



MEMORANDUM

TOWN OF PORTOLA VALLEY

TO: Town Council

FROM: Jeremy Dennis, Town Manager
Debbie Pedro, Planning Director

DATE: October 12, 2016

RE: Draft Housing Options Strategic Plan - Follow-Up Discussion

RECOMMENDATION

Staff recommends adoption of a draft housing options strategic plan which contains recommendations to:

- Create a list of programs and concepts for further review by Town staff, commissions and committees, as listed in the staff report
- Adopt a public outreach plan
- Adopt a timetable for research and input
- Create an ad hoc committee to explore potential housing options to be built in Portola Valley
- Postpone completion of the housing impact fee study

BACKGROUND

On July 13th, 2016, the Town Council reviewed a staff report requesting direction on “next steps” to begin a conversation about the impacts of the ongoing housing crisis in Portola Valley, and the Town’s part in addressing its impact on the community (Attachment 1). The July 13th staff report provided a summary of the Town staff’s understanding of the local impacts of the regional housing crisis:

1. Talented education professionals and public safety officials are moving away as they cannot afford to live in or near Town
2. Seniors or “empty nesters” who wish to downsize are unable to do so as there are no real housing opportunities in Town, and as a result, their homes do not reenter the housing market
3. Traffic to employment centers is unbearable immediately outside Town, and more people are using Town streets to attempt to skirt freeway traffic
4. Employees of Town businesses are driving long distances to reach their jobs, or are finding other jobs closer to home

5. Family members who grew up in Portola Valley are unable to live in or near Town, unless they move back into their family's home

After discussion, the Council directed staff to provide at a later meeting a process for community engagement, and identify potential options for the Town to explore.

This memo summarizes the Council's direction to staff, provides follow-up discussion on each of the six "buckets" of ideas identified by Council as potential solutions, and a timeline to carry out the strategic plan.

Regardless of the approach adopted, it must be noted that Portola Valley cannot solve the region's housing ills on its own; any set of solutions ultimately approved should be appropriate to the community's size and value system and must build upon the successes that have made Portola Valley such a special place to live and work.

DISCUSSION

At the July 13th meeting, the Town Council identified six "buckets", or groupings of ideas to be considered, that should be prioritized by staff:

1. Accessory Dwelling Units (ADUs)
2. Affiliated Housing Opportunities
3. Housing Opportunities on Town-Owned Land
4. Review of the Inclusionary Housing Program/Update on Housing Impact Fee
5. Shared Housing
6. Public Outreach/Timeline/Review by Commissions and Committees

Each was researched by Town staff, and below are recommendations based on that research. The recommendations make up the draft housing options strategic plan.

1. Accessory Dwelling Units (ADUs)-Second Units and Junior Second Units

Secondary Dwelling Units-The Town's Second Unit Ordinance was last updated on September 9, 2015 (Ord. 2015-408). Per Program 3 of the approved 2014 Housing Element, the following amendments were made to the Zoning Ordinance to encourage the production of second units.

1. Allows second units on parcels two acres or larger to have up to 1,000 square feet of floor area, rather than the previous limit of 750 square feet.
2. Allows two second units to be built on parcels 3.5 acres or larger. One of the units is required to be attached to the main house and the other unit would be a detached structure. This change allows owners of larger properties to accommodate more housing, particularly for family members and potentially any employees, such as groundskeepers or caregivers.
3. Allows staff level review and approval of second units up to 750 square feet, rather than the previous limit of 400 square feet.

In the 11 months since the adoption of the Ordinance amendments, the Town has received eight (8) second unit applications. Historically, the Town has strongly supported

the creation of second units as a way to create affordable housing opportunities and as a preferable alternative to construction of other housing types such as multi-family developments. Given the success of the ordinance, its expansion to other zoning districts is recommended for review.

Recommendation One: Direct the Planning Commission to review amendments to the Second Unit Ordinance that could increase the maximum allowable size of the unit; allow second units on smaller (<1 acre) properties; waive permit fees; and possibly subsidize development cost.

Cost of a Second Unit

In general, commonly cited impediments to developing second units include minimum lot size and parking requirements. In addition, utility upgrades (electrical, water, sewer/septic) and fire sprinkler requirements may be triggered when adding new floor area to a property.

The Town's natural physical environment represents a significant constraint to development. Due to steeply sloping properties, geotechnical constraints, and the provision of utilities and sewage systems, the cost of construction in Portola Valley is considerably higher than elsewhere in the Bay Area. Projects are reviewed to ensure that landslides and other slope/soil stability hazards are suitably mitigated. The necessity for additional engineering and construction provisions, as well as for greater scrutiny in design and construction oversight, adds to the cost of development.

