



City Council AGENDA REPORT

DATE: 08/22/2024

AGENDA OF: 09/10/2024

DEPARTMENT: Planning & Community Development

SUBJECT: Industrial Land Preservation Policy. Location: Citywide. CEQA: General Plan 2030 Environmental Impact Report (PL)

RECOMMENDATION: Motion to adopt a resolution approving the Industrial Land Preservation Policy and acknowledging the action is consistent with the General Plan 2030 Environmental Impact Report.

BACKGROUND: The City of Santa Cruz adopted the General Plan 2030 in 2012 to guide the city's future physical, social, economic, cultural, and environmental character. The general plan includes a wide range of policies that speak to preservation of industrial lands, citing potential benefits for employment and the city's tax base. The policy considered herein is intended to clarify and support the General Plan 2030.

DISCUSSION: The General Plan 2030 contains, among others, the following two guiding principles (emphasis added) that serve to implement the overarching vision of the general plan:

- **Prosperity for all.** We will ensure a sustainable economy for the community, actively encouraging the development of employment opportunities for residents of all levels and ages, and actively protecting from elimination our current and potential sources of sustainable employment.
- **A dependable municipal tax base.** We will encourage diverse technology, visitor serving, industrial, home business and commercial business enterprises, and strategic redevelopment.

For many years, the city has regularly received inquiries from developers who are interested in putting non-industrial land uses on industrially designated lands, particularly residential development. This is due in part to industrial land being easier to develop, with cheaper land costs and fewer neighbors opposing development. Relying on direction from the guiding principles noted above, as well as the land use designation text, goals, and policies of the general plan that are further discussed below, the city has successfully discouraged conversion of industrial lands to residential uses.

Industrial lands contribute to a vital cycle of success for the city and its residents. The industrial lands represent the potential for high paying, benefited jobs for the city's working class. They provide potential for people to work in the community where they live, resulting in a) better quality of life, with less time spent commuting, and b) health benefits, both from shorter commute time and the potential for active commutes. Shorter commutes also provide people with more time to be engaged and invested in the community through volunteering or other social activities. At the same time, the city receives positive fiscal benefits from industrial lands, as industrial lands have lower service costs compared to residential and, in some cases, have higher property taxes than residential as well. And some city services are limited in industrial areas, so industrial conversions can result in expanded geographic areas where police, fire, library, and other city services are needed. The fiscal benefits of industrial lands provide revenues that the city can invest in economic development, affordable housing, arts, culture, and social services programs. Thus, the preservation of industrial lands supports a cycle of personal, social, cultural, environmental, and fiscal health.

Preservation of industrial lands is critical for many additional reasons too. The city has a very limited supply of industrial lands, and once lost to housing, those lands are likely to remain residential in perpetuity. Compatibility of uses is a concern for industrial conversion, with potential conflicts between industrial/truck traffic and residential traffic; with livability concerns, such as noise or air quality impacts on residential quality of life; and with potential limitations on industrial businesses viability, such as additional state monitoring and reporting requirements for air emissions or hazardous materials storage. Once some industrial conversion occurs, the "domino effect" is another significant concern, as new applicants will point to other properties where such conversions have already occurred.

The Industrial (IND) land use designation text in the General Plan 2030 states the following: "Although residential uses are discouraged in lands designated IND, this designation nevertheless allows for limited development of live-work units that accommodate home-based businesses." As such, the city has consistently conveyed to potential applicants that strictly residential units are not allowed in lands with the IND designation, but "limited" live-work units may be possible. This aligns with the city's industrial zoning district allowances as well. Multi-family residential uses are listed in the zoning ordinance as needing a special use permit in the industrial zoning districts, which serves as the avenue for "limited" live-work units to be proposed through the discretionary use permit process. Projects that include strictly residential units have not been allowed, except through a planned development permit, which allows for use variations from what is otherwise allowed in a zoning district. The planned development permit approach has been used in limited instances, such as the Delaware Addition, which also happened to include a development agreement. However, an important consideration for the Delaware Addition project is that the initial planned development permit approval occurred under the previous general plan. The General Plan 2030 has stronger industrial land preservation policies, and staff are not aware of planned development permits having been used to allow residential uses in industrial lands since the current general plan took effect. (A use variation was allowed in 2013 through a planned development that allowed for hotel uses on an industrial property. That property was on the periphery of an industrial area, and it maintained the land in an employment-centered use that did not present the same fiscal concerns as a residential conversion. The hotel was also estimated to have a substantial number of business-oriented guests (estimated at 40%), which would serve the industrial and educational uses in the

