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THE IMPACT OF THE PROPOSED SOAR INITIATIVE ON THE CITY OF OCEANSIDE

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THE IMPACT OF THE PROPOSED SOAR INITIATIVE ON THE CITY OF OCEANSIDE

EXECUTIVE SUMMARY

Voters in the City of Oceanside will be asked in November 2018 to consider an initiative, commonly known as the SOAR Initiative, which would require public approval for any change in the zoning of land currently designated for agriculture or open space. Because most open space used for parks and recreational activities is City-owned and already requires a vote of the people for any zoning change, the Initiative primarily involves the future of the 3,340 acres of agriculturally-zoned land in the northeast part of the City known as South Morro Hills.

The SOAR Initiative has many worthy goals, including protecting the environment, helping agriculture, and creating a City with a high quality of life. This study analyzes the direct and indirect effects the Initiative would produce, including some of the unintended consequences. The results would likely be very different from those envisioned by the individuals who drafted the Initiative and those who have supported it.

Key takeaways include the following:

- Other communities adopting a SOAR Initiative or similar policies have suffered slower job gains and rising home prices. Ventura County, which has been the template for Oceanside's Initiative, has shifted from a region outperforming the State to one of underperformance. Companies have departed the County in record numbers.

- Oceanside faces a housing crisis, as home prices have been rising at a 10% pace during the past five years while wages have increased by less than 2.5% per year.

- The City has achieved less than 15% of its State-mandated housing target for 2021, whereas it should be at more than 50% of its goal by now. The Initiative would make it exceedingly difficult for the City to achieve its future housing goals.

- Companies' primary constraint now involves the supply of workers, which in turn depends on the availability of housing. Without adequate housing businesses will be forced to either downsize or leave the City.

EXECUTIVE SUMMARY (Continued)

- The initiative would shut off avenues for farmers in Oceanside to remain viable at a time when they are being squeezed between rising labor, water, and financing costs and increasing competition from imports.

- The Initiative would prevent the creation of a vibrant agritourism cluster in Oceanside, including a mix of wineries, lodging, restaurants, and small retailers. In contrast, it would be restricted to a few roadside farm stands.

- The Initiative would likely lead to the eventual demise of active farms in Oceanside, with land either being left to go fallow or sold into large estates for the wealthy.

- Allowing development of a true agritourism cluster with additional housing on 1/6 (limited development) to 1/3 (moderate development) of the land currently zoned exclusively for agriculture would produce significantly greater economic gains than if current uses are frozen in place. These gains would include:

    - About twice the number of jobs
    - $400 million in gross regional product (GRP) versus $150 million

- By 2034, the area currently being farmed is likely to contribute nearly $0.5 million to the City's potential deficit. In contrast, the City could see a surplus of $1.2 million annually from the area if it allowed very limited development and a $2.5 million surplus annually from the region if moderate development were allowed.

The Initiative could shut off ways for the City to meet its current and future housing demands, generate new jobs, invest in critical infrastructure, support a viable farming sector and agritourism, and fund community priorities such as road improvements, public safety, recreation, and its obligations to public sector retirees.

The eventual outcome of the SOAR Initiative would be much different than envisioned by the Initiative's supporters. Rather than fields of flowers and other crops along with a thriving agritourism sector, the 2,250 acres now farmed in South Morro Hills would likely be transformed into areas populated by wealthy owners of large estates buffered from the rest of the City by vacant, barren land.

EXECUTIVE SUMMARY (Continued)

This suggests a picture of widening wealth and income inequality in Oceanside as the population in the northeast part of the City would become dominated by wealthy retired individuals while residents in the rest of the City would struggle with even higher housing costs and rents, escalating maintenance costs, failing infrastructure, and constrained services.

2034 Impact of Alternative Policies on Agricultural Land

	# Total Acres Developed	Share of Ag-Zoned Land*	# Crop Acres	# Retail & Commercial sq. ft.	# Residential Units
Restricted Use	0	0	2,250	0	0
Limited Development	562	1/6	1,688	23,750	991
Moderate Development	1,125	1/3	1,125	47,500	1,982

	Restricted Use	Limited Development	Moderate Development
Jobs	2,356	3,259	4,163
Personal Income ($ mil)	$92	$170	$248
GRP ($ mil)	$157	$272	$387
Total Sales ($ mil)	$274	$445	$616
Net Fiscal Impact ($ mil)	- $0.42	$1.2	$2.5

* 3,340 Acres

Source: FBEI

TABLE OF CONTENTS

I. INTRODUCTION AND STUDY PURPOSE

In November 2018, the voters of the City of Oceanside will be asked to consider "An Initiative Measure Amending the Land Use Element of the Oceanside General Plan to Require Voter Approval of Proposals to Change the Land Use Designation or Zoning of Agricultural or Open Space Land to Any Other Use." These types of proposals have been commonly termed "SOAR Initiatives," where SOAR stands for "Save Open-Space and Agricultural Resources."

To enable voters to make an informed decision, this study seeks to answer the following questions:

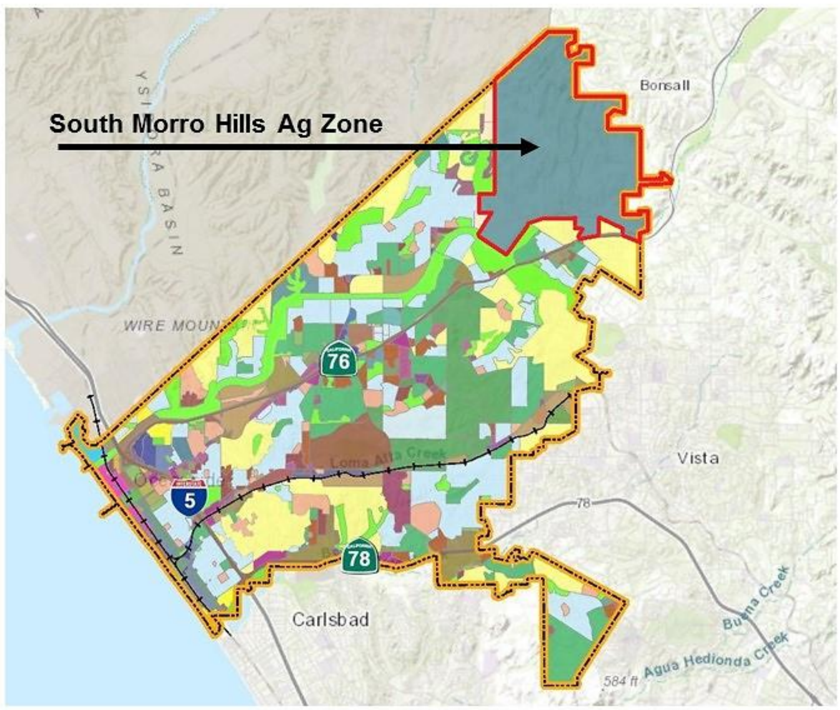
- What would the SOAR Initiative change and not change?
- What lessons can be learned from other communities that have adopted SOAR Initiatives or similar types of policies?
- What would be the impact on the City's ability to meet its housing goals?
- How would agriculture and the potential for agritourism be affected?
- What would be the impact on the City's economy, including its ability to create new jobs?
- What would be the impact on income and wealth inequality?
- What would be the effect on the City's financial position, including its ability to fund community priorities such as road improvements, public safety, recreation, and its obligations to meet its long-term retirement obligations?

II. THE MEANING OF THE SOAR INITIATIVE

What the SOAR Initiative Would Do

The SOAR Initiative would primarily impact the 3,340 acres in South Morro Hills in the northeastern part of the City that is currently zoned for agriculture. Landowners in this area currently can build one house per 2-1/2 acres and some wealthy individuals have done so. A total of 2,250 acres is currently farmed with various crops including strawberries, blueberries, cherimoya, avocados, tomatoes, brussel sprouts, cut flowers, and nursery stock. A small wedding venue is also located in the region.

Agriculturally-Zoned Land in South Morro Hills



Source: City of Oceanside; FBEI

Under current law, any proposal to change the zoning of this area to anything other than estate homes would require a majority vote of the City Council. Such a process involves an extensive analysis by the City and input from the community but can allow a modification of zoning if considered the best option by the City's elected officials. The SOAR Initiative would essentially freeze or lock in place the status quo as a majority of votes in a city-wide election would be required to approve any zoning change from the current allowable estate housing. The history of such votes is that they are rarely attempted and unlikely to succeed, suggesting that the Initiative would leave Oceanside and property owners with large estate homes as their only alternative.

