that provide consistency. The City has been implementing these measures for some time; however, we continue to identify ways to improve the process. For example, coordinated review of early applications is conducted within two-weeks in most cases and applicants receive a comprehensive and coordinated summary letter within 30 days. This review includes all applicable City departments as well as outside agencies including the water, sewer, and fire districts.
- *Fees:* The City's fees were comprehensively updated July 1, 2017 at the start of the last fiscal year. For this fiscal year, fees were increased by a Council approved multiplier which will be applied annually until another fee study is completed. Staff has heard that some community members felt that they were not well-informed in advance of the fee increases in 2017. In addition to this feedback, in working with the new fees, staff has identified several that need to be reconsidered for various reasons. Once the ADU ordinance is adopted by Council, the ADU fees will need to be updated in anticipation of Coastal Commission certification of the ordinance. At that time, staff will bring updated ADU fees as well as several other changes to the fee schedule for Council's consideration. Fee changes will be in keeping with the recent master fee study, coordinated with the Administrative Services Department, and also responsive to Council's priorities, including the Housing Work Plan, as well as other policy matters.
- *CEQA Exemptions for Downtown Infill Sites:* There are opportunities for streamlining the environmental review process for infill sites within existing developed areas, especially in Downtown. The California Environmental Quality Act (CEQA) outlines a range of potentially applicable exemptions from having to prepare environmental review studies; however, it is important to note that exemptions are applied on a case-by-case basis following an evaluation of the facts of each situation. Also, most of the recent infill exemptions enacted by the State legislature are targeted to denser urbanized areas with well-developed transit services. Some exemptions, such as SB 35 (The Housing Accountability and Affordability Act) do not apply in the Coastal Zone. Staff recommends including utilizing CEQA exemptions for infill sites as appropriate. It is anticipated that as this is implemented, policy questions will arise, and follow-up on this item with the Planning Commission and Council will likely be necessary.
- *Design Review:* Staff has been concerned about the current approach to design review, especially for larger projects, which could include multi-family development. The Planning Commission is currently tasked with this responsibility, which can be difficult to conduct in an evening meeting public hearing format. It is also of note that design review is a significant responsibility on top of the Commission's already extensive role in implementing City LCP and Coastal Act requirements, CEQA, and other land use matters.

To support the Commission, applicants have been encouraged to submit preliminary applications. Staff planners and engineers are adept at providing site plan level design review, which can be key to getting projects off on the right foot. From there, applicants are also encouraged to present their proposals to the Planning Commission in early form in a study session format. This has been helpful. Yet, because architectural design development and review is a highly technical and iterative process, it is best performed by trained professionals. Despite attempts to bring aboard a planner with depth in design review, it has not worked out. Thus, staff is seeking other options including commissioning a contract “Town Architect” or reestablishing an Architectural Review Committee. It is important to have an efficient and effective design review process to improve the quality of projects and provide reliable guidance to applicants. The Planning Commission has expressed support for changing the design review process in the recent past.

Near and Mid-Term: Zoning and Other Regulations -

Several zoning regulation updates are underway or anticipated. Some support the ability of homeowners to generate income through additional use of their property including accessory dwelling units, short-term vacation rentals and home occupations. Other standards under consideration could ease development standards that may unnecessarily constrain housing production. These include parking requirements and small lot development standards. The City’s below market rate ordinance which has been limited scope could be also be revised.

