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LAND USE &
CIRCULATION
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Location

The City of San Luis Obispo is located along California's Central Coast. Situated halfway between the cities of Los Angeles and San Francisco, it is geographically near the center of the State. Its central location, as well as close access to the Pacific Ocean, make it a desired place to live by Californians, and also a tourist destination for both in-state and out-of-state visitors.

Happiest Place in the USA

In 2010, the National Geographic book *Thrive: Finding Happiness the Blue Zones Way*, authored by Dan Buettner, identified San Luis Obispo as the "Happiest Place in the USA". Of the happiest places in the world that were identified in the book, San Luis Obispo was the only city in the USA to be recognized. This title was also featured on an episode of Oprah in January 2011. The Happiest Place in the USA designation was bestowed upon San Luis Obispo after analyzing databases that measure the quality of life and personal well-being of the city's inhabitants. Contributing factors include broad sidewalks, pedestrian and bike-friendly plazas, routes, and green spaces, outdoor cafes, the climate, natural amenities such as hiking trails, and availability of fresh local foods and the Farmers' Market.

Climate

The summer months in San Luis Obispo are usually moderate, averaging in the high 70's, cooler than the national average, with temperatures ranging in the mid 50's at night. Winter temperatures are cooler, with highs averaging in the mid 60's and nighttime temperatures averaging around 40 degrees. Although rainfall is minimal, averaging less than 17 inches per year, morning/evening fog and heavy fog are present roughly 182 days per year. Table 2.0-1 provides a historical monthly climate summary for San Luis Obispo from 1981-2010.

Table 2.0-1. Monthly Climate Summary From 1981-2010

Average	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual
Max. Temperature (F)	61.1	62.0	63.6	66.4	69.3	73.0	76.0	76.9	76.8	73.7	67.3	61.1	69.0
Min. Temperature (F)	43.6	44.8	45.8	47.0	49.2	52.1	54.5	54.8	54.3	51.5	47.1	43.1	49.0
Avg. Temperature (F)	52.3	53.4	54.7	56.7	59.3	62.6	65.2	65.9	65.5	62.6	57.2	52.1	59.0
Total Precipitation (in.)	4.95	5.12	3.97	1.39	0.47	0.10	0.02	0.04	0.26	0.93	2.16	3.71	23.12

Source: <http://www.wrcc.dri.edu/cgi-bin/cliNORMNDC2010.pl?ca7851>

History

Prior to Western settlement, the San Luis Obispo area was inhabited by Native American tribes. As far back as 1585, peoples of the Salinan Indians resided north of Cuesta Grade, and the Chumash resided along the coast, south of the Grade. Pedro de Unamuno (1587) and Rodriguez Cermeño (1595) were the first known Europeans to explore the region, followed by Sebastián Vizcaíno, who charted the Central Coast in 1602 and 1603. No other European exploration occurred until the overland expedition of Gaspar de Portolá and the Franciscan Father Crespi in 1769.

In 1772, Father Junípero Sierra founded Mission San Luis Obispo de Tolosa, which was the fifth mission in California’s chain of 21 missions. It was followed by an assistant mission rancho, which was established at Santa Margarita in the 1790s. The Mission San Miguel Arcángel was founded in 1797, and also included ranchos established at San Marcos and El Paso de los Robles.

In 1822 when California was annexed to Mexico, the country pushed for secularization of missions to secure large tracts of lands for their purposes. As a result, Franciscan priests fled San Miguel and San Luis Obispo and the missions and churches fell into ruin. During this time, cattle herds on the land generated prosperity in the area. The city grew slowly for most of the 19th century

In 1850, California was admitted to the Union, and in 1868, San Luis Obispo was officially designated as the county seat. The California gold rush drew fortune-seekers to California and the San Luis Obispo region saw rampant lawlessness. The California Land Act of 1851 prompted a shift in residential development with the subdivision of ranchos and prompted many rural landowners to migrate to the City.

San Luis Obispo was first incorporated as a General Law City in 1856, and then later as a Charter City in 1876. The San Luis Obispo Tribune was founded in 1869. As the economy grew, so did the population, jobs, buildings, and maritime commerce.

The introduction of the Southern Pacific Railroad in 1894 connected the city with other parts of California, allowing it to grow as new people and goods could be transported more efficiently. As growth continued, the California Polytechnic School was founded in 1901. During wartime eras in the 1920s and 1940s, the region was heavily used for production of agricultural items to support troops and also used as training grounds to prepare troops for battle.

Today, the area prospers from tourism, wine production, Cal Poly, agriculture, government employment and other industries.

Government

San Luis Obispo operates under a Council / Mayor / City Manager form of government. The Mayor and remaining four City Council members are all elected at-large. The Mayor serves on the City Council as an equal member. The Mayor is elected for a two-year term, while Council members are elected for overlapping, four-year terms. The City Manager, as well as the City Attorney, is appointed by the City Council. The City Manager appoints all other department heads.

The San Luis Obispo Local Agency Formation Commission (LAFCO) was formed in 1963 for the purpose of serving the city’s residents by encouraging orderly formation and development of local agencies in a manner that discourages sprawl. LAFCO is responsible for reviewing and considering the formation of new local government agencies, and considering annexations and detachments for agencies. It also determines the city’s Sphere of Influence that sets the scope for

expansion of the city. The two major guiding factors of LAFCO are preserving agricultural land resources and discouraging urban sprawl.

The San Luis Obispo Council of Governments (SLOCOG) coordinates planning, transportation and census data for local governments within the county. It is made up of all seven cities within San Luis Obispo County, which are Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, and San Luis Obispo, as well as the unincorporated areas of the county. SLOCOG allocates state and federal transportation funds for the region and is responsible for preparing the long-range transportation plan, the Sustainable Communities Strategy, and the Regional Housing Needs Allocation.

Major Development Projects

The San Luis Obispo Community Development Department is responsible for guiding development and growth within the City. It serves the role of reviewing and approving building permits. The following are examples of some of the major recent development projects taking place within San Luis Obispo.

- **Margarita Area Specific Plan.** The Margarita Area Specific Plan was adopted on October 12, 2004. The Margarita Area is a 420-acre area in the southern part of San Luis Obispo. The development of 165 new single family residential units and 32 condominiums have been approved to date within the Specific Plan area.
- **Airport Area Specific Plan.** The Airport Area Specific Plan was adopted in August 2005. It encompasses an unincorporated area approximately 1,500 acres in size that is located adjacent to the San Luis Obispo Regional Airport. The City has annexed some of the area and the Plan calls for annexation of the remainder of the area. Current development within the Planning Area includes an approved commercial Airport Business Center, which will provide approximately 70,500 square feet of space.
- **Orcutt Area Specific Plan.** The Orcutt Area Specific Plan was adopted in March 2010. The Orcutt Area covers 230 acres of land and was annexed into the City on November 16, 2011, along the southwestern edge of the city limits. Annexation approval has resulted in the plan for 979 residential units. The first subdivision of 80 units has been approved.
- **Mid-Higuera Street Enhancement Plan.** This Enhancement Plan was adopted on March 20, 2001 and covers a relatively small planning area surrounding the Higuera Street corridor and parallel creekway between Marsh Street and Madonna Road, southwest of downtown San Luis Obispo.
- **Railroad District Plan.** The Railroad District Plan, adopted on June 16, 1998, covers an area to the southeast of downtown San Luis Obispo. The plan area covers approximately 321 acres and extends along the railroad right-of-way for roughly 1.7 miles from north to south.
- **Downtown Concept Plan.** A conceptual design of downtown San Luis Obispo as envisioned by local design professionals in 1994. The purpose of the plan was to show what Downtown could be and set into motion the means to make the vision a reality.
- **South Broad Street Area Plan.** The South Broad Street Area Plan is a draft area plan that covers an 86-acre neighborhood midway between Downtown and San Luis Obispo County Regional Airport and directly adjacent to the Old Town and Railroad Districts. The plan focuses on a walkable mix of land uses and various streetscape improvements to provide a gateway into San Luis Obispo.

Cumulative Project List (As of January 2012)

Table 2.0-2 provides a general overview of all current projects in the City of San Luis Obispo as of January 2012.

Table 2.0-2. Current Project List (As of January 2012)

Project Name	Address	Square Feet	Units	Type	Status
Residential					
Bowden Ranch	1636 Woodland		23	SFU	Approved
Margarita SP Plan Area - King Map	3000 Calle Malva		165 sfr; 32 condos	SFU	Approved
Creekston	791 Orcutt		86		Approvals have expired; property now bank owned.
Laurel Creek	861 Orcutt		161 units		44 units already constructed. Future phases of 117 units anticipated to occur over 3-5 years.
Serra Meadows	392 & 408 Prado		177 single-family lots; 16 mixed-use lots	SFU	Under construction
Orcutt SP Plan	Orcutt/Tank Farm (Righetti)		979		Annexation approved
Bridge St. Hsg	215 Bridge		19	Affrd Hsg	Approved
Phi Sigma Zeta	1292 Foothill	10,500	29 person occ.	Frat.	Complete
Moylan Terrace	851/860 Humbert		81	Res.	Approved; first 12 units under construction.
Foothill Courtyard	730 Foothill		6 units		Approved
South Street Apartments	313 South Street		68 140,000 sq.ft.		Approved
San Luis Coastal School District	1642 Johnson		88 Units		Environmental review on-going; will be sold to a developer for future development.
San Luis Drive	San Luis Drive		16	SFU	
Mixed Use					
Railroad Square	1880 Santa Barbara	36,650	4 units	Mixed	Approved
Pacific Courtyards	1231 Osos	9,260	11 condos		Approved
Chinatown Residential Commercial Hotel	861 Palm	46,140	32 units 78 rooms	Condos Retail Hotel	Approved
Marsh Street Commons Residential Commercial	1221 Nipomo	9,000	12	Mixed Use	Approved
Ah Louis Residential Office/Retail	800 Palm St.	21,000	1	Office/Retail	Approved
Garden Street Terraces Retail Hotel Residential	1119 Garden	25,047	48 rooms 8 units		Approved
Housing Authority SRO	858 Humbert		19 units		Pending
ICON Project	1340 Taft	3,900	7 units		Pending

Project Name	Address	Square Feet	Units	Type	Status
Homeless Shelter Campus	3433 S. Higuera		200 person cap. 20-25,000 sq.ft.		Approved
Leitcher House	667 Monterey	20,000	23 units	Includes B&B with 12 guest rooms	Pending
Alano Building	1808/1814 Osos	6,078	4 units		
Village at Broad Retail Apartments	2238 Broad St.	25,000	91	Retail Condos	In construction
Commercial					
Airport Business Center	4450 & 4460 Broad	70,538		Commercial	Approved
Art Center	1010 Broad	22,000		Commercial	Approved
Irish Hills Plaza East LLC	11980 LOVR	140,000		Commercial	Target, Dicks, and Olive Garden completed; other tenant buildings in construction.
Sierra Vista Trauma TWR	1045 Foothill	124,500		Commercial	Approved
Naman Project	1029 Chorro	6,500			Approved
Evans Property	4180 Vachell	18,200			Approved
Monterey Car Wash	1101 Monterey	2,800		Market with Carwash	Approved
Long-Bonetti Ranch	3897 S. Higuera	43,000			Approved
The Whole Lot	2959 Broad		Existing 8,000 sq.ft. Commercial with 2,000 sq.ft. add'n. & new carwash use	New Carwash	In construction
French Hospital	1911 Johnson	17,591		Offices	Pending

Source: <http://www.wrcc.dri.edu/summary/sbp.ca.html>

People

San Luis Obispo's population in 2010 reached 45,119, which was an increase of just over 1,000 people from the year 2000. Roughly 60% of occupied housing units are renter occupied and 60% of households are either single person or non-family. Roughly 40% of Housing is owner occupied and 16% of the population is families with young children. For more information on demographics of San Luis Obispo, see Chapter 2.1.