What the SOAR Initiative Would Not Do

In addition to land currently zoned for agriculture, the SOAR Initiative would prevent the rezoning of open space to another use without a public majority vote. There is a common perception that the SOAR Initiative would thus "protect" public parks or recreational areas from being converted to other purposes. However, current law already requires that public land used for parks and similar purposes must be submitted to a vote by the people before any change can be considered.

> "No person, corporation, or city official, on and after the effective date of this article, shall sell all or part of any city-owned real property being used as a public park, public playground, or public recreational area under the authority or operation of such city on such date; or, take any action or do any act that would prevent all or part of such city-owned land from being used as a public park, public playground, or public recreational area, unless such sale, action, or act, is first approved by a majority vote in a municipal election in the City of Oceanside."[1]

Since most of the open space in the City of Oceanside is City owned and used for recreational purposes, it would already require a vote of the people for a land use change. The "SOAR" debate should therefore focus on the impact and repercussions for the City's agriculturally-zoned land.

III. LESSONS FROM OTHER AREAS WITH SOAR INITIATIVES OR SIMILAR PROVISIONS

A number of communities in California and throughout the nation have implemented various limits on growth over time. In Southern California, the City of Ventura adopted a SOAR Initiative in 1995, which was modeled after a similar proposal adopted in Napa Valley in 1990. After the SOAR Initiative was approved by voters in the City of Ventura, other cities in Ventura County adopted their own SOAR Initiatives, with the County following in 1998.

A rich body of literature exists regarding the impact of major initiatives to limit growth. Some of the most relevant studies are summarized in the Appendix of this report. Two primary conclusions emerge: Such restrictions dampen economic growth and hurt housing affordability.

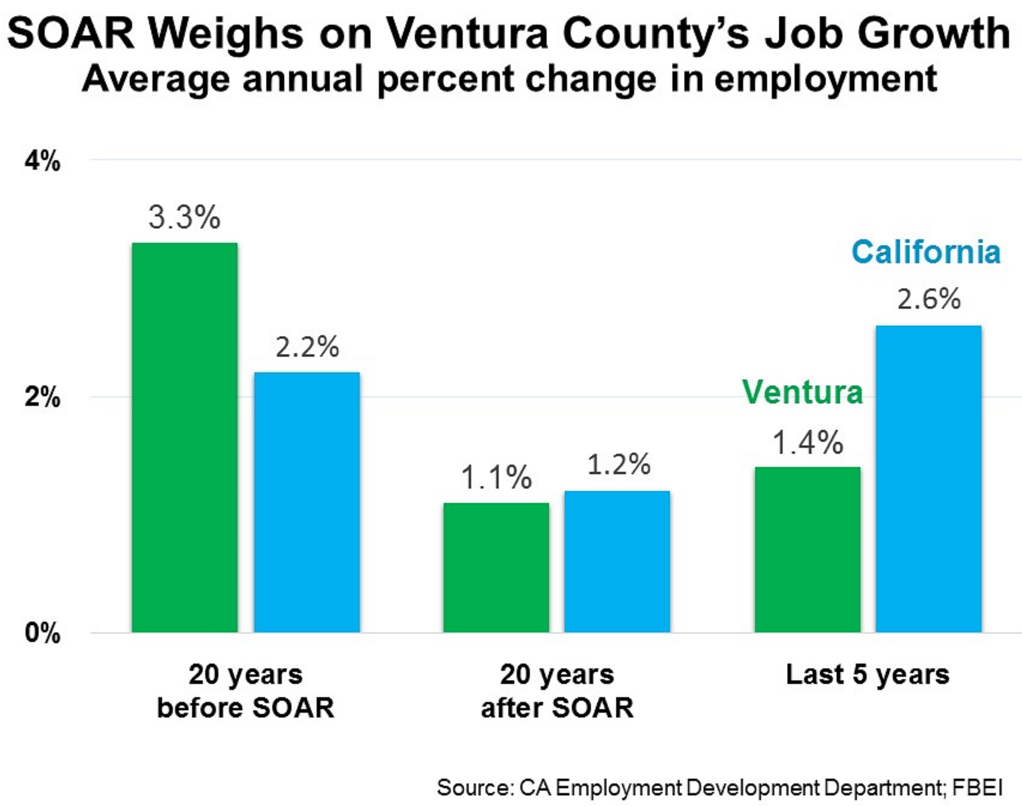
An analysis of the impact on the economy in Ventura County is instructive. Although the proportion of land impacted by Ventura's SOAR Initiative is a much larger share of the area's total than would be the case in the City of Oceanside, the relevant comparison relates to the amount of potentially developed area in the region. The 3,340 acres

[1] Article XIII., Ord. No. 72-26, § 1, 5-24-72

currently zoned for agriculture that would be impacted by the SOAR Initiative represent the remaining undeveloped land in the City of Oceanside. This area could provide forward planning opportunities for the City in the form of housing, tourism, jobs, and tax revenues, which would be effectively precluded by SOAR because of its requirement for a public vote on any land use change.

Ventura County's economy has clearly suffered from some of the impacts of growth restrictions. It took ten years after the 2007-09 recession for the area's employment to fully recover its losses. Of California's 29 major metropolitan areas, Ventura County was the fourth last to recover. It was trailed only by Yuba City, Hanford-Corcoran, and Redding.[2] Employment currently is up just 2.3% from its pre-recession peak versus a statewide gain of 10.2%.

In the twenty years prior to the SOAR Initiative, Ventura County outperformed California as a whole, with its average annual job growth exceeding that of the State by 50%. In the twenty years since the SOAR Initiative, Ventura has barely kept up with the State and in the past five years has trailed the State by 50%. This represents a 100% swing from the positive to the negative side.



[2] California Employment Development Department; FBEI

In 2015-16, Ventura County fell into recession with real GRP declining in both years. This downturn contrasted sharply with the continued expansion in the rest of California and the nation. Companies have either downsized or left the County due to the lack of adequate housing for current or prospective employees. During the past five years, the number of firms that have departed Ventura County for adjacent areas or outside the State has been unprecedented.[3]

SOAR initiatives or similar measures have exacerbated housing affordability problems in various regions. An examination of cities in California with such limits showed that in seven out of ten cases home prices rose more rapidly relative to the State in the five years after such restrictions were imposed than before.[4]

Various studies on the implications of SOAR Initiatives or similar measures also indicate that some of the following effects may occur. Neighborhoods may become more segregated as higher income households compete for housing and drive out lower and middle income households. Urban sprawl may increase as individuals seek lower cost housing in outlying districts. These households may be pushed beyond the city's boundaries, making commutes even longer. Large discrepancies in property values are likely to emerge as landowners with new limits on their sales potential confront steep price declines while owners of property with continued potential reap large gains.

IV. OCEANSIDE'S HOUSING CRISIS

The City of Oceanside, along with regions throughout California, particularly along the coast, faces a housing crisis. San Diego County as a whole is experiencing a net loss of about 14,000 residents a year to lower cost areas in the rest of the State or other parts of the U.S.[5]

Affordability has become a major problem, especially for low and middle-income households. It is common to expect that one-third or more of a household's income will be required to cover the cost of home ownership. The average household in San Diego spends 42% of its income on rent. [6]

Housing is an enormous financial and social issue facing many families in Oceanside. It is also a primary concern of the City's businesses. With the City's unemployment rate falling to just 3.0%[7], companies are desperately seeking workers. Their ability to recruit and retain employees is closely tied to the availability and cost of housing.