- *Accessory Dwelling Units:* The ADU ordinance status was previously acknowledged earlier in this report. Staff considers adoption of the ADU ordinance in compliance with State law to be a priority. Community members have provided positive feedback and a few are considering their options for developing ADUs under new provisions.
- *Short-Term Vacation Rentals:* Council has previously prioritized short-term vacation rentals (STRs) from the perspective of economic development and ensuring that transient occupancy tax (TOT) is collected from these businesses. This year, work on STRs continues with a focus on land use controls. In March 2018, the Planning Commission held a study session on STRs to begin to sift through the numerous land use implications. This summer, staff has been reaching out to stakeholders. Research has also been on-going, including collaboration with Coastal Commission staff. Following additional community input opportunities and a Planning Commission hearing, a well vetted draft ordinance will come before Council, likely in early 2019. From the perspective of housing affordability, STRs are tricky. Renting a room for short-term guests, or an entire residence from time-to-time can provide excellent supplemental income to the homeowner. Extensive use of residences for STRs, although economically favorable to the property owner and city, can effectively remove the home from the city’s housing inventory. Neighborhood compatibility, safety measures, and numerous oversight and administration matters are also being considered in this work.

- *Home Occupations:* Through the LCP update process, there has been support for increasing employment opportunities for Half Moon Bay residents, within existing development. The City's existing Home Occupation standards allow for such opportunities, but on a limited basis, with only residents of the home able to work for the home-occupied business. Recently the Chamber of Commerce requested that the City look into updating this ordinance. Allowances for employees, consideration of parking standards and other updates have been outlined. Although not directly applicable to affordable housing, home occupation standards can be supportive of both neighborhood integrity and economic vitality. An update to this ordinance could come forward in early 2019.
- *Parking Standards:* Half Moon Bay's parking requirements have not been updated to address the actual parking demand of multi-family and mixed-use development. Staff has studied and estimates that the code as written will tend to overpark projects by approximately 30 - 50 percent in most cases. The unrealistic standards have led to requests for parking exceptions, which must be acted on by the Planning Commission. Staff proposes to update the City's parking requirements to lower parking standards and incorporate other types of parking requirements such as for EV charging stations, bicycle parking, motorcycle parking, and room for paratransit. An update to the parking requirements for these standards is fairly straightforward and could be prepared in the first half of 2019. In a future year, additional considerations could be made regarding shared parking within new development, establishing parking in-lieu fees as a revenue source to fund production of additional shared parking facilities, and other approaches. Such strategies require additional data gathering, research, and analysis and cannot realistically be brought forward for at least eighteen months.
- *Small Lot Development Regulations:* Within the past few years, the Planning Commission and Council considered revising small lot development regulations, especially with respect to duplex development. Due to complexity and competing interests, this was set aside at that time. More recently, there is reviving interest in supporting small lot development within existing neighborhoods. There are numerous non-conforming small vacant lots dotted throughout the city's older neighborhoods. This past spring, the Planning Commission reviewed two cases in study session and has also approved development of two small single-family lots, which required parking exceptions. The Community Development Director has also approved several smaller homes on small lots in recent months. The standards for small lots are very restrictive with respect to parking; while being quite permissive with respect to setbacks and home sizes. The need for reasonable exceptions complicates the process. Staff believes that based on Planning Commission action and community comfort that the regulations can be adjusted to simplify the process, ensure consistency and fairness, and overall encourage infill development of these small lots with smaller and inherently more affordable homes. This effort could be taken up in the second year of the Work Plan.

- *Below Market Rate Housing Ordinance:* The current below market rate (BMR) ordinance (Chapter 18.35) requires that 20 percent of dwelling units in market rate ownership housing developments (e.g. condominiums and subdivisions) be affordable lower income households. Until recently, BMR ordinances could not be imposed on rental development, such as apartments. Recent State law has rescinded that restriction. The City could update the BMR ordinance to be applicable to rental housing and could also consider a threshold lower than ten units, or other changes. Staff suggests that this might be more appropriate to address in the second year of the Work Plan because there are so many other near-term priorities and there are no large multi-family market rate rental developments proposed at this time.

