Council Agenda Report

Item 6c

Department: Community Development
Cost Center: 4008
For Agenda of: 12/10/2024
Placement: Public Hearing
Estimated Time: 60 minutes

FROM: Timmi Tway, Community Development Director
Prepared By: John Rickenbach, Contract Planner and Callie Taylor, Senior Planner

SUBJECT: CONSIDERATION OF INITIATION OF A GENERAL PLAN AMENDMENT, SPECIFIC PLAN AMENDMENT, AND A MODIFICATION TO AN EXISTING DEVELOPMENT AGREEMENT TO ACCOMMODATE AN ADDITIONAL 276 RESIDENTIAL UNITS IN PLACE OF A PREVIOUSLY APPROVED COMMERCIAL DEVELOPMENT

RECOMMENDATION

Direct the initiation of processing the request for a General Plan Amendment (GPA) and Specific Plan Amendment (SPA) to accommodate an additional 276 residential units in place of a previously-approved commercial development on Lot 7 of the San Luis Ranch Specific Plan, and provide direction regarding the following issue areas to be addressed in the project design and by amendment to the existing Development Agreement (DA): 1) the number of deed-restricted affordable housing units; 2) the timing of construction of the previously-required affordable housing component; 3) potential measures to address ongoing fiscal impacts to the City; 4) the amount and design of tax-generating commercial development; and 5) confirmation of the application of development fees associated with the proposed development.

REPORT-IN-BRIEF

MI San Luis Ranch has submitted a request to amend the City's General Plan and the San Luis Ranch Specific Plan (SLRSP) to facilitate development of an additional 276 market rate residential units in-lieu of commercial development on Lot 7 adjacent to Dalidio Drive. The proposed amendments would modify Lot 7 development to be primarily residential, with an additional 276 market rate rental apartments and up to 15,000 square feet of neighborhood commercial uses. The existing entitlements include 114,300 square feet of commercial development on Lot 7. The original 2017 SLRSP included 150,000 square feet of commercial on Lot 7, which was decreased through an amendment in 2020.

Applicant	MI San Luis Ranch, LLC
Representative	Rachel Kovesdi
General Plan Specific Plan, Zoning	Neighborhood Commercial (NC); allows mixed commercial, office, and residential uses under the SLRSP
Site Area	11.44-acres (Lot 7 of VTTM 3096)
Environmental Status	To be determined; document to tier from the SLRSP Final EIR

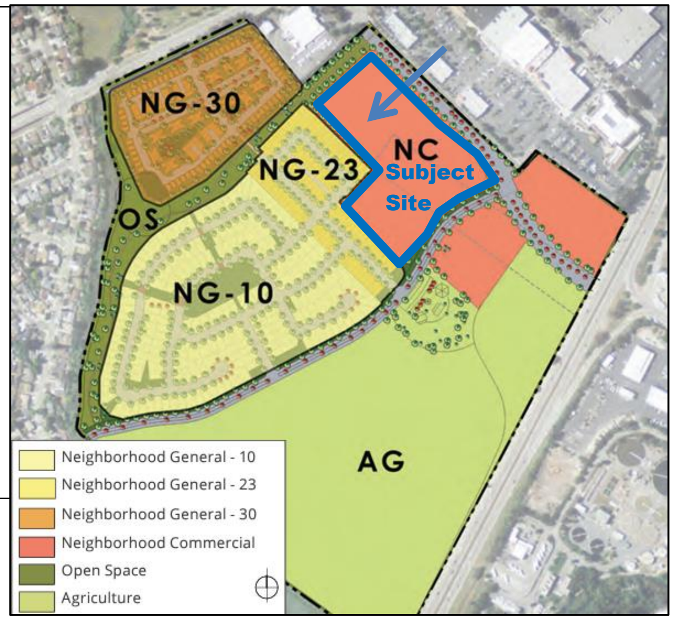

Figure 1. San Luis Ranch Specific Plan Area Lot 7 is NC parcel at corner of Dalidio and Froom Ranch Way

A Specific Plan Amendment for the SLRSP was previously approved in November 2020 to allow between 64-77 units of affordable housing to be consolidated on a 1.85-acre portion of Lot 7. This affordable housing is required to fulfill the existing inclusionary housing requirements of the San Luis Ranch Specific Plan and Development Agreement and is expected to be constructed by People's Self-Help Housing (PSHH). The affordable housing portion of the Lot 7 site is proposed to remain with the current 2024 amendment.

When the existing affordable housing component on Lot 7 is combined with the proposed additional 276 market rate units, the total development potential proposed by the applicant on the 11.44-acre Lot 7 site is between 345 to 353 residential units and up to 15,000 square feet of commercial. This proposal would increase the overall residential development within the SLRSP from the currently approved 654 units to a proposed 930 units. The applicant's proposal would decrease the overall commercial development within the Specific Plan from the currently approved 145,536 square feet to a proposed 38,236 square feet. These totals include the existing 31,236 square feet of commercial and agricultural processing structures at the Agricultural Heritage Center. The proposed Lot 7 site plan is depicted in Figure 2 below and included as Attachment B.