immediate area. Even industrial conversions of this nature, with an expansion of allowable employment uses, need to be very carefully considered.)

Any time residential uses are proposed on industrial lands, the utmost care must be taken to ensure that the challenges and concerns highlighted herein do not materialize. Sites on the periphery of industrial lands that are separated from other industrial uses and that transition between commercial/industrial and residential areas could potentially be considered for such residential uses through a planned development permit, but only in very limited circumstances, when a broader set of general plan policy objectives would support such uses, and when greater public benefit is provided as part of the planned development permit. The planned development permit process is completely discretionary and does not provide any guarantee that residential uses of any kind will be allowed, other than limited live-work. Both the planned development permit process and special use permit process require a general plan consistency finding. In addition to the information referenced below, the Industrial Land Preservation Policy includes a reference to this planned development permit approach, with strong, cautionary language about use of this approach.

In recent years, state regulations have changed such that subjective standards have limited applicability to residential development proposals. The Industrial Land Preservation Policy provides a response to the state law changes by articulating objective standards for when the city *may* want to consider residential uses on IND lands in conjunction with other employment generating uses. It also helps ensure that potential developers are aware of the IND general plan land use designation text that precludes residential development and limits live-work. Finally, it provides objective standards as it relates to the recently-adopted General Plan Housing Element Objective 1.2e, which states: “Support a balance of jobs and housing land uses by only considering residential use in industrial land if it is ancillary to industrial land’s full employment capacity being achieved in an economically viable manner and if it does not negatively impact existing or future industrial uses in the area, except in the vicinity of Coral Street on properties where homeless services or affordable housing are identified in the properties’ respective General Plan Land Use Designations as an allowable use. Adopt a Coral Street Overlay that builds off existing services and resources to provide homeless services and related residential use standards for that specific, immediate area.”

In response to the above factors, the proposed Industrial Land Preservation Policy includes the following, with explanations included in italics:

For properties with an industrial land use designation and/or within the IG, IG/PER or IG/PER-2 zone districts, pursuant to the General Plan 2030 industrial land use designation text, various General Plan 2030 goals and policies, and General Plan 2030 Housing Element Policy 1.2e, plans submitted must demonstrate compliance with the following standards:

- Live/work units are the only type of residential use that is allowed.
 - *This reiterates the IND general plan land use designation text.*
- If less than 95% of the allowable floor area ratio is provided as square footage for commercial/industrial uses allowed by the zoning code, then up to four live/work units may be permitted in total as part of a project which, for purposes of this

standard, includes four live/work units total across all properties included in a project or across all properties subdivided into multiple properties after this standard has been established. For example, if one property is subdivided into three properties, only up to four live/work units can be provided across the three properties in total, assuming less than 95% of the allowable floor area ratio is provided in commercial/industrial uses.

