

## **MEMORANDUM**

To: Matt Orbach, Principal Planner  
From: Benjamin C. Sigman and Ryan Martinez  
Subject: Summary of Findings from ULL Research and Analysis  
Date: March 1, 2022

*The Economics of Land Use*



The City of Watsonville is evaluating the potential ramifications of a ballot initiative to renew the City's Urban Limit Line (ULL) through 2040. Voters passed the existing Watsonville ULL measure, Measure U, in 2002 and some of the original provisions are set to expire in 2022. A local campaign to reauthorize the ULL collected the necessary voter signatures to qualify the ULL renewal measure for the voter ballot in 2022.

The City engaged Economic & Planning Systems (EPS) to assist with a City-led process to evaluate the impact of Measure U renewal. EPS's technical analysis and advisory services were delivered to the City on an as-needed basis. EPS has advised the City on study design, housing demand analysis, land supply analysis, and economic and fiscal impact considerations. As part of the EPS effort, the firm coordinated with City staff from the City Manager's Office and the Planning Division of the Community Development Department, and interviewed leadership within the Police Department, Fire Department, and Public Works Department.

This memorandum offers a summary of key findings from the study of the ULL measure. EPS's supporting research and analysis are documented in the *Watsonville Urban Limit Line Ballot Initiative Impact Assessment (Briefing Document, March 2022)*. A forthcoming City staff report also will provide perspective and commentary on the proposed extension of the City's ULL. The following key findings provide background context concerning the ULL, describe observed outcomes from the past 20 years, summarize research and analysis efforts to evaluate measure renewal, and offer commentary related to potential fiscal and economic impacts. This memorandum only offers a brief digest of the study and is intended as a supplement to the briefing document and staff report.

*Economic & Planning Systems, Inc.  
1330 Broadway  
Suite 450  
Oakland, CA 94612  
510 841 9190 tel*

*Oakland  
Sacramento  
Denver  
Los Angeles*

**[www.epsys.com](http://www.epsys.com)**

## **Background Context**

**The Measure U Urban Limit Line (ULL) codified a compromise between stakeholders seeking to balance the protection of farmland and wetlands with urban growth.** In 1998, a diverse group of Watsonville stakeholders (residents, business, agricultural, environmental, and government agency representatives) organized to form Action Pajaro Valley, a collaborative growth management effort that yielded Measure U. Measure U sought to foster growth in housing and employment while protecting farmland and wetlands and preventing urban sprawl. Watsonville voters passed Measure U in November 2002, amending the City's 2005 General Plan. Measure U identifies three "new growth areas" for future annexation:

- Buena Vista Planned Development Area;
- Atkinson Lane; and
- Manabe-Ow (formerly Manabe-Burgstrom).

Measure U allows and directs development within the Buena Vista and Atkinson Lane areas with the condition that the City adopt a Specific Plan and develop the areas in prescribed phases, and also limits the Manabe-Ow area to commercial land uses. Measure U further establishes three distinct urban limit lines beyond which development is prohibited or only conditionally permitted after 20 to 25 years.

## **Observed Outcomes**

**While the ULL has added restrictions to development on prime farmland and environmentally sensitive open space, minimal new development has occurred in growth areas defined by the measure.** The City has annexed the Manabe-Ow area (2006) as well as a portion of the original Atkinson Lane Specific Plan Area (2018). The City has not annexed the Buena Vista area and has ceased planning efforts for the area. The lack of annexations and paucity of development within ULL growth areas is primarily due to litigation and infrastructure development challenges. Over the last twenty years, development under Measure U has yielded just 207 housing units, a stark contrast to the 2,700 units envisioned in the 2006 version of the 2030 General Plan and the 2009 Atkinson Lane Specific Plan. Furthermore, since the annexation of Manabe-Ow, only approximately 194,000 square feet of commercial development has occurred, compared to the 1.0 million square feet proposed in the area's Specific Plan.

## **Research and Analysis**

**A range of public- and private-sector housing demand projections as well as policy goals for new housing reveal significant variation in potential future residential development in Watsonville.** Forecasts of population and household growth from the California Department of Finance (DOF), the California Department of Transportation (Caltrans), and Woods & Poole Economics, Inc. (W&P) suggest that demand for housing from 2022 to 2040 to range from 428 to 1,730 additional units, yielding a 3 percent to 12 percent increase in the City's existing housing stock. The Association of Monterey Bay Area Governments (AMBAG) regional growth forecast estimates 1,269 additional housing units by 2040, a 9% increase in the City's existing housing stock. By comparison, an extrapolation of anticipated policy goals for new housing in Watsonville based on the State of California Department of Housing and Community Development (HCD) Regional Housing Needs Assessment (RHNA) ranges from 3,187 units to

3,732 units by 2040.<sup>1</sup> Future RHNA policy goals could seek to increase the City's existing housing stock by 22 percent to 26 percent.