*San Luis Obispo, Council of Governments. San Luis Obispo County 2040 Population, Housing & Employment Forecast. Prepared by AECOM. August 11, 2011. ***

Economic Base

San Luis Obispo acts as a regional center for government, retail, and tourism related economies and is home to one-third of all jobs in the county. Despite this, 60 % of the city labor force commutes outside of San Luis Obispo for work. The City has developed an Economic Strategic Plan to help further economic goals, including developing more head of household jobs. For more information on Economic Development in San Luis Obispo, see Section 2.3.

Culture

Arts and cultural activities are abundant in San Luis Obispo. Some of the major cultural organizations include:

- **ARTS Obispo.** The San Luis Obispo County Arts Council is a local, non-profit organization that strives to deliver and advance the arts, art education, public access to the arts, and opportunities for artists in San Luis Obispo County.
- **Cal Poly San Luis Obispo.** Cal Poly was established in 1901 to cater to “young people of both sexes mental and manual training in the arts and sciences, including agricultural, mechanics, engineering, business methods, domestic economy and other branches as will fit the students for non-professional walks of life.” Since then it has grown extensively and now provides economic incentives and population impacts for the city. It also hosts many cultural and performing arts activities throughout the year.
- **Festival Mozaic.** Festival Mozaic is a concert and program series that celebrates five centuries of music. It was founded in 1971 and takes place every July as a 10-day concert series, with additional concerts held throughout the year.
- **San Luis Obispo Little Theater.** The first production at the Little Theater was in 1947, and since then, has staged more than 600 productions in more than 25 locations across the US. The current location of the Little Theater is in the former San Luis Obispo County Public Library. The production types include musicals, comedies, and dramas. It also includes the Academy of Creative Theater, which helps young performers develop life-long theatrical skills and encourages them to have fun while building their self-esteem.
- **San Luis Obispo International Film Festival.** The International Film Festival is an annual five-day event that showcases contemporary and classical film screenings throughout the city, including the Fremont Theater, Palm Theater, and outside the city including Paso Robles, Avila Beach, and Pismo Beach. This festival showcases independent films that might not otherwise be seen by the masses and promotes independent film growth.
- **San Luis Obispo Museum of Art.** The Museum of Art strives to provide and promote a diverse range of visual arts experiences for all types and ages of people, through the use of exhibition, education, collaboration, creativity, and creation. It was started by a small group of artists, educators, and enthusiasts in the 1950s. Through the years, it has progressed from the Art Association, to the San Luis Obispo Art Center, and today into the San Luis Obispo Museum of Art. It includes a permanent collection, film screenings, and temporary exhibits.
- **San Luis Obispo Performing Arts Center.** The Performing Arts Center, a collaborative effort between the City of San Luis Obispo and Cal Poly, has been open since September 1996 and is located on the Cal Poly campus. Its two major venues are the Christopher Cohan Center (which has the 1,289-seat Sidney Harman Hall, the 180-seat classroom Philips Hall, and the multi-purpose pavilion that can hold up to 400 people), and the 498-seat Alex and Faye Spanos Theater.
- **San Luis Obispo Symphony.** The San Luis Obispo Symphony was formed in 1954 as a small group of 11 musicians. Through the years it has grown dramatically. In recent years, venues in which they perform have included New York’s Carnegie Hall, Sydney Opera House, Walt Disney Concert Hall, Hearst Castle, San Luis Obispo Performing Arts Center, and Mission San Miguel.



Introduction

This chapter describes recent population and housing trends, as well as current demographic characteristics such as age, educational attainment and ethnic background. Much of the information in this chapter is summarized from the City's recent (October 2012) Economic Development Strategic Plan prepared by Lisa Wise Consulting (LWC). In addition, the chapter discusses current economic forecasts that may affect the demand for housing and population growth, as well as the official County projections prepared by the San Luis Obispo Council of Governments (SLOCOG). Population and housing trends are important to the General Plan Land Use and Circulation Update because they affect the type of development needed in the future as well the need for additional public services and facilities.

Key Terms

The following key terms used in this chapter are defined as follows:

San Luis Obispo Council of Governments (SLOCOG). An association of the cities and the county that is responsible for regional transportation planning and for distributing Regional Housing Needs Allocations (RHNA).

Regional Housing Needs Allocation (RHNA). Under state law, each jurisdiction must ensure their respective General Plans can accommodate assigned targets for housing production during the term of its approved Housing Element. The RHNA quantitative targets are distributed to all the cities and the county by SLOCOG.

Qualifying Income. The amount of income in comparison to county median income that will qualify an individual or family for affordable housing.

Regulatory Setting

State Department of Housing and Community Development (HCD). HCD administers the state laws related to General Plan Housing Elements. The City's Housing Element was approved in 2010 and is due to be updated in 2014; knowing the allocation for the subsequent required Housing Element update underscores the need for the City to understand its capacity to meet housing production targets. Decisions associated with the Land Use and Circulation Elements update need to be made with consideration of the current RHNA assignment as well as the upcoming allocation. SLOCOG develops the regional projections that determine the RHNA for the region in collaboration with HCD. SLOCOG then works with staff from the county and the cities to determine the formula by which to divide and assign a portion of the regional

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allocation to each jurisdiction. The City’s current housing needs targets apply through 2014, and show the City is able to accommodate construction of its assigned 1,589 units. The 2014 RHNA for the region is 4,090, 1,144 units of which will be the City of San Luis Obispo’s responsibility.

Major Findings

- The City has experienced slower population growth than the County as a whole. The City’s population growth was half as fast in the past decade than during the 1990s, but is projected to accelerate slightly when new housing construction begins to get underway in 2013.
- With the high proportion of college students in the population, San Luis Obispo has a relatively high level of renters (60.7% of occupied housing units) and single person or other non-family households (60%). Conversely, 39.3% of housing in the city is owner occupied, while 1,182 persons (2.6% of the population) live in group quarters. The city also has proportionately fewer families with young children (16%) than the county as a whole (39%).
- The city has a high proportion of multi-family housing (40% compared to 18% for the county), and fewer single family detached housing units (46% compared to 68% for the county).
- Median house prices in the City dropped by one-third between January 2007 and December 2011, but remain higher than comparable prices in the County as a whole. Even at the lower median housing price of about \$463,800 in the city, the qualifying income is about \$77,000, significantly higher than the median household income of \$42,500.
- SLOCOG projects a growth of 973 dwelling units between 2010 and 2020, with a corresponding population growth of 1,982. This would be similar, though slightly lower, than the growth rates the City experienced between 1990 and 2000.

Existing Conditions

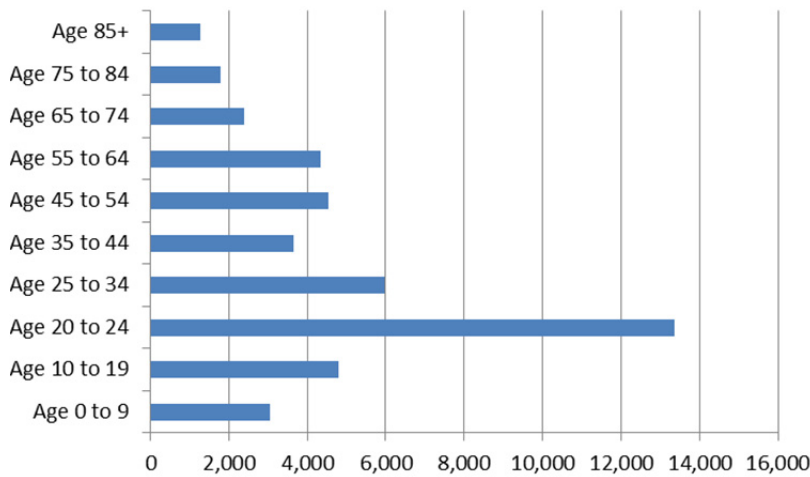
Current estimates show the City’s population at 45,308 as of January 2012 (CA DOF). The City’s population growth during the 2000-2010 decade was less than half the rate it was during the 1990s (Table 2.1-1).

Table 2.1-1. Population in San Luis Obispo City and San Luis Obispo County, 1990-2010

Population	1990	2000	2010	Average Annual Growth Rate
City of San Luis Obispo	41,958	44,148	45,119	0.36%
San Luis Obispo County	217,162	246,681	269,637	1.09%

Source: US Census Bureau. Data provided by Lisa Wise Consulting

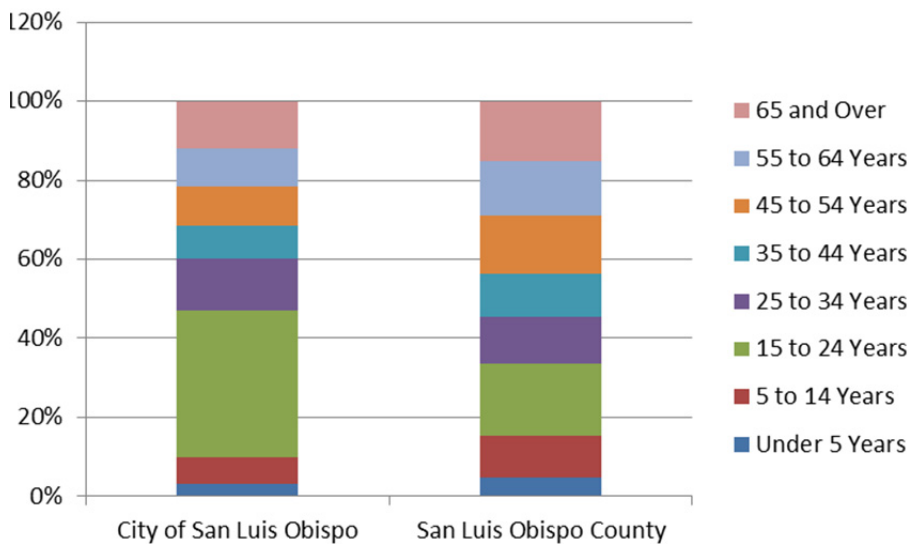
As may be expected with a university town, San Luis Obispo has a large concentration of people in the 20-24 age category (Figure 2.1-1). Compared to the County, the City has proportionately fewer younger children (Figure 2.1-2). The County of San Luis Obispo, and to some extent the City, has a relatively high proportion of retirees.