Portion of SLRSP	**Current Lot 7 Entitlement: Approved 2020**	**Proposed Lot 7 2024 Applicant Proposal**
1.85-acre portion of Lot 7	• 64-77 affordable units	• 69-77 affordable units
9.59-acre portion of Lot 7	• 114,300 sq. ft. of commercial development	• 276 market rate residential units; and, • Up to 15,000 sq. ft. of commercial
Total Lot 7 11.44-acres	• 64-77 residential units; and, • 114,300 sq. ft. of commercial development	• 345-353 residential units; and, • Up to 15,000 sq. ft. of commercial

Figure 2. Applicant's 2024 Proposed Site Plan

The proposed amendments would have a substantial impact on the City's fiscal revenues as compared to full build-out of the previously approved project. The Lot 7 commercial site was a key project component in the original 2017 SLR Specific Plan and was intended to be a major tax generating revenue source for the City. The site was originally approved for up to 150,000 square feet of commercial uses, as called for in the City's General Plan Special Focus Area (SP-2) and this commercial space and associated revenue was taken into account when the City initially negotiated the Development Agreement. The site is located across from the Madonna Plaza, adjacent to the future Prado Road/Highway 101 interchange. Fiscal impact calculations provided by the City's consultant show that the Lot 7 land use change from 114,300 square feet of commercial to 276 residential units would create a net fiscal loss to the City of approximately $1 million annually. While the proposed additional housing units would help fulfill the City's goals for housing production, fiscal impact to the City's revenues and preservation of prime commercial sites should be considered in conjunction with amendments to the City's General Plan and SLR Specific Plan.

If authorized by Council to proceed, the project would require a General Plan Amendment (GPA), Specific Plan Amendment (SPA), modifications to the approved Development Agreement and Affordable Housing Agreement, as well as a new Tentative Tract Map and Development Plan. Environmental review under the California Environmental Quality Act (CEQA) will be required, however, the appropriate approach to CEQA has not yet been determined. Because there would be General Plan and Specific Plan Amendments, the project would be referred to the San Luis Obispo County Airport Land Use Commission (ALUC) for its review to determine conformity with the adopted Airport Land Use Plan (ALUP). If Council provides direction to move forward, staff will process the applications through the standard steps required as described in this report. At the December 10, 2024 initiation meeting, City staff is requesting input from Council regarding issues areas identified in the recommendation, which may impact the proposed project design and terms of a future modification to the Development Agreement.

POLICY CONTEXT

The proposed project is within the San Luis Ranch Specific Plan (SLRSP) and is therefore subject to the requirements of that plan. The Specific Plan also functions as the zoning code for the area in terms of land use, circulation, development standards, and residential density. The Specific Plan itself derives its authority and direction from Section 8.1.4 of the General Plan Land Use Element, which establishes the basic development and policy parameters of the SLRSP.

The City Council approved the SLRSP and Vesting Tentative Tract Map (VTTM) 3096 in July 2017, which formed the basis for various subsequent applications within the Specific Plan area, including the one currently proposed. Council also subsequently approved a Development Agreement, which is a contract between the developer and City, adopted by ordinance, in which the City provides the developer with vested development rights in exchange for the developer providing “extraordinary” public or “community” benefits that exceed what would otherwise be required through CEQA mitigation or as conditions of approval. That Development Agreement was in part based on fiscal and development assumptions inherent in the originally approved Specific Plan.

Several entitlements for individual development projects have already been processed under the existing policy framework of the SLRSP, and many of these projects are either completed or under construction, including various housing developments, an Agricultural Heritage Center, and a hotel. Backbone roadway and other infrastructure to support those developments are already in place within the Specific Plan area.

Amendments to the General Plan and Specific Plans require orderly processing consistent with the overall goals of the City’s planning program and requirements of California State law. Municipal Code Section 17.130.020 specifies that if an application to amend the General Plan is submitted, the Community Development Director shall have the authority, prior to processing the application, to forward any such application to the City Council for early policy consideration to allow Council to determine whether the proposed amendment is consistent with overall policy direction in the General Plan. Council may direct the Director to either process the application or reject the application as inconsistent with overall General Plan policy direction. The current request for City Council initiation of the application does not constitute approval of the request and would only begin the required process for the proposed project amendments. The project will also need to be referred to the San Luis Obispo County Airport Land Use Commission (ALUC) for its review to determine conformity with the Airport Land Use Plan (ALUP).

If Council authorizes the current application, City staff will formally evaluate the project's consistency with the existing policy framework in order to determine the nature and extent of amendments to the General Plan, Specific Plan, and Development Agreement that may be required. At the initiation meeting, Council may provide direction to staff and the applicant regarding any project design or land use modifications that Council would like to see incorporated into the project application and during project processing and design development. Council direction regarding specific issue areas identified in the recommendation is also requested by staff, including: 1) the number of deed-restricted affordable housing units; 2) the timing of construction of the previously-required affordable housing component; 3) potential measures to address ongoing fiscal impacts to the City; 4) the amount and design of tax-generating commercial development; and 5) confirmation of the application of development fees associated with the proposed development.

PREVIOUS ACTION

Specific Plan Amendment - November 2020

In November 2020, the City Council approved a Specific Plan amendment and density bonus for a different mixed-use project on Lot 7. The 2020 amendment increased the density of the overall SLRSP through a density bonus and transferred the majority of the inclusionary housing requirements of the SLRSP to a 1.85-acre portion of Lot 7. The remaining 9.59 acres of the 11.44-acre Lot 7 site was reserved for commercial development in November 2020, consistent with the original project approvals and the General Plan requirements.

Key aspects of the November 2020 Specific Plan amendment and project approval included:

- Increased the number of allowed residential units in the SLRSP from 580 to 654. The increase was identified as a density bonus in order exceed the number of residential units that were identified in the General Plan Special Focus Area standards.

- Decreased the commercial development on Lot 7 from 150,000 SF (originally approved in 2017) to 114,300 SF.

