

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Planning and Building	(2) MEETING DATE 7/17/2012	(3) CONTACT/PHONE Airlin Singewald, Planner / (805) 781-5198	
(4) SUBJECT Presentation on San Luis Obispo County Land Use Economics Study			
(5) RECOMMENDED ACTION Receive the staff and consultant presentation on the land use economics study. No action is required.			
(6) FUNDING SOURCE(S) Strategic Growth Council Grant	(7) CURRENT YEAR FINANCIAL IMPACT N/A	(8) ANNUAL FINANCIAL IMPACT N/A	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. _____) { X } Board Business (Time Est. <u>60 min</u>)			
(11) EXECUTED DOCUMENTS { } Resolutions { } Contracts { } Ordinances { X } N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: { } 4/5th's Vote Required { X } N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { X } N/A Date _____	
(17) ADMINISTRATIVE OFFICE REVIEW Reviewed by Leslie Brown			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors
FROM: Planning and Building / Airlin Singewald, Planner III
VIA Chuck Stevenson, Division Manager, Long Range Planning
DATE: 7/17/2012
SUBJECT: Presentation on San Luis Obispo County Land Use Economics Study

RECOMMENDATION

Receive the staff and consultant presentation on the land use economics study. No action is required.

DISCUSSION

Background

The County received a grant from the California Strategic Growth Council to conduct several studies related to strategic growth and infrastructure. This included a land use economics study to evaluate the economic, real estate, and fiscal effects of potential growth limitations in rural areas, compared to the effects of continuing the “business as usual” growth trend. The purpose of the study is to provide important information for staff, the public and your Board that can be used when considering implementation of the County’s strategic growth principles and policies.

The Department hired the firm ECONorthwest to prepare the land use economics study, after reviewing five proposals. The selection committee, that included representatives from the City of Atascadero and the Economic Vitality Corporation (EVC), determined that ECONorthwest was the most qualified consultant to prepare the study. ECONorthwest has significant experience preparing similar studies for other jurisdictions across the country, and their proposal demonstrated a strong understanding of the growth-related issues facing San Luis Obispo County.

Strategic Growth Principles, Policies, and Implementing Strategies

The land use economics study evaluates potential measures to regulate rural growth, pursuant to the County’s adopted “Strategic Growth” principles, policies, and implementing strategies. Adopted by the Board of Supervisors in 2009, these principles and policies establish a vision for future growth in the county and are intended to direct new development towards urban communities that have adequate resources and amenities to support new growth. The Department is working on an array of implementing strategies to incrementally carry out that vision. These strategies include initiatives to support infrastructure and appropriate and sustainable growth in the County’s unincorporated communities, as well as regulatory measures, such as growth limitations in rural areas. However, before considering and preparing any proposals involving growth limitations in rural areas, it would be prudent to gain a better understanding about their potential land use and economic effects. This is why the land use economics study was prepared.

While the land use economics study is primarily focused on the regulatory aspect of implementation, it also recognizes the County’s efforts to attract development into unincorporated communities.

The following describes these two aspects of Strategic Growth implementation:

Regulatory Measures – Limitations on Rural Growth

Limitations on rural growth would be accomplished through amendments to the County's Growth Management Ordinance (GMO) and Resource Management System (RMS). The current GMO sets a countywide annual growth cap of 2.3 percent, but does not limit the amount of this growth that can occur in rural areas. In November 2009, your Board authorized processing of a package of general plan and ordinance amendments. Included in that package is an amendment to better align the GMO with the RMS and Strategic Growth principles. The amendment is "to give a higher priority to serving existing and strategically planned communities with adequate resources, streets and infrastructure, over rural areas." In addition, the Resource Capacity Study for the Paso Robles Groundwater Basin, adopted by your Board in February 2011, includes a recommended action to substantially limit rural growth in the Paso Robles Groundwater Basin due to groundwater supply conditions.