Source: US Census Bureau. Data provided by Lisa Wise Consulting

Figure 2.1-1. Age Distribution, City of San Luis Obispo, 2010

Due to the university’s presence, the college age demographic can be expected to remain a constant large cohort throughout the planning period. However, with a growing, aging population within California and the nation at large, the age divisions encompassing the 45 to 84 range (in the chart above) when added together may more closely track the 20-24 group and possibly exceed it during the same period.



Source: US Census Bureau. Data provided by Lisa Wise Consulting

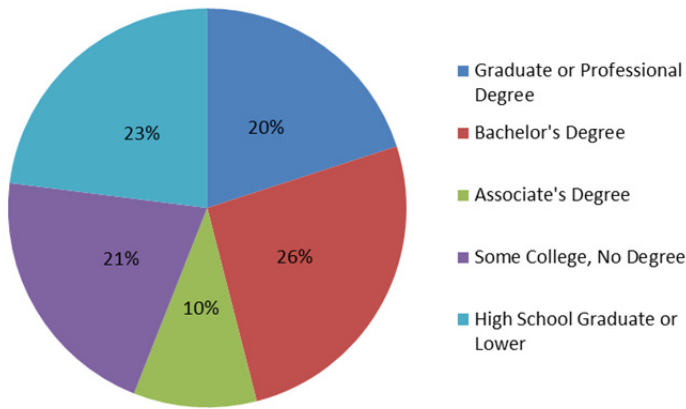
Figure 2.1-2. Age Distribution, City of San Luis Obispo and San Luis Obispo County, 2010

The City has a higher level of education attainment than the County or the State. More than half the City’s population over the age of 25 has at least an associate’s degree (see Figure 2.1-3). According to the U.S. Census, 60% of the State’s population over the age of 25 has completed some level of education in addition to a high school diploma as compared to 77% in the City, and only 11% has a graduate or professional degree as compared to 20% in the City.¹

Figure 2.1-4 and 2.1-5 indicate the City’s racial and ethnic composition. The City is 75% Caucasian and 15% Hispanic or Latino.

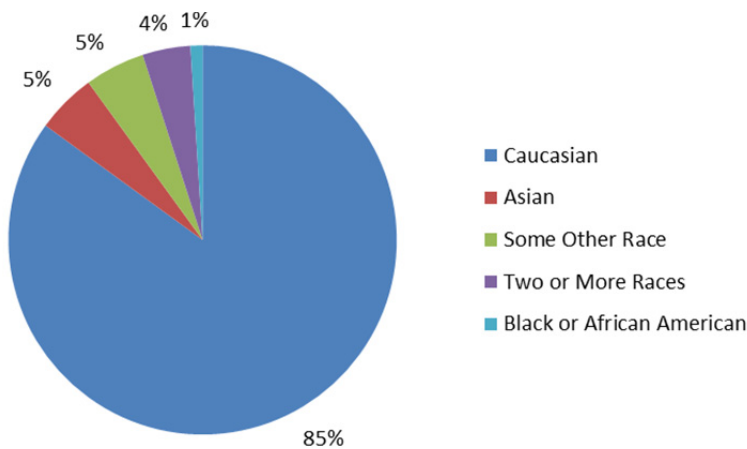
¹ Lisa Wise Consulting (LWC). City of San Luis Obispo, Economic Development Strategic Plan for Head-of-Household Job Creation, Appendix A: Background Report. June 15, 2012. p. 20.

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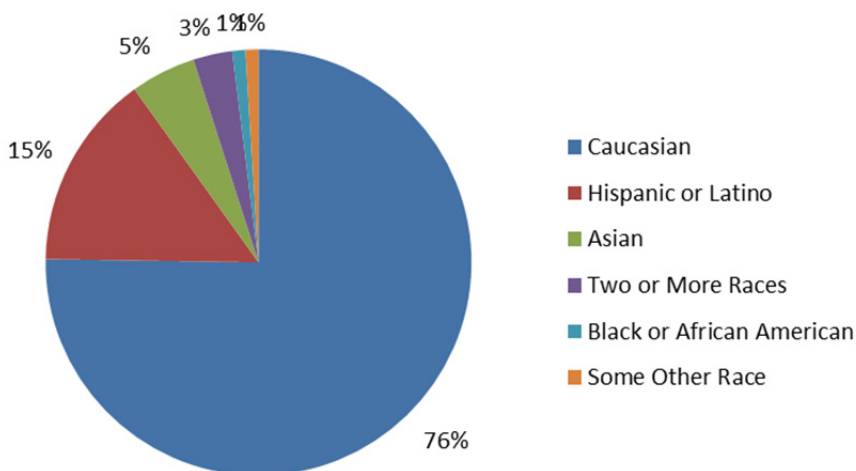
Source: US Census Bureau, American Community Survey Three Year Estimates, 2008-2010. Data Provided by Lisa Wise Consulting.

Figure 2.1-3. Educational Attainment for Population Over the Age of 25, City of San Luis Obispo, 2010



Source: US Census Bureau. Data provided by Lisa Wise Consulting

Figure 2.1-4. Racial Composition, City of San Luis Obispo, 2010



Source: US Census Bureau. Data provided by Lisa Wise Consulting

Figure 2.1-5. Racial Composition by Hispanic/Latino and Non-Hispanic/Latino Ethnicity, City of San Luis Obispo, 2010

Housing
The California DOF reports that at the beginning of 2012, the City had 20,663 housing units. About 46% are single family detached houses and 40% are multi-family housing. The remainders are mobile homes and attached single family units.

Over 60% of the City's households are non-family households, which are defined by the U.S. Census as a "situation where a person is living in a household with non-relatives or by themselves." In comparison, 37% of the County's households are categorized as non-family households. The presence of college students likely contributes to the high percentage of non-family households, as well as to the fact that 60.7% of households in the City are renters.²

Median house prices in the City dropped by one-third between January 2007 and December 2011, but remain higher than comparable prices in the County as a whole.³ The Central Coast Economic Forecast reports that foreclosure rates are trending downward and prices are anticipated to begin to stabilize in 2012. New construction is not likely to accelerate until 2013, however, as there remains a large inventory of distressed properties for the market to absorb.⁴ Even at the lower median price in the City, the qualifying income (described in the discussion of affordability under the Housing Section below) is about twice the median household income.

The City's Housing Element was adopted in January 2010 and includes the City's RHNA for the period January 2010 through December 2014. The RHNA was determined by SLOCOG in 2008, in accordance with state law, and shows a projected need of 488 single family units and 1,101 multi-family units, for a total of 1,589 dwelling units. As of 2010, the City had fulfilled 911 units against this RHNA, which under the state regulations may include units approved or constructed since January 1, 2007. Since 2010, the City has completed approximately 190 units, leaving about 488 units to be completed between 2012 and 2014.

Affordability

The generally accepted definition of affordability is for a household to pay no more than 30% of monthly income to housing (Rent or Mortgage).

Qualifying Income

The City of San Luis Obispo publishes Affordable Housing Standards annually on April 1st. These standards include the maximum income levels per household that qualify for affordable housing. The standards also include maximum rent and sales prices for units within the City's Affordable Housing Program. For the most up to date housing standards, visit the web at: <http://www.slocity.org/communitydevelopment/housing/housing.asp>

How the Standards Are Determined

These standards are prepared by the Community Development Department and are updated annually to show income limits for the City and County of San Luis Obispo as published by the State Department of Housing and Community Development (HCD). These limits are shown in Table 2.1-2. By law, the upper income limit for "extremely-low income" households is 30% of the median County income; the upper income limit for "very-low income" households is 50% of the median County income; the upper limit for "lower income" households is 80% of the median County income; and the upper limit for "moderate-income" households is 120% of the median County income.

Table 2.1-2. Affordable Housing Standards Qualifying Income, 2012

Income Group	Number of Persons In Household							
	1	2	3	4	5	6	7	8
Extremely Low	15,850	18,100	20,350	22,600	24,450	26,250	28,050	29,850
Very Low	26,400	30,200	33,950	37,700	40,750	43,750	46,750	49,800
Lower	42,250	48,250	54,300	60,300	65,150	69,950	74,800	79,600
Median	52,800	60,300	67,850	75,400	81,450	87,450	93,500	99,550
Moderate	63,350	72,400	81,450	90,500	97,750	105,000	112,200	119,450

² LWC 2012, p. 22.

³ LWC 2012, p. 23.

⁴ Beacon Economics, 2011 Central Coast Economic Forecast. pp. 30-32.

Population and Housing Projections

The California Department of Finance predicts that between 2005 and 2030, the State’s population will grow by almost 11.5 million to slightly greater than 48 million residents. This is a projected annual growth rate of 1.09%. As part of its regional planning functions, the San Luis Obispo Council of Governments (SLOCOG) develops and publishes regional population, employment, and housing forecasts for the County and its communities.

In 2011, SLOCOG contracted with AECOM to provide forecasts for future land use in the county to support SLOCOG’s update of the Regional Traffic Model in anticipation of developing the Regional Transportation Plan. The new countywide projections for population, housing and employment were distributed to each jurisdiction based on historic trends and included a low, mid, and high forecast. The projections show growth of 2,651 dwelling units between 2010 and 2035 and a related population increase of 4,613 people (Table 2.1-3 and 2.1-4). This rate of growth is similar to what the City experienced during the 1990s, and would be facilitated by the recent annexation of the Orcutt area as well as approved development potential in the Margarita Area among other locations.

Table 2.1-3. Existing and Projected Population, San Luis Obispo 2010

	2010	2020	2035	2010-2035
Low	43,937	45,964	48,208	4,271
Mid	43,937	45,969	48,550	4,613
High	43,937	45,972	48,860	4,923

Source: SLOCOG 2040 Population, Housing, and Employment Forecast (2011)

Table 2.1-4. Existing and Projected Housing Units

	2010	2020	2035	2010-2035*		
				Total Units	Single Family	Multifamily
Low	20,553	21,523	22,982	2,429	972	1,457
Mid	20,553	21,526	23,204	2,651	1,060	1,591
High	20,553	21,528	23,405	2,852	1,141	1,711

*Unit split based on RHNA assumed construction ratio of single family to multifamily housing of 40:60

Source: SLOCOG 2040 Population, Housing, and Employment Forecast (2011)

San Luis Obispo is one of seven cities located within San Luis Obispo County, and is the largest in terms of population. As stated in the City’s’ 2010 Housing Element, the City’s estimated population in 2009 was 44,750 (California Department of Finance, January 1, 2009). The population of the County is estimated to be 270, 429. Thus, approximately 17% of County residents lived in the City of San Luis Obispo in 2009. The 2010 Census indicates San Luis Obispo’s population to be 45,119, showing less than 1% growth from 2009.

