

Investigation of the Impact of Land Use Decisions on Local Government Finances

Background

On April 11 of this year, the Moore Creek Preserve, a 246-acre nature reserve on the western edge of the City of Santa Cruz, opened without fanfare. Formerly known as the Bombay Property, it is the final piece of the “Greenbelt” of the City of Santa Cruz, made possible by the passage of Measure O by city voters in 1979.¹ It opened without public restrooms, adequate parking, or other public facilities.

In April of 1964 the Santa Cruz City Council adopted its first “General Plan for Future Development.” At that time, the City Council was dominated by local business interests. Their ambitious plan makes for interesting reading today. Among other things, it called for:

- the annexation of Live Oak, Pasatiempo, and Doyle Gulch (Bordering Branciforte Creek near Delaveaga Park)
- a reservoir and expanded road access in the Doyle Gulch area
- housing for 125,000 to 145,000 people
- a 4-6 lane “Beach Loop” Parkway beginning at Highway 17 & Ocean Street and ending at Bay Street and Mission connecting beach area parking facilities to Highways 1 and 17
- an “Inner Loop” serving parking facilities in an expanded central business district surrounding a “pedestrian only” Pacific Avenue mall
- expansion of Highway 17 to eight lanes, Highway 1 to six lanes, and a total of six lanes between Felton and Santa Cruz including a Graham Hill Expressway
- a university neighborhood with 74,000 residents surrounding the current UCSC campus. The campus would have been fully integrated into the city with more than 20 lanes providing access
- a major luxury hotel-tourist-convention center occupying 40 acres on Lighthouse Point
- fully developed west side and River Street industrial areas²

While many of the ideas in the plan were implemented and others could still be considered, much of it was not to be.

In the early 1970’s, the City of Capitola was allowed to annex the 41st Avenue area which had been proposed as a site for a large retail shopping mall, thus destroying the financial viability of the proposed annexation of the entire Live Oak community by the City of Santa Cruz, as called for in the 1964 Plan.

¹ Measure O prohibited development on several large properties surrounding the City of Santa Cruz for a fixed period to allow the city to acquire these properties to be maintained as open space.

² City of Santa Cruz General Plan for Future Development, 1964 See also Class, Populism and Progressive Politics: Santa Cruz, CA 1970-82, Michael E. Rotkin, UCSC, Dec. 1991.

In the late 1970's, the expanding UCSC community and growing neighborhood opposition to development, allowed a "progressive" coalition to take control of the Santa Cruz City Council. This new coalition brought decidedly different priorities to city government. Originally founded to promote health care and other social services, organizers eventually joined with anti-growth and community activists to form an electoral block capable of delivering a majority in city elections.

This majority had a profound effect on the future development of Santa Cruz County. In 1979 they adopted support for Measure O as a part of their election strategy. That measure's passage, supported by their corresponding and subsequent election victories, encircled the city in a planned "Greenbelt" and severely limited further residential development.

Today, the City and County of Santa Cruz are faced with many of the same issues that faced the area at the time of the General Plan of 1964. In addition, the future of the region is threatened by many new and pressing challenges:

- Anticipated traffic circulation problems have not been solved
- Large fully developed residential areas located outside of cities are forced to rely on a county government poorly suited to provide desired infrastructure projects and necessary public services
- Financial resources are inefficiently distributed to meet the needs of the citizens of the area
- Industrial areas are underdeveloped and underutilized
- Demands for new and affordable housing continue to mount

As the 40th anniversary of the City of Santa Cruz's first General Plan approaches, it is fitting that we pause to assess what has happened to date and re-examine the large scale land use questions that have affected our past and will determine our future.

Scope

Given the serious issues facing local government in Santa Cruz County, the Grand Jury decided to:

- Examine the effect these large land use decisions currently have on the financial stability of local government
- Examine the methods utilized by local governments in Santa Cruz County to evaluate land use decisions
- Examine the specific land use issues facing local government that impact their future fiscal stability.

Fieldwork

To perform its examination, the Grand Jury conducted numerous interviews of local government officials from each of the five local government jurisdictions including:

- Elected Officials
- City Managers
- Planning Department staff
- Redevelopment Agency directors
- Economic development department staff

Additionally, the Grand Jury interviewed local business leaders and development consultants. The Grand Jury also relied on numerous local newspaper articles, web resources, and planning documents to prepare for these interviews and guide our investigation.