According to a local architect, the estimated cost for residential construction in 2016 is between \$350 and \$500 per square foot, not including permit fees levied by the Town and/or other public agencies.

Below is an explanation of the permit fees and the estimated cost to construct a 750 square foot second unit on a property with a septic system in 2016.

The Planning fee is comprised of a non-refundable flat fee and a deposit, against which professional planning and engineering staff charge to provide review services. This fee structure reflects the Town's actual cost for staff time for preparing projects for ASCC review and approval.

Building permit fees are charged to cover costs associated with the review of building plans for conformance with the California Building Standards Code as well as costs associated with conducting building construction inspections. The fees charged for building permits are based on the valuation of the construction.

The Town and special districts also impose new development fees for the construction and/or connection of new infrastructure systems to existing systems. This includes water and sewer fees and connection charges to address issues associated with increased system capacity demands and impacts.

While not imposed by the Town, local school districts charge a fee that is linked to the size of new construction and must be paid prior to issuance of building permits. The purpose of the fee is to compensate serving school districts for the costs associated with the demand for additional services and classroom space generated by new residential

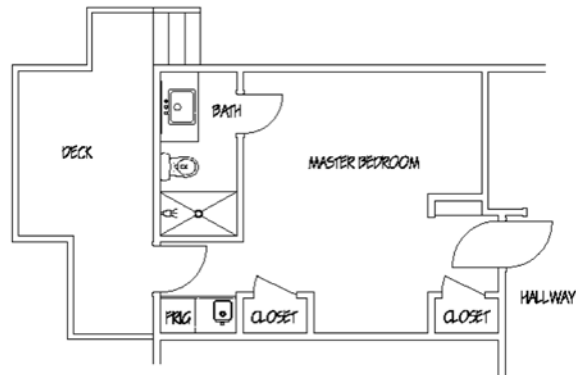
development. The two districts which collect fees in the Town are the Sequoia Union High School District (SUHSD) and the Portola Valley School District (PVSD), which levies a combined fee of \$3.48 per square foot for residential construction within the Town.

Estimated Permit Fees	Approximate Cost for Second Unit (750 sq. ft.)
Building Permit (plan check and inspection)	Fee: \$ 5,300
Planning Permit-ASCC, <i>if applicable</i>	Fee: \$675, Deposit: \$1500
Geologic Review	Fee: \$260, Deposit: \$2500
Fire Dept. Review	Fee: \$120
County Environmental Health Review (septic system), <i>if applicable</i>	Fee: \$909
Schools Fees - \$3.48/SF x 750 sq. ft.	Fee: \$2,610
Subtotal	\$13,874
Estimated Plan Preparation/Design Cost	
Architect	\$25,000-\$50,000
Structural Engineer	\$7,000-\$15,000
Surveyor	\$1,500-\$1,800
Geotechnical Engineer	\$4,000-\$5,000
Septic System Designer	\$8,000-\$10,000
Subtotal	\$45,500-\$81,800
Estimated Construction Cost	
Labor and materials \$350-\$500 per sq. ft.	\$262,500-\$375,000
Fire sprinklers (Build holding tank or install new line and meter)	\$2,000 or \$100,000
Septic system upgrade, <i>if applicable</i>	\$20,000-\$30,000
Subtotal	\$284,500-\$505,000
Total Estimated Cost for a 750 sq. ft. Second Unit	\$343,874-\$600,674

The above chart demonstrates the limited ability for the Town to influence the cost of the production of a second unit. However, Town staff does believe conversations with our partners at the County and in the private sector could provide better understanding of their costs and opportunities for improvement.

Recommendation Two: *Direct staff to work with regional agencies and private sector partners to reduce costs and eliminate barriers to second unit construction.*

Junior Second Units (JSU)- Junior second units are smaller, less impactful living spaces that would entail conversion of an existing bedroom within a dwelling to create a flexible-private living situation in conjunction with the owner-occupied unit. The concept of JSUs was first developed in Marin County by Rachel Ginis, Executive Director of Lilypad Homes, a non-profit organization dedicated to creating second unit housing that offers more affordable housing options for homeowners and renters.



Similar to secondary units, JSU's count towards a jurisdiction's Regional Housing Needs Allocation (RHNA) numbers. Each jurisdiction's requirements may differ slightly but in the City of Novato, which adopted a Junior Second Units ordinance in December 2014, the JSU program provides flexibility for homeowners to repurpose an extra bedroom in the house for additional rental income with minimal additional code requirements.