For the selected years, 2015, 2020, 2025 and 2030, the annual growth rate is projected to be less than a half of a percent (.49%) for the City of San Luis Obispo which is less than the projections for the county (1.0%) and the state (1.09%) for the same time frame. These growth rate projections are within SLOCOG’s middle-range forecast. Based on the historical trend, and the state’s projections, an empirical conclusion can be made that the grow rate will remain at or close to the historical trend through the planning period. The City’s General Plan Land Use Element includes policies and land use designations to accommodate an eventual City population of 57,200, but had anticipated this growth to occur much more quickly. Projecting a .5% growth rate, the City’s anticipated residential capacity would be reached by the year 2057, beyond the current planning period and within the range of 50,000 residents by 2035.

Aging Population

If the City experiences the same demographic shift as the nation and state, the over 45 year old age cohorts will increase. With an aging population that lives longer, it is possible to imagine the need for additional assisted living facilities and other congregate housing. Such conclusions should be tempered with the fact that many people reaching retirement age have adopted lifestyles that include life-long learning and physical activities that keep them mentally and physically healthy longer, delaying the need for assisted living facilities. However, many assisted living facilities provide all levels of

care including no care for the able-bodied to more intensive care for the more frail. Most all of these types of assisted living facilities offer a community for all its residents. Additionally, more aging people want to remain as independent as long as possible and thus remain in their homes as long as they can.

Other trends observed through all demographics include the desire to live within walking distance of essential services, reducing dependency on automobiles and increasing the need for more transit, bike paths and other multi-modalities.

Build-Out Projections

It is not within the scope of this demographic background document to estimate the projected build-out of land. Eventual build-out of land can be based on a number of factors such as annexation, market demand, employment trends, availability of suitable sites, capacity and extension of public facilities and infrastructure and its financing, environmental impact and others.

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Please see the next page.



Introduction

The ability of the City to provide municipal services and facilities that meet the needs of its residents is dependent on the tax revenues, fees, service charges and other sources of funding the City have available. In the Great Recession, virtually all of the City's revenue sources were affected, causing the City to reduce staffing levels for some of its service departments, and reduce its investment in capital improvements and maintenance of existing infrastructure. In the current fiscal year (FY 2012-2013) the City has been able to stabilize most of its service capacity levels and, as the economic recovery continues over the next several years, would expect to restore some of the service decreases it has experienced in the recent past.

Over the longer term, the City has policies and programs in place to ensure that new development pays its fair share of facilities needed to serve that development. In addition, it is important to plan for normal maintenance and operations costs that both new and existing facilities will require in the future. This chapter describes the City's budget policies and financing programs that address public services and facilities funding. The analysis also demonstrates how different land uses affect the City's tax base and the need for municipal services. This information will be particularly helpful as the City considers alternative land use and circulation scenarios for future development in San Luis Obispo.

The information in this chapter is closely related to several other chapters in the Background Report. The Economic Development section (Section 2.3) provides more detail on the sales tax revenue from retail sales by residents and visitors. The Land Use section (Section 3.1) discusses the land use inventory that underlies the fiscal impact analysis in this chapter. The Infrastructure chapter (Chapter 5) provides more detail on the City's existing public services and facilities.

Key Terms

The following key terms used in this chapter are defined as follows:

Assessed Valuation. A value established for real property for use as a basis for levying property taxes. Assessed values are determined by the County Assessor and are set at full market value when property is sold or newly constructed. Thereafter, assessed values may only increase by up to two percent per year until sold or improved again. During periods of real estate price decline such as recently, the Assessor may reduce assessed values on existing properties.

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Capital Improvement Plan (CIP). A five-year plan for maintaining or replacing existing public facilities or assets, and for building or acquiring new ones that have an initial useful life beyond one year. The CIP only includes projects that cost \$15,000 or more; projects costing less than \$15,000 are included in the operating budget.

Debt Financing. Borrowing funds for capital improvements needed today and pledging future revenues to repay principal and interest expenditures.

Debt Service. Payments of principal and interest on bonds and other debt instruments in accordance with a predetermined schedule.

Enterprise Funds. This type of fund is used to account for operations that are: (a) financed and operated in a manner similar to private sector enterprises and it is the City's intent that the costs (including depreciation) of providing goods or services to the general public be financed or recovered primarily through user charges; or (b) the City or an outside agency has determined that periodic review of program specific revenues and costs is warranted. The City has established four enterprise funds: water, sewer, parking and transit (Golf was previously also an enterprise fund but was transferred to the General Fund in 2011).

Fiscal Year. The beginning and ending period of recording financial transactions. The City has specified July 1 to June 30 as its fiscal year.

General Fund. As the primary operating fund of the City, all revenues that are not allocated by law or contractual agreement to a specific fund are accounted for in the General Fund. Except for subvention or grant resources restricted for specific uses, General Fund resources can be used for any legitimate governmental purpose.

Operating Budget. The portion of the budget that pertains to daily operations and delivery of basic governmental services.

Reserve. An account used to indicate that a portion of fund's balance is legally restricted for a specific purpose and is, therefore, not available for general appropriation.

Regulatory Setting

Proposition 13. Enacted as part of the State constitution, Proposition 13 limits the base property tax to one percent of assessed value and requires a two-thirds vote to raise any tax rates. It also limits assessed value increases to no more than two percent per year.

Proposition 4 (Gann). Limits increases in tax-supported municipal general operating expenses to the combined rate of population growth and inflation.

Proposition 218. Regulates the way in which property-based assessments must be approved by affected property owners. Requires preparation of an engineer's report to define the "special benefit" that the assessment would convey to affected property owners. Requires majority approval by the property owners. Benefits which are deemed to be "general" rather than special to the affected properties must be paid for by taxes rather than assessments, which require two-thirds voter approval rather than a majority vote.

AB 1600 (Mitigation Fee Act). Defines the process and findings necessary to establish development impact fees. Impact fees may only pay for capital improvements required to serve new development, not deficiencies in existing facilities. The amount of the fee must meet the "nexus" test in terms of being a reasonable cost to address specifically the impact of the land uses affected by the fee.

City Financial Policies. San Luis Obispo has adopted an extensive range of policies to govern its financial management process. Key among these are its Budget Policies, Financial Management Manual, Investment Management Plan and Revenue Management Manual. In addition to these policy manuals, and the City budget itself, the City produces a five-year General Fund Forecast, which is updated two to three times each year to guide broad revenue and expenditure targets; a Cost Allocation Plan to allocate indirect costs to the operating departments; and various interim financial reports on a monthly and quarterly basis. Finally, the Comprehensive Annual Financial Report (CAFR) provides audited financial statements for each fiscal year.

Major Findings

- The City prepares a two-year financial plan with adoption of budgets on an annual basis, along with a five-year capital improvements program that is updated every two years along with the financial plan. The budget process integrates City Council adopted goals into each budget cycle, and is guided by community input and an extensive set of financial policies.
- One key policy is that the City maintains a budgetary reserve equal to at least 20% of current General Fund operating expenditures. This allowed the City to avoid some service reductions during the recent economic downturn, although the City has had to reduce City staff.
- City operating expenditures are about \$1,800 per capita annually, which is higher than Paso Robles or Atascadero but lower than Monterey, Santa Barbara and Santa Cruz.
- The City is fortunate to have a strong commercial sector that generates relatively high sales tax revenues. In addition, the voters approved Measure Y, which generates additional sales tax revenues beginning on April 1, 2007 to help fund both operating costs and capital improvement projects. It is important to recognize, however, that sales tax revenues are volatile during slow economic periods and Measure Y will expire on March 31, 2015 unless it is reauthorized or replaced by voters during the 2014 General Election.
- The City uses a variety of funding mechanisms to finance capital improvements, including enterprise fund service charges (for water, sewer, parking, and transit), unrestricted General Fund monies, development impact fees, Measure Y revenues, and bond financing.
- From a land use perspective, it is important to maintain a balance of commercial and residential development, in order to produce the additional taxes needed to fund annual operation and maintenance of municipal services and facilities.

City Financial Policies

San Luis Obispo operates under a well-conceived financial planning process that features a two-year financial plan, annual operating budgets, and a five-year capital improvements plan as well as integration of City Council goal-setting into the budget process and the extensive use of formal policies and measurable objectives. For example, the Council goals for the current budgeting cycle include a focus on economic development and preservation of essential services and fiscal health, which led to funding studies to update infrastructure financing programs consistent with its Economic Development Strategic Plan. Other major Council goals for this budget cycle include neighborhood wellness and traffic congestion relief.

In addition to setting ongoing goals, the City has established a number of financial policies that guide the budget process and help maintain a sound fiscal system for the City. Several of the most important policies are listed below.

Diversified and Stable Base. The City will seek to maintain a diversified and stable revenue base to protect it from short-term fluctuations in any one revenue source.

Long-Range Focus. To emphasize and facilitate long-range financial planning, the City will maintain current projections of revenues for the succeeding five years.

Current Revenues for Current Uses. The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short term debt.

User Fee Cost Recovery. Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost of living as well as changes in methods of service delivery.

Reserve. The City shall maintain a reserve equal to at least 20% of operating expenditures in the General Fund and the enterprise funds.

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Debt Financing. The City shall use debt financing only for capital improvements that have a useful life longer than the term of the bond financing and when project revenues or specific resources will be sufficient to service the long-term debt.

City Budget

The City is currently (FY 2012-13) in the second year of its two-year operating budget cycle. Although the budgets are adopted two years in advance, they are reviewed every six months and adjustments are made to reflect changing conditions and circumstances, if needed. The City has just released the 2011-13 Financial Plan Supplement which shows total expenditures of \$96.1 million, compared to \$99.3 million in the Financial Plan adopted in 2011.

The City budget consists of several major components, including operating programs, the capital Improvements plan and debt service as shown in Table 2.2-1. The Operating Program budget includes annual operations and maintenance costs to provide services and conduct routine maintenance of facilities. The Capital Improvement Plan includes costs to build new facilities, acquire major equipment or perform substantial long term maintenance or replacements of major facilities. The Debt Service budget helps to fund long term capital costs.