General Findings

1. It is generally accepted that the revenue generated for local government from residential properties does not equal the cost of services provided to those properties.
2. Similarly, while industrial properties often generate jobs and provide some business related taxes they generally do not generate enough revenue for local governments to equal the cost of services provided to these properties.
3. Commercial properties, particularly those that generate sales tax revenue for local governments, can provide revenue in excess of the cost of services provided by local government to those properties.
4. Properties designated for agricultural use, while requiring minimal public services, generally do not generate significant positive tax revenue for local government.
5. Properties dedicated to public uses such as parks, open space, roads, and government facilities that do not generate revenue, generally constitute a net revenue loss to local governments.
6. Property tax revenue is limited by the effects of Proposition 13 and possibly more importantly, by the appropriation of much of the remaining property tax revenue by the state for other uses such as K-12 public education.
7. Property tax revenue is sometimes further limited by redirection of the increase in property values to existing redevelopment agencies.

Planning Process Findings

1. Local government policy decisions about land use within their jurisdictions are expressed primarily through the General Plan and the zoning process.
2. In the zoning process, every property within the jurisdiction is given a designation indicating the allowable uses for that property.

3. These zoning designations are meant to implement the jurisdiction's "general plan" for future development.
4. These zoning designations are determined by the governing body of the jurisdiction (i.e. the Board of Supervisors or the City Council) and may be periodically modified with the assistance of planning professionals and in response to the desires of the property owners and the input of interested members of the public.
5. Uses that do not conform to the restriction of the zoning designation may be allowed if the property owner first obtains a "variance" from the governing body of the jurisdiction.
6. Competing pressures such as population growth, economic development, environmental protection, quality of life and government desire for increased revenue have a profound effect on land use decisions.
7. An appropriate balance of properties zoned for each category of zoning designation is required for a healthy and financially sustainable community.
8. As remaining undeveloped land becomes scarce, the opportunity for affecting the balance of land uses becomes more limited.
9. If pressures for one category of use become overwhelming, other uses may be sacrificed to provide more land for that desired use. For example, growing desire for housing may add pressure for the conversion of land designated for agricultural use to residential use.
10. Some local political figures have attempted to limit infrastructure development such as roads, water, and sewer to discourage some types of development with questionable success.
11. Public desire for services can also have an effect on land use decisions as local governments seek to control costs by limiting growth or increasing revenue by zoning more properties for commercial retail use.
12. Local jurisdictions are also required to meet state demands for minimal moderate and affordable housing development.
13. With the significant exception of the housing element, most elements of a jurisdiction's general plan contain broad principles rather than specific goals to be attained.
14. Some jurisdictions have developed "strategic plans" as part of their general plan to promote balanced and fiscally sustainable development.
15. Strategic plans seek to match general land use decisions with expected future demands for services by identifying the specific goals for economic development necessary to meet these expected service demands.

16. As an added benefit, to encourage implementation of the general or strategic plan, some jurisdictions have required relevant city or county departments to identify in their annual budget statements the actions they are taking to implement these goals and policies.
17. At least one local city manager has repeatedly, over a number of years, recommended the adoption of a strategic plan to deal with the anticipated revenue short falls we are currently experiencing.
18. Most areas in this county are considered to be low revenue generating jurisdictions.
19. Conversely, many areas of the county demand a high level of government services for geographical reasons and the values and desires of the community.
20. Resulting attempts by local jurisdictions to boost revenue derived from retail development often put neighboring jurisdictions in competition with each other.

City of Santa Cruz Findings

1. The citizens of the City of Santa Cruz generally demand a high level of services.
2. Interviews with local government and business leaders indicate that the City of Santa Cruz has a reputation for being hostile to business development.
3. The City of Santa Cruz has large areas zoned for industrial use in the Harvey West and west side areas that are underutilized. A similar area located along River Street was recently converted to large retail use (The Gateway Plaza).
4. In recent times, the City has lost a considerable portion of its manufacturing businesses to other more affordable areas.
5. Because of the potential competitive advantage gained by its proximity to UCSC, City development plans for its limited industrial areas have emphasized R & D based projects as the most appropriate type of use.
6. City plans have also consistently identified the development of an adequate convention center facility as a high priority for supporting the further development of the local economy.
7. The City of Santa Cruz has dedicated a considerable amount of its available land to a “Greenbelt” around the city.
8. This “Greenbelt” is largely unimproved at this point with limited access to the public.
9. Plans for the implementation of improvements to the greenbelt properties have not been completed. In the immediate term, the following must be completed for each parcel before work on improvements can be begun:

Pogonip	Master Plan completed
Delaveaga Park	Master Plan completed in 1960 (in need of update) Biotic studies/assessment of existing conditions very limited Update Master Plan Estimated California Environmental Quality Act (CEQA) review cost: \$25,000 - \$40,000 Estimated plan cost: \$35,000 - \$55,000
Arana Gulch	Interim management plan completed Biotic studies/assessment information available Prepare Master Plan Estimated CEQA review cost: \$25,000 - \$40,000 Estimated plan cost: \$30,000 - \$50,000
Moore Creek Preserve	Interim management plan completed Biotic studies/assessment information available Prepare Master Plan Estimated CEQA review cost: \$20,000 - \$30,000 Estimated plan cost: \$25,000 - \$35,000
Total estimated costs	\$160,000 – \$250,000

The actual development and maintenance of the properties would be considerably more. The amount required for that purpose would depend on the desires of the community.