- Approval of VTTM 3142, which entitled 11 lots within Lot 7 of VTTM 3096 to facilitate the subdivision of the site to accommodate mixed-use development, including up to 77 affordable housing units and 114,300 SF of commercial buildings.

- Lot 11 within VTTM 3142 included a 1.85-acre affordable housing project to be constructed by PSHH, a non-profit developer of affordable housing projects. This allowed for 64 to 77 affordable units within the NC area as part of the approved mixed-use development.

- Updated location of affordable housing. The original SLR Development Agreement and Affordable Housing Agreement required the majority of the project's affordable deed-restricted housing units to be constructed within the NG-30 zoned multi-family section of the project adjacent to Madonna Road. The 2020 SPA transferred the project's existing affordability requirement for 26 very-low-income units to the 1.85 PSHH site on Lot 7.

- The amendment acknowledged that the commercial development in the SLRSP must provide approximately 34 units of affordable housing to satisfy the inclusionary housing requirements of the project, depending on the square footage of commercial ultimately constructed. Those units were authorized to be located on the PSHH site as part of the 64-77 affordable housing units identified.

- City policy requires inclusionary units to be dispersed throughout market rate development. This requirement was eliminated with the 2020 SLR Specific Plan amendment in exchange for additional affordable units and deeper affordability beyond the Inclusionary Ordinance minimum requirements. At least four (4) and up to 17 additional very-low-income housing units were added to the project for construction on Lot 7.

Figure 3 below shows the site plan approved by City Council in November 2020 for the mixed-use development on Lot 7.

An EIR Addendum was prepared to address potential changes associated with the application, and a finding was made that the SPA and VTTM were consistent with the certified Final EIR and Supplemental Final EIR for the San Luis Ranch Specific Plan. The Airport Land Use Commission (ALUC) reviewed the project on October 21, 2020. The ALUC found that the project revisions would not change the previous determination that the San Luis Ranch Specific Plan is consistent with the ALUP. The complete Council Agenda Report outlining the 2020 amendment is available here.

VTTM 3142 (approved in 2020 to facilitate the mixed-use development) has not been recorded by MI San Luis Ranch, and therefore PSHH does not have site control yet to begin development plans or apply for grants or construction funding.

Figure 3. Lot 7 Mixed-use Site Plan Approved by Council November 2020

DISCUSSION

Current Proposal

The currently proposed project for Lot 7 in the San Luis Ranch Specific Plan (SLRSP) is a primarily residential mixed-use development which would include 276 market rate rental apartments and up to 15,000 square feet of neighborhood commercial uses. A 1.85-acre affordable housing site on Lot 7 is proposed in the location approved by City Council in 2020, with a proposal for 69 to 77 affordable units to be constructed by PSHH to fulfill the San Luis Ranch project's existing and additional required inclusionary housing obligations. The proposed 276 market rate units and up to 15,000 square feet of commercial uses would be constructed on a 9.59-acre portion of the 11.44-acre Lot 7 in place of the previously approved 114,300 square feet of commercial. Combined, a total of 353 market rate and affordable units are proposed on Lot 7. With the existing 577 residential units already constructed at San Luis Ranch, the proposed amendment would increase the total residential units within the SLRSP area to 930 units.

The 276-unit market rate rental apartment component of the project is proposed to include a mix of studios, one-bedroom, two-bedroom and three-bedroom units, designed in two different three-story building types. There would be eight 30-unit buildings and three 12-unit buildings in the development. Housing units would range in size from 650 to 1,150 square feet and the buildings would be constructed in the farmhouse architectural style, one of the styles allowed under the approved SLRSP. The development proposes to include 345 residential use parking spaces and 15 commercial parking spaces, as well as bike racks for guests and residents. The project would also include a community center, privately maintained 2-acre public park[1], and walking paths that connect the central park with adjacent residential uses and offsite locations.

The proposed 0.52-acre commercial area on Lot 7 would be located in the southeastern corner of the project site at the corner of Dalidio Drive and Froom Ranch Way. The project plans show a two-story commercial building, with 3,500 square feet on each floor. A minimum of 7,000 square feet of commercial is proposed by the applicant. However, the applicant has requested flexibility to allow up to 15,000 square feet of commercial in order to respond to market conditions at the time of building permit submittal. The applicant has suggested that the site could be developed with a coffee shop, bicycle repair shop, or similar neighborhood commercial use.

Issues areas for Council Direction:

1. *Affordable Housing Requirements*

The originally approved 2017 Specific Plan and Development Agreement required SLR to construct either a total of 68 affordable units, or 34 affordable units and payment of in-lieu fees for the commercial development, as required by the City's Inclusionary Housing Ordinance in place in 2017. To date, eight (8) of the affordable units have been constructed.

The Specific Plan amendment approved in November 2020 transferred the 26 required very-low-income affordable units from the multi-family portion of SLR to a mixed-use project on Lot 7. As a project benefit proposed in exchange for the City allowing the transfer of the affordable units to Lot 7, the developer offered to deliver at least four (4) and up to 17 additional very-low-income housing units, thereby bringing the total affordable housing units in the PSHH project on Lot 7 to between 64-77 units. With the 4 low-income and 4 moderate-income units that were constructed in the single-family residential area, the total number of required affordable units with the SLRSP is currently 72-85. SLR has, to date, constructed 8 of these units, leaving a remaining requirement of 64-77 units unfulfilled. See Attachment P (October 31, 2024 Memo from CDD to Mayor and City Council) for tables and full analysis of previously approved 2017 and 2020 required inclusionary housing calculations.