Table 2.2-1. Approved Appropriations for FY 2012-13

	Governmental Funds	Enterprise Funds	Total
Operating Programs	51,705,000	29,201,400	80,906,400
CIP	4,488,900	1,365,000	5,853,900
Debt Service	2,637,500	6,708,200	9,345,700
Total	\$58,831,400	\$37,274,600	\$96,106,000

Source: City of San Luis Obispo, 2011-13 Financial Plan Supplement, July 1, 2012

Further, each of these components of the budget is divided between the General Fund and enterprise funds. The General Fund receives all general tax revenues such as the property tax and sales tax and is used to fund most city services such as police and fire, and recreation. The City operates certain services using direct user charges rather than tax revenues. These are the City's utilities such as water and sewer service, and are called enterprise funds because they operate more as a business in the sense of generating their own operating revenues directly through service charges. The City also operates a Parking Fund and Transit Fund as enterprises.

Each of these budget components are discussed in the sections below.

General Fund

The City's General Fund Budget for Fiscal Year (FY) 2012-2013 includes \$54.9 million in revenue and about \$54.8 million in expenditures (Table 2.2-2). The budget is balanced, with a net revenue balance of \$157, 900.

Table 2.2-2. San Luis Obispo General Fund Budget, 2012-2013

Budget Category	Annual Budget
Revenues	
Taxes	
Property Tax	\$8,370,200
Property Tax in lieu of VLF	\$3,551,000
Sales Tax: General	\$13,528,000
Sales Tax: Measure Y	\$6,279,800
Sales Tax: Public Safety	\$284,600
Transient Occupancy Tax	\$5,395,000
Utility Users Tax	\$4,938,100
Franchise Fees	\$2,523,000
Business Tax Certificates	\$1,923,100
Real Property Transfer Tax	\$180,000
Subventions and Grants	
Gas Tax/TDA/TBID Transfers in	\$1,281,100
Other Subventions	\$321,500
Service Charges	
Development Review Fees	\$2,035,800
Recreation Fees	\$1,532,500
Other Charges for Services	\$1,880,600
Other Revenue	
Fines and Forfeitures	\$162,600
Interest Earnings and Rents	\$695,500
Other Revenues	\$75,000
Total Revenues	\$54,957,400
Expenditures (By Functional Category)	
General Government	\$12,024,600
Police	\$15,066,600
Fire	\$9,782,400
Transportation	\$3,267,800
Leisure, Cultural and Social Services	\$7,199,200
Construction Regulation	\$3,346,400
Planning & Natural Resource Protection	\$2,176,100
Economic Health	\$1,936,400
Total Expenditures	\$54,799,500
Total Net	\$157,900

Source: City of San Luis Obispo 2011-13 Financial Plan Supplement. July 1, 2012.

The general sales tax is the single largest revenue source, at \$13.5 million. The City voters have also approved an additional sales tax measure called Measure Y, which supplements the general sales tax with another one-half percent local transactions (sales) and use tax revenues. Measure Y was approved in 2006 but will need to be re-approved by the voters by 2014. State Proposition 174 created the Public Safety sales tax, which is allocated to local jurisdictions by the state and is projected to yield \$284,600 for San Luis Obispo in the current year.

The general property tax is the second largest revenue source, at about \$8.4 million per year. The City's total assessed value is \$6.3 billion and the base property tax rate of one percent produces a total tax from properties within the City of \$63.3 million. However, the City receives only about 14% of this total and the remainder is distributed to local school

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districts and other taxing agencies. The City also receives another form of property tax from the state to replace vehicle license fees formerly allocated to the City, which adds \$3.5 million to the City General Fund.

The transient occupancy tax (TOT) is charged at the rate of ten percent on room revenues for all lodging in the City. This is relatively large revenue, at \$5.4 million, and reflects San Luis Obispo's strong position as a visitor attraction in the region.

The Utility Users tax and the franchise fees are the next two largest General Fund revenues, at \$4.9 and \$2.5 million, respectively. Both revenues are generated by residential and business use of the various private utilities operating in the City, including electric and gas service, telephone, and cable TV.

The City also charges businesses for annual business licenses and a gross receipts tax, which together generate about \$2.3 million per year.

The gas tax revenues are allocated to the City by the state based on a formula that includes miles of roadway in the City as well as the City's population. These funds can only be used for street maintenance. The other funds in this category in Table 2.2-2 reflect assessments paid by the Tourism Business Improvement District (TBID) and Transportation Development Act (TDA) funds. It is the City's policy that TDA funds be used only for alternative transportation modes and not for street maintenance.

Most of the other revenues in the General Fund are direct charges for services, the largest of which is development related fees such as building permits, planning entitlement fees or plan check fees (\$2.0 million total). Also, fees for recreation programs generate \$1.5 million per year, which defrays about 40% of the cost for recreation programs.

On the expenditure side, police services have the largest budget at \$15.1 million. During the recent period of budget cuts, the police department has lost four positions and the fire department two positions. The public safety function is the largest function provided by the City General Fund with a budget of \$24.8 million.

The general government function shown in Table 2.2-2 represents a number of City programs combined, including¹:

- City Council
- General Administration
- City Attorney
- Human Resources
- Finance and Information Technology
- Public Works Administration
- Building and Fleet Maintenance

The Transportation function includes street and storm drain maintenance. Parking and transit services which are part of the transportation function are funded by separate enterprise funds and are not included in Table 2.2-2.

Parks and recreation, cultural services and social services are all grouped under the Leisure, Cultural and Social Services Function, with a total budget of \$7.2 million, of which \$3.2 million is for park maintenance.

The Community Development Function includes planning and development review, as well as economic development activities that are located in the City's Administration Department.

The expenditures figures shown in Table 2.2-2 also include contributions by the General Fund to the Capital Improvement Program (CIP) and to the Debt Service Fund. For the current fiscal year, the General Fund is projected to make \$3.4 million in CIP expenditures, of which more than \$3.2 million is funded by Measure Y sales tax revenues. In addition, the General Fund will contribute \$2.6 million to debt service for bonds to pay for a variety of public safety, transportation, leisure services and general City building capital projects.

¹ The General Fund expenditures shown in Table 2.2-1 are organized by functional category, as presented in the City budget. This is different than the City's departmental organization, but provides a clearer picture of the service activities provided by City government.

Enterprise Funds

Enterprise Funds comprise 36% of the City’s total operating budget, about \$36.4 million in FY 2012-13 see Table 2.2-3). As will be seen below, revenue from these funds is also a major component of the CIP.

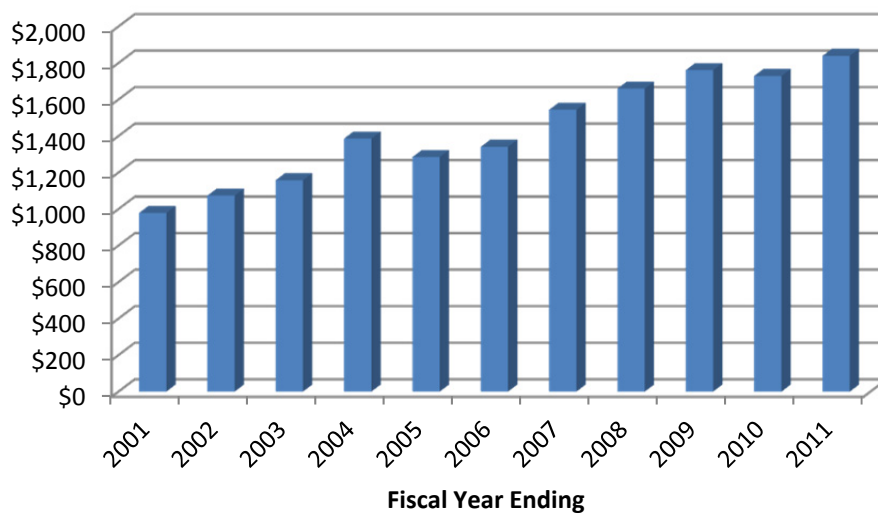
Table 2.2-3. Enterprise Fund Budgets, 2012-2013

Enterprise Funds	2012-2013
Water	\$16,968,600
Wastewater	\$11,902,200
Parking	\$4,232,400
Municipal Transit System	\$3,272,600
Total	\$36,375,800

Source: City of San Luis Obispo 2011-13 Financial Plan Supplement. July 1, 2012.

Summary of City Operating Costs

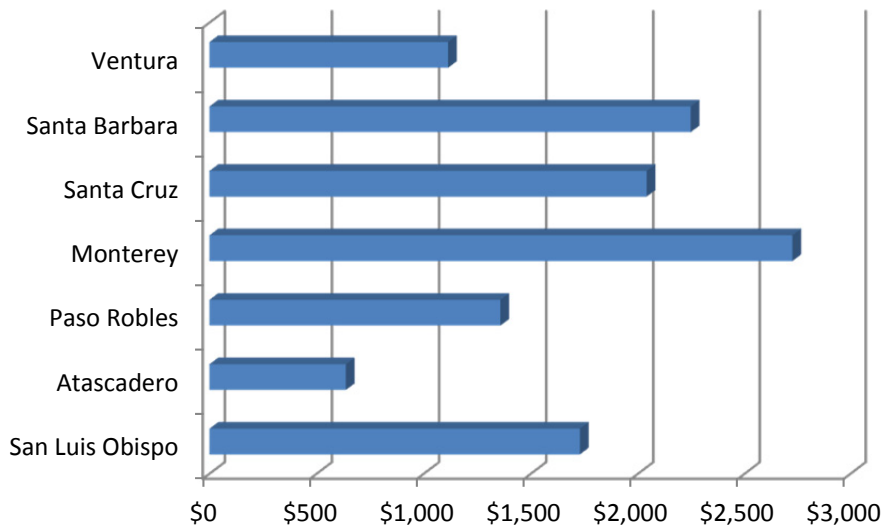
Including the total operating budget, with the General Fund, Enterprise Funds and special revenue funds, the City spends about \$1,800 per capita on municipal services annually. As shown in Figure 2.2-1, this figure has roughly doubled in the last decade since the 2000-01 fiscal year. City costs have increased about 6.6% per year while population has increased less than one percent per year. However, not all costs are directly related to population growth. Maintenance costs for aging infrastructure are often higher than average and cost escalation for labor contracts and supplies follow inflation rates as well as population growth rates.



Source: CA State Controller’s Office, Annual Reports for Cities and Counties.

Figure 2.2-1. San Luis Obispo Operating Costs Per Capita, FY 2000/01 to 2010/11

San Luis Obispo spends more per capita than the next largest cities in the County, Paso Robles and Atascadero, but less than other major cities in nearby coastal counties (Figure 2.2-2).



Source: CA State Controller's Office, Annual Reports for Cities and Counties.

Figure 2.2-2. Per Capita Operating Expenditures, 2010

Atascadero, Paso Robles and Monterey are of similar size, between 28,000 and 30,000 in population, but the higher revenues associated with tourism in Monterey and to an extent in Paso Robles results in higher per capita operating expenditures. That is, the higher revenue base allows for high quality services. Atascadero's costs may be a little lower as well since its water service is provided through a separate agency. Ventura is the largest City in this group, but does not have the sales tax revenue base to compare with the other larger cities.

