

## MEMORANDUM

To: Callie Taylor  
From: Teifion Rice-Evans and Russ Powell  
Subject: San Luis Ranch Fiscal Impact Analysis Peer Review;  
EPS #242055  
Date: August 14, 2024

*The Economics of Land Use*



The City of San Luis Obispo (City) has engaged Economic & Planning Systems, Inc. (EPS) to provide a peer review of fiscal impact analyses prepared by Applied Development Economics, Inc. (ADE) for the San Luis Ranch project (Project). The initial fiscal impact analysis (FIA) was prepared by ADE in 2017, and the most recent update to the FIA was prepared in 2024.

The City asked EPS to review the FIAs. The City was, in particular, interested in understanding the impact of the proposed land use changes in Lot 7 on the expected fiscal outcomes. To isolate changes to fiscal impacts associated with Lot 7 land use changes, EPS developed a simplified version of the 2024 FIA calculations. It may be beneficial for the City to ask the developer to run this same analysis using its full model.

As part of its review, EPS found an inconsistency between the developer's proposed development program and that evaluated in their 2024 analysis that ought to be corrected. For the purposes of the Lot 7 assessment, EPS used the developer's proposed development program.

**The developer is proposing substantial changes from the 2017 land use development program.** The 2024 land use program reduces the scale of commercial development and increases the scale of residential development. As shown in the table below, the largest changes include (1) reduction of the originally proposed 150,000-square-foot commercial center to a 7,000-square-foot commercial development, and (2) an expansion of the residential program from 580 units to 923 units.

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**2017 Land Use and 2024 Land Use Revision**

<b><u>Residential</u></b>	<b><u>2017 Units</u></b>	<b><u>2024 Units</u></b>
Low Density	220	192
Medium Density	120	77
High Density	206	562
Affordable Housing		
Very Low Income	34	70
Low Income		4
Moderate Income		4
Work Force		14
<b>Residential Totals</b>	<b>580</b>	<b>923</b>

  

<b><u>Non-Residential</u></b>	<b><u>Bldg. SF</u></b>	<b><u>Bldg. SF</u></b>
Hotel	120,000	120,000
Office	100,000	80,000
Commercial	150,000	7,000
<b>Non-Residential Totals</b>	<b>370,000</b>	<b>207,000</b>

The changes in the land use program were primarily driven by the proposed changes in Lot 7. The proposed Lot 7 land use changes include: (1) a reduction in the commercial program from 150,000 square feet to 7,000 square feet, and (2) an addition of 276 multifamily for-rent residential uses and 67 affordable units.

**EPS used a simplified version of the 2024 FIA model to compare three different Lot 7 land use programs.** The three land use programs assessed included: (1) the 2024 land use program assuming the 7,000 commercial space is all taxable retail space; (2) the 2024 land use program assuming that the commercial space is for services and does not generate taxable sales; and (3) the 2017 land use program. EPS identified general or simplified assumptions from the 2024 FIA and applied them to the three land use programs. Key 2024 FIA assumptions applied included assessed value for residential and commercial uses, sales tax per square foot for retail, and multipliers for “persons served” to derive “Other Revenue” and “Expenditures”. For the 150,000 square foot commercial program under the 2017 land use program, EPS assumed an average of \$348 per square foot (equivalent to the inflated number of \$260 per square foot used in the 2017 FIA).

**The change in the Lot 7 land use program substantially changes the fiscal impact picture for the City.** Lot 7 fiscal impacts are estimated to shift from \$1.38 million in net annual revenues to the City’s General to between \$160,000 and \$240,000 in net annual costs to the City’s General Fund. As shown, the main drivers of the estimated reduction in revenues are from both the general and

Measure G sales tax revenues. The new Lot 7 residential uses increase the annual property tax and other revenues, but not sufficiently to counterbalance the loss in sales tax revenue. On the cost side, the 2024 land use program addition of new residential development substantially adds to the level of public service costs to support the development.

**Fiscal Impact Comparison under Current Measure G Tax Rate**

	<u>2024 FIA Land Uses</u>	<u>2024 FIA No Sales Tax</u>	<u>2017 FIA Land Uses</u>
Property Tax	\$151,738	\$148,518	\$69,000
Sales Tax	\$29,976	\$553	\$522,129
Measure G	\$44,965	\$829	\$783,194
Property Tax In Lieu of VLF	\$87,681	\$85,821	\$39,871
Other Revenue	<u>\$202,192</u>	<u>\$196,091</u>	<u>\$58,602</u>
<b>Total Revenues</b>	<b>\$516,553</b>	<b>\$431,811</b>	<b>\$1,472,796</b>
<b>Expenditures</b>	<b>\$679,660</b>	<b>\$670,123</b>	<b>\$91,595</b>
<b>Surplus/(Deficit)</b>	<b>(\$163,107)</b>	<b>(\$238,312)</b>	<b>\$1,381,201</b>