FARM TO TABLE

San Luis Ranch

HOME GROWN COMMUNITY

# Memorandum

**To:** **SLR Lot 7 Entitlement Team**
**From:** **Josh Bivin**
**CC:** **Don Faye, Paul Lucatuorto**
**Date:** **September 6, 2024**
**Re:** **Review of EPS Fiscal Impact Analysis**

The purpose of the April 26, 2024, ADE fiscal analysis is to determine if the proposed modifications of the San Luis Ranch Master Plan per application SPEC-0020-2024 would negatively impact City operating costs and revenues, and what level of mitigation would be needed to address the impact (in the event of a deficit).

Per their email to Callie Taylor of 3/19/24, EPS, (the City's consultant) proposed a peer review of the ADE report consisting of the following scope (quoted verbatim):

- "EPS technical review of latest applicant fiscal impact analysis and the past documents provided that will consider: 91) robustness of analysis; (2) changed assumptions driving new conclusions relative to 2017 study; (3) any key sensitivities/assumptions driving analysis; (4) City questions on current and prior analyses; (5) broader City questions concerning redesignation of commercial and etc.
- If time and appropriate, communication with applicant for clarifying comments
- Concise memo providing summary of peer review findings"

Instead of delivering the comprehensive memo described in their scope of work, EPS has isolated a single variable of the project Phase 6, the commercial component. EPS has failed to review the proposed modifications within the context of the Master Plan, and thus has neither fulfilled their scope of work nor produced a useful or technically defensible document.

In addition to isolating a single variable, EPS has made several assumptions which do not reflect current project entitlements or market conditions. Lot 7 is currently approved for a total of 113,400 square feet of commercial space, not the 150,000 square feet utilized in the EPS analysis. Additionally, EPS assumed 100% absorption at completion of construction with no vacancy factor. Both of these assumptions directly contradict the feasibility study on retail space currently in process for a separate project in the City.

While the City's desire to isolate the proposed land use amendment is understandable, it demonstrates confusion regarding the way real estate works. Development must respond to actual economic, consumer spending, and tenant demand trends. Economic trends observed since 2017 include soaring online and e-commerce sales, continually increasing housing demand, and a deepening deficit of housing supply. Taken together, these trends have resulted in higher values per residential square foot and reduced demand for additional brick-and-mortar retail space. The City's economic consultant must therefore take a holistic approach in reviewing the proposed Lot 7 land use change and analyze the project as a whole. This holistic methodology precedent was established in the City's Land Use and Circulation Element (LUCE) Fiscal Analysis (2014), utilized in the original San Luis Ranch Specific Plan Fiscal Impact Analysis (2017), then replicated in the Financial Feasibility Memo included in the SLR Development Agreement. EPS's decision to analyze the proposed Lot 7 land use modification in isolation is a sharp deviation from this well-established methodology.

The City's comprehensive approach to fiscal analyses over the past decade must also be evaluated vis a vis the City's Major City Goals. The holistic methodology employed in the LUCE, SLR SP and SLR DA was designed to be responsive to and supportive of the City's adopted goals, including Climate Action, Sustainable Transportation, Diversity, Equity and Inclusion, Economic Resiliency, Cultural Vitality and Fiscal Sustainability, and Housing and Homelessness. City Elected leaders and management understood that large, mixed-use projects are best positioned to address multiple City goals, and that residential portions of these projects will yield negative fiscal impacts, while the projects overall remain fiscally positive. Indeed, if the narrow perspective applied in the EPS memo were used routinely, no affordable housing component would ever be approved.

The City needs to direct EPS to analyze the proposed land use modification utilizing 2024 revenues and expenditures for the project as a whole. In order to accurately determine the change in projected surplus (or deficit) based on the proposed land use change, the project must be reviewed within the context of the Master Plan. Applying 2024 revenue numbers to a single phase of the project while leaving all other phases at 2017 numbers yields an artificially skewed and meaningless result. Instead, the 2024 study completed by ADE took into consideration both the increased revenues and expenditures for all phases of the project. The result, using methodology consistent with the financial analyses prepared for the LUCE, SLR SP and SLR DA, determined that the project will produce a net surplus to the City of $750,000 annually, as opposed to the projected $985,000 surplus in the 2017 analysis.

If, contrary to its practices for the past decade, the City insists on isolating a single variable in its analysis, then the analysis, at minimum, needs to include the following information:

- The currently entitled retail square footage (113,400 square feet);
- A feasibility analysis of additional retail within the City;
- An absorption analysis for new retail; and
- An appropriately gauged vacancy factor.

Retail space is already overdeveloped in the City of San Luis Obispo, resulting in SLR being unsuccessful in attempts to find a buyer or operator for Lot 7. Given retail vacancy rates within both the downtown and commercial centers neighboring San Luis Ranch, we would not bring forward a project today that included 150,000 square feet of retail space. Therefore, if the EPS report is going to isolate the Lot 7 component from the rest of the Specific Plan Area, it should reflect projected revenues from the proposed land use amendment against $0, as that is the expected revenue to be generated from the land as currently entitled.

It should also be noted that in their excel spreadsheets, EPS completed an analysis of the original versus proposed land uses utilizing 2017 assumptions for revenues and expenditures. In that scenario, the new land uses produced a surplus of $600,000 annual to the City. In addition, when EPS utilized the proposed land uses in 2024 market conditions and compared that to the original study, the EPS anticipated surplus was greater than that projected by ADE.