The current project description from SLR (Attachments A, C, D, and E) proposes that PSHH will provide at least 69 and up to 77 inclusionary units for low and very-low income households on Lot 7. Specific unit counts at each level of affordability (very-low, low, or moderate income) have not yet been identified. SLR's current proposal includes:

[1] The Applicant has indicated that this park would be maintained by the management company of the apartments and open to the general public.

2024 SLR Proposal	Number of Affordable units	Location & Requirement	Status
	4 low-income units	Required in single-family Zoning NG-23	completed
	4 moderate income units	Required in single-family Zoning NG-10	completed
	26 very-low-income units	Previously required within multi-family development - Transferred in 2020 from multi-family to Lot 7	Not constructed * Planned to be developed by PSHH
	15 inclusionary housing units *(income level not defined)*	*Proposed for commercial inclusionary, based on 2017 Inclusionary Ordinance:* • *0.5 acre Lot 7 Commercial: 1 unit* • *3.5 acre Hotel: 7 units* • *3.7 acre Office use: 7 units*	Not constructed * Planned to be developed by PSHH
	28 affordable units *(income level not defined)*	*10% of the additional 276 market rate units proposed on Lot 7 required to be affordable, based on current Inclusionary Ordinance requirement (ownership units)*	Not constructed * Planned to be developed by PSHH
	Potentially between 0 to 8 additional affordable units if PSHH can secure funding	*Additional units beyond required minimums no longer guaranteed in current proposal (4-17 bonus units were required in 2020)*	Not constructed * Planned to be developed by PSHH
2024 SLR's Proposed Total:	**77-85 affordable units (total units proposed within SLRSP)** **Of this total, 69-77 are proposed to be constructed on Lot 7 by PSHH**		• **8 constructed** • **69-77 remaining units unfulfilled**

Exhibit F of the DA is the project's Affordable and Workforce Housing Plan (Attachment K). Additional workforce and affordable housing beyond that required by the City's ordinances was a key project benefit of the original SLRSP and DA.

SLR's current proposal utilizes the bonus affordable housing units approved in 2020 to fulfill the inclusionary requirements of the 276 market rate residential units proposed on Lot 7. Based on the current Inclusionary Housing Ordinance, 10% of the 276 market rate units (28 affordable units) must be provided to meet inclusionary housing standards for ownership dwelling units. The 2020 approval included at least four (4) and potentially up to 17 additional very-low-income housing units in exchange for transferring the 26 required very-low-income units from the multi-family site to Lot 7. This allowed SLR to develop the NG-30 site without concurrent construction and intermixing of the project's required 26 very-low-income affordable units. ***Staff recommends that the City Council provide direction to the applicant and staff regarding whether the additional 4 to 17 bonus units should be preserved and provided in addition to the increased requirement that would result based on the inclusionary calculations for the currently proposed project.***

Staff's calculations for the affordable and inclusionary housing required with the proposed project amendment are included in the table below:

2024 Staff Calculation	Number of Affordable units	Location & Requirement	Status
	4 low-income units	Required in single-family Zoning NG-23	completed
	4 moderate income units	Required in single-family Zoning NG-10	completed
	26 very-low-income units	Previously required within multi-family development - Transferred in 2020 from multi-family to Lot 7	Not constructed * Planned to be developed by PSHH
	15 inclusionary housing units or payment of in-lieu fees *(income level not yet defined)*	*Required for commercial inclusionary, based on 2017 Inclusionary Ordinance:* • *0.5 acre Lot 7 Commercial: 1 unit* • *3.5 acre Hotel: 7 units* • *3.7 acre Office use: 7 units*	Not constructed * Planned to be developed by PSHH
	28 affordable units *(income level not yet defined)*	*10% of the additional 276 market rate units proposed on Lot 7 required to be affordable, based on current Inclusionary Ordinance requirement*	Not constructed * Planned to be developed by PSHH
	Between 4 to 17 additional very-low-income units	***Project benefit in exchange for transfer of 26 very-low-income units from multi-family site to Lot 7 in 2020***	Not constructed * Planned to be developed by PSHH
2024 Staff Calculation Total:	**81-94 affordable units (total units within SLR) Of this total, 73-86 to be constructed on Lot 7 Alternatively, 58-71 affordable units could be constructed on Lot 7 and payment of in-lieu fees made to fulfill commercial inclusionary requirement**		• **8 constructed** • **73-86 remaining units unfulfilled**

2. *Affordable Housing Project Implementation*

With respect to ensuring that the previously approved affordable housing component move forward in a timely manner, the applicant proposes that the market rate project would be willing to post a letter of credit in the amount equal to the cost of improvements necessary to provide PSHH with a buildable lot (access and utilities). (See Attachment F - Term Sheet proposed by Williams Homes)

The City is agreeable to this proposal and has been recommending that SLR record the final map (or a portion of the map as a phased map) to facilitate a shovel ready project for PSHH. Tract 3142 can be recorded by SLR at any time (in whole or as a phased final map) to facilitate this transfer of ownership. An amendment to Lot 7 is not needed to complete this map recordation or post a letter of credit. Staff recommends that this approach be memorialized in the DA and included as a condition of approval, with additional specificity as to the timing of construction of the affordable housing units.

City staff is concerned that the SLRSP project has continued to build out without fulfilling its existing required affordable housing. By transferring the originally required 26 very-low-income units from the multi-family project component to Lot 7 in 2020, the requirement for concurrent construction and intermixing of affordable units was eliminated. As of today, the SLRSP area has constructed only 8 affordable units, while the market rate project components of 577 total residential units are nearly complete. ***City staff recommends additional timing triggers to ensure that the project's inclusionary requirements for affordable units are constructed concurrently with any additional market rate units within the specific plan area.*** One such trigger that could be explored includes a provision requiring that the affordable units be provided in the market rate portion of the project if the PSHH project is not completed by a certain date, until the PSHH project is completed, at which time the units could revert to market rate. Without a requirement for concurrent construction or other timing trigger, there is no guarantee that the affordable units will ever be constructed.

