MEMORANDUM

To: Callie Taylor, City of San Luis Obispo

From: Russ Powell and Teifion Rice-Evans

Subject: San Luis Ranch Fiscal Impact Analysis Peer Review; EPS #242055

Date: October 30, 2024

The Economics of Land Use

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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. EPS has prepared a series of analyses as requested by the City. The most recent EPS analysis focused on the isolated fiscal impacts of land use changes for Lot 7. ADE FIAs focused on the net overall fiscal impacts for the Project.

The 2017 ADE FIA estimated a net positive fiscal impact of approximately $986,000, while the 2024 ADE FIA shows a net positive fiscal impact of approximately $758,000. The City is concerned about the reduction of the total retail space proposed for the 2024 land use plan for Lot 7.

This memorandum resummarizes the proposed developer land use program changes and addresses the:

- Fiscal impacts of reduction of allowed retail square footage on Lot 7 from 150,000 to 114,300 building square footage.
- Development team's recommendations for retail market analysis.
- Property tax implications of the Cal Poly purchase of the 120-unit Harvest Lofts for student housing.

Developer-Proposed Land Use Program Changes

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.

2017 Land Use and 2024 Land Use Revision

Residential	**2017 Units**	**2024 Units**
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
Residential Totals	**580**	**923**
Non-Residential	*Bldg. SF*	*Bldg. SF*
Hotel	120,000	120,000
Office	100,000	80,000
Commercial	114,300	7,000
Non-Residential Totals	**334,300**	**207,000**

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 114,300 square feet to 7,000 square feet and (2) addition of 276 multifamily for-rent residential units and 67 affordable units.

Fiscal Impacts of Retail Space Reduction on Lot 7

A land use change adopted for Lot 7 in 2020 reduced the entitled retail space from 150,000 building square foot to 114,300 building square foot. The FIA from 2017 was not updated to reflect this reduction in retail space. The City has requested that EPS update the Lot 7 analysis of fiscal impacts shown in our memorandum dated Augst 14, 2024.

In addition to addressing the fiscal impacts related to the reduction of retail space, the City asked EPS to estimate the fiscal impacts of the total number of proposed units on Lot 7. As noted in the August 2024 memo by EPS, the applicant's fiscal model included 853 total units in error, while the project description includes 923 units as the current proposal. The 70-unit very low affordable housing project for Lot 7 is assumed to be tax-exempt. EPS reduced assessed valuation for the year 2020 based on reduced retail space and 70-units of very low affordable housing. Sales tax, Measure G sales tax, and property tax in-lieu of VLF have been adjusted incorporating the results of the identified land use changed as of 2020.

The table below shows net fiscal impacts of the land use changes for Lot 7.

	2024 FIA Land Uses	2024 FIA No Sales Tax	2020 Land Uses	2017 FIA Land Uses
Property Tax	$143,965	$140,745	$52,578	$69,000
Sales Tax	$29,976	$553	$307,467	$522,129
Measure G	$44,965	$829	$461,201	$783,194
Property Tax In Lieu of VLF	$87,681	$85,821	$30,382	$39,871
Other Revenue	$202,192	$196,091	$44,655	$58,602
Total Revenues	**$508,780**	**$424,038**	**$896,282**	**$1,472,796**
Expenditures	**$679,660**	**$670,123**	**$69,795**	**$91,595**
Surplus/(Deficit)	**($170,880)**	**($246,085)**	**$826,487**	**$1,381,201**
8/14/2024 Results	**($163,107)**	**($238,312)**	**n/a**	**$1,381,201**

Development Team Recommendation for Additional Lot 7/Retail Analysis

In response to EPS's analysis focused on net fiscal impacts for the land use changes proposed for Lot 7, the development team noted that consumer spending habits have changed since 2017, creating less demand in the current real estate market for bricks-and-mortar retail space. They note that while demand for retail space has shrunk, there is an increased demand for residential uses, as noted by significant increases in the sales prices for new housing.

The developer states that they have not been able to find a buyer for Lot 7, which is entitled for up to 114,300 building square foot of retail space. The development team suggests that the following retail analyses should be included when determining the impacts of the 2024 proposed land use plan change:

- Feasibility analysis of additional retail space in the City.
- Absorption analysis for new retail.
- Appropriately gauged vacancy factor.

EPS Input on Potential Retail Market Analysis

Context

The retail market has long been a highly competitive and dynamic industry. Recent shifts to online shopping (accelerated by the pandemic) have reduced demand for some types of retail stores/formats and led to the closure or underutilization of many retail sites throughout U.S. jurisdictions.

EPS agrees that a retail market study could help determine the viability of a new neighborhood shopping center or other retail configuration on the areas of the site originally envisioned for retail development. To the extent there is no, limited, or less demand for new retail development than originally envisioned, it would be appropriate to adjust the assessment of expected fiscal impacts under the original land use plan to recognize such market realities.

EPS Recommendation

EPS recommends that a qualified retail market specialist be hired to assess the market prospects for new retail development at the Project site under the original land use plan. This would be a site-specific market study that would likely take account of primary and secondary market area demand, competitive retail supply from existing or planned retail, as well as site location and characteristics. Existing residential development in the market areas, as well as planned new development in the site and market areas, would be taken into account.

This type of analysis would be expected to provide insight into these questions:

- Is there demand for retail at the current time or would it require residential buildout/other factors, if any, to drive demand?
- What type and amount of retail space would be in demand at the site in the short, medium, and long terms?
- Would retail development be expected to occur in one phase or in multiple phases?

It is important to note that many viable retail sites do not generate the same land value for an owner as proposed housing developments under a residential zoning. It will be important to clarify the definition of "viable retail" in this context.

Overall, the retail study should inform the City of the viable retail program for the site (if any) and its expected timing. This retail program could then be compared to what was expected under the original plan and what is proposed under the new plan. The viable retail program could then be analyzed from a fiscal impact perspective to assess the impact of the new land use plan relative to a "market-tested" version of the original land use plan.

EPS Assessment of Fiscal Revenue Impacts of Harvest Lofts Ownership Change

Cal Poly has purchased the 120-unit Harvest Lofts for student housing. As a result, the lofts will become tax-exempt uses owned by the university. EPS estimated the net loss of revenues resulting from the conversion of previously taxable residential units to tax-exempt uses owned by the university. The 2024 FIA assumed these units had an assessed value of $555,600 per unit. Using this same assumption, the reduction in annual property tax revenue to the City's General Fund, relative to when it was for-profit ownership, would be approximately $60,000.

The current assessed value for these units for Fiscal Year 2024-25, based on current property tax bills, an average of about $150,000 per unit. Relative to the existing assessed value, EPS estimates the net loss of annual property tax revenues would be $16,000.