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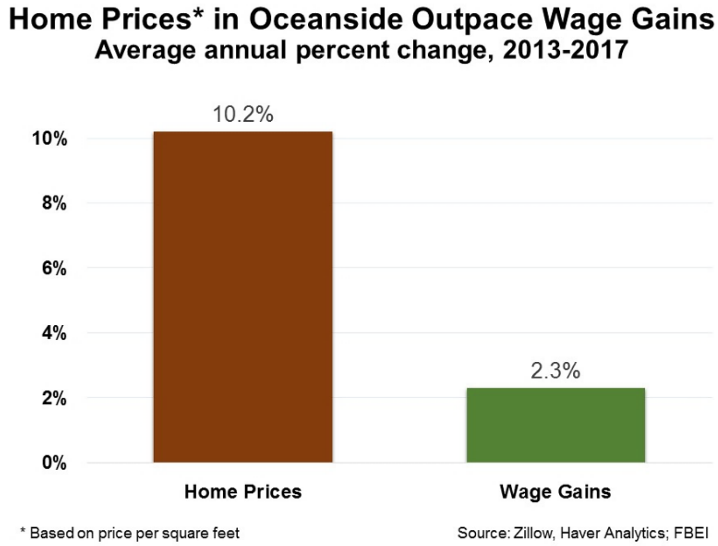
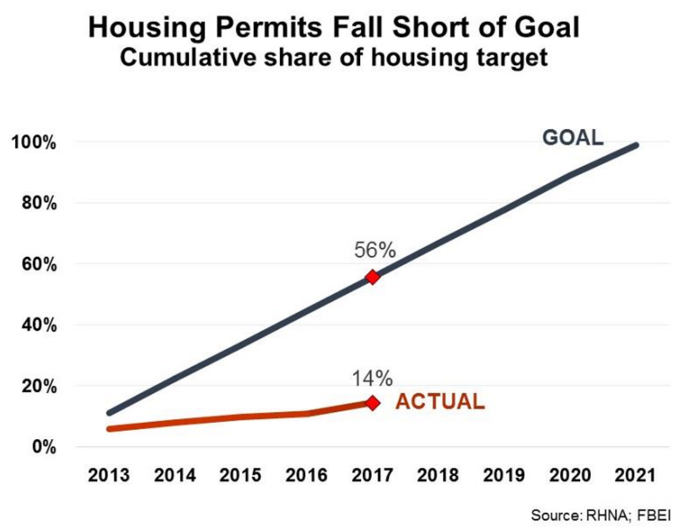
[3] Mark Schniepp, "SOAR, *The Economic Consequences of Growth Controls in Ventura County* (April 30, 2018).
[4] FBEI
[5] California Department of Finance Demographic Research Unit
[6] Zillow
[7] California Employment Development Department

During the past five years through 2017, the City of Oceanside has seen home prices rise at an average of 10% per year, while wages have increased at a rate of less than 2.5%. The rapid climb in prices is due primarily to the lack of significant increases in new housing.





California sets housing goals for each City under its Regional Needs Allocation (RHNA) program. Cities and counties are required to produce a Regional Housing Needs Assessment that addresses how they will meet this State-mandated target. They must determine their capacity and potential to meet their housing needs under their general plans. This assessment, however, may underestimate the constraints posed from existing uses, topography, environmental issues, pressures on infrastructure, and public opposition.

The target for Oceanside was to issue a total of 5,429 housing permits over the nine-year period, 2013-2021.[8] This amounts to an average of slightly over 600 per year. During the past five years through 2017, the City has only issued an average of about 155 permits per year. To meet its objective, it should be more than half way towards its goal. Instead, it has achieved only about 14% of its target.

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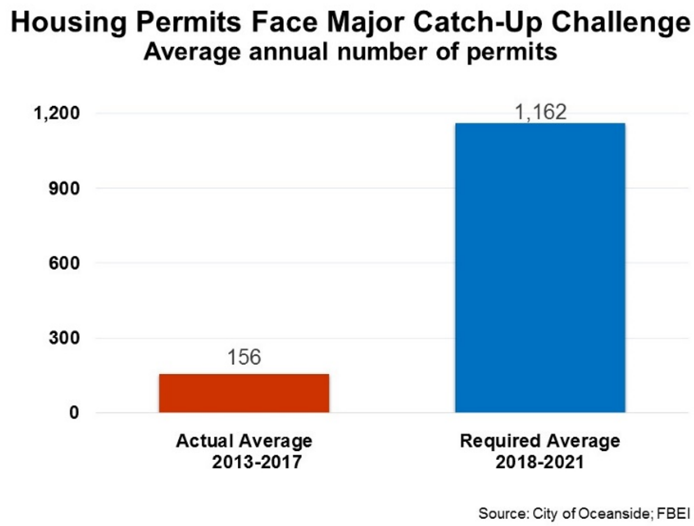
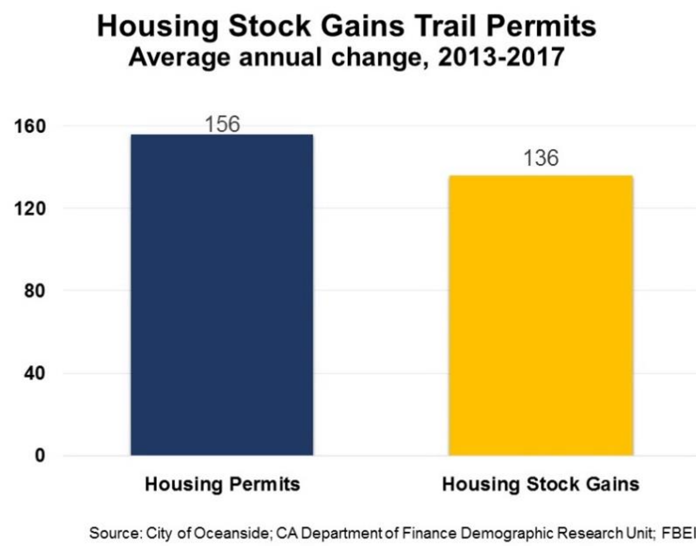
[8] Annual Element Progress Report, Housing Element Implementation (CCR Title 25 §6202), City of Oceanside, 2017

The catch-up now required to reach its goal over the next four years is formidable. The City would have to issue nearly 1,200 permits each year to reach its target. With the strong likelihood that this will not take place, the shortfall would then have to be made up in future years. While the State does not currently penalize cities for failing to reach their housing goals, that could change in the future. The City critically needs to have the land use inventory available in order to meet those future goals.



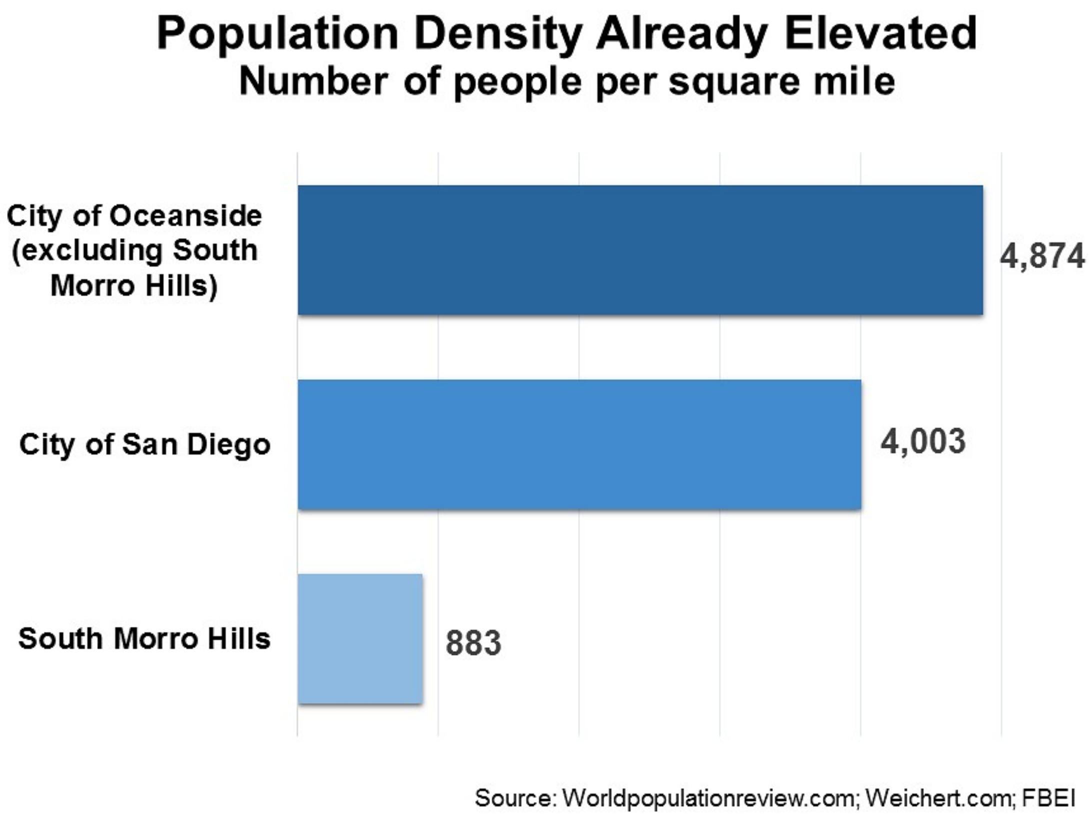
The City's housing situation is actually even greater than that indicated by recent sluggish permit activity. Significant parts of the City's housing stock are old and in need of repair. While an average of 156 housing permits have been issued over the past five years, the City's actual housing stock has expanded by only 136 units per year. The discrepancy reflects delays between the time when permits are issued and the time when the house is finally completed, housing permits that are acquired but never used, and the demolition of older homes.