Longer-Term Policy:

Longer term initiatives will be addressed in the LCP. Currently the Planning Commission subcommittee is working through that comprehensive update. With respect to the Housing Work Plan and the overall thrust to address housing affordability within a sustainable development pattern, draft LCP policy will address the following:

- *Creative and Diverse Housing Solutions:* At the July 15, 2018 Community Conversation about Housing, several table discussions resonated around ideas for smaller, simpler, and more affordable types of housing. Suggestions from that meeting, as well as through the LCP update outreach, has identified interest in prefab homes, tiny houses, more mobile home parks, use of RVs for emergency housing, appropriate amounts and types of farm labor housing, and support for the ADU ordinance update that has been in progress. These types of options will be included in the LCP update, and this is the subject area of focus for the next Community Conversation about Housing on October 23.
- *Water Policy:* Council has directed that the LCP should include policy to acknowledge affordable housing as a priority use with rights to priority water connections. Other water policy considerations pertain to water availability, water demand, and situations involving change of use. The Zaballa House is a helpful example. Recently eleven of its lodging rooms (a priority use) were approved for conversion to six small apartments (a nonpriority use). The Zaballa House has a priority water connection which will continue to serve a priority use. Staff made the determination that if the existing water connection is adequate for the existing ground floor development and the converted lodging rooms, then no additional connection should be required. If an additional connection is required, it will need to be nonpriority. Although there are numerous bases for this conclusion, this is a band aide approach to an issue that could involve a lot more water and have very costly implications. The LCP will provide policy guidance for moving forward with this type of situation.
- *Categorical Exclusion Areas:* Similar to CEQA exemptions referenced earlier in this report, it is also possible to simplify permitting under the LCP in certain circumstances. Currently, exemptions from Coastal Development Permits are available for small

projects. However, it is foreseeable that the City could establish exclusion areas approved by the Coastal Commission to enable use of waivers. The LCP will provide policy context for carefully applying this technique.

- *Measure D - 1% Annual Population Growth Limit:* As a ballot initiative, Measure D in and of itself cannot be changed without going back to voters. That said, there is some latitude in the implementation of Measure D. Two areas that have come up in the LCP discussions include where the 0.5% growth bonus units can be located and if “fractional” or “partial” certificates could be used for smaller units because they have lower occupancy and fewer impacts than larger single-family homes. The bonus area boundary from the ballot measure is the former Redevelopment Area which is no longer relevant. The Council defined Downtown core area is more appropriate for the bonus based on the intent to focus infill development within the town center. Partial certificates are another matter that have not been considered by voters.
- *Other Policy Areas:* Many other policy considerations will come through the LCP update including build out of the town center and the planned development areas in the core; preparing a new plan for Downtown; encouraging shopping center retrofit with residential units; and many more.

Conclusion

The scope for addressing housing affordability is broad and includes approaches that Council has not yet had an opportunity to study. It is also beyond staff’s ability to complete the components anticipated to be included in the Work Plan in one fiscal year. Thus, staff recommends establishing and implementing a multi-year Housing Work Plan, in line with Council’s direction and consistent with the City’s certified Housing Element. As envisioned, the Housing Work Plan will not be an elaborate stand-alone document. Rather, it will serve to track both the Housing Element’s programs and City Council priorities for an initial two-year period. Provided there is Council support, a draft Work Plan with a sample format will be provided for feedback at a future session. Council will be updated on implementation progress as various ordinances and programs come forth, as well as through quarterly Council priorities updates and the annual Housing Element report.

The issue of housing affordability in Half Moon Bay and the Midcoast is highly complex and in some ways overwhelmed by regional economic and growth factors; while at the same time affected by special constraints of the City’s Coastal Zone status. All of the above suggestions for the Housing Work Plan must be set in the context of compliance with the Coastal Act, the City’s LCP and adopted growth control measures. Thus, it is important to emphasize the context of this plan: The Housing Work Plan will not supersede City land use policy or Coastal Zone requirements, nor will it lead to growth beyond the limits of the City’s voter approved annual growth cap.

ATTACHMENTS:

1. July 15, 2018 Community Conversation About Housing – Summary Report