3. Fiscal Impact Analysis

The SLR Specific Plan requires that the project provide economic benefits in terms of jobs, mix of uses, and long-term fiscal sustainability for the City. Extraordinary community benefits are obligated under the SLR Development Agreement, and the project is intended to create net-positive fiscal flows and economic development benefits.

Property taxes are one of the main revenue sources the City uses to fund its municipal services; however, as annexation area, the 2018 County Tax Exchange Agreement distributes only one-third (1/3) of the property tax increment to the City. Property taxes alone are not sufficient to fund the cost of City services such as fire, police, parks, and other services provided to residents. Therefore, the SLR DA requires that the City shall be kept and/or made "whole" by the developer with respect to all aspects, including without limitation, fiscal impacts of the planning, development, maintenance and operation of the SLRSP area including the costs to the City of providing public services and facilities to the project. Article 5 of the DA includes many provisions "to prevent the Project from resulting in negative fiscal impacts on City." The mix of uses within the Specific Plan area, including tax generating commercial uses and minimum commercial square footage, were intended as a key factor in maintaining a fiscally positive project.

Applicant's Fiscal Impact Analysis

In order to provide an idea of the fiscal impact of the proposed land use change being requested on Lot 7, the project applicant has provided a 2024 Fiscal Impact Analysis (FIA) (Attachment L) to show the overall fiscal impact to the City of the entire combined SLR Specific Plan area. The October 31, 2024 updated analysis (completed by ADE, the applicant's consultant) compared the 2017 estimated fiscal impact of the original project (2017 FIA also completed by ADE, the applicant's consultant), to the 2024 fiscal impact of the revised project proposal. In comparison to the 2017 FIA fiscal projections, SLR's 2024 FIA shows that the revised project results in $302,836 less to City revenues each year, in comparison to the original 2017 FIA projections.

For comparison, in 2017, the San Luis Ranch project was estimated to generate $985,976 in fiscal gain for the City annually. SLR's 2024 Fiscal Impact Analysis states that at full buildout, the overall SLR Specific Plan area, including the proposed Lot 7 residential project, is estimated to generate about $3.43 million per year in General Fund revenues and $2.67 million per year in municipal service costs. According to the applicant, an additional $75,300 shortfall will result from the recent sale of 120 multi-family units to Cal Poly Partners (Harvest Lofts), as Cal Poly Partners is not required to pay property taxes[2]. This totals an annual cost/revenue surplus of $683,140 for the City from the overall SLRSP area, which is $302,836 less annually than the 2017 FIA projected.

The 2024 Applicant FIA applies outside market changes (such as increased property values, inflation, and the City's adoption of Measure G) that make the overall SLR project appear to be more fiscally positive, despite the increased service costs and loss of commercial revenues that would result from the proposed amendment. The applicant's FIA compares the revised project in 2024 dollars (taking into account increased property values, inflation, and Measure G) to the original project in 2017 dollars, and concludes that the SLR Specific Plan area would not be fiscally negative as a project overall, but it would generate less revenue than originally projected in 2017.

City's Peer Review of the Applicant's Fiscal Impact Analysis
A peer review of the applicant's FIA was conducted by the City's fiscal consultant, EPS (Attachments M and Q). In order to gain an accurate picture of the fiscal impact of the proposed amendments, the City asked EPS to isolate the proposed land use changes and identify the fiscal impact that would result from the land use changes in 2024 dollars. EPS used ADE's fiscal model to calculate the fiscal impact of the currently approved commercial project in 2024 dollars. EPS found that the proposed land use changes on Lot 7 will create approximately $1 million loss of revenues annually, resulting from the increased cost of City services for the addition of 276 market rate multi-family units and the loss of 114,300 to 99,300 square feet of commercial tax generating uses on Lot 7.

The City's fiscal consultant has confirmed that the applicant is correct in its statement that the overall SLR Specific Plan area has potential to remain fiscally positive for the City, even with the proposed changes to Lot 7. However, this positive fiscal projection is a result of other variables, mainly external variables, including Measure G, inflation, and increased home values that have occurred in the past few years. While the overall SLR project may still be fiscally positive as a whole, it is not as fiscally positive as initially conceived in 2017, even with the recent market changes and Measure G considered.
There are several factors that contribute to this $1 million annual loss in revenues as well as differences in the results of the two fiscal impact studies:

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[2] As a point of clarification, while the analysis provided by ADE describes that Cal Poly does not pay property taxes as a State tax exempt institution, it is the City's understanding that Cal Poly Partners is exempt from paying property taxes because of its status as a non-profit entity.

- Measure G, a 2020 voter approved initiative to increase local tax revenues, would substantially increase expected sales tax revenues to the City for a commercial development. The EPS peer review identified an additional $457,569 annually from Measure G revenues that would result from a 114,300 square foot commercial center. This revenue was not taken into account in the 2017 FIA for the original project.

- When the changes to Lot 7 are isolated from the rest of the Specific Plan area, fiscal impacts on Lot 7 are estimated to shift from <u>$819,979 in net annual revenues</u> to the City's general fund that would be provided by commercial development, to between <u>$163,000 and $238,000 in net annual costs</u> to the City's general fund to serve the residential units proposed on Lot 7. Therefore, rather than being a fiscal benefit to the City, Lot 7 creates an ongoing annual cost to City.