Capital Improvement Plan (CIP)

As mentioned above, the General Fund helps to finance some of the CIP, mainly through use of Measure Y sales tax revenues. The current year (FY 2012-13) General Fund contribution to the CIP is about \$3.4 million, more than half the total CIP appropriation for this year (Table 2.2-3). However, typically many of the CIP expenditures are public utilities and transportation improvements, which are funded by the related enterprise funds. For example, in the last fiscal year the City spent \$7.5 million on wastewater system improvements and \$16 million on street improvements, and further significant expenditures on both these items are anticipated for the 2010-15 fiscal year (Table 2.2-4).

In funding these improvements, the enterprise funds are aided to some extent by state and federal grants as well as capacity charges and development impact fees from new development. In the past ten years there has been very little new residential development in San Luis Obispo, but with the recent annexation of the Orcutt area and with improving economic conditions, additional new development is likely.

Development Impact Fees

Development Impact Fees are charged to new development to mitigate impacts on City facilities. The City currently has development impact fees for traffic, water and wastewater improvements by district throughout the City. For example, there is a citywide base traffic impact fee, but then several sub-areas have separate additional traffic fees to fund specific improvements affected by development in those areas, including the Los Osos Valley Road area (LOVR), the Margarita Area Specific Plan (MASP), the Airport Area Specific Plan (AASP), and the Orcutt Area Specific Plan (OASP). For water and wastewater facilities, the Margarita/Airport area has special "add-on" fees in addition to the citywide fees. For wastewater, other "add-on" areas include the Dalidio/Madonna/McBride area, the Irish Hills area and the Orcutt area.

The City has two other fee programs imposed on new development. One is the Inclusionary Housing in-lieu fee in which residential and non-residential development contribute to a fund to develop affordable housing in the City. Development projects may produce the affordable housing directly rather than paying the fee. For residential development, the funding requirements are higher in the Expansion area than within the current City boundaries.

Secondly, new non-residential development valued at \$100,000 or greater must either include public art in the project or pay a fee to help fund public art in other locations.

It is important to recognize that development impact fees by law may only be used to mitigate specific impacts of new development on capital facilities. The costs to maintain and operate the facilities must be raised through other means. In addition, impact fees may not be used to address pre-existing deficiencies in facilities serving existing development. Improvements to existing facilities may be funded through a variety of other mechanisms, such as enterprise fund user charges, debt financing, assessment districts, voter approved tax measures such as Measure Y, and grant funds, if available.

Table 2.2-4. San Luis Obispo Capital Improvement Program by Function, 2011 - 2016

Function	2011-13 Financial Plan		Proposed	Proposed	Proposed
	2011-12	2012-13	2013-14	2014-15	2015-16
Public Safety					
Police Protection	\$508,900	\$230,000	\$156,500	\$1,291,600	\$648,500
Fire & Environmental Safety	\$107,800	\$235,800	\$69,000	\$121,000	\$105,500
Total Public Safety	\$616,700	\$465,800	\$225,500	\$1,412,600	\$754,000
Public Utilities					
Water Services	\$2,817,600	\$200,000	\$2,082,300	\$195,7000	\$2,137,400
Wastewater Services	\$7,486,400	\$970,000	\$6,886,500	\$64,440,200	\$4,755,500
Whale Rock Reservoir	\$608,400				\$89,700
Total Public Utilities	\$10,912,400	\$1,170,000	\$8,968,800	\$66,397,200	\$6,982,600
Transportation					
Streets	\$16,444,000	\$1,895,800	\$2,411,100	\$7,613,600	\$2,452,400
Pedestrian & Bicycle paths	\$387,500	\$407,500	\$1,249,000	\$160,000	\$465,000
Creek & Flood Protection	\$719,000	\$730,000	\$1,337,000	\$532,000	\$2,248,000
Parking	\$2,136,900	\$195,000	\$174,500		
Transit	\$1,782,700		\$1,104,300	\$572,500	\$483,600
Transportation management	\$284,100	\$25,000	\$812,000	\$17,845,000	\$123,000
Total Transportation	\$21,754,200	\$3,253,300	\$7,087,900	\$26,723,100	\$5,772,000
Leisure, Cultural & Social Services					
Parks & Recreation	\$2,348,600	\$765,800	\$471,100	\$776,400	\$949,700
Total Leisure	\$2,348,600	\$765,800	\$471,100	\$776,400	\$949,700
Community Development					
Natural Resource Protection	\$884,400	\$22,500	\$300,000	\$300,000	\$300,000
Housing	\$2,020,500 ²				
Construction Regulation				\$50,200	\$96,100
Total Community Development	\$2,904,900	\$22,500	\$300,000	\$350,200	\$396,100
General Government					
Information Technology	\$642,400	\$25,000	\$675,000	\$627,100	\$27,100
Buildings	\$111,800	\$151,500	\$165,200	\$114,500	\$95,400
Fleet Management	\$109,900				\$77,400
Total General Government	\$864,100	\$176,500	\$840,200	\$741,600	\$199,900
Total CIP	\$39,400,900	\$5,853,900	\$17,893,500	\$96,401,100	\$15,054,300

Source: City of San Luis Obispo, 2011-2013 Financial Plan Supplement, July 1, 2012.

² Comprised of CDBG funds and Affordable Housing Funds granted for projects.

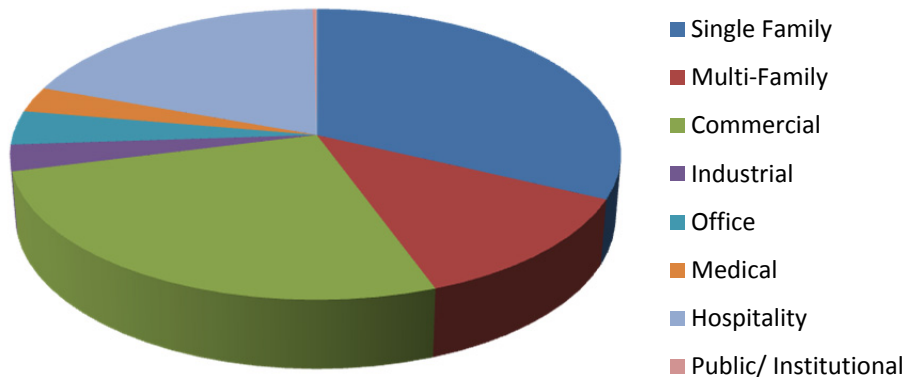
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As part of the current City Council goals, the City is underway with or planning to undertake additional review of its development impact fees and other service charges to determine if updates are needed to help fund projected facilities improvements. The LUCE process will help contribute to that evaluation as future alternatives for circulation and land use are addressed in the process.

Fiscal Impact of Land Uses

An important consideration for the Land Use and Circulation Element Update is how growth and development affect the City's fiscal health. The main goal of the City is to provide a high level of municipal services and facilities for its residents. As we have seen, the City's ability to accomplish that is dependent on the availability of revenues to support its operating programs. From a land use perspective, it is important to maintain a balance of revenue-producing land uses, mainly commercial development, to generate the revenue needed to support services for all residents in the neighborhoods.

Residential development generates about 44% of General Fund revenues for San Luis Obispo. Commercial and hospitality uses (lodging, restaurants and entertainment) combine for another 46% of revenues, with industrial, medical and institutional providing relatively small amounts (Figure 2.2-3). Although residential uses produce about two-thirds of City property tax revenues, the commercial and hospitality sectors generate almost three-quarters of the sales tax, which is the City's largest single tax revenue source. Local household spending accounts for less than one-quarter of the City's sales tax. Fortunately, San Luis Obispo has a strong retail business base and receives more sales tax than its own residents produce. Other surrounding cities that provide housing but less commercial development essentially lose some of their sales tax to San Luis Obispo as a result. In addition to a substantial amount of sales tax, the hospitality sector generates TOT taxes which contribute nearly \$5.4 million per year to the City General Fund.



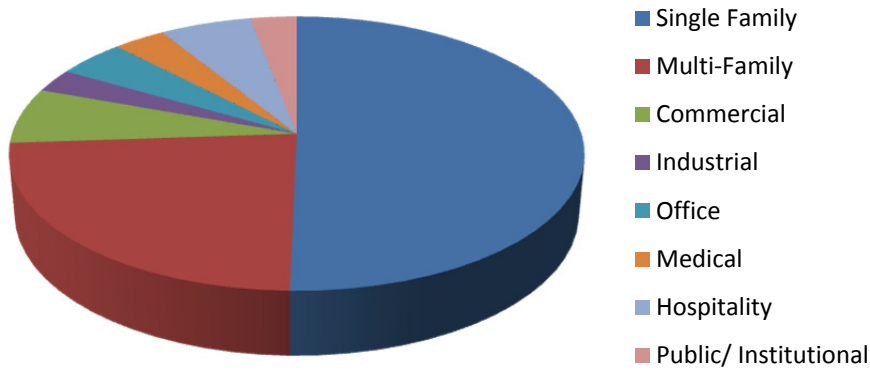
Source: ADE, based on analysis of the City Budget and data provided by the City Finance and IT Department.

Figure 2.2-3. General Fund Revenues (All Sources) Generated by Land Use

Viewing the impact of land use categories on City expenditures, we see a different picture. Residential uses require nearly three-quarters of municipal services, while commercial and hospitality uses comprise only 12.5% of municipal service demand and other non-residential uses the remaining 12.5% (Figure 2.2-4).

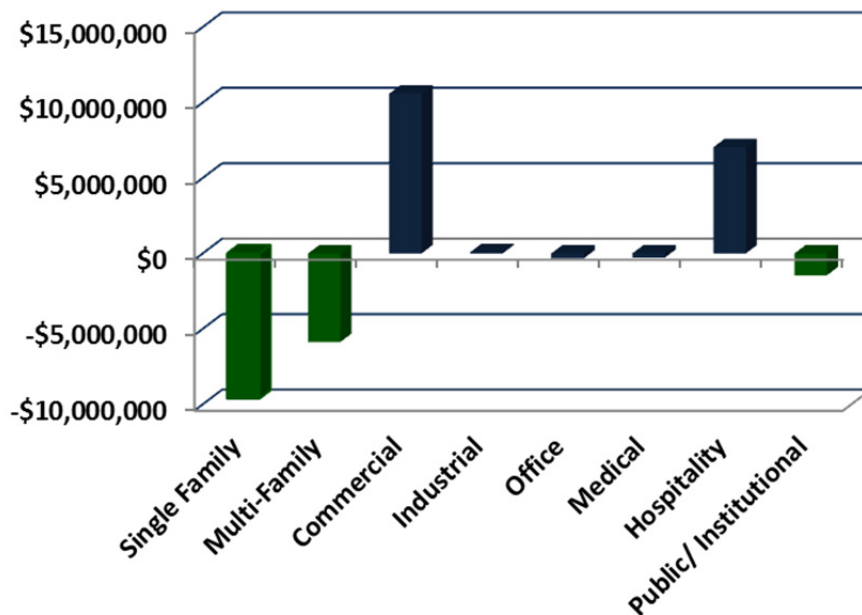
While commercial uses certainly generate a proportionally high level of police calls for service, the overwhelming numbers of calls are related to the residential population. In addition, many fire department calls are for medical situations, particularly for the elderly population. Finally, park and recreation services, along with cultural and social services are mainly provided for and used by the residential population.