**Analysis reveals that renewal of the ULL likely will cause a land supply constraint.** The limited number of vacant sites and viable annexation areas allowed under the ULL measure provide land supply for an estimated 876 new dwelling units, which is insufficient to accommodate projected growth in over half (four of seven) of the demand forecasts considered.<sup>2</sup> The land supply estimate includes land for 281 units on vacant sites within the City now, plus 595 additional units that might be developed within the Atkinson Lane area. In housing demand scenarios based on DOF (high demand scenario), W&P, and AMBAG projections, land supply for housing within the ULL falls short of demand, resulting in unmet demand for between 150 units and 850 units by 2040. The analysis also shows that the ULL could create a significant barrier to meeting policy goals for housing, with estimates of unmet need for housing ranging from roughly 2,300 to 2,900 dwelling units by 2040 if the ULL is renewed. Absent the additional land supply in areas restricted by the ULL, achieving policy goals for housing will require increased housing density within the City limits.

**Allowing development in currently restricted, new strategic growth areas creates new land supply to help meet housing demand forecasts.** Areas beyond the ULL are constrained for new development by flood risk, airport safety zones, soil conditions, and other factors. Considering such constraints, the City has identified a 77-acre portion of "Area C" (Wagner Property) as a potential strategic location for new housing in the future. A site yield analysis that excludes floodplain areas indicates Area C might support new development of an estimated 864 dwelling units. The analysis finds that opening Area C for growth would nearly double the vacant land available to meet local housing demand and forward progress toward housing policy goals. Area C is the only residential development area outside the urban limit line identified by the City, but it alone could have a meaningful impact on housing development. If the ULL expires and Area C is developable, the analysis identifies sufficient land supply to meet the demand forecasts considered.

**Even if new strategic growth areas are opened for development, land supply constraints will continue to affect the City's ability to meet policy goals for housing development.** Watsonville's preliminary 2023-2031 RHNA allocation, at approximately 2,100 units, is larger than its last two RHNA allocations combined. In recent HCD housing cycles, market-rate and non-profit housing developers have not produced enough new homes in Watsonville to meet RHNA goals. Looking forward, anticipated policy goals for housing supply far outstrip vacant land capacity, even if the ULL sunsets and Area C becomes available for development. The analysis reveals that in addition to increasing vacant land available for

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<sup>1</sup> HCD goals to address housing need seek to address provision of fair housing, affordability, environmental quality, and jobs-housing balance. RHNA objectives do not incorporate market demand or development feasibility factors.

<sup>2</sup> EPS estimated future demand for housing units in Watsonville from 2022 to 2040 based on forecasting from the Association of Monterey Bay Area Governments, California Department of Finance, California Department of Transportation, and Woods & Poole Economics, Inc. The forecasts and EPS's methodology are detailed in the *Watsonville Urban Limit Line Ballot Initiative Impact Assessment (Briefing Document, March 2022)*.

development, the City also will need to continue efforts to promote infill redevelopment to increase housing supply.

### **Fiscal and Economic Impact Considerations**

**New development in Watsonville, whether infill within the City limits or development of new strategic areas at the City's edge, will have one-time infrastructure improvement requirements.** In greenfield areas (i.e., previously undeveloped), new development requires backbone infrastructure, including streets and utilities. Interviews with Public Works Department representatives confirm that new development within the City boundaries also would require one-time infrastructure improvements, including water capacity upgrades and street improvements. For example, existing underground utilities in Watsonville are 80 to 90 years old and would require upsizing to accommodate growth. In some cases, roadways do not meet current City standards and would require investment to accommodate meaningful future growth. Accordingly, upfront infrastructure investments will be necessary to support growth and will affect the feasibility of any major development project in Watsonville. The age of City networks and systems will create capital improvement cost burdens for developers and the City government, which reduce and possibly eliminate perceived cost advantages associated with existing infrastructure serving infill areas in Watsonville.

**Interviews with Police, Fire, and Public Works departments confirm that population growth increases service burdens and department costs under any growth pattern scenario, with the Police department indicating that providing service to new neighborhoods on the urban edge will be more expensive than serving infill development.** As cities increase in population, City services expand to meet demand. With growth comes additional tax revenue from property assessment, retail sales, and other sources. Regardless of whether the ULL is renewed or not, any significant growth in Watsonville will spur demand for City services and will be accompanied by tax revenue growth. However, while the Fire Department already serves unincorporated areas of Santa Cruz County beyond the ULL and is well-positioned to expand its City service area, the Police Department indicates that growth at the urban edge likely comes at a cost premium relative to infill development. The cost premium is attributed to a need for additional patrol zones (police beats) in new growth areas. In addition to staffing the new patrol zones, additional equipment would be required for emergency services and traffic and parking enforcement.

**Creating strategic growth areas at the urban edge could support new economic development opportunities, including a potential visitor-serving development at the intersection of Highway 1 and State Route 129.** While Measure U designates the Manabe-Ow site as a Growth Area for commercial uses, that area is anticipated to be fully built out in the near future. A 194,000-square-foot FedEx distribution center was built there in 2016, and the City's planning division currently is processing two applications for distribution centers totaling 332,000 square feet. Beyond these projects, additional development of Manabe-Ow is not likely due to soil and wetland constraints. In the absence of the ULL, City staff has identified a strategic economic development growth area at the intersection of Highway 1 and State Route 129 (320 Lee Road). As an illustrative example of development potential, this roughly 17-acre site might accommodate a 100-room limited-service hotel and 275,000 square feet of retail development, creating roughly 500 new jobs in Watsonville. The visitor-serving uses likely would have a strong positive impact on the City's General fund, generating new transient occupancy tax (TOT) and sales tax for the City.