

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville PARTIALLY AGREES

The City agrees that the direct return does not equal the cost of service, however, the indirect benefits outweigh the negatives particularly when considering the overall social benefit of providing much needed housing.

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.

Response: Santa Cruz County Board of Supervisors

The County cannot agree or disagree with this finding. Industrial properties vary greatly, and revenues derived from such properties can also vary.

Response: City of Capitola PARTIALLY AGREES

The City has very few parcels of any type of industrial zoning, and since fire protection services are provided by a special district, we estimate that the property tax and related revenues from these properties come very close to meeting their service demand costs. The cost/benefit of industrially zoned property depends upon the nature of improvements on the property.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

4. Properties designated for agricultural use, while requiring minimal public services, generally do not generate significant positive tax revenue for local government.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

However, it should be noted that there is no agricultural zoning or designation within the City of Capitola.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Property dedicated to government services and government uses such as parks, open space, roads, and facilities are exempt from property taxation.

Response: City of Capitola AGREES

However, this statement ignores the civic value of property

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

7. Property tax revenue is sometimes further limited by redirection of the increase in property values to existing redevelopment agencies.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola PARTIALLY AGREES

Property tax revenue is comprised of general fund property tax, and tax increment property tax. With the establishment of a redevelopment agency, property tax revenues as a whole are generally increased. This amount of revenue distributed to the city's general fund is frozen. Property tax revenue to the other taxing agencies is often passed through to those agencies in varying amounts depending upon the law and pass through agreements. In some cases those "pass through amounts" would equal the amount those property tax recipient agencies would have received anyway. In most all cases with school districts, the State of California would make up any loss of tax increment property tax revenue.

Response: City of Santa Cruz AGREES

The property tax increment received by redevelopment agencies is reinvested in projects in the City, which in turn increases housing, employment, and municipal revenues.

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

2. In the zoning process, every property within the jurisdiction is given a designation indicating the allowable uses for that property.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola PARTIALLY AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

3. These zoning designations are meant to implement the jurisdiction's "general plan" for future development.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

The County agrees with this finding with the following clarification. Uses that are not allowed in a zone district can only be permitted following the rezoning and/or General Plan land use plan amendment (redesignation) of the property to a zone district that allows the use. While use variances are not allowed, exceptions from specified site development standards (e.g., side, rear, or front setbacks, or height) may be possible. These are commonly referred to as “variances.” In order for a variance to issue, the property in question must demonstrate that it has unique physical characteristics that inhibit its capacity to meet the standards relative to similarly zoned properties elsewhere or that an undue hardship would result if the requested variance relief is not provided (again, relative to similarly zoned properties).

Response: City of Capitola PARTIALLY AGREES

Allowable uses are identified for each zoning district classification, and if a desired use is not listed a property owner must seek a rezoning of the property, not a variance. Variances allow for exceptions to development standards that govern how allowable uses are developed (height, setbacks, floor area and so forth).

Response: City of Santa Cruz DISAGREES

The variance process does not permit uses inconsistent with zoning designations. The variance process allows for reasonable exceptions where the literal text of zoning requirements is impractical. Variances address minor, not major, issues.

Response: City of Scotts Valley DISAGREES

The City of Scotts Valley does not agree that a variance to change a use is the proper procedure. The correct process is to change the zoning on a parcel to allow uses other than those that are permitted on a parcel. State Law does not allow a variance to allowed uses.

Response: City of Watsonville PARTIALLY AGREES

A use that is “non-conforming” is subject to the jurisdiction’s non-conforming ordinance provisions. Based upon the situation and ordinance, a property owner may be able to address the issue through a variance or a special Use Permit.

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.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

It should be noted that such pressures are not necessarily applicable to, nor equal in effect on, each individual land use decision.