Consequently, the commercial and hospitality land uses provide the revenue needed to support services and facilities for the residential population, as shown in Figure 2.2-5. The figure shows the net fiscal impact of each land use on the City General Fund. The commercial and hospitality sectors generate a surplus of about \$17.6 million that is used to fund services in the neighborhoods as well as citywide.



Source: ADE, based on analysis of the City Budget and data provided by the City Finance and IT Department.

Figure 2.2-4. General Fund Service Expenditures by Land Use



Source: ADE, based on analysis of the City Budget and data provided by the City Finance and IT Department.

Figure 2.2-5. Net General Fund Expenditures or Revenues by Land Use

Conclusion

San Luis Obispo has a sound fiscal management system that provides for long range planning for municipal services and facilities. Commercial land uses provide an important revenue source in terms of sales and TOT taxes, but these revenues are volatile in a down economy and the City must rely on its financial policies to avoid severe service level fluctuations. As the LUCE process proceeds, more detailed fiscal analysis of specific development prototypes can be performed, particularly for mixed use development, to determine how future land use scenarios may contribute to the City's fiscal health. In addition, it will be important to evaluate whether existing development fee programs provide the necessary funding capacity to provide for future expansions of infrastructure and facilities.

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Introduction

Economic Development is concerned with improving the City's economy, which means providing jobs that support a sustainable standard of living for City residents, providing a desirable mix of retail shopping opportunities and services, and providing a tax base that supports the level of services, facilities and amenities needed by the population. In short, a healthy economy is very important to the City's quality of life.

The City has recently completed an extensive Economic Development Strategic Plan that focuses on the issue of job quality in great detail, and particularly on strategies to implement the City Council's goal of increasing the supply of head of household jobs in the City. This section describes the City current job base and its resident workforce and discusses opportunities to further diversify the local economy. A second issue of retail demand and supply receives substantial attention in this chapter, documenting the City's position as the major retail hub for San Luis Obispo County. This discussion also briefly explores the role of tourism in creating jobs and tax revenues for San Luis Obispo. The prior section of the Background Report entitled 2.2 Fiscal/Financial discusses the City's tax base and the role of businesses in supporting public services for the City's population.

Key Terms

The following key terms used in this chapter are defined as follows:

Industry Cluster. Geographic concentrations of firms that share common markets, buyers, suppliers and specialized talent. They include firms that create wealth by exporting their products or services or import wealth by drawing customers to the region, as well as firms that supply goods and services to these exporters and importers. Regional cluster-based strategies have been shown to result in the improved economic performance of businesses, improved job quality, and improved regional economic vitality.

Head-of-Household Job. Jobs that are permanent rather than temporary or seasonal require higher levels of education or skills, offer promotional opportunities, provide health care and other benefits, and pay a salary that enables the householder to support a dependent, with some level of disposable income.

Retail Market Demand. Market demand refers to the average amount that a consumer unit (household, commuter, out-of-town visitor, or student) within a given area will typically spend on retail purchases at retail stores. The retail market demand is distributed among different store groups, such as general merchandise, apparel, food, and automotive.

LUCE Update Background Report

Net Market Capture (Also Excess Capture). Net capture refers to situations where the retail sales in a given store category exceed the retail market demand. This will generally occur when retail stores or commercial centers can attract customers from beyond the local area, and/or attract significant spending from other non-local constituents such as businesses, tourists and online sales.

Retail Leakage. Retail leakage refers to situations where the retail sales in a given store category are less than the retail market demand. Leakage will generally occur when retail stores or commercial centers are insufficient in number and/or quality to match the local spending habits, or if local offerings for certain products do not adequately match local demand. While retail leakage represents a shortcoming in the local retail base, it can also represent an opportunity to recapture retail spending that currently leaves a community.

Taxable Sales. Taxable sales refer to revenues collected by businesses on goods that are subject to state sales tax. Under California law, most goods sold by retail stores are taxable. Exceptions would include groceries, non-prepared meals, and prescription drugs.

Transient Occupancy Tax. The transient occupancy tax (TOT) is collected by hotels, motels, and other visitor lodging operators based on revenues from overnight accommodations. The TOT rate in the City of San Luis Obispo is 10.0% plus an additional 2% in the Tourism Business Improvement District (TBID).

Regulatory Setting

City of San Luis Obispo. The City's Economic Development Strategic Plan has identified the City's development review process as an area of concern related to economic development. While the City appears to process permits efficiently (showing some of the shortest processing times compared to comparable cities), processing time and predictability continue to be cited as a barrier to investment and job creation. One major action element of the Strategic Plan is devoted to more in-depth review of the City's permit processing program to determine if further improvements can be made.

Major Findings

- The City is home to nearly one-third of all jobs in the County, but has only 17% of the County's population.
- Despite the strong job base, the labor force in San Luis Obispo is very mobile and a number of large employers are located elsewhere in the County with several large employers located just beyond the City limits. Consequently, 60% of the City's labor force, about 10,200 workers, commutes outside the City to work. Conversely, the in-commute workforce of more than 25,000 workers, filling about 80% of the jobs located within the City of San Luis Obispo.
- The City has identified the need to create more head-of-household jobs, focusing on regional industry clusters of opportunity such as Building Design and Construction, Health Services, Knowledge and Innovation Services, Specialized Manufacturing, and "Uniquely SLO County" (a combination of agriculture, wine, recreation, accommodation, restaurants, and other specialty products and services). In order to achieve the overall goal of creating more head of household jobs and promote economic vitality, the Economic Development Strategic Plan focuses on initiatives to 1) break down the barriers to job creation, 2) actively support knowledge and innovation, 3) promote the SLO life to enhance business opportunities, and 4) build on existing efforts with regional partners.
- SLOCOG projects the City to add jobs at a faster rate than the County overall over the next 20 years. The City's Economic Development Strategic Plan has identified 96 sites comprising 624 acres that can potentially support future business development. A major element of the Strategic Plan is to focus on permit streamlining and infrastructure finance to ensure that the available raw land can in fact support employment development when it is needed.
- San Luis Obispo has a retail market that serves as a regional hub, attracting spending from well beyond the city limits. The local retail spending demand totals \$415 million, with \$342 million coming from San Luis Obispo households, and the remainder coming from Cal Poly students living on campus, and commuters who live

elsewhere and work in San Luis Obispo. By comparison, the sales by San Luis Obispo retailers total over \$1.27 billion, which means that over 67% of its market capture comes from outside of local market demand.

- Major sources of regional capture include residents from neighboring communities, out-of-town visitors, and retail sales from other businesses. Out-of-town visitors represent a major source of revenue in San Luis Obispo County, with over \$1.1 billion in overall spending countywide and an estimated \$285 million in the City. Business-to-business supplier transactions create an additional \$378 million in retail demand countywide and \$130 million in the City of San Luis Obispo.
- San Luis Obispo's retail stores have a very strong market capture in nearly all major retail categories. Only one retail store category (specialty food stores) generates any retail leakage. In addition, the city's restaurants did not have as strong a net capture of regional sales as did other retail categories.
- The city's per capita taxable sales at December 31, 2012 (\$28,000) is nearly 65% higher than the countywide average (\$17,000).
- The taxable sales trend over the past decade saw healthy growth in retail taxable sales through 2006, while sales began a significant downward trend starting in 2007 and continuing through 2009. The initial decline began prior to the recession, but accelerated as the recession-driven effects impacted the economy. This trend began to reverse in 2010 as retail taxable sales showed a modest sales increase of 4.0%.
- Transient occupancy tax (TOT) collections serve as an indicator of the tourism sector's strength relative to other local communities. San Luis Obispo has a lower share of the countywide TOT than taxable retail sales, which indicates that tourism is stronger in some other communities in the county. The TOT trend saw declines beginning in 2008 and is experiencing a strong recovery that started in 2011.

Existing Conditions

Jobs and Labor Force in San Luis Obispo

As of 2010, the City of San Luis Obispo had about 32,300 jobs located within the City (Table 2.3-1). This is about 32% of the total jobs in San Luis Obispo County. The City has 17% of the County's population, so it is clearly a major job hub in the region.

The largest numbers of jobs in the City are in Health Care (16.8%), Public Administration (13.4%), Accommodations and Food Services (11.5%), Retail (9.3%), and Education (7.9%). Table 2.3-1 compares the City's job base with that of the County. The City has a higher concentration in a number of office-based business sectors, including information, professional, scientific and technical services, and public administration. In addition to a greater concentration of agricultural jobs, the County is also highly concentrated in manufacturing (including wine production), construction jobs, services and education.

Table 2.3-1. Comparison of Jobs in the San Luis Obispo City and the County of San Luis Obispo

Employment Sector	City of San Luis Obispo		San Luis Obispo County		Difference in Percents
	Jobs	Share	Jobs	Share	
Agriculture, Forestry, Fishing and Hunting	18	0.1%	3,292	3.5%	-3.4%
Mining, Quarrying, and Oil and Gas Extraction	10	0.0%	326	0.3%	-0.3%
Utilities	298	0.9%	1,159	1.2%	-0.3%
Construction	782	2.4%	4,494	4.8%	-2.4%
Manufacturing	1,108	3.4%	5,872	6.2%	-2.8%
Wholesale Trade	862	2.7%	2,835	3.0%	-0.3%
Retail Trade	3,001	9.3%	9,698	10.3%	-1.0%
Transportation and Warehousing	633	2.0%	1,431	1.5%	0.5%
Information	752	2.3%	1,171	1.2%	1.1%
Finance and Insurance	764	2.4%	1,960	2.1%	0.3%
Real Estate and Rental and Leasing	735	2.3%	1,684	1.8%	0.5%
Professional, Scientific, and Technical Services	2,427	7.5%	4,486	4.8%	2.7%
Management of Companies and Enterprises	271	0.8%	621	0.7%	0.1%
Admin. & Support, Waste Mgmt and Remediation	2,950	9.1%	4,997	5.3%	3.8%
Educational Services	2,560	7.9%	9,296	9.9%	-2.0%
Health Care and Social Assistance	5,452	16.8%	13,184	14.0%	2.8%
Arts, Entertainment, and Recreation	406	1.3%	1,438	1.5%	-0.2%
Accommodation and Food Services	3,736	11.5%	12,218	13.0%	-1.5%
Other Services (excluding Public Administration)	1,270	3.9%	5,894	6.3%	-2.4%
Public Administration	4,354	13.4%	8,059	8.6%	4.8%
Total All Jobs	32,389	100.0%	94,115	100.0%	0.0%

Source: Local Employment Dynamics

The City has an employed labor force of 16,715, about half as many as the jobs available in the City. As is typical in modern communities, the labor force is very mobile and there is a high degree of commuting despite the substantial job base in the City. About 40% of the resident workforce lives and works in San Luis Obispo (about 6,600 workers), but the remaining 10,100 workers (60% of the total) commute outside the City to work, probably because a number of large employers are located elsewhere in the County, including Cal Poly University, the California Men’s Colony, Atascadero State Hospital and the Diablo Canyon power plant. Consequently, about 25,700 workers commute into the City each day to work to fill the available jobs. This is illustrated in Figure 2.3-1 below, with the detailed numbers provided in Table 2.3-2.