Much of the failure to build more homes reflects the opposition that builders encounter among existing residents when new projects are proposed in close proximity to them (the "Nimby"—"not in my backyard" phenomenon.) Despite incentives and the efforts of planning principals to push housing toward downtown Oceanside, practicality has prevented the area from meeting those housing objectives. The need to assemble parcels from different owners, tear down existing buildings, and displace current tenants has combined with the high costs of land and improvements along the coast to prevent a substantial increase in new housing.

Other options appear necessary if the City is to solve its housing problem. Outside of the agriculture area, the average density in the City of Oceanside amounts to nearly 5,000 people per square mile. This is even higher than in the City of San Diego, where the density is about 4,000 people per square mile.[9] This is why restrictions that preclude development options outside of already densely population areas are likely to keep actual homebuilding in Oceanside far short of targets, causing prices to escalate further while affordability worsens.

Escondido's experience with Proposition S, passed in 1998, which requires a public vote for any change in land use, has severely impeded the construction of new housing. The City is sharply short of complying with its State-mandated targets.[10]



[9] FBEI; Worldpopulationreview.com; Weichert.com

[10] Annual Element Progress Report, Housing Element Implementation (CCR Title 25 §6202), City of Escondido, 2017

V. IMPACT ON AGRICULTURE IN OCEANSIDE

The viability of the agriculture sector within Oceanside is currently being seriously tested. The availability and cost of both labor and water are major problems. Competition from less expensive imports has intensified. A rising value of the dollar is limiting export potential, which could be exacerbated by international trade frictions and possible trade wars. Higher interest rates add additional pressure on profits.

The SOAR Initiative, rather than protecting agriculture and farmers, would actually harm them by precluding options to help them remain viable. Such options could include investments to make major upgrades in their operations, new ventures in agritourism, or a redeployment of a portion of their land into higher value uses.

Major investments in infrastructure would either be prohibited or might face legal challenges under the SOAR Initiative's restrictions. For example, investment in major new water infrastructure to enable the more effective use of recycled water for growers could be prohibited. Securing bank loans to finance projects facing legal uncertainty would be difficult. Farmers could also see their land values fall substantially as the potential for future development is sharply curtailed. Such reductions could further impair the ability to secure financing.

The SOAR Initiative permits agritourism but only "provided such development does not interfere with existing agricultural operations and that the open space character of the area is preserved."[11] Neither the agricultural zoning provision in the City code nor the SOAR Initiative defines what types of agritourism would be permitted, but the language suggests that it would be limited to some of the "Tier 1" type activities identified in the City's Agritourism Strategic Plan.[12] These would involve primarily farm stands and a small number of farm visitors. These options would neither help the viability of agriculture now in the region nor produce a viable agritourism cluster for the City. There would be no infrastructure to support any expansion of uses. The limited opportunities available would not attract any significant numbers of visitors for agritourism nor additional tax dollars.

A robust agritourism cluster would involve the "Tier 2" type of activities in the Strategic Plan and would be prohibited under the SOAR Initiative. Such a vision would see the region develop with a mix of wineries, lodging, restaurants, small retailers, and other agriculturally- themed venues. Because significant public or private investment in infrastructure would be required in the form of roads, sewer, water, and other utilities, the SOAR Initiative would prevent Oceanside from ever realizing a true agritourism sector.

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[11] The "Voters' Right Initiative to Preserve Open Space and Farmland"

[12] City of Oceanside Agritourism Strategic Plan, Economic Development Office

Farmers under the SOAR Initiative would be unable to deploy some of their holdings into higher-valued uses. Land restricted to only the growing of crops is currently valued at around $60,000 an acre. In contrast, such land could receive about $1.5 million per acre for residential uses and $1.2-$1.4 million for commercial uses. Shutting off these alternatives represents a major infringement on the property rights of landowners and their ability to remain in business.

While the intent of the SOAR Initiative is to protect agriculture in the City of Oceanside, it actually is likely to lead to its demise. It would block all three channels that farmers could otherwise pursue to keep their operations viable: (1) major investments to improve operations, such as in new water infrastructure; (2) creation of a meaningful and profitable agritourism ventures; and (3) redeployment of some of their property into higher value uses.

Individuals currently farming their properties could ultimately be forced to abandon operations and let land go fallow or fall into bankruptcy. Many may opt for the only profitable exit strategy, which would entail selling their properties to individuals who can afford 2-1/2 acre or larger homes. The acreage now zoned for agriculture under the SOAR Initiative would neither remain actively farmed nor develop into agritourism. Instead, it would become an area dominated by large estates for the wealthy, along with barren, fallow land, which would be far from the intended vision of SOAR. The creation of additional estate homes also would be accompanied by little increase in infrastructure, leading to increase pressure on the existing infrastructure, including a worsening of traffic congestion.

VI. IMPACT ON JOBS, INCOMES, AND INEQUALITY

The decision whether to approve the SOAR Initiative will dictate the future of the 2,250 acres now actively farmed in South Morro Hills. This study considered three different future paths:

(1) Restricted Use: The area would continue to be farmed in various crops, the usage implied by the SOAR Initiative.
(2) Limited Development: 281 acres, amounting to 1/6 of total agriculturally-zoned land, would be developed into agritourism and housing.
(3) Moderate Development: 562 acres, amounting to 1/3 of total land zoned for agriculture, would be developed.

Development under both of the second (Limited) and third (Moderate) development cases was assumed to begin in 2020 and take place over 10 years. Approximately 1,000 housing units, including both single- and multi-family homes, were assumed for the Limited Development case and 2,000 units under the Moderate Development case.

Homes would average about 2,500 square feet in size and be initially priced at approximately $653,000.

2034 South Morro Hills Agriculture Land Use Alternatives

	# Total Acres Developed	Share of Ag-Zoned Land*	# Crop Acres	# Retail & Commercial sq. ft.	# Residential Units
Restricted Use	0	0	2,250	0	0
Limited Development	562	1/6	1,688	23,750	991
Moderate Development	1,125	1/3	1,125	47,500	1,982

* 3,340 Acres

Source: FBEI

The mix of commercial and retail establishments modeled to represent agritourism included the following:

- Learning Center and Museum
- Offices
- Retail Stores
- Industrial Space
- Grocers/Farmers Markets
- Wineries
- Restaurants

Variety of New Retail and Commercial Uses
2034 estimated sales*, thousands of dollars

Learning Center and Museum	$ 120
Offices	$ 335
Retail Stores	$ 851
Industrial Space	$ 1,076
Grocers / Farmers Markets	$ 5,177
Wineries	$ 5,678
Restaurants	$ 7,268

* Moderate Development

Source: FBEI

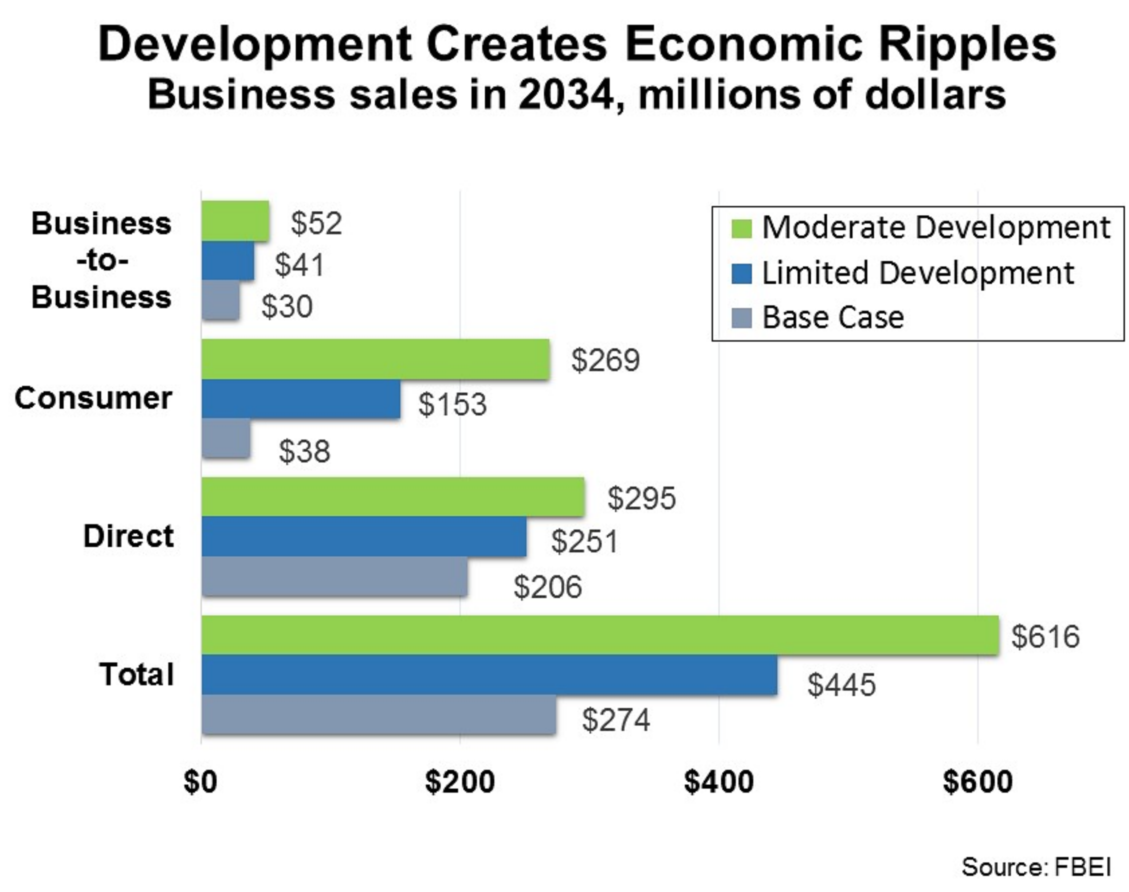
The total economic impact would derive from the spending of new residents and additional money drawn into the City by a new agritourism industry. Some of the new residents (estimated at about 20%) would also represent the net addition of new jobs. Some of the new residents would start their own businesses and companies would be in a better position to expand if there was Oceanside housing available for additional hires.