Response: City of Capitola AGREES

All of the above factors affect land use decisions.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

7. An appropriate balance of properties zoned for each category of zoning designation is required for a healthy and financially sustainable community.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

The terms “appropriate” and “healthy” are subject to interpretation and reflect individual values and priorities. The land use decision-making system offers methods for defining a community vision of how to achieve a healthy, appropriate, balanced community land use and economic pattern.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

8. As remaining undeveloped land becomes scarce, the opportunity for affecting the balance of land uses becomes more limited.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola PARTIALLY AGREES

Development of vacant land can offer the “easiest” method of accommodating new residential and non-residential land uses. In the early stages of city development, citizens can see vacant land supply shrink as new buildings are constructed. It is not uncommon for residents to believe that when there is no more vacant land, then the community is “built out”. However, it is important to note that land uses do change over time in response to market demand and public policy priorities. Through re-use and redevelopment, there remain opportunities for affecting the balance of land uses. While these processes can be somewhat more “complicated”, they are not at all unusual, and there are many examples of buildings being re-used for uses different than they were originally designed for, and new buildings and uses replacing improvements that are demolished when they are at the end of their economic life or market demands shift.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

High demand for certain land uses can exert pressure to convert land designated for lesser-demand or lesser-value land uses. Agricultural land can be particularly vulnerable, as it appears to many to be “vacant” or being “held for future development”.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors

Without more specific information, the County is not in a position to either agree or disagree.

Response: City of Capitola PARTIALLY AGREES

Attempts have been made to limit infrastructure development. We let the people who propose such limits to speak for themselves and do not speculate as to any other purpose. The land use regulation and permit review processes of local government provide the most direct mechanisms for making decisions about growth and development.

Response: City of Santa Cruz PARTIALLY AGREES

For example, the water line that serves north coast farmers was sized to serve existing customers. An eastern access to the University has been strongly discouraged by the City. The City's General Plan and other planning documents clearly set forth the City's policies and objectives.

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors

Without more specific information, the County is not in a position to either agree or disagree.

Response: City of Capitola PARTIALLY AGREES

The public's desire for municipal or commercial services, as exercised through their elected representatives, can lead to land use decisions, and the ability to attract general fund revenue is one reason of many that play to those decisions.

Response: City of Santa Cruz PARTIALLY AGREES

On occasion, there have been instances in the past when fiscal zoning has occurred as a result of Proposition 13.

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

12. Local jurisdictions are also required to meet state demands for minimal moderate and affordable housing development.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola PARTIALLY AGREES

The term “minimal” is not used by the state. The state, regional government, and local governments do carry out a process periodically that concludes with a Housing Needs Assessment, and local jurisdictions are responsible for planning to meet very low, low and moderate affordable housing requirements.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville DISAGREES

The State only dictates that adequate land and appropriate zoning exist for each jurisdiction. There is no requirement that the jurisdiction actually approve or accommodate the actual development of moderate and affordable housing.

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.

Response: Santa Cruz County Board of Supervisors DISAGREES

General Plans usually contain a mix of broad goals and principles. They also contain many specific policies that dictate how development is to be regulated by zoning and other provisions governing development.

Response: City of Capitola DISAGREES

Nearly all General Plan elements contain goals, policies, and implementation actions that are much more than broad principles.

Response: City of Santa Cruz DISAGREES

The City’s General Plan contains very specific goals in all of its elements.

Response: City of Scotts Valley AGREES

Response: City of Watsonville PARTIALLY AGREES

This is really a jurisdiction-by-jurisdiction basis and depends upon the element. Levels of service for traffic and noise levels, for example, are often very specific in a general plan. We believe that the general plan should be more of strategic plan with measurable goals.

14. Some jurisdictions have developed “strategic plans” as part of their general plan to promote balanced and fiscally sustainable development.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola PARTIALLY AGREES

Promotion of balance and fiscally sustainable development are two of many reasons for development of strategic plans.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville PARTIALLY AGREES

We can only agree to the extent that the City of Watsonville has chosen to be more strategic in its economic development and housing programs.