- TOT expected from the hotel has substantially increased in the past 7 years, with a net increase of $436,540 annually identified in the applicant's 2024 FIA in comparison to 2017 estimates; however, it is likely that this amount of TOT may not be realized due to the fact that this hotel will allow visitors to use points to book rooms.

- Assumed increases to property values create higher property tax revenues than were originally anticipated in 2017. The 2024 FIA shows a net increase of $234,403 in property taxes resulting from this market change alone.

- Cost of public service expenditures for the City have increased. An increase in the number of residential units will increase the City's costs for services, and those service costs are higher than they were per unit in 2017. Property taxes alone do not provide sufficient funding necessary for the City to serve residential development. On the cost side, the proposed additional residential development substantially adds to the level of public service costs to support the development.

- The City's consultant, EPS, has identified potential errors in the applicant's 2024 fiscal model. The applicant's project description does not match the data used in the fiscal model calculations. The applicant's fiscal model included only 853 residential units rather than the 930 units currently proposed within the SLR Specific Plan area.

The Lot 7 commercial development has been a major project component since the project's initial conception. A requirement for 50,000 to 200,000 square feet of commercial, tax generating uses within the SLRSP area was included in the 2014 General Plan Land Use update, and was a major consideration during the tax negotiations with the County prior to annexation of the SLR site. The tax revenue expected from the 2017 originally approved 150,000 square foot commercial development on Lot 7 was a factor in the Development Agreement negotiations. The loss of expected tax revenue changes the outcome of these previously negotiated agreements.

With the currently proposed project resulting in a Specific Plan buildout with more residential and less commercial development, the fiscal benefits to the City will be substantially less than originally anticipated in the DA. The unanticipated reduction in the City's revenue stream would likely require a modification to the financing plan included as Exhibit C in the approved

DA. ***To make up for the loss in revenues resulting from the land use changes on Lot 7, the City Council could direct the applicant and City staff to negotiate additional strategies to increase revenues for City services.*** Strategies such as a CFD or "early residential fee" have been used in DA's previously to make up any shortfall to the City. Other options can be researched and negotiated by City staff and the applicant to look at ways that the proposed residential project can pay for itself.

4. Preservation of Prime Commercial Sites

While additional housing production would be beneficial to meeting the City's housing goals, the location of that residential and the preservation of prime commercial sites should be considered when initiating a General Plan amendment. The current application proposes housing along one of the City's key commercial corridors, directly adjacent to the Madonna Plaza commercial center. The 11.44-acre Lot 7 site is uniquely located adjacent to the future Prado Road/Highway 101 interchange. The subject site's location on a major interchange with on and off-ramps has potential to draw regional shoppers and tourists to the site. Future tax dollars would be impacted by reducing the tax generating uses within the Specific Plan area, and the City will not be able to replace the loss of prime commercial land.

The applicant has stated that the current commercial market does not demand the amount of new commercial square footage currently required with the San Luis Ranch Specific Plan, and the site would be better utilized by allowing residential development (see Attachment N, SLR response to Fiscal Peer Review). However, City staff has concerns regarding the viability of the commercial on Lot 7 as currently designed and proposed by the applicant. A minimum of 7,000 and up to 15,000 square feet of commercial on Lot 7 is proposed by the applicant. The proposed project plans show a two-story commercial building, with 3,500 square feet on each floor. The applicant has suggested that the site could be developed with a coffee shop, bicycle repair shop, or similar neighborhood commercial use.

Given the very small size of the commercial parcel (proposed at 0.52 acres) and limited uses that would be feasible in a two-story commercial structure, staff has concerns that the site will not accommodate meaningful tax-generating uses or become the neighborhood serving center that is suggested by the applicant. ***Staff requests that City Council provide input regarding the design and minimum commercial square footage that should be preserved on this commercially zoned parcel. The Council may direct the General Plan and Specific Plan amendments to proceed, subject to providing a larger minimum amount of tax generating commercial, or other desired land uses, or an alternative site design in order to preserve the viability of portions of Lot 7 as a prime commercial site.***

5. Development Fees

The 2018 SLR Development Agreement included provisions to lock in development impact fees for construction of the units approved at the time of original entitlement. These fees are substantially lower than impacts fees charged on permits today. It is the City

Attorney's position that the provision for lower fees does not extend to the additional 276 market rate units currently proposed for entitlement on Lot 7, as these units were not contemplated during the development and approval of the DA. Based on the 2018 DA, SLR has paid permit and impact fees of approximately $21,000 per multi-family unit. Current development fees for multi-family units are approximately $41,000 per unit. The difference in fees between what the DA locked in for the original 580 units and current fees today equates to a total of about $5.5 million in permit and impact fees for the additional 276 housing units proposed.

The applicant is proposing to amend the DA to lock in current (2024) impact fees, amounting to approximately $5.5 million in additional development impact fee revenues to the City in comparison to the fees locked in by the 2018 DA. The additional $5.5 million identified in the applicant's proposed term sheet (Attachment F) reflects the standard development fee required for any residential project submitted under the 2024 fee schedule. Development impact fees are adopted by City Council to cover the cost of development, including impacts to citywide transportation, fire and police, parks, and other City facilities. The City is currently working on an impact fee update, which is expected to go to Council for adoption in 2025. Payment of current fees is a standard project requirement.