The sales of retail and commercial activity along with the spending of residents on goods and services would directly impact the City's economy. Additional impacts would accrue from the following:

(a) business-to-business purchases in supply chains; and

(b) consumer spending by employees hired by the new retail and commercial ventures as well as purchases by additional individuals hired in supply chains.

These additional impacts would represent the ripple or multiplier effects of new households and businesses in the region.



The results that could be achieved by 2034, when all housing has been occupied and all businesses are fully in operation, are significant.

- The Moderate Development case would show the agriculture region generating about 4,200 jobs versus about 2,400 jobs under the status quo or the Restricted Use case.

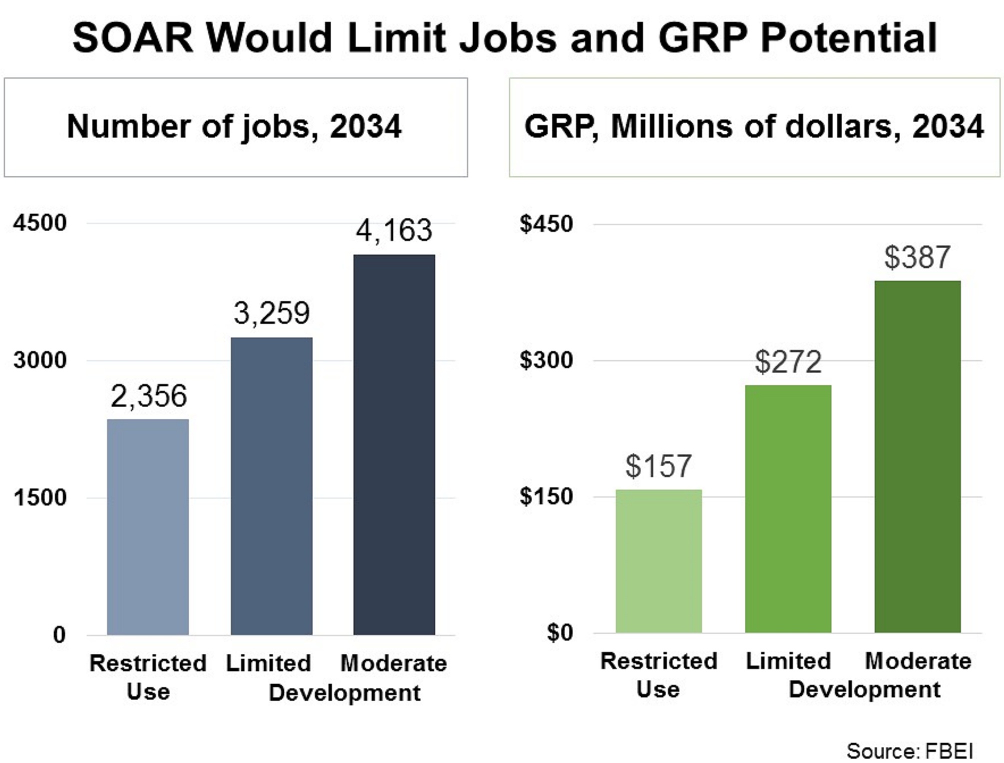
- Total personal income would equal about $250 million in contrast to approximately $90 million under the Restricted Use case.

- The region would generate about $400 million in GRP versus about $150 million if current land usage were restricted to existing usages.

- Total business sales could surpass $600 million vis-à-vis about $275 million in the Restricted Use case.

The Limited Development case would show smaller economic benefits but ones that would still be significantly more than if the land were exclusively restricted to its current use.

Both alternatives would generate even more jobs than housing units, helping the City to address its goal of increasing the jobs/housing ratio.



The potential gains in jobs, income, GRP, and business sales between the Limited and Moderate Development cases compared with the existing use of the land represent the *opportunity costs* that the City would forgo by freezing the options available for individuals currently farming the 2,250 acres in South Morro Hills.

Alternative Uses Could Boost Economy
Impact, 2034

	Restricted Use	Limited Development	Moderate Development
Jobs	2,356	3,259	4,163
Personal Income ($ mil)	$92	$170	$248
GRP ($ mil)	$157	$272	$387
Total Sales ($ mil)	$274	$445	$616

Source: FBEI

As discussed in Section V above, the economic impact by 2034 under the Restricted Use case could be lower should farmers abandon their properties or sell with very limited development (a minimum of 2.5 acres per dwelling unit).

This study models the outcome when all development is operational in 2034. It should be noted that significant numbers of jobs and economic growth would also be generated under both development cases as infrastructure is built, homes and buildings are constructed, and houses and new businesses are furnished over the years prior to occupancy and operation.

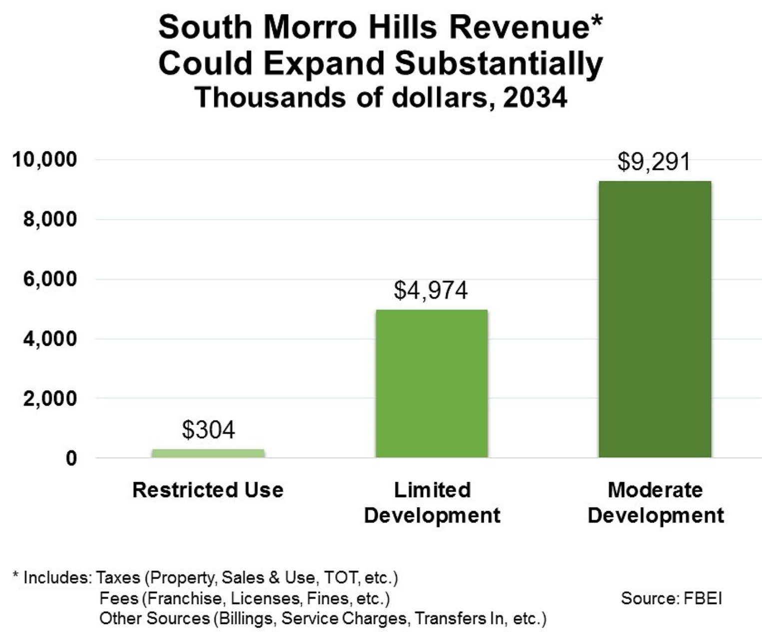
Whether or not the SOAR Initiative is adopted could also significantly impact income and wealth equality and diversity within the City. Under both the Limited Development and Moderate Development cases, a diversity of households and employees could be accommodated in South Morro Hills. In contrast, the SOAR Initiative could be expected to ultimately make South Morro Hills a primary conclave for wealthy retirees with large estates. The absence of significant increases in the supply of housing would also drive up housing costs in other parts of the City, leading to a concentration of higher income households in desirable locations along the coast and near key transit stops while low and moderate income households would be pushed further out, which could in many cases be totally outside of Oceanside.

VII. IMPACT ON THE CITY'S FINANCIAL POSITION

The SOAR Initiative would impact the budget outlook for the City of Oceanside. Restricting the 2,250 acres of land to its current usage of growing crops would result in the region generating a deficit of about $0.5 million in terms of its contribution to the overall budget in 2034. The impact could even be worse should appraised values fall as farming becomes less viable and development opportunities are curtailed.