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola MOSTLY DISAGREES

In our opinion, this statement seems to say that strategic plans are all about efforts to attract economic development so that local governments receive revenues (such as sales taxes) to pay for services. In our opinion, it is not accurate to define strategic plans so narrowly. A strategic plan is a way to articulate and adopt a strategy for achieving a goal, whatever that goal may be. For example, a community could adopt a strategic plan for developing a residential community within an existing commercial corridor, or a strategic plan for downtown revitalization, or a strategic plan for preserving agricultural lands and support industries.

Response: City of Santa Cruz DISAGREES

The content of the strategic plan depends on local goals and doesn't necessarily need to match up specific services with specific economic development goals.

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz DISAGREES

That is not the case in the City of Santa Cruz. Certain goals of the General Plan were not expected to be achieved during the life of the plan.

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

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.

Response: Santa Cruz County Board of Supervisors

Without more specific information, the County is not in a position to either agree or disagree.

Response: City of Capitola DISAGREES

The City of Capitola City Council disagrees. The Council is unclear on how to respond to this finding, and without understanding or clarity the Council cannot respond in the affirmative. The Council does not know who the antecedent to “we” is. The current City Manager of the City of Capitola has made no such request.

Response: City of Santa Cruz PARTIALLY AGREES

While we cannot comment about other local city managers, it is a fact that the Santa Cruz City Manager has repeatedly communicated the need for fiscal stability with respect to economic development.

Response: City of Scotts Valley AGREES

Response: City of Watsonville

We have no knowledge of this.

18. Most areas in this county are considered to be low revenue generating jurisdictions.

Response: Santa Cruz County Board of Supervisors

Without additional information, the County is not in a position to either agree or disagree.

Response: City of Capitola DISAGREES

The Council is unclear on how to respond to this finding, and without understanding or clarity the Council cannot respond in the affirmative. The grand jury report has not made clear what is meant by “low revenue generating”, and in what way or manner an “area in this County” is defined.

Response: City of Santa Cruz DISAGREES

There is a significant amount of revenue-generating activity within the incorporated areas.

Response: City of Scotts Valley AGREES

Response: City of Watsonville PARTIALLY AGREES

We are unclear as to the meaning of low revenue generating. Certainly the City of Capitola, from a sales tax generation perspective, exceeds the revenue of other 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.

Response: Santa Cruz County Board of Supervisors

Without additional information, the County is not in a position to either agree or disagree.

Response: City of Capitola DISAGREES

The Council is unclear on how to respond to this finding, and without understanding or clarity the Council cannot respond in the affirmative. The grand jury report has not made clear or defined any measure of high or low government service levels, and the “geographical reasons” are undefined and unknown. It is further unclear from the report the manner in which the values and demands of the community relate to the desire for services.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

20. Resulting attempts by local jurisdictions to boost revenue derived from retail development often put neighboring jurisdictions in competition with each other.

Response: Santa Cruz County Board of Supervisors

It is true that such situations can occur, but without specific information, the County has no basis for agreeing or disagreeing with this finding.

Response: City of Capitola DISAGREES

The Council is unclear on how to respond to this finding, and without understanding or clarity the Council cannot respond in the affirmative. The grand jury report has not made clear the “specific attempts to boost revenue”, nor have they made clear the manner, specifically, in which jurisdictions are competing with each other for retail development.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

City of Santa Cruz Findings

1. The citizens of the City Santa Cruz generally demand a high level of services.

Response: City of Santa Cruz AGREES

2. Interviews with local government and business leaders indicate that the City of Santa Cruz has a reputation for being hostile to business development

Response: City of Santa Cruz PARTIALLY AGREES

This is a perceived perspective that is a result of land use decisions for controversial projects. However, the City has maintained efforts to counter this perspective with its retention and recruitment programs.

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).

Response: City of Santa Cruz PARTIALLY AGREES

The City does not control the development of these industrially zoned areas but tries to work closely with the property owners. The City is interested in retaining these areas as industrial when either the City or the property owner identifies appropriate users. With respect to River Street, the property was inappropriately

designated as industrial. Therefore, it was under-utilized and inappropriately used as an industrial area through that corridor.