City of Watsonville Findings

1. The City of Watsonville is a growing city surrounded by extensive agricultural lands.
2. Its history as the residential hub of an agricultural area has given it a diverse population that is both a great asset and a difficult challenge.
3. Its practical outlook and tremendous untapped potential are its greatest assets for the future.
4. The decline of agricultural processing industries and the city's growing population require a considerable commitment of city resources to employment development.
5. City officials indicated their conviction that education, and especially vocational education, is essential to ensuring that its citizens can fully benefit from the future development of the city and region.

6. It was the impression of members of the Grand Jury that city officials and their county representative felt that the preparation of the children of the Watsonville area to fully participate in the economic future of the region was an important issue of basic social justice. The Grand Jury concurs with this feeling.

City of Scotts Valley Findings

1. The City of Scotts Valley has a good balance of residential, retail, and industrial properties.
2. Although somewhat vulnerable to fluctuations in the technology industry, the city is relatively financially secure.
3. The recent focus of the city has been on infrastructure and park development.

City of Capitola Findings

1. The City of Capitola is considered a high revenue jurisdiction because of the extensive retail properties located in and around the 41st Avenue mall.
2. Despite this fact, or perhaps because of the large proportion of its revenue that comes from sales tax revenue, the city has a history of financial difficulties especially during economic down turns.
3. Critics have also charged that high salaries and poor long term planning have contributed to this instability.

County Findings

1. Interviews with local government and business leaders indicate that the County of Santa Cruz has a reputation for being hostile to business development.
2. Much of the property located in the county's jurisdiction is zoned for residential use and located in such areas as Pasatiempo, Rolling Woods, and Whispering Pines between Santa Cruz and Scotts Valley and Live Oak, Soquel, Rio Del Mar, and La Selva Beach along the central coast of the county.
3. The lack of a commercial base prevents the incorporation of these residential areas into self-sustaining cities despite their individual community identity.
4. While many government services in the unincorporated area can be financed through the formation of special districts, other services such as law enforcement impose a significant burden on county finances.
5. The lack of an extensive commercial retail base also creates challenges for funding the necessary development and maintenance of infrastructure for the large residential areas.

6. Because of this, the county has made extensive use of its Redevelopment Agency (RDA) to improve neglected infrastructure in Live Oak and Soquel.
7. Because a significant portion of the property tax revenues in Live Oak and Soquel are thus committed to servicing the debt accumulated by the county's RDA, incorporation or annexation of these areas would encounter further difficulties in the next 10 years until this debt can be paid off or manageably assumed by some other party.
8. The political reorganization of the central county is not a new issue. Prior to the annexation of the western half of Live Oak to the City of Capitola, LAFCO commissioned a study of the options available. Many of the issues have not changed and the study's recommendations would be a useful starting place. Unfortunately, the report was completed in 1969 and is sorely out of date
9. Historically, the land available to develop the potential retail base necessary to support the mid-county area was a part of the County's jurisdiction. In the early 1970's, after considerable conflict and discussion among local jurisdictions, this area, located in the western portion of Live Oak, was annexed by the City of Capitola, and developed as the 41st Avenue mall.

General Conclusions

1. Because financial stability is not the only requirement for a healthy community, a successful long-term development plan must be based on a balanced land use policy that provides for all types of uses.
2. However, local governments must plan their development to balance the expected revenue generating potential to the service demands of their citizens.
3. Local governments could benefit from the inclusion of "strategic plans" for balanced development and sustainable revenue generation within their general plans.
4. Local governments could better focus the efforts of their departments to implement the goals and policies outlined in their general plans by requiring relevant departments such as housing, planning, public works and redevelopment agencies to identify in their annual budget statements the actions they are taking to implement these plans.

Jurisdiction Specific Conclusions

1. Both the City and County of Santa Cruz need to take steps to alleviate the impression that they are hostile to business development if they are going to be fiscally viable in the future.