The SOAR Initiative could create additional costs in terms of the expense of elections as any proposal to modify zoning in agriculture areas would be put to the vote of the people. Such a cost involving a general election would be $45,000 and $750,000 if a special election were required.[13] Additional costs would accrue from election preparation, campaigning, and time devoted to voting. In reality, given the historical failure of such ballot measures to be approved, no one would take the risk of proposing any new development.

In contrast, both of the cases showing some of the crop growing area developed for other purposes would generate surpluses. While more government resources would be required, including police and fire protection, such increases would be more than offset by gains in property taxes, sales taxes, Transient Occupancy Taxes (TOT), and other revenues.



The Limited Development case would generate a budget surplus of $1.2 million annually from the region by 2034 and the Moderate Development case would yield a budget surplus of $2.5 million annually. These positive contributions to the City's General Fund could become increasingly important as pension benefit costs continue to rise.

[13] City Clerk, City of Oceanside

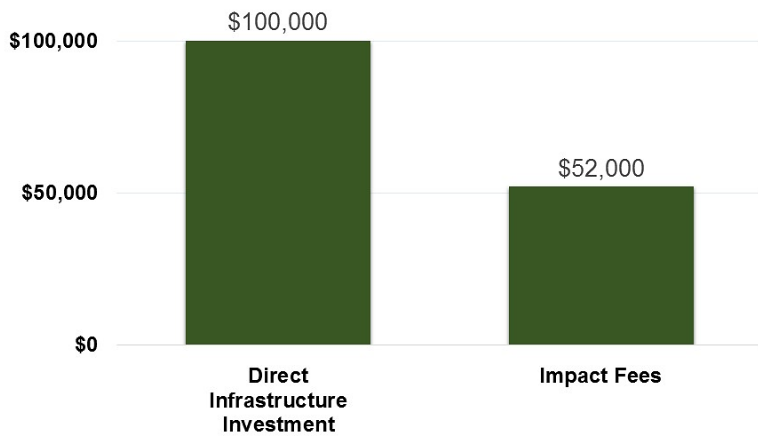
The private developers of residential, commercial, and retail operations would make the critical investments in the infrastructure in terms of road improvements, traffic mitigation, water, sewer, and reclaimed water upgrades, fire stations, and other purposes. This would amount to about $100,000 per residential unit. Over ten years of development, including expected inflation, this would mean about $125 million in infrastructure spending under the Limited Development case and $250 million in the Moderate Development case.

Farm Region Presents City with Different Fiscal Outcomes
Thousands of dollars, 2034

	Restricted Use	Limited Development	Moderate Development
Revenues	$304	$4,974	$9,291
Expenditures	$723	$3,726	$6,771
Surplus / Deficit	- $419	$1,248	$2,520

Source: FBEI

Private Investment Would Pay for Infrastructure
Dollars per housing unit



Source: FBEI

In addition, developers would pay Impact Fees to the City of about $52,000 per housing unit for affordable housing, schools, parks and other purposes. Over the ten years of development, that contribution to the City would total to over $60 million in the Limited Development case and $120 million in the Moderate Development case.

A conversion of farmland into 2-1/2 acre estates would result in little investment in new infrastructure, leading to more congestion in the region. Allowing alternatives uses for a portion of the land currently being farmed would allow the City to improve and expand its infrastructure, provide more resources for public safety, support additional recreational venues, and better meet its long-term retirement obligations.

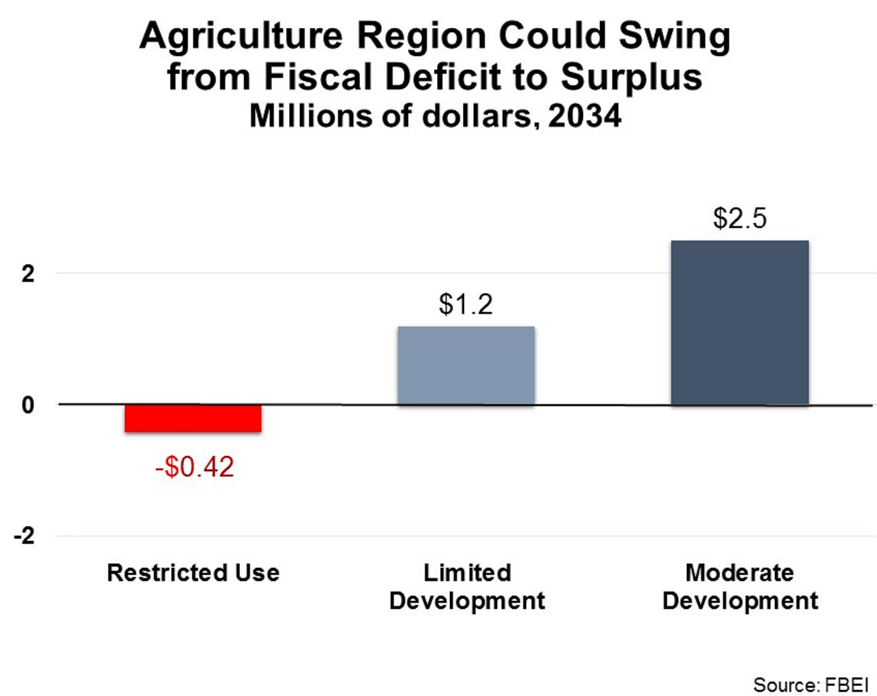
VIII. CONCLUSIONS

Most policy initiatives have admirable goals but can have negative results and unintended side effects. The SOAR Initiative is no different.

The intent is to preserve agriculture in Oceanside and support the development of an agritourism cluster. However, rather than offering ways for agriculture now struggling in the face of rising costs for labor, water, and finance and increasing competition from imports, the Initiative would sharply limit farmers' options. The result is likely to be the demise over time of the 2,250 acres currently actively farmed. Most of this acreage would either be allowed to go fallow or developed into large estates and homes.

The Initiative would prevent the creation of a viable agritourism industry including wineries, lodging, restaurants, small retailing, and other ventures since significant infrastructure would be required.

The City's housing crisis would be exacerbated as potential supply is sharply curtailed. Without conversion of some of the agriculture land, the City would be unable to meet its State housing mandate The result would be further rapid increases in home prices and rents and decreases in affordability. These conditions would not only have financial and social implications for the City's residents but also adversely affect local businesses desperate to attract and retain workers.



The Initiative would prevent the City's economy from achieving better outcomes in terms of jobs, income, output, and sales. It would add to the City's potential deficit rather than providing options for a healthier financial path.

The eventual outcome of the SOAR Initiative would be much different than envisioned by the Initiative's supporters. Rather than fields of flowers and other crops along with a thriving agritourism sector, the 2,250 acres now farmed in South Morro Hills would likely be transformed into areas populated by wealthy owners of large estates buffered from the rest of the City by vacant, barren land.

This suggests a picture of widening inequality of wealth and income in Oceanside as the population in the northeast part of the City would become dominated by wealthy retired individuals while residents in the rest of the City would struggle with even higher housing costs and rents, escalating maintenance costs, failing infrastructure, and constrained services.

On balance, this study concludes that the Initiative would block a way for the City to meet its current and future housing demands, generate new jobs, invest in critical infrastructure, support a viable farming sector and agritourism, and fund community priorities such as road improvements, public safety, recreation, and its obligations to public sector retirees.

APPENDIX: Methodology

FBEI calculated the economic impacts and the net fiscal impact to Oceanside for the last year of a 15-year period from 2020 to 2034. All calculations were made in terms of current dollars (i.e., including inflation) to be consistent with other budget and economic forecasts used by the City of Oceanside.

The economic impacts included GRP, personal income, total sales, and employment. The net fiscal impact (revenue minus expenses) computation used standard Fiscal Impact Analysis (FIA) with revenue and expense units generally defined as the number of residents plus one-third of the number of employees.

FBEI made these calculations for each of three options for the currently farmed South Morro Hills agriculturally-zoned property:

- The base case consisted of continued farming use only with no commercial or residential development (Restricted Use case)
- The two other cases (Limited and Moderate Use) consisted of continued farming plus a combination of commercial and residential development on either 25% or 50% of the land currently being actively farmed (which would amount to one-sixth to one-third of the total land zoned for agriculture in South Morro Hills.).