4. In recent times, the City has lost a considerable portion of its manufacturing businesses to other more affordable areas.

Response: City of Santa Cruz AGREES

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 types of use.

Response: City of Santa Cruz AGREES

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.

Response: City of Santa Cruz AGREES

7. The City of Santa Cruz has dedicated a considerable amount of its available land to a “Greenbelt” around the City.

Response: City of Santa Cruz AGREES

8. This “Greenbelt” is largely unimproved at this point with limited access to the public.

Response: City of Santa Cruz AGREES

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.

Response: City of Santa Cruz AGREES

City of Watsonville Findings

1. The City of Watsonville is a growing city surrounded by extensive agricultural lands.

Response: City of Watsonville AGREES

It should be noted that the Pajaro River and Monterey County line creates a significant physical boundary as well.

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.

Response: City of Watsonville AGREES

The City has historically been the commercial center for the agricultural industry. Only recently with the advent of labor intensive row crops such as strawberries has the City been so impacted on the residential side of the equation. This change has made the challenges difficult.

3. Its practical outlook and tremendous untapped potential are its greatest assets for the future.

Response: City of Watsonville AGREES

4. The decline of agricultural processing industries and the city's growing population require a considerable commitment of city resources to employment development.

Response: City of Watsonville AGREES

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.

Response: City of Watsonville AGREES

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.

Response: City of Watsonville AGREES

City of Scotts Valley Findings

1. The City of Scotts Valley has a good balance of residential, retail, and industrial properties.

Response: City of Scotts Valley AGREES

2. Although somewhat vulnerable to fluctuations in the technology industry, the city is relatively financially secure.

Response: City of Scotts Valley AGREES

3. The recent focus of the city has been on infrastructure and park development.

Response: City of Scotts Valley AGREES

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.

Response: City of Capitola AGREES

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.

Response: City of Capitola DISAGREES

It is unclear what is meant by “a history of financial difficulties”. During this current period of economic down turn the City of Capitola has either met or exceeded its service levels of prior years. In fact, a recent telephone survey, paid for by the City of Capitola, indicates that a vast majority of the voters, 92%, rate the quality of life in Capitola as good or excellent. The service level that delivered this satisfaction rating was based upon a budget non-reflective of financial difficulties.

3. Critics have also charged that high salaries and poor long term planning have contributed to this instability.

Response: City of Capitola DISAGREES

Every city has its critics and problems with which it must contend. The assertion of broad, undefined criticisms do not make them true, nor does the recognition and consequent efforts to effect remedy of problems, by the city, mark the city with instabilities. The claim of high salaries is unfounded. The City of Capitola salaries are competitive with those of like and neighboring jurisdictions. Long range planning efforts have been and continue to be underway. Some examples of these efforts include:

- a. *Community Out Reach Program. This program has been planned and an implementation phase for a considerable period of time. To implement this program the City has: redesigned its budget to communicate more effectively; community policing has been reestablished to include responsive code enforcement, the new community outreach center at the mall, and commercial services response program, and much more; the City newsletter is now published four times per year; the City website has been enhanced and is more informative; beginning in October the Capitola Academy will begin to help residents become more familiar with local government; and the recent city satisfaction survey is another and effective instrument to assess community needs and open communication.*
- b. *The Rispin Mansion. Planning efforts are underway to bring this property into the Redevelopment Project Area so that resources will be available to address the blighted condition of this property. We believe efforts by the Redevelopment Agency will facilitate improvement of the property and rehabilitation of the Mansion so that this valuable historical asset can become a source of civic pride.*
- c. *Recreation Programs. The City's recreation programs are up to date, well used and appreciated. Constant planning and reevaluating of these programs is a permanent part of the City's recreation efforts.*
- d. *Pavement Management Plan. The City financed and approved a pavement management plan which is now incorporated into the City's 5 year capital improvement plan.*
- e. *Financial Planning. The City's two-year budget, including the revenue and expenditure analyses, is an excellent planning document, as reflected by the annual award winning Consolidated Annual Financial Reports.*
- f. *Bicycle Plan. With the assistance of the City's Building Official, a bicycle plan for the City is well underway. The first portion of which is a striping program recently approved by the City Council.*
- g. *Planning and Zoning. The City Council has authorized significant planning studies and zoning ordinance changes, to assure a high quality of life in Capitola reflective*

of its history, and its beach and creek environment. These efforts will be coming to the City Council this year for adoption.

