



Community Development

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September 24, 2024

TO: Mayor and City Council

FROM: Timmi Tway, Community Development Director

SUBJECT: San Luis Ranch Proposed Lot 7 Amendments

Approved SLR Specific Plan – Lot 7

Lot 7 of the San Luis Ranch Specific Plan (SLRSP) is a 11.44-acre commercial parcel that was originally approved in 2017 for 150,000 sq. ft. of commercial uses. It was intended to be a major tax revenue source for the City, as required by the City's General Plan¹ and was meant to complement the hundreds of housing units approved in the SLRSP. In November 2020, the City Council approved a Specific Plan amendment to increase the number of allowed residential units in the SLRSP from 580 to 654 and to transfer the majority of SLR's inclusionary affordable housing requirements to Lot 7. This amendment added 64-77 affordable housing units to a 1.85-acre section of Lot 7. SLR proposed to have People's Self Help Housing (PSHH) construct the units to fulfill the inclusionary housing requirements of the SLRSP and Development Agreement. Per the November 2020 approval, the remaining 9.59 acres on Lot 7 was to be developed with 114,300 sq. ft. of commercial uses. The location of Lot 7 is shown in Figure 1 on page 4 of this memo.

SLR Current Proposal

San Luis Ranch submitted a proposal for General Plan and Specific Plan amendments on April 29, 2024, which proposes developing Lot 7 with an additional 276 market rate residential units in lieu of the previously approved commercial development. In order to comply with the Neighborhood Commercial zoning, the site is designed as horizontal mixed-use with potential for 7,000 sq. ft. of commercial. Upon submittal of the proposal, City staff requested additional information, including a peer review of the fiscal impact analysis that was provided by the applicant. SLR provided additional information regarding the application and responses to staff's questions on 7/18/24, and the fiscal analysis peer review was completed on 8/14/24.

Fiscal Impact Analysis

While the proposed additional housing units would help fulfil the City's goals for housing production, fiscal impact to the City's revenues and preservation of prime commercial sites are key factors for Council to consider in conjunction with amendments to the City's General Plan and the SLR Specific Plan. SLR's consultant, Applied Development Economics (ADE), has provided a fiscal impact analysis (FIA) which compares the 2017 estimated fiscal impact of the original project to the 2024 fiscal impact of the revised project proposal. A summary of the SLR produced FIA is as follows:

¹ General Plan Section 8.1.4. identifies Performance Standards for the San Luis Ranch Special Focus Area. The General Plan requires between 50,000 to 200,000 sq. ft. of commercial to be constructed in the SLRSP area. The stated purposes of the SLRSP include providing a commercial/office transition to the existing adjacent commercial areas and providing walkable and neighborhood commercial uses in SLRSP.

- SLR's FIA analyzes the entire SLRSP as a whole, comparing the 2017 fiscal impact of the original project to the 2024 fiscal impact of the proposal, and does not isolate the specific impacts of the requested changes on Lot 7.
- SLR's FIA shows the SLR specific plan area would not be fiscally negative as a project overall, but it would create less revenue than originally identified in 2017 with the proposed change.
- ADE's analysis shows that the overall SLR Specific Plan area at full buildout, 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. This totals an annual cost/revenue surplus of about \$758,440.
- SLR's FIA applies market changes that make the overall SLR project appear to be fiscally positive despite the increased service costs associated with additional housing development 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 and Measure G) to the original project in 2017 dollars.

In order to gain a more accurate picture of the fiscal impact of the proposed amendments to help inform future decisions on the project, the City asked its fiscal consultant, EPS, to isolate the proposed land use changes on Lot 7 and identify the fiscal impact in 2024 dollars that would result from the proposed amendments. EPS used ADE's fiscal model to calculate the fiscal impact of the currently approved commercial project in 2024 dollars and compare it to the proposed project in 2024 dollars, which was missing from the ADE report.

- EPS's fiscal impact calculations show that the proposed Lot 7 land use change from commercial to residential would create a net fiscal loss to the City of \$1.54-\$1.62 million annually when comparing Lot 7 as previously approved and Lot 7 as currently proposed in 2024 dollars.
- There are several factors that contribute to this identified shortfall in revenues which were not taken into account in the applicant's FIA. Measure G, a 2020 voter approved initiative to increase local sales tax revenues, would have been expected to account for \$783,194 annually from the previous approved commercial development at this location. Changes in market conditions, inflation, and increases in the sales and use tax rates between 2017 and 2024 improve the overall SLR project's fiscal performance and make the applicant's 2024 FIA appear to close much of the gap caused by the change in the land use program.
- EPS also identified data errors in fiscal model used in the applicant's 2024 FIA. The applicant's current project description proposes 923 units, while the applicant's fiscal model included only 853 residential units.

SLR provided a follow-up memo to City staff on September 12, 2024, describing the difference in methodology between the ADE and EPS reports. The SLR memo suggests that retail space is overdeveloped in the City of San Luis Obispo, leading SLR to being unsuccessful in attempts to find a buyer or operator for commercial on Lot 7. The applicant argues that a fiscal impact study that assumes 100% absorption (no vacancy) of the commercial component is not realistic given the current commercial climate. While the applicant and staff may not agree on the methodology of the fiscal impact analysis, both studies are valuable, and staff intends to include all fiscal studies and memos produced by the applicant in the City Council initiation for this item for City Council's consideration.

Affordable Housing Requirements

Affordable and inclusionary housing are key components of the SLRSP and are identified in the Development Agreement. While construction of the market rate units at SLR is currently nearing completion, the majority of SLR's inclusionary housing requirements have not been fulfilled. SLR has not made efforts to record the Tentative Map approved by City Council in November 2020, and therefore SLR has not been able to provide People's Self Help Housing (PSHH) with site control to apply for grant funding to develop the 64-77 low and very low-income units which were required on a portion of Lot 7.