Economic Impact Analysis

The economic analysis involved defining and quantifying values for direct spending for 2034 that would result from various uses of the currently farmed South Morro Hills agriculturally-zoned property and then deriving the indirect (business-to-business) and induced (consumer) effects. To calculate the economic indirect and induced effects of this direct spending on the City, FBEI used the widely used and respected IMPLAN input-output model, which incorporates regional multiplier coefficients from the U.S. Bureau of Economic Analysis.

With specific industry classifications assigned to each of the direct spending totals, the IMPLAN platform was used to produce an annual economic impact model for 2034 for the region defined by the Oceanside zip codes 92054, 92056, 92057 and 92058. The model yielded estimates for the supply chain, consumption, and total impacts of the various channels of direct spending in terms of employment, income, GRP, and total sales. FBEI generated similar IMPLAN models to determine the economic impact analysis of all three of the property development options: Restricted Use, Limited Development, and Moderate Development.

To determine the direct spending inputs for IMPLAN, FBEI began by collecting data from interviews with local growers and from both the U.S. and San Diego County Departments of Agriculture. This process provided detailed information on current and future crop production and sales per acre.

Additional interviews with local landowners and developers provided the most likely potential commercial/retail and residential development options. Types of businesses suggested included a learning center and museum, offices, industrial space, wedding venue, general retail, grocery, farmers markets, wineries, restaurants, and hotels. These interviews, along with supplemental research, provided the associated commercial/retail sales per square foot, residential home sales price, and hotel occupant spending. The Oceanside Conference and Visitors Bureau provided data on the current hotel occupancy rate and average daily room rate.

Using the collected sales data, FBEI applied inflation factors to the 2018 totals to calculate annual sales totals for 2034 related to the IMPLAN classifications for crops (plants, vegetables, and fruits), learning center, offices, industrial space, merchandise retail, food and beverage retail, restaurants, wineries, and tourism (lodging, food and beverage, entertainment, and transportation).

To account for additional homeowner spending created by the residential development, FBEI included the incomes earned by those individuals in two ways. For the 20% of homeowners who were assumed to represent new jobs, those individuals (two per household) were assigned to various industries. The incomes of the other 80% were captured in the model by placing them in the appropriate income brackets. Based on the income necessary to qualify for the purchase of a home priced at $653,000, this amounted to an income per individual of about $75,000 or $150,000 per household.

FBEI conducted careful analysis to ensure that all data collected followed a consistent and reliable accounting method and there was no double counting across spending categories. Also, given that some of the patrons of these new enterprises would already be Oceanside residents, FBEI made percentage adjustments to each of the sales totals (from 17-80% adjusted) in order to only calculate the impact of “new” money spending that would be coming to Oceanside.

Net Fiscal Impact Analysis

As indicated above, the net fiscal impact computations used standard FIA methodology with revenue and expense units defined as the number of residents plus one-third of the number of employees.(The exception was the spending category involving community and cultural services, which were assumed to be linked more strictly to just the number of residents.) For FBEI's calculations, the resident population data was obtained from the California Department of Finance Demographics Research Unit and the employee data was secured from IMPLAN. FEBI determined revenue and expense categories based on the City of Oceanside's 2017-18 budget. Revenue categories where FIA calculations were used consisted of taxes, fees, services charges, fines, and other sources. Expense categories consisted of general government, public safety, public works, community development, and community/cultural services.

To calculate the total property tax amount paid to Oceanside in 2034, FBEI estimated the appraised value of the agricultural land under the different development options (retail, hotel, and residential). Next, FBEI calculated the City of Oceanside's share of the 1% ad valorem tax at 17.46% based on the City's share of property taxes allocated in Fiscal Year 2016-17. Then, FBEI calculated Oceanside's additional property tax in lieu of VLF revenue using a factor of .7613 per $1,000 of assessed value appreciation.

Multiple sources contributed to the sales tax calculations for Oceanside. First, the California State Board of Equalization website indicates that 1.0% of the total sales tax is the amount that goes to the place of sale. Additionally, FBEI attributed 26% of the consumer spending effect derived from the IMPLAN-based models towards taxable items. This 26% resulted from FBEI analysis of consumer expenditure patterns from the U.S. Bureau of Labor Statistics and FBEI's assessment of which types of goods are taxable based on information from the State Board of Equalization. The total sales tax revenue calculated for Oceanside in 2034 equaled 1% of the total amount determined by adding the following amounts:

- The taxable percentage of each of the sales totals of the different enterprises
- Tourism spending on food and beverage
- 26% of the consumer spending effect derived by IMPLAN

To determine Oceanside's Transient Occupancy Tax (TOT) revenue, FBEI calculated 10% of the 2034 total of pre-tax hotel room charges. Factors used to determine the total pre-tax hotel room charges included a 73% occupancy rate and an average daily room rate equivalent to $114.00 in 2018.

All dollar amounts were adjusted for the years after 2018 to reflected inflation. A 2.0% average annual rise in prices was generally assumed based on the Federal Reserve's current target for price stability and inflation. Different inflation rates were used in some areas like construction where prices have been rising faster than the average inflation rate.

APPENDIX: Literature Review

- **The state of Ventura County's economy:** ***Matthew Fienup. October 2017.***

This study looked at Ventura County's economy and the reasons for its underperformance. Despite recently recovering its pre-recession job rate the County GDP has decreased and employers are making the choice to leave. The author states, "The County's accelerating out-migration is a reflection of what businesses and individuals think about the economy that they are leaving behind."

According to the study, local employers say it is difficult to conduct and grow businesses in Ventura County. Amgen, the world's largest independent biotech company announced a nearly 10% reduction of its workforce in Ventura and is building new facilities in Florida because of its "affordable cost of living and potential for growth."

> *"Thousand Oaks and the surrounding county, where Amgen was founded, boasts the most stringent urban containment policies in the nation. A series of eight City and one County land use measures, known collectively as Save Open Space & Agricultural Resources (SOAR), require voter approval of any expansion of urban areas—and residents have a decidedly one-sided record of rejecting urban expansion. The promise made to the residents of the County, including some 10,000 Amgen employees who then called the area home, was that growth restrictions would ensure a singular quality of life that would attract other leading employers to the area. That promise has proved hollow. People and businesses are voting with their feet and leaving behind a wake of lost economic opportunity."*

The author points out that Census Bureau data indicate about 40,000 people cross the county line each day driving into Ventura to work mostly low wage jobs and 80,000 leave the county each day to find work in jobs that allow them to afford ownership in Ventura's extremely supply constrained housing market. He states, "…returning to sustained economic growth would require fundamental changes to policies such as SOAR."

- **Report to the City Council:** ***Keyser Marston Associates, Inc. April 2016.***

This study was prepared for the Costa Mesa City Council Pursuant to Election Code §9212 and at the Request of the City Council regarding an initiative to "Require Voter Approval on Certain Development Projects." The initiative was put on the ballot in November 2016 as Measure Y.

The study found that requiring voter approval in proposed developments negatively affects development opportunities. The cause of lower development was found to be increased uncertainty, additional costs incurred in the process, and the low rate at which voters ever approve projects. Development also brings an increase in capital and jobs to the area in addition to increased tax revenue.

The Study cited the following impacts from similar initiatives:

> City of Newport Beach: A growth control initiative took effect in 2000 and projects proposed in 2001 and 2004 were voted down. Two other proposed expansion projects were withdrawn. There have been no proposed developments since 2004 due to the voter requirement.
>
> City of Escondido: After the initiative passed in 1998, 16 developers tried to change their zoning. Eight dropped out before the ballot, and voters rejected all of the other eight.

- **Land Use Patterns, Spatial Policies, and the Environment: *JunJie Wu and Walid Oueslati. September 2015.***

This study concluded that the traditional command and control approach to zoning and density regulation are ineffective; often leading to substantial social welfare loss caused by higher housing prices, smaller homes, and inefficient land use patterns. The study suggests that a better alternative would be incentive-based policies that influence land use decisions. This allows for the optimal pace and pattern of land development.

- **Effects of local land use planning on development and disturbance in riparian areas: *Judith A. Dempsey, Andrew J. Plantinga, Jeffrey D. Kline, Joshua J. Lawler, Sebastian Martinuzzi, Volker C. Radeloff, and Daniel P. Bigelow. September 2014.***

This study concluded that creating Urban Growth Bounties (UGB) has almost no impact on preserving the environment. This was because development on sensitive land inside the UGBs was of the same magnitude as the decrease in development on sensitive land outside of the UGBs. This implies that land use by strictly using boundaries in a binary sense does not work. The further implication of the study is that when restrictions are put in place the areas with lower restrictions will see environmental degradation caused by increased compact development.