- No additional parking required
- No water or sewer connection fees
- No fire sprinkler requirement
- Simple approval process (building permit for interior remodel)

Recommendation Three: *Direct the Planning Commission to work with Town staff to further review and develop a Junior Second Unit Ordinance to allow conversion of existing space within single family homes into a junior accessory dwelling unit.*

2. Affiliated Housing Opportunities

Housing Element Program on Affiliated Housing - In the early 1990's, the Town developed a housing program that expanded zoning to allow multifamily housing on institutional sites for employees and staff affiliated with the institutions that own the parcels. This program (Program 2 of the 2015 Housing Element) allows affiliated affordable multifamily housing on three designated sites in town: the Sequoias, the Priory School, and the Stanford Wedge. Town staff regularly engages with these affiliated housing partners to understand their needs as well as to share the Town's priorities.

During the course of these regular meetings, initial thoughts were shared regarding potential housing concepts at the Stanford Wedge property for housing. Town staff, the appropriate commissions, and the Town Council will review any proposal should Stanford wish to pursue housing concepts at the Wedge.

Additional housing is currently being pursued at Woodside Priory School; once complete, the Priory School will have 27 housing units in total. The Sequoias has no plans for affiliated housing at this time; staff will continue to engage with both of these affiliated housing partners.

Employee Housing on Commercial and Institutional Properties

The affiliated housing program is a useful tool to link local employment with housing needs. There is currently no Town policy that addresses affordable housing on non-residential uses except for the Sequoias, Priory School and Stanford Wedge. Given that there are additional employers in town that may have the capacity and desire to house their employees, staff recommends engagement with these future partners to determine general interest and any possible barriers to housing on their properties.

At the July 13, 2016 Council meeting, Vice Mayor Hughes suggested that the Town survey workers in Portola Valley to gauge the need for local housing for the Town's workforce. The Council can direct staff to design a survey to collect this information and report back to Council with the findings before developing a program for employee housing on commercial and institutional properties.

Recommendation Four: *Direct staff to engage with businesses in Town to gauge interest in joining the Town's Affiliated Housing program created by the Housing Element. Changes to the Housing Element requires a recommendation by the Planning Commission, one public hearing by the Town Council, and appropriate public noticing.*

Recommendation Five: *Direct staff to conduct outreach to local employers and pre-approve an employee survey*

3. New Housing Opportunities on Town-Owned Land

Like many other municipalities, the Town of Portola Valley owns a number of lots acquired through the Inclusionary Housing Ordinance, remnants of larger lots, and acquisitions. The Town currently owns 26 properties¹, ranging in size from 0.017 to 16.05 acres (Attachment 2). Most are not developable given their location, size,

¹ Not including Town facilities

proximity to utilities, or geologic challenges. However, if the Council would like to further explore opportunities to produce modest and appropriate numbers of housing on town-owned land, Town staff can more formally examine potential locations: additional study is required to determine any development constraints and the number of potential housing units the sites may yield. This option may require General Plan and Zoning amendments.

In conjunction with this evaluation, Town staff would develop criterion for the occupancy of such units, based on employment and income range. Staff believes that teachers, public safety officials, health care providers, and residents who wish to age in the community should be priority occupants.

Recommendation Six: *Create an ad hoc committee to review and recommend potential housing on Town-owned properties. Staff recommends the ad hoc committee be made up of two Councilmembers, two Planning Commissioners chosen by that body, and three residents appointed by the Town Council.*

Recommendation Seven: *Direct staff and ad hoc committee to identify potential town-owned sites for potential housing units, and criteria for their occupancy.*

4. Inclusionary Housing Ordinance/Housing Impact Fee

Inclusionary Housing Ordinance- Inclusionary housing is a tool that requires all market rate housing developers to provide some below market rate housing as part of a development. Portola Valley first adopted an inclusionary housing program as part of the 1990 Housing Element update. The Town's Inclusionary Housing Ordinance (ORD. # 1991-262) requires developers to provide 15% of new lots to the Town for below market rate housing as part of every subdivision, or pay an in-lieu fee. Currently, this is the only program the Town has that produces resources for affordable housing, either in the form of below market rate units or in-lieu funds. Given that very few subdivisions are created in Portola Valley, funds for affordable housing (while significant given the size of the subdivision) are not dependable.

Program 1 of the 2014 Housing Element calls for an update to the Town's inclusionary housing program to require developers to build affordable housing units with an approved subdivision, reducing the percentage of lots required for below market rate housing, and/or applying a housing impact fee to projects. A nexus study is needed to support any amendments to the Town's inclusionary housing requirements.