SLR's current proposal includes increasing the affordable units of the PSHH site to allow up to 82 units; however, the proposal does not include any guarantee or timing for construction of the affordable units in relation to the existing project or the additional 276 market rate units that are proposed. City staff has had multiple meetings with SLR and PSHH in attempt to facilitate construction of the development of the affordable units as quickly as feasible. However, until SLR records the 2020 map and transfers the 1.85 acre affordable housing property to PSHH, PSHH cannot acquire funding for construction and development of the site cannot move forward. Staff continues to work with all parties involved to determine how to best move the affordable housing components to change the remainder of Lot 7 from commercial to residential.

Next Steps

As required by Municipal Code Section 17.130.020, General Plan and Specific Plan amendments shall be referred to City Council for initiation and early consideration prior to staff processing any applications. To prepare for the initiation, city staff have been working with the developer to address outstanding items needed to move the item forward, including discussions about whether the Development Agreement needs to be amended and to what extent, what fees would apply to the project, the timing of the affordable housing development, and what the fiscal impact of the land use change may be. City staff had planned to take the initiation request to Council on September 17, 2024, however, the SLR applicant requested additional time to address the fiscal impact and other project components prior to Council review. City staff met with SLR representatives on September 12, 2024. City staff is currently planning to reschedule the item for Council consideration as soon as an opening on a Council agenda is available (agendas are currently full and closed to additional items for the remainder of 2024.)

If authorized by Council to proceed, the project would require a Specific Plan Amendment (SPA), a General Plan Amendment (GPA), and potentially a Zone Change (ZCH), a modification to the approved Development Agreement, as well as a Vesting Tentative Tract Map and Development Plan. Environmental review under the California Environmental Quality Act (CEQA) will be required, as well as review by San Luis Obispo County Airport Land Use Commission (ALUC).

Figure 1. San Luis Ranch Specific Plan Area – proposed project area (Lot 7) noted in blue outline

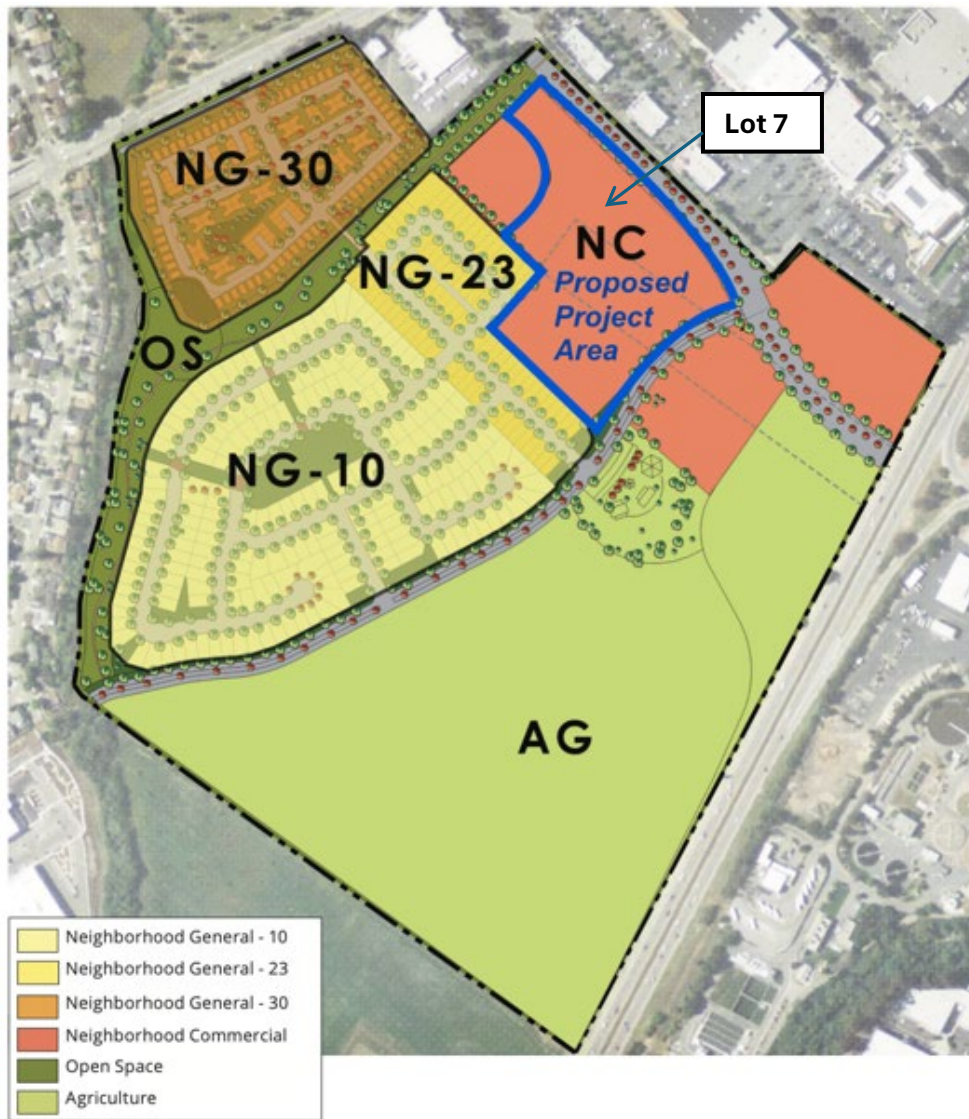


Figure 2. Currently Entitled Lot 7 Site Plan (Commercial Use)



Figure 3. Applicant's Proposed Lot 7 Site Plan (Residential Use)