- **From Traditional to Reformed: A Review of Land Use Regulations in the Nation's 50 Largest Metropolitan Areas:** ***Rolf Pendall, Robert Puentes, and Jonathan Martin. August 2006.***

This study looked at the land use regulations in the largest 50 cities in the United States. One of the key distinctions that the study makes is the difference between growth management and growth control. The study found that growth management is correlated with greater opportunity for people in poverty situations, while growth control seems to cause substantially higher housing prices and rents. Both control and management increase housing prices and rent, but the study found that a growth control is correlated with the largest increase. The authors also found that land use regulation should come from the state to create uniform policies rather than from the local government

- **Government Land-Use Interventions: An Economic Analysis:** ***Jan K. Brueckner. November 2006.***

This study provides an economic analysis of the effects of various land-use interventions such as urban growth boundaries, density restrictions, and cost-increasing regulations. The economic analysis demonstrated that the negative effects of such interventions might overwhelm any anticipated benefits, leading to a social loss and harm to businesses as well as consumers.

- **Why Have Housing Prices Gone Up:** ***Edward Glaeser, Joseph Gyourko, and Raven E. Saks. May 2005***

This study suggests that zoning and other land-use controls are more responsible for high housing prices than the cost of land. They emphasize that development constraints do not appear to be caused by a declining availability of land, but "rather they are the result of a changing regulatory regime that makes large-scale development increasingly difficult in expensive regions of the country." In their opinion, policy advocates interested in reducing housing costs would do well to start with zoning reform.

- **The Impact of Building Restriction on Housing Affordability:** ***Edward L. Glaeser and Joseph Gyourko. June 2003***

This study concluded that there is significant evidence to suggest a high positive correlation between zoning strictness and housing prices. In examining the United States the study suggested that in most areas the cost of construction is close to the eventual home price. However, in the areas where housing prices are higher than the cost of construction by a substantial degree, it is most likely caused by strict zoning. This conclusion implies that there is a direct relation between zoning and home prices, rather than an indirect relation.

- **Local Land Use Controls and Demographic Outcomes in a Booming Economy:** ***John M. Quigley, Steven Raphael, and Larry A. Rosenthal. January 2002***

This study was conducted into some of the socioeconomic effects of land use controls. The study found that cities with regulations that reduce sprawl by increasing density caused a demographic shift that increased separation of populations along ethnic lines. The study also found that policies that aimed to reduce development generally reflected a bias toward white communities. The study concluded that proponents of land use regulations should be cautious in view of the potentially disparate effects that they can have on racial and ethnic minorities.

- **Agricultural Land Values and the Value of Rights to Future Land Development:** ***Andrew J. Plantinga, and Douglas J. Miller. February 2001***

This study found that the only effective deterrent to farmland conversion may be compensation to landowners for forgone development opportunities. Although the study did conclude that agricultural land has social benefits, it cannot be preserved with regulations alone. One common method to preserve farm land has been to grant preferential tax assessment based on current land use rather than on the land's potential development value. The authors show that only compensation for the land's development potential will be effective.

Smart Growth in Action: Housing Capacity and Development in Ventura County: ***William Fulton, Chris Williamson, Kathleen Mallory, Jeff Jones, and Samuel R. Staley. December 2001***

This study looked at the impacts of the Save Open Space & Agricultural Resources (SOAR) Initiative that was passed in Ventura County. It found that Ventura County development projects are generally falling 20% below zoned capacities and 45% below general plan capacities. In 2001, it was forecasted that Ventura County was likely to need 312,000 housing units by 2020. However, due to the SOAR Initiative, future housing development is forecasted to be 55% below the regional planning agency's housing target for 2020.

The study concluded that the there are several definite effects of SOAR. Namely:

- housing values and rent will increase faster than the cost of living;
- equity-rich middle-class homeowners will cash out and move away to be replaced with either high-income households with fewer children, roommate groups, or extended families with several wage earners;
- residential development will be diverted to other areas;
- construction of illegal housing will take place (such as converting garages or adding small units).

The study also found that pressure will increase for governments to provide housing subsidies and set-asides. This is most likely to occur in areas where local industries employ low and moderate income workers who cannot find nearby affordable housing.

The study also found that most cities in Ventura County will face significant housing shortages and will have no greater than 10 years of housing capacity left under current policies and entitlement practices.

- **The Effects of Local Growth Controls on Regional Housing Production and Population Redistribution in California*: Ned Levine. August 1998***

This study concluded that growth controls often have the effect of shifting lower income and consequently minority populations to more peripheral and less controlled jurisdictions. The study also suggests that growth control measures have exacerbated population dispersion putting a stress on the environment.

- **The Interjurisdictional Effects of Growth Controls on Housing Prices: *Lawrence Katz and Kenneth T. Rosen. April 1987***

This study found housing prices are between 17% and 38% higher in communities in which growth moratoria or growth controls are present. This study concluded the increase in prices was observed even when taking into account quality factors.

> *"The traditional asserted purpose of land-use controls is to promote the health, safety, and general welfare of residents of a community. Increasingly stringent land-use regulations and growth controls have been justified in terms of improved environmental quality and the maintenance of "community character." Yet there is a growing recognition that in many communities' land-use regulations may serve to maintain housing costs at a level high enough to prevent moderate- or low-income families from purchasing housing."*

The conclusion from the study is that growth controls act to bar moderate and low income families from being able to afford living in that community.

- **The fundamentals of land prices and urban growth: *Dennis R. Capozza, Robert W. Helsley. March 1987***

This study found that the growth factor can account for up to 50% of the land value. Because growth can make up such a large premium on the value of the land, implementing restrictions on land –use may impair the future value of the land causing a significant decrease in its value.

> *"In a very simple model in which capital is durable and landowners have perfect foresight, the price of urban land has four additive components: the value of*

agricultural land rent, the cost of conversion, the value of accessibility, and the value of expected future rent increases, a growth premium. In rapidly growing cities, the growth premium may easily account for half of the average price of land, and may create a large gap between the price of land at the boundary (minus conservation cost) and the value of agricultural land rents."

The gap between rents and the value of the land ends up accounting for net economic losses to the farmer if he continues to farm his land rather than develop it.

- **The Effect of Land Use and Environmental Regulations on Housing Costs: *David E. Dowall. October 1979***

This study looked at the possibility that land use controls could create monopolies. Because of the increasing costs that land use controls imposed fewer developers are able to enter the market. Monopoly power is caused as fewer firms have the ability to compete for development in a given area.

> *"Land-use controls may have other inflationary effect-creating barriers to entry, which facilitate monopoly power in the housing industry. Development restrictions may lead developers to reorient their projects to higher-income customers as cost increases force them to build more expensive dwelling units."*

The study concluded that restrictions lead to the creation of monopolies and services that are directed mostly at high-income earners.

- **Alternatives to Zoning: Covenants, Nuisance Rules, and Fines as Land Use Controls: *Robert C. Ellickson. Summer 1973***

This study concluded that regulation can cause urban sprawl by increasing the attractiveness of outlying land with fewer restrictions. This causes development to occur farther from the urban center.

> *"Public regulation contributes to sprawl by misbalancing the attractiveness of competing areas. For example, differences in land use controls inside and outside of corporate limits make the lesser controlled area more attractive. Perhaps the major problem with respect to public regulation of land use in sprawl is that a regulatory body may not have control over an entire housing market area. City zoning and land use controls may extend only to the corporate limits or, at best, one, two, or three miles depending upon the state regulations…the standards themselves may impel the development of housing units outside of the controlled area and thus contribute to sprawl."*

The study found that regulation creates rather than controls sprawl.

- **The Effect of Zoning on Land Value:** ***James C. Ohls and Richard C. Weisberg. December 1973***

This study concluded that when a community votes for zoning the effect is often to reduce aggregate land values in the community that approved the restrictions.

> *"We suggested that fiscal zoning, as it is currently practiced in most areas, probably has the effect of reducing individual municipalities' land values below what they would otherwise be. In support of this contention, we showed that the residents of a community, voting in their economic self-interest, might reject a zoning change which would increase the community's aggregate land value. In the case of externalities zoning, we showed that the effect on land values of Pareto Optimal zoning depends upon the exact nature of consumers' utility functions. This was demonstrated in a model in which not all residential land is affected by externalities and in which different parcels of land, therefore, sells for different prices."*

While it may appear that this study is in conflict with others that state home values will increase, it is important to understand the distinction in the studies between land values and home values. The study looked at the aggregate values with included land that can no longer be developed and therefore loses value. The other studies suggest that in relation to the housing already in existence the prices will necessarily rise due to reduced supply. The research would suggest that both conclusions are true.

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