Initiatives to Support Growth in Established Communities

The Department is working on a number of initiatives to plan for and support infrastructure and development in the unincorporated urban areas. These efforts include:

- **Complete Communities Survey.** Inventories the extent of infrastructure and public facilities that are needed in the communities of San Miguel, Templeton, Oceano, and Nipomo and develops a strategy to finance the construction of these improvements.
- **Infill Development Standards.** Recommends amendments to development regulations contained in a number of County plans and ordinances. These amendments will look to remove barriers, create incentives, and improve existing standards to encourage high-quality and compatible infill development that will encourage investment in communities.
- **Economic Element.** This update to the Economic Element of the County General Plan contains goals and policies that will guide actions the County needs to take to assure a vital economy and continued high quality of life.
- **San Miguel Community Plan.** Establishes policies to encourage employment opportunities, economic vitality and development in a manner that is compatible with the scale and character of San Miguel. Includes a public facilities financing plan.
- **Consolidated Capital Improvements Program (CIP).** The County's first comprehensive CIP, identifies capital expenditures over a five-year period. Future versions of this CIP will include the infrastructure funding policy adopted by the Board of Supervisors in 2010. This could help with developing strategies for coordinating with community services districts to finance infrastructure in the County's unincorporated urban areas.

Objective of the Study

The objective of the land use economics study is to answer the following question: If the County adopts measures to reduce growth in rural areas, how much of that growth would shift to urban areas (versus leaving the county altogether) and what will be the resulting effects on the economy and property values. In particular, the study evaluated a "business as usual" scenario, which assumes no changes to existing land use policies, and two growth limitation scenarios that would establish annual caps on the number of residential permits issued in rural areas of the county. The caps would shift a portion of new rural development to urban and village areas, consistent with the goals of SLOCOG's *2010 Regional Transportation Plan-Preliminary Sustainable Communities Strategy*. It is important to note that growth caps only meter out growth over a period of years; they do not rezone property or change allowable development potential. The three scenarios are described below:

- **Business as usual (168 units/year).** The “business as usual” (BAU) scenario assumes no changes to the County’s existing land use regulations. Based on SLOCOG’s population projections, there would be a demand for 5,030 new dwelling units in the rural portion of the county between 2010 and 2040. Of this total, 1,854 units (37 percent) would be located within the Paso Robles Groundwater Basin (PRGWB). The average annual demand would equal 168 units (62 in the rural PRGB and 106 in other rural areas).
- **Modest growth limitation (128 units/year).** This scenario assumes an annual growth cap of 128 units in the rural areas of the county (47 units in the rural PRGWB and 81 units in other rural areas). This cap would apply only to parcels that are not in the Agriculture land use category and to small parcels (less than 20 acres) in the Agriculture land use category.
- **Aggressive growth limitation (89 units/year).** This scenario assumes an annual growth cap of 89 units in the rural areas of the county (33 units in the rural PRGWB and 56 units in other rural areas). The cap would apply only to parcels that are not in the Agriculture land use category and to small parcels (less than 20 acres) in the Agriculture land use category.

Public Outreach

ECONorthwest used several outreach methods to get feedback on the potential economic effects of growth limitations in rural areas. These methods are described below:

- **Focus Groups.** Before conducting any analysis, ECONorthwest met with and interviewed two stakeholder focus groups. The purpose of these meetings was to help inform the consultant about past development, current trends, and opinions about potential effects of the growth caps. The first focus group consisted of private sector experts representing a broad range of economic interests, including homebuilders, lenders, designers, ranchers, and agricultural interests. The second focus group was comprised of public sector representatives from the cities of San Luis Obispo, Paso Robles, and Atascadero, the Templeton Community Services District, and the San Luis Obispo Council of Governments (SLOCOG).
- **Interviews.** In addition to the focus group meetings, ECONorthwest conducted several interviews with business and environmental interests to gain further information about the potential impacts.
- **Community Open House.** The County held a public open house on April 25, 2012 to get public feedback on the study’s preliminary findings. At the open house, ECONorthwest presented findings on the first part of the study’s objective: If the County adopts measures to reduce growth in rural areas, how much of that growth would shift to urban areas and how much would leave the county altogether? The open house was well-attended, with about 35 participants. Most of the comments reflected the general sentiment that government should not regulate housing choices. The major themes of the public comment are summarized in Attachment 1 of this report, together with staff’s responses.

Summary of Findings

The study concludes with findings on the land use and economic effects of the potential growth caps. These findings are briefly summarized below.