In 2015, the Town participated in the County-wide Grand Nexus Study project, a collaborative effort to study residential and commercial impact fees to support affordable housing in San Mateo County. A draft report was prepared for the Town by Strategic Economics and Venazza Wolfe Associates; Other municipalities in San Mateo County have participated the nexus study project and some have adopted housing impact fees based on the results of their jurisdiction specific reports. The draft report for Portola Valley is on hold pending further review of the need for the housing impact fee.

The Town's Inclusionary Housing Ordinance explicitly links its fees to affordable housing projects and programs, but does not specify what those programs are. If the Town chooses to adopt a housing impact fee, it is anticipated that fees would be generated every year (depending on the type of fee eventually adopted). However, the Town does

not have a program that would currently benefit from such a fee (Town staff have identified potential small-scale programs that could be supported by the fee, but it is not anticipated that any large projects would require ongoing fee support similar to the types of programs larger municipalities manage).

A housing impact fee could be used, like it is in other municipalities, to support the Housing Endowment and Regional Trust (HEART)'s affordable housing support programs; the County of San Mateo has committed half of the funds from their housing impact fee to HEART; other cities are following suit.

Recommendation Eight: *Postpone further work on the draft housing impact fee study until the Town Council has adopted the housing option strategic plan, which will include a list of concepts and programs and identified which program(s) may be funded by a housing impact fee. Once the program(s) have been adopted, Town staff can return to the Town Council with recommendations on the future of the Inclusionary Housing Ordinance and the housing impact fee. The General Plan and Town ordinances may require amendments.*

Use of Existing Affordable Housing Funds – Because of the inclusionary housing program, as of September 1, 2016, the Town has accumulated \$3,482,477.00 in its affordable housing fund.

These existing funds can be expended under the current Inclusionary Housing Ordinance to assist in the purchase or development of housing projects in Town.

Recommendation Nine: *Postpone allotment of existing affordable housing funds accumulated from the Inclusionary Housing Ordinance until completion of the housing options strategic plan.*

5. Shared Housing

HIP Housing - HIP Housing, a San Mateo County nonprofit organization, has been helping people find housing opportunities through the agency's Home Sharing Program.

HIP Housing's Home Sharing Program:

- Offers a home sharing program free of charge
- Interviews prospective renters and completes an application
- Requests three character references, proof of income and identification
- Checks and follows up with the San Mateo County Superior Court and National Sex Offender databases to determine if clients have a criminal history
- Provides resources to clients on what questions to ask of prospective tenants during interviews
- Assists clients in completing a Living Together Agreement
- Provides mediation and follow-up support

In 2015, in collaboration with the Town, HIP Housing sent letters to Portola Valley homeowners who have a second unit or possible space available in their home to provide information about the Home Sharing Program. In addition, to assist HIP

Housing with their outreach efforts, the Town has provided a booth at the Farmer's Market and posts their monthly flyers on the PV Forum.

Recommendation Ten: *Continue to assist HIP Housing with publicizing their services by providing more exposure on the Town's website, at the Farmer's market, or develop an outreach program that specifically targets potential providers.*

6. Public Outreach/Timeline

Critical to this process is the engagement of residents. Engagement on an issue like housing is a two-way street; it is both an opportunity to hear from residents on their ideas and concerns, but also a chance to educate and update the community. Given the sensitivities that typically surround a conversation about housing, it is imperative that any public process be transparent and inclusive.

Town staff suggests the following robust engagement:

- The use of online tools, such as the one recently used successfully by the Town Center Master Plan Committee, to gather as many residents' ideas as possible
- Hold at least two public meetings in the Community Hall to provide a forum for in-person engagement as well as information on the housing crisis
- Identify resources to help visualize ideas outlined in this staff report
- Refer ADUs (second units and junior second units) review to the Planning Commission
- Create an ad hoc committee, made up of members of the Town Council, the Planning Commission and community members to review staff work and potential proposals of new housing in Portola Valley

It is anticipated that the above engagement can be completed early spring 2017, with a draft housing options strategic plan ready for review by the Town Council mid-spring 2017.

Recommendation Eleven: *Direct staff to begin work on the above public engagement process.*

FISCAL IMPACT

There is no fiscal impact associated with approval of the majority of the recommendations in this staff report. Recommendation One could result in waiver of fees or subsidy of development by the Town. Recommendations Five and Eleven will result in costs associated with the production of a survey, the use of an online engagement tool, and visualization of any of the ideas subsequently generated; funding for these items will be proposed to the Town Council at a later date.

ATTACHMENTS

1. Council staff report dated July 13, 2016
2. Town-owned property map