2. Despite its current under-utilization, the City of Santa Cruz's remaining industrial areas are an important asset necessary to the future development of the city.
3. The City of Santa Cruz would benefit from the development of an adequate convention center/hotel complex.
4. The citizens of the City of Santa Cruz can take great pride in their commitment to social services and the preservation of their unique greenbelt, but they must also understand that such increased demands on the finances of their city require an equal commitment to revenue generating development in order to make their city's future fiscally sustainable.
5. Officials of the City of Watsonville should be commended for the practical approach they take to the challenging issues facing their city.
6. Additionally, the City of Watsonville's understanding of the importance of education in the future development of their city and the welfare of its citizens is impressive, suggests a better future for the city, and should be emulated by other jurisdictions.
7. The City of Scotts Valley is a well run organization, has consistently impressed members of the Grand Jury with its responsiveness, and should be commended for its professionalism.
8. The City of Capitola should be fiscally sound. However, its overabundance of revenue from retail sales taxes makes it more vulnerable to the business cycle and poses a problem without adequate financial planning.
9. The financial challenges posed by the large residential areas included within the county's jurisdiction are unnecessary. A sufficient commercial base exists in the county to support these areas. Furthermore annexation or corporation into a city would provide added taxing powers to meet the needs of these communities.
10. The development of the commercial areas necessary to support these unincorporated residential areas would not benefit the region as a whole as they would compete with other previously existing commercial developments.
11. The future political organization of the central county residential communities is of great importance to the coming financial condition of the county and to the quality of life of the residents of these communities. Decisions should not be made without a thorough examination of all available options.
12. One or more of the mid-county areas and particularly Live Oak could be annexed to adjacent cities.
13. The areas located between Santa Cruz and Scotts Valley could be annexed to either or both of these cities.

14. Alternatively, a number of these areas and possibly previously existing cities could be reformed into a larger city with city government based on community representation following the City of Fremont model.

General Recommendations

1. The Board of Supervisors of the County of Santa Cruz and the City Councils of each of the four cities located in the county should amend their general plans to include a strategic plan. These strategic plans should include goals for economic development calculated to meet the revenue demands necessary to provide the level of services expected by their citizens.
2. The Board of Supervisors of the County of Santa Cruz and the City Councils of each of the four cities located in the county should require relevant departments to identify, in their annual budget statements, the steps they are taking to implement the goals and policies outlined in their general plans.

Jurisdiction Specific Recommendations

1. Because of its importance for future job development, the City of Santa Cruz should aggressively promote the full development of its remaining industrial areas and resist pressures to convert them to other uses.
2. Because of its importance to future economic development, the City of Santa Cruz should aggressively promote the development of an adequate convention center/hotel complex.
3. Ancillary to the development of its strategic plan, the City of Watsonville, as well as other jurisdictions, should assess and communicate to educational institutions that serve its children the skills expected to be required in order for graduates to fully participate in the anticipated future economic development of the region.
4. LAFCO should commission a study of the available options for the political reorganization of the residential communities of the central county. An analysis of actions taken in similar regions should play a large role in this examination.
5. The Board of Supervisors, in conjunction with LAFCO and the cities of Capitola and Scotts Valley, should revisit the political organization of the central part of the county. While it is tempting to recommend the immediate incorporation of Live Oak into the City of Capitola for the beneficial effects it is likely to have on both jurisdictions, the issues related to this step are truly and understandably daunting. However, this is an important issue impacting on the long-term development of the county and should be examined thoroughly. Specifically, the feasibility of the various options for reorganization should be committed to extensive study and fully presented for public discussion and input.

Responses Required

Entity	Findings	Recommendations	Respond Within
Board of Supervisors County of Santa Cruz	GF 1-7 PPF 1-20 CF 1-9	GR 1-2 JSR 4-5	60 Days (Sept. 2, 2003)
City Council of the City of Capitola	GF 1-7 PPF 1-20 CCF 1-3	GR 1-2 JSR 4-5	60 Days (Sept. 2, 2003)
City Council of the City of Santa Cruz	GF 1-7 PPF 1-20 CSCF 1-9	GR 1-2 JSR 1,2,4,5	60 Days (Sept. 2, 2003)
City Council of the City of Scotts Valley	GF 1-7 PPF 1-20 CSVF 1-3	GR 1-2 JSR 4-5	60 Days (Sept. 2, 2003)
City Council of the City of Watsonville	GF 1-7 PPF 1-20 CWF 1-6	GR 1-2 JSR 3	60 Days (Sept. 2, 2003)
LAFCO	CF 2-9	JSR 4-5	90 Days (Sept. 2, 2003)