Land Use Effects

The following findings estimate how much the growth caps are likely to reduce rural growth in the county, how much of that growth would shift to urban areas of the county (including cities and unincorporated communities), and how much would shift outside of the county (the net loss):

- Based on business cycle simulations, over a 30-year period, the modest cap would reduce rural growth by 1,600 units and the aggressive cap would reduce rural growth by 2,500 units compared to the forecasted market demand. These scenarios would reduce growth by about 32 and 50 percent, respectively, compared to the projected rate of growth (the business as usual scenario).
- Assuming no other changes in growth policies, over a 30-year period, approximately 46 percent of these units would shift to county urban areas, resulting in a net loss of about 870 units under the modest growth cap and 1,360 units under the aggressive growth cap.
- Assuming strong incentives to encourage urban development, over a 30-year period, approximately 66 percent of the units would shift to county urban areas, resulting in a net loss of about 550 units under the modest growth cap and about 860 units under the aggressive growth cap.
- Under the “most likely” scenario, which assumes some incentives to encourage urban development, over a 30-year period, approximately 55 percent of the units would shift to county urban areas, resulting in a net loss of about 712 units under the modest growth cap and about 1,115 units under the aggressive growth cap. The economic impacts discussed in the study are based on the “most likely” net reduction of 712 units that would result from the modest growth cap.

The shift from rural to urban growth under each of these scenarios is shown in Table A.

Table A: Estimated shift in growth from rural to urban areas

Scenario	Reduction	Urban	Outside County ¹
<i>No other changes in growth policies (46% shift to urban)</i>			
Modest Growth Cap (130 units/year)	1,600	730	870
Aggressive Growth Cap (90 units/year)	2,500	1,140	1,360
<i>Strong incentives to encourage development in urban areas (66% shift to urban)</i>			
Modest Growth Cap (130 units/year)	1,600	1,050	550
Aggressive Growth Cap (90 units/year)	2,500	1,640	860
<i>Most likely shift (55% shift to urban)</i>			
Modest Growth Cap (130 units/year)	1,600	888	712
Aggressive Growth Cap (90 units/year)	2,500	1,385	1,115

¹This represents the net loss of residential construction activity in the county

Economic Effects

The potential growth caps evaluated in this study would shift a portion of new rural development to urban and village areas. This shift is intended to result in benefits such as preservation of natural and agricultural areas, greater agricultural output, lower automobile emissions, protection of groundwater resources, and reduced costs to provide services such as fire protection in rural areas. These could be

described in terms of the economic value they provide (e.g., the economic value of greater agricultural production, the avoided cost and charges of new water systems). However, this study did not try to quantify these benefits in economic terms.

The potential growth caps would also have some negative consequences. The study estimates that the modest growth cap will lead to a lost value of residential construction in the county as a whole, over a 30-year period, in the range of \$300 to \$400 million (an annual average of about \$10 to \$13 million) due to the construction of fewer new housing units in rural areas of the county. This would result in a decrease of about 2 percent in residential construction output in the county, and is about 0.05 percent of the county's annual economic output. The study estimates the total effects on economic output in the county to be about double the direct loss in construction value. Thus, as a rough estimate, an annual loss of \$10 million in residential construction value means about a \$20 million annual loss to county output, about one-tenth of 1% of the county's \$20 billion dollar annual economy.

The relatively small impact on the regional economy in the aggregate does not mean that there are not some relatively big impacts on certain businesses or individuals. The groups most directly affected would be those that make their living by producing and selling housing: developers, builders, and realtors. If the effects are concentrated in some areas, it could make business difficult for some builders; some might close. The analysis in this report is not detailed enough to make further predictions.

OTHER AGENCY INVOLVEMENT/IMPACT

A selection committee that included representatives from the City of Atascadero and the Economic Vitality Corporation (EVC) reviewed consultant proposals for a land use economics study and determined that ECONorthwest was the most qualified consultant to prepare the study.

FINANCIAL CONSIDERATIONS

The land use economics study was prepared within the budgeted cost of \$34,985. It was funded through a Sustainable Communities Planning Grant from the California Strategic Growth Council. The County provided a supporting match of in-kind staffing worth approximately \$7,715 in budget funds as part of Department operations.

RESULTS

The land use economics study provides important information for staff, the public and your Board that can be used when considering implementation of the County's strategic growth principles and policies.

ATTACHMENTS

1. Community Open House: Public Comments/ Questions and Staff Responses
2. Land Use Economics Study

The entire Land Use Economics Study (including appendices) is found on the department's website at www.sloplanning.org under "News and Announcements".