City staff agrees that "then-current" fees should be applied to the additional 276 proposed residential units. The date of "current" fees shall depend on the timely submittal of the application materials and terms negotiated in the DA amendment. As required by law, development impact fees are based on the date that a vesting tentative map for the project is deemed complete, or as determined through DA negotiations. It is recommended that the fees applied to the project depend on the "then-current" fees in effect on the date that those project components are completed, rather than today's date (December 2024) at initiation of the project.

REQUIRED ENTITLEMENTS TO IMPLEMENT THE PROPOSED PROJECT

The currently proposed San Luis Ranch Lot 7 development will require the following applications if Council authorizes the project to proceed:

- General Plan Amendment –
  - General Plan Land Use Element Section 8.1.4 "Special Focus Area #2" provides direction for development within the San Luis Ranch area, including 14 goals, objectives, and requirements for development. The General Plan currently identifies a maximum of 500 residential units and requires between 50,000 to 200,000 SF of commercial to be constructed in the SLR Specific Plan area. The applicant is proposing to amend Section 8.1.4 to allow a maximum of 930 dwelling units and reduce the minimum commercial requirement to allow a combination of 38,000 SF (minimum) of either agricultural (Ag Heritage Center) or commercial uses. The proposed commercial/agricultural minimum reflects the commercial and agricultural processing uses in the Agricultural Heritage Center (about 31,000 SF) as well as a minimum of 7,000 SF commercial on Lot 7. (See Applicant's project description, Attachment C.)

  - Under the General Plan, Lot 7 is currently designated as Neighborhood Commercial (NC). The General Plan limits residential development in this designation to a maximum of 12 dwelling units per acre. The proposed project would exceed this allowed residential density, therefore a General Plan Amendment to change the underlying land use designation is required.

- Specific Plan Amendment – SLR Specific Plan would be updated to reflect proposed Lot 7 changes, proposed land use plan, and updated development standards.
  - Increase the overall residential development potential within the Specific Plan from 654 to 930 dwelling units;
  - Decrease the minimum commercial development required under the Specific Plan to identify a minimum 38,000 SF of either commercial or Ag Heritage Center uses;
  - No zone change is required because the Specific Plan designation also functions as zoning within the Specific Plan area.

- Development Agreement Amendment – The approved 2018 San Luis Ranch Development Agreement (DA) established a framework for future development of up to 580 units within the Specific Plan area, as well as the responsibilities of the developer to provide public and community benefits to the City beyond those otherwise required through mitigation measures and project conditions. Several aspects of the current development proposal, including addition of the additional residential units, would require an amendment to the existing DA.

- Affordable Housing Agreement Amendment – The SLR Affordable Housing Agreement was recorded in September 2020. It currently requires that the project's 26 very-low-income inclusionary housing units shall be constructed in proportion to the construction of the other units in the NG-30 Zone, which has not been done. Timing of affordable housing construction and revised number of required affordable housing units will need to be updated.

- Tentative Tract Map – Tract 3142 was approved in 2020 for an 11-lot primarily commercial development, and would not allow development of the site as the applicant now proposes. A new tentative map is required to correspond to proposed residential development, including lot configuration, grading and drainage, and site improvements.

- Development Plan – ARC and PC review of proposed site development plan and architectural review will be required.

- Environmental Review – Environmental review under the California Environmental Quality Act (CEQA) will be required, but the appropriate approach to CEQA has not yet been determined.

- ALUC Review – Because there would be General Plan and Specific Plan Amendments, the project would be referred to the San Luis Obispo County Airport Land Use Commission (ALUC) to determine conformity with the adopted Airport Land Use Plan (ALUP).

Next Steps
Staff is seeking City Council direction on whether to proceed with the applicant's proposed amendments. This early consideration referral to Council by the Community Development Director is an opportunity for Council to provide input on the proposed project. The current request for City Council initiation of the application does not constitute approval of the request and only begins the required process for the proposed project amendments.

If the Council provides direction to process the project applications, staff is also seeking Council direction on the specific issue areas discussed in the staff report that should be considered during the project review process and for DA term negotiations. Council may provide direction regarding any other design, land use, fiscal, or related project elements at the time of initiation in order for staff and the applicant to address these items during the entitlement processing.

Such topics could include, but not be limited to:

1) ***The number of deed-restricted affordable housing units***

   – Council may identify a minimum amount of affordable housing that would be expected with a revised project and amended Development Agreement.

   – Staff's recommendation is for the Council to consider whether SLR should provide 86 affordable housing units on Lot 7 to fulfill the inclusionary requirements of both the existing project (including the additional affordable units approved in 2020) and the proposed amendments. This would fulfill the inclusionary requirements of the overall commercial (15 affordable units required), the additional 276 unit market rate residential project (28 affordable units required), the project's originally required 26 very-low-income units, and the 17 bonus affordable units required with the 2020 amendment.

   – An alternative would be to provide 71 affordable units on Lot 7 and allow SLR to pay in-lieu fees to substitute for the 15 units required for the commercial inclusionary.

2) ***Timing of construction of the previously-required affordable housing component***

   – City staff recommends additional timing triggers to ensure that the project's inclusionary requirements for affordable units are constructed concurrently with any additional market rate units within the Specific Plan area.

   – As described in the report, the applicant stated that they are willing to post a letter of credit in the amount equal to the cost of improvements necessary to provide PSHH with a buildable lot, which staff is agreeable to. Staff recommends that the Council provide direction to staff regarding requiring a letter of credit for such purposes.

- In addition, the City Council could provide direction to explore a timing threshold that would require the provision of the required affordable housing in the Lot 7 market rate project if the PSHH units are not completed by a certain date, until the PSHH units were completed at which time the units could revert back to market rate.