The above examples represent only a few of the planning efforts undertaken in the City of Capitola.

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.

Response: Santa Cruz County Board of Supervisors

Without additional information, the County can neither agree nor disagree with this finding.

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.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

Much of the property located in the County is zoned for residential use. However, most of the unincorporated area is designated either agriculture or residential.

Response: LAFCO AGREES

3. The lack of a commercial base prevents the incorporation of these residential areas into self-sustaining cities despite their individual community identity.

Response: Santa Cruz County Board of Supervisors DISAGREES

Some of these residential areas are simply large subdivisions from the 1940's, 50's and 60's (Pasatiempo, Whispering Pines, Rolling Woods, Rio Del Mar, Seascape, etc) that are too small to be considered for individual incorporation and too isolated to combine with other neighborhoods. Other areas (such as Live Oak, Soquel, La Selva, Aptos, Seacliff, etc) are diverse communities comprising numerous smaller neighborhoods. These communities are loosely tied to special district service areas such as elementary and middle schools. They may or may not have associated commercial areas that tend to be relatively small and serve the local neighborhood. These areas are probably not fiscally appropriate for incorporation and would not be "self-sustaining cities."

Response: LAFCO AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: LAFCO AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: LAFCO AGREES

6. Because of this, the county has made extensive use of its Redevelopment Agency (RDA) to improve neglected infrastructure in Live Oak and Soquel.

Response: Santa Cruz County Board of Supervisors DISAGREES

The County adoption of a redevelopment plan for the Live Oak and Soquel areas in 1987 was not due to the lack of commercial base in the area. It was mostly due to other circumstances, including:

- a. the rapid rate of urbanization of the Live Oak and Soquel communities following the passage of Measure J, which directed the majority of new growth into the urban areas;*
- b. delayed community support for the need for urban services in the area as development patterns changed; and*
- c. the impact of Proposition 13 causing new residential development to not pay its fair share for services.*

If the area had contained larger commercial areas that generated higher tax revenues, those revenues would have improved the County's ability to provide services to the areas. But it is unlikely that tax revenues would have been high enough to support the cost of the needed infrastructure improvements.

Response: LAFCO AGREES

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.

Response: Santa Cruz County Board of Supervisors DISAGREES

The County disagrees in part with the finding. To the extent that the existence of a redevelopment agency and its related debt accumulation serves as a disincentive to incorporation or annexation, it is not clear how that will change in the next 10 years. Most likely any current disincentive will continue, barring a change in the current tax structure, until the agency's debt has been substantially reduced, which will be in 20-30 years.

Response: LAFCO AGREES

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.

Response: Santa Cruz County Board of Supervisors AGREES

The County is unclear as to the meaning of "a useful starting place." Otherwise, the County agrees with this finding.

Response: LAFCO AGREES

The report titled "Mid-Santa Cruz County to Seek a Shape for the Future" is available for review at the LAFCO office and is 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.

Response: Santa Cruz County Board of Supervisors AGREES

Response: LAFCO AGREES

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.

Response: Santa Cruz County Board of Supervisors

This recommendation requires further analysis. The Board of Supervisors may wish to consider the addition of such a plan to the General Plan or re-structuring the format and presentation of the existing General Plan at the time that the next update to the General Plan is initiated. However, until such time as the State of California provides a financial environment for local government where long range financial planning is possible, it is difficult to consider the expenditure of public funds on further plans.

Response: City of Capitola MOSTLY DISAGREES

In our opinion, decisions about whether this type of strategic plan would be desirable should be a decision of each local government, based on conditions, priorities, and communications with residents. There are a variety of ways of planning to ensure that revenues/resources are available to meet service demands, and reliance on planning for economic development to provide is an unnecessarily narrow approach.