- *This provides an objective standard related to Housing Element Objective 1.2e.*
- If 95% or more of the allowable floor area ratio is provided as square footage for commercial/industrial uses allowed by the zoning code, then the additional allowable square footage may be provided as live/work units, including more than four live/work units. For purposes of this standard, if a property is subdivided into multiple properties after this standard has been established, then an individual property that meets 95% or more of the allowable floor area ratio as commercial/industrial square footage may use the remaining 5% of allowable floor area ratio as live/work units for that particular property. However, the other properties that were subdivided must also meet the 95% floor area ratio threshold with commercial/industrial uses before live/work units are provided, unless the proposal adheres to the bullet above that speaks to commercial/industrial square footage that is less than 95%, including the limitation of a maximum of four live/work units across all properties within the subdivision.
 - *This provides an additional objective standard related to Housing Element Objective 1.2e.*
- Live/work units shall comply with the R-M District Standards and the standards in Section 24.12.185.13.c of the Zoning Ordinance.
 - *This reiterates the existing Zoning Ordinance standards.*
- The construction of the live/work component must proceed concurrently with or after the commercial/industrial component.
 - *This limits the potential for a developer to only provide live-work units and not complete the commercial/industrial component.*

The bullets above have already been incorporated into the planning application submittal requirements, though they have been updated above and in the policy for further clarification. This agenda item is requesting that the Council formally acknowledge the requirements through adoption of the new policy.

In addition to the previously noted general plan criteria that the proposed Industrial Land Preservation Policy is intended to support, the following general plan goals and policies are supported by the proposed policy:

- LU3.2 Maintain lands currently designated for industrial and office in land use designations that promote job creation and retention.
- LU3.2.1 Pursue the expansion of employment-intensive uses that have long-term economic viability.

- LU3.2.2 Develop land use and economic plans for the Westside Industrial and Harvey West areas.
- LU3.2.3 Encourage light industrial uses and creative industry to locate in the Harvey West Area.
- LU3.2.4 Allow incubator uses in employment-intensive areas such as the Westside Industrial Area. Cf.
- LU3.2.5 In considering new types of uses for the Westside Industrial Area, give priority to those that deliver long-term job creation and retention.
- LU3.2.6 Amend the Zoning Ordinance to increase the number of stories allowed in the Westside Industrial Area within the existing height limitations.
- LU3.2.7 Amend the Zoning Ordinance to provide for employment generation in the city's industrial areas, and to restrict uses that are incompatible with industrial uses.
- LU3.2.8 Direct large regional retail uses to, and locate remote parking in, a portion of Harvey West.

The proposed Industrial Land Preservation Policy is intended to clearly articulate existing policy while also providing objective standards to support the important city principles associated with employment land and particularly industrial land protection. Should the Council desire more analysis on this topic, such analysis could be completed as part of future reviews of the general plan, of the subject policy, or both, including through coordination with future Planning Commission recommendations. However, staff strongly encourages the Council to adopt the subject policy at this time as a means to provide additional protection for the city's industrial lands.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) DETERMINATION: The proposed policy is fully consistent with the provisions in the General Plan 2030, which has a certified Environmental Impact Report (EIR). The policy would not result in any additional development or land use changes that were not already anticipated in the General Plan 2030 and its EIR. Therefore, the General Plan 2030 EIR provides the CEQA clearance for the proposed policy.

HEALTH IN ALL POLICIES (HiAP): The proposed amendments are fully supportive of the city's goals for equity, public health, and sustainability through 1) the preservation of the potential for a broad range of employment options that can support well-paying jobs for many educational levels, thereby supporting equity; 2) the potential for local jobs to allow for active commuting, thereby supporting public health and sustainability; and 3) the fiscal strength that the policy brings, which provide opportunities for the city to invest in a range of equity, public health, and sustainability measures.

FISCAL IMPACT: The preservation of industrial lands has significant potential for net positive fiscal impacts, particularly over time as properties develop with industrial and commercial uses and particularly because said commercial and industrial uses typically demand substantially fewer city services than residential development. The conversion of industrial land to residential uses poses the potential for substantial net negative fiscal impacts, particularly given residential service demands and property taxes over the long term. Thus, adherence to the proposed policy has the potential for significant positive fiscal benefits.

Prepared and Submitted

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ATTACHMENTS:

1. RESOLUTION.DOC
2. EXHIBIT A - INDUSTRIAL LAND PRESERVATION POLICY.DOC