3) ***Ongoing fiscal impacts to the City***

- To make up for the loss in revenues resulting from the land use changes on Lot 7, the City Council could direct the applicant and City staff to modify the financing plan included as Exhibit C in the approved DA and to negotiate additional strategies to increase revenues for City services. Strategies such as a CFD, increased commercial square footage, or other Council direction could be added to make up revenue impacts to the City.

4) ***The amount and design of tax-generating commercial development, or other land uses, within the project***

- Staff requests that City Council provide input regarding the design and minimum commercial square footage, or other land uses, that should be preserved or created on Lot 7.

5) ***Development fees associated with the proposed development.***

- City staff agrees that "then-current" fees should be applied to the additional 276 proposed residential units. The date of "current" fees shall depend on the timely submittal of the application materials and terms negotiated in the DA amendment and, thus, may not be the 2024 fee amounts.

If Council authorizes the proposed project and related amendments to proceed, staff will process the project through the following standard steps, including:

1. Development review of all applications by City staff
2. Environmental review under the California Environmental Quality Act (CEQA)
3. Referral to the Airport Land Use Commission for conformity with the ALUP
4. Architectural Review Commission public hearing
5. Parks and Recreation Commission public hearing
6. Planning Commission public hearing for recommendation
7. City Council public hearing for consideration of project approval

Public Engagement

The item is on the December 10, 2024 Council Agenda for consideration of the initiation of this application. The public has an opportunity to comment on this item at or before the meeting. If the Council authorizes staff to proceed with processing, additional public hearings and legal notices would be provided for the ALUC, Architectural Review Commission, Parks and Recreation Commission, Planning Commission, and City Council meetings as part of the process for consideration of the application.

CONCURRENCE

The Council Agenda Report was reviewed by the Community Development Department, Utilities Department, Finance Department, City Attorney, and City Administration for concurrence. If the Council directs staff to proceed with the application, relevant departments and divisions would evaluate the project in detail as part of the application review.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act (CEQA) does not apply to the recommended action in this report because Council's action does not constitute a "Project" under Section 15378 (Project) of the CEQA Guidelines nor does the action commit the agency to a definite course of action in regard to a project as described in Section 15352 (Approval) of the CEQA Guidelines. If the General Plan, Specific Plan, and Development Agreement amendment applications and other necessary decisions move forward, the project would be subject to the appropriate environmental review as required per CEQA, which will be presented at the public hearings.

FISCAL IMPACT

Budgeted: No　　　Budget Year: 2023-25
Funding Identified: Applicant funded

Fiscal Analysis:

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund	$0	$0	$0	$0
State				
Federal				
Fees				
Other:				
Total	**$0**	**$0**	**$0**	**$0**

There will be no net fiscal impact related to considering the initiation of the proposed annexation. If Council directs staff to proceed, the applicant will be required to fund the review and processing of the applications and associated analysis according to the City's fee schedule. The applicant has already paid a Specific Plan Amendment fee deposit for this initiation process and has paid for the fiscal impact analysis and peer review that have been completed to facilitate this process. Additional fees will be required to be paid by the developer including fees related to the General Plan Amendment, Development Agreement Amendment, Development Review, Subdivision Map, and ALUC. In addition, the applicant would pay for the cost of the environmental review of the project as well as a contract planner to process the applications required for the project.

If the proposed project revisions are ultimately approved by the City Council upon completion of application processing, there would be fiscal impacts related to the provision of municipal services to the subject property that would be evaluated in detail as part of the application. Fiscal impact of residential verses commercial development is discussed in detail above. Development impact fees associated with the existing Development Agreement are also a major consideration for the proposed project, and should be fully evaluated as part of any DA or project amendment.

ALTERNATIVES

1. ***Continue review of initiation to later date and request additional information in order to evaluate the application, such as:***
    a. *A feasibility study to evaluate the amount of vacant commercial buildings currently in the City, and evaluate the future commercial need based on buildout of the General Plan.*
    b. *Any other studies or information deemed necessary by the City Council in order to evaluate the application for processing.*
2. ***Direct staff to not move forward with processing the application for General Plan and Specific Plan amendments*.** Per San Luis Obispo Municipal Code Section 17.130.020 “The Council, upon making specific findings in reference to specific general plan provisions, may direct the director to reject the application as inconsistent with overall general plan policy direction.”

ATTACHMENTS

A - San Luis Ranch Lot 7 Project Application and Project Description (April 29,2024)
B - SLR Proposed Plan Set for Lot 7 (Site Plan and Elevations)
C - Applicant’s Response to Questions and Updated Project Description (July 18, 2024)
D - Letter from SLR to Mayor and City Council (October 9, 2024)
E - Updated Project Description from Kovesdi Consulting (October 24, 2024)
F - Term Sheet proposed by Williams Homes (Sent on November 13, 2024)
G - SLR Letter with attachments (November 13, 2024)
H - DA Operating Memorandum #1 (May 8, 2019)
I - DA Operating Memorandum #2 (August 20, 2020)
J - DA 1st Administrative Amendment (February 23, 2021)
K - DA Exhibit F - Affordable and Workforce Housing Plan (March 6, 2018)
L - San Luis Ranch Fiscal Impact Analysis (October 31, 2024 by ADE)
M - Fiscal Impact Analysis Peer Review #1 (August 14, 2024 by EPS)
N - SLR Response to Fiscal Peer Review (September 6, 2024)
O - Memo from CDD to Mayor and City Council (September 24, 2024)
P - Memo from CDD to Mayor and City Council (October 31, 2024)
Q - Fiscal Impact Analysis Peer Review #2 (October 30, 2024 by EPS)