Response: City of Santa Cruz

The recommendation will not be implemented because it is not warranted. The City's General Plan will include an Economic Development Element that addresses these issues.

Response: City of Scotts Valley

The City of Scotts Valley has implemented this recommendation, but in a different way than suggested by the Grand Jury and disagree that economic development alone can provide all of the revenues needed to provide the services demanded by the community.

The Scotts Valley City Council adopted an Economic Development Plan in 1996. Although not a part of the General Plan, the Economic Development Plan focuses on balancing land uses and businesses to assist in providing needed services within the community. This Plan provides mechanisms to reduce sales tax leakages caused by residents shopping for certain retail items outside of our City. The ability of a City to achieve specific budgetary goals via economic development may not always be possible. Each city is greatly influenced by demographic factors which the City may or may not be able to control. The business and retail sector make choices about how and where they locate, these decisions are not easily influenced by local government. Without having the “right demographic profile” a jurisdiction cannot influence a needed business to locate there if the business knows that they cannot be financially viable. This has been a key struggle for Scotts Valley due to our current number of residents, the topography of the area, which limits development (and the number of persons within a geographic area) and, the proximity to other retail corridors such as 41st Avenue which is the desired location for most major retailers who choose to locate in the County of Santa Cruz.

Response: City of Watsonville PARTIALLY AGREES

The City of Watsonville has a separate Strategic Plan which covers the need for economic development within the City. The City also continues to evaluate the current balance of Commercial, Industrial, Residential and Agriculturally zones land. This balance is somewhat of a moving target in that the activity in, and demand for, any of these uses is constantly changing and is difficult to predict. This balance of uses is a major consideration whenever requests for rezoning are received. We also believe that due to the changing nature of the economy that the strategic plan should not be adopted within the general plan, but as a separate document and subject to continual review and revision

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.

Response: Santa Cruz County Board of Supervisors

This recommendation has been implemented. The County budget instructions direct each department to provide a brief overview of the major purposes and functions of the department and to list the major programs and services. These descriptions include workload statistics and narrative descriptions of the affected departments’ efforts to implement the General Plan.

Response: City of Capitola DISAGREES

The City Council of the City of Capitola agrees that annual reporting of progress with implementation of General Plan goals and policies is a good idea. Presently, the Capitola Budget includes a section for each department for providing notes about recent and current projects of the departments. Further, the City's Five Year Capital Improvement Plan is reviewed by the Planning Commission each year for consistency with the General Plan. A more elaborate reporting on all of the General Plan goals and policies is probably best done as a document separate from the budget, such as the Annual Report on the General Plan, which is required by section 65400(b)(1) of the state Planning, Zoning and Development Laws.

Response: City of Santa Cruz

The recommendation will not be implemented because it is not warranted. City departments do not make "annual budget statements." Appropriate reports are issued on an as-needed and requested basis.

Response: City of Scotts Valley

The City of Scotts Valley has adopted a Mission Statement for the City which is part of the General Plan. Each year the City Council, prior to the budget process, adopts goals and objectives that facilitate the Mission Statement of the City. Once those are established, the resources are provided for during the budget process. In addition, the City of Scotts Valley annually reviews compliance with the General Plan Goals and Policies and this review is concluded at a City Council meeting, with adoption of a resolution. The progress is then reported to the State of California as required by law. This review is done in conjunction with the budget process.

Response: City of Watsonville AGREES

The City of Watsonville requires that each Capital Improvement Project item include a description of its relevance to meeting the general plan requirements.

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.

Response: City of Santa Cruz

The recommendation requires further analysis. This is one of the major issues for the next General Plan. Decisions of this magnitude will not be reached in six months.

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.

Response: City of Santa Cruz

The recommendation has not yet been implemented. The City is pursuing this idea, however, due to the state of the economy and the unavailability of financing for conference hotels, the City is unable to indicate a timeframe within which this might take place. The City may or may not become attractive for a conference hotel developer.

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.

Response: City of Watsonville PARTIALLY AGREES

The development of our youth's skills to meet the demands of today's job market is a major part of the City's Strategic Plan. To this end, the City has developed a close working relationship with the Pajaro Valley Unified School District (PVUSD). The City worked extensively for the creation of the Cabrillo College Watsonville Campus and for development of Pajaro Valley High School. The City has also assisted the PVUSD's Adult School by leasing and selling City properties to ensure the Adult School is kept in the downtown area.

The City believes that the Grand Jury should encourage the educational community to become more pro-active in assessing the career training needs of the student population and to formulate programs with the input of other private and public sector institutions to meet the economic development needs within 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.

Response: Santa Cruz County Board of Supervisors

The County cannot respond to this recommendation because the County does not direct LAFCO activities.

Response: City of Capitola

This requires further analysis. Should LAFCO determine to undertake such a study, the City of Capitola will participate, and make comments and recommendations, based upon the results of such a study.

Response: City of Santa Cruz

The recommendation will not be implemented because it is not warranted. It is not likely that the City would be an interested party to such a process.

Response: City of Scotts Valley

This recommendation has not been implemented, but should LAFCO begin such a study, the City of Scotts Valley would participate and provide data required by LAFCO.

Response: LAFCO

Will not be implemented because it is not warranted or is unreasonable, with an explanation. This recommendation is neither unwarranted nor unreasonable, but we chose that particular response category to be frank concerning the resources that LAFCO has available and the work program we anticipate for the next two years. LAFCO, with a full-time staff of two, is now completing its review of a proposal by the San Lorenzo Valley Water District to expand its sphere of influence to include Felton.

The next project on the work program is the Countywide Service Review, which LAFCO is required by state law to complete by January 1, 2006. This review will evaluate all municipal services (fire, water, sewer, parks, etc.) in all communities of the county. It will quantitatively compare the services, and therefore would be a good baseline study from which a mid-county reorganization study could later be based if there is sufficient interest.

Measure U, which was passed by the voters of Watsonville in November 2002, directs the City Council to revise its general plan and to apply to LAFCO for a series of annexations. This type of proposal is unprecedented in California, and LAFCO will need to work carefully on both its duty to conduct a fair hearing on the annexations, and to craft any approval that will cover a twenty year time period.

Also, in advance of the next drought, LAFCO wants to review its water policies in an effort to adopt clearer public policy concerning municipal annexations, water agency annexations, and reorganization of water services.

LAFCO is funded 1/3 by the County, 1/3 by the Cities, and 1/3 by the Independent Special Districts. Many of these agencies are finding it difficult to maintain services at levels that the community residents have become accustomed. LAFCO with its duties to regulate city and district boundaries is a good lead agency for intergovernmental reorganization studies. LAFCO would consider taking the lead in a central county reorganization study if sufficient interest were demonstrated by residents and affected governmental boards, and funding were identified.

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.

Response: Santa Cruz County Board of Supervisors

The County will not implement this recommendation because it is unreasonable. Until such time as the State of California provides a financial environment for local government where long range financial planning is possible, a thorough examination of this issue is very difficult.

Response: City of Capitola

This requires further analysis. If the county were to take the lead in such a study, the City of Capitola will participate, and make comments and recommendations.

Response: City of Santa Cruz

The recommendation will not be implemented. It is not likely that the City of Santa Cruz would be an interested party to such a process.

Response: City of Scotts Valley

This recommendation has not been implemented, but should such a study go forward, the City of Scotts Valley would participate and provide necessary data to the extent required by the lead agency doing the study.

Response: LAFCO

Will not be implemented because it is not warranted or is unreasonable, with an explanation. This recommendation is not unreasonable. As explained in our response to Recommendation 4 on Page 1-12, LAFCO is using its limited resources to accomplish the high-priority items on its work program. If many residents and the affected governmental boards wanted to proceed with a reorganization study, LAFCO would certainly consider what assistance it could offer for such a study.

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)