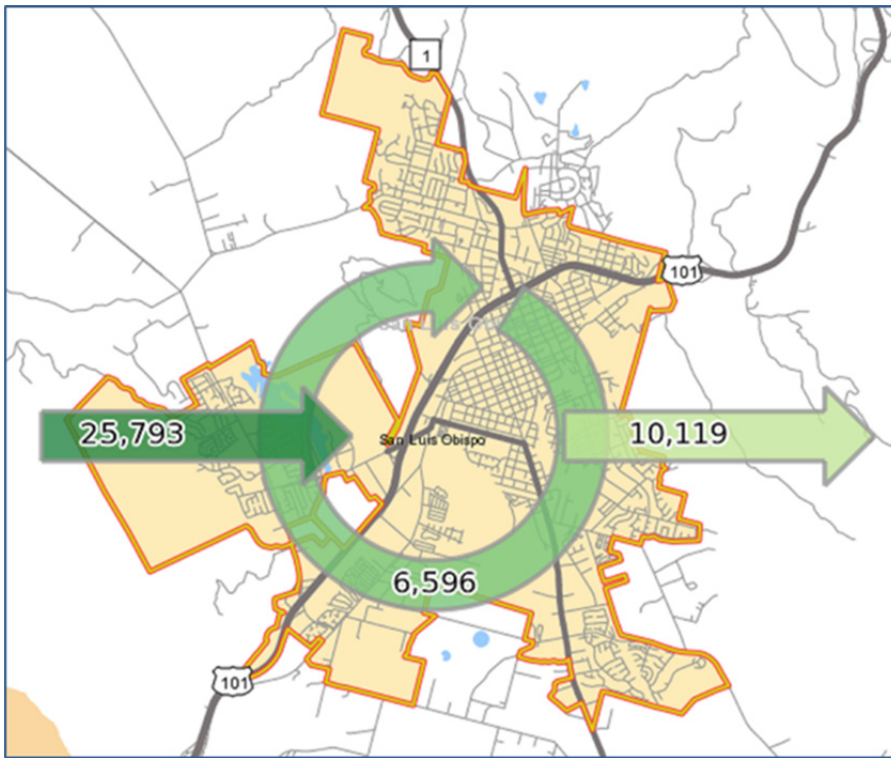


Figure 2.3-1. Overall Commute Patterns in San Luis Obispo

Table 2.3-2. San Luis Obispo Commute Patterns

Jobs/Workforce Categories	2010 Jobs / Workforce
San Luis Obispo Labor Force	16,700
San Luis Obispo Jobs	32,300
San Luis Obispo Labor Force Working in SLO	6,600
San Luis Obispo Labor Force Commuting Outside SLO	10,100
Total San Luis Obispo In-commuters	25,700

Source: ADE, Inc.; data from U.S. Census Local Employment Dynamics. Note: The job totals are based on all jobs, which include primary jobs and secondary jobs. The retail market analysis below uses an in-commute total of 15,628 workers, because it deducts the spending from the 10,103 workers that live in San Luis Obispo but commute to jobs outside of the city in order to eliminate double-counting.

Viewing the available information about worker characteristics in each commute category, higher proportions of workers employed in manufacturing and utilities commute out of the City to work, while those employed in services tend to find jobs locally to a higher degree (Table 2.3-3). There is also a slight trend in older, higher paid workers commuting more. It makes sense that more experienced workers may choose to travel further for upper level jobs.

Table 2.3-3. San Luis Obispo Worker Characteristics by Commute Category

Worker Categories	City Worker Profile		Internal Live/Work		Out-Commute		In-Commute	
Workers Employed by Industry								
Goods Producing Industries	1,905	11.4%	379	5.8%	1,523	15.1%	1,539	6.0%
Trade, Transportation, and Utilities Industries	2,826	16.9%	952	14.5%	1,869	18.5%	3,842	14.9%
All Other Services Industries	11,984	71.7%	5,253	79.8%	6,711	66.4%	20,350	79.1%
Worker Wage Levels								
\$1,250 per month or less	5,047	30.2%	2,049	31.1%	2,997	29.7%	6,766	26.3%
\$1,251 to \$3,333 per month	5,543	33.2%	2,278	34.6%	3,252	32.2%	9,192	35.7%
More than \$3,333 per month	6,125	36.6%	2,257	34.3%	3,854	38.1%	9,773	38.0%
Worker Age Categories								
Aged 29 or younger	5,454	32.6%	2,111	32.1%	2,997	29.7%	6,766	26.3%
Aged 30 to 54	7,847	46.9%	3,101	47.1%	3,252	32.2%	9,192	35.7%
Aged 55 or older	3,414	20.4%	1,372	20.8%	3,854	38.1%	9,773	38.0%

Source: ADE, Inc.; data from U.S. Census Local Employment Dynamics.

Economic Development Strategy

The City has identified a need for more head-of household jobs that would create stable career ladders with benefits and pay commensurate with the higher cost of housing and living expenses in the City. In June 2012, the City prepared a draft Economic Development Strategic Plan to address this issue and provide an action plan for economic development in the City.¹ This document contains important information about the City economy and opportunities to create more jobs, which is briefly summarized in this section of the background report.

Several of the City’s largest employment sectors listed above also tend to offer lower levels of pay on average. In contrast, business sectors such as professional, scientific and technical services, construction, information services and utilities pay higher wages. While the City has some concentration in several of these sectors compared to the County as a whole, the number of jobs in these types of businesses in the City is not large. In considering ways to diversify the local economy, it is important to recognize that San Luis Obispo is part of the regional economy of the Central Coast. The regional economy tends to revolve around major “industry clusters”, which create products and services sold outside the region, thereby drawing revenue and income into the area which supports local retail and service businesses.

The San Luis Obispo County Economic Vitality Corporation (EVC) has identified five industry clusters with the greatest potential to drive local and regional economic prosperity based on recent job growth, export potential and competitive advantages. They are: Building Design and Construction, Health Services, Knowledge and Innovation Services, Specialized Manufacturing, and “uniquely SLO County” (a combination of agriculture, wine, recreation, accommodation, restaurants, and other specialty products and services).² As noted by the City in its ED Strategic Plan, “As of 2008, the five clusters accounted for 36% of the region’s jobs and were responsible for 89% of the job growth Countywide.” In addition to supporting growth in the regional clusters, the City recognizes that it is important to encourage business growth in emerging sectors that are still developing into clusters and also to support small businesses in the community, which represent the majority of business enterprises in the City.

The City’s Economic Development Strategic Plan proposes four main initiatives:

- 1. Break Down Barriers to Job Creation.** Major barriers to job creation in San Luis Obispo include the development review process and the lack of backbone infrastructure in the expansion areas of the City. The City is currently reviewing options to further streamline permit processing systems. In addition, the LUCE process will conclude with an infrastructure financing plan to ensure that facilities and services can be provided for future development.

¹ San Luis Obispo, City of, Economic Development Strategic Plan; Final Draft, September 28, 2012.

² Economic Vitality Corporation of San Luis Obispo County. Clusters of Opportunity Economic Strategy. November 2010. p. 8.

- 2. Actively Support Knowledge and Innovation.** This is a rapidly growing cluster in the region and is supported by business relationships with Cal Poly and Cuesta College, as well as the County's fiber optic cable landings. Initiatives in this area include fostering additional entrepreneurship, developing a more robust "vertical value chain" of business services, and improving access to broadband.
- 3. Promote the SLO Life to Enhance Business Opportunities.** The high quality of life in the City is a major attraction for businesses as well as residents to the community. The available cultural and recreation amenities help create or support a number of business opportunities including tourism, creative services such as design, media, and value-added agriculture, and cultural arts production including visual arts, writing, motion picture production and music, dance and performance.
- 4. Build on Existing Efforts with Regional Partners.** Successful economic development requires regional collaboration on a number of levels, including marketing and workforce development, higher education and the private sector. The City proposes to focus these collaborations on developing the types of head-of household jobs most needed in the community, and to increase its business retention and expansion efforts to support growth of local companies.

Employment Projections

The San Luis Obispo Council of Governments (SLOCOG) prepares regional projections of employment for each jurisdiction in the County. Between 1990 and 2007, San Luis Obispo County gained 30,700 jobs, but then lost 7,300 jobs through the recession to finish with a 20 year growth level of 23,400 jobs. As the County begins to recover its economic strength over the next several years, SLOCOG projects the 2010-2025 period to produce 14,800 jobs. Job growth is projected to continue to accelerate, however, with another 10,100 jobs produced between 2025 and 2035.³

In 2010, the City supported 32% of total County employment. However, during the 2010-2025 period, SLOCOG projects the City to gain 5,400 jobs, or 36% of County job growth. During the 2030-2040 decade, SLOCOG projects the City to capture nearly 40% of County growth, or 4,000 new jobs. The City's Economic Development Strategic Plan identifies a number of major sites available for business development and job growth. As noted above, a major element of the strategic plan focuses on streamlining permit processing and identifying effective strategies for funding infrastructure so that businesses can utilize the available sites as market conditions improve.

Tourism and Hospitality

As indicated above, promoting the SLO lifestyle is one of the major focuses of the City economic development strategy. The accommodations and food services sectors support more than 3,700 jobs in San Luis Obispo and there are an additional 400 jobs in arts, entertainment and recreation businesses, not counting local government employment devoted to these activities.

In addition to their substantial contribution to the quality of life in the community and to the reputation of the City as a place to live and work, visitor-serving and cultural enterprises contribute significantly to the tax base of the City. The transient occupancy tax (TOT) is collected by hotels, motels, and other forms of transient lodging that serve out-of-town visitors. These tax collections serve as an indicator of the degree to which San Luis Obispo's lodging market captures spending from out-of-town visitors. As shown in Table 2.3-4, San Luis Obispo's TOT collections make up about 20.8% of the countywide total. While this percentage is slightly higher than the city's share of the countywide population, it significantly lags behind the 34.9% of countywide taxable retail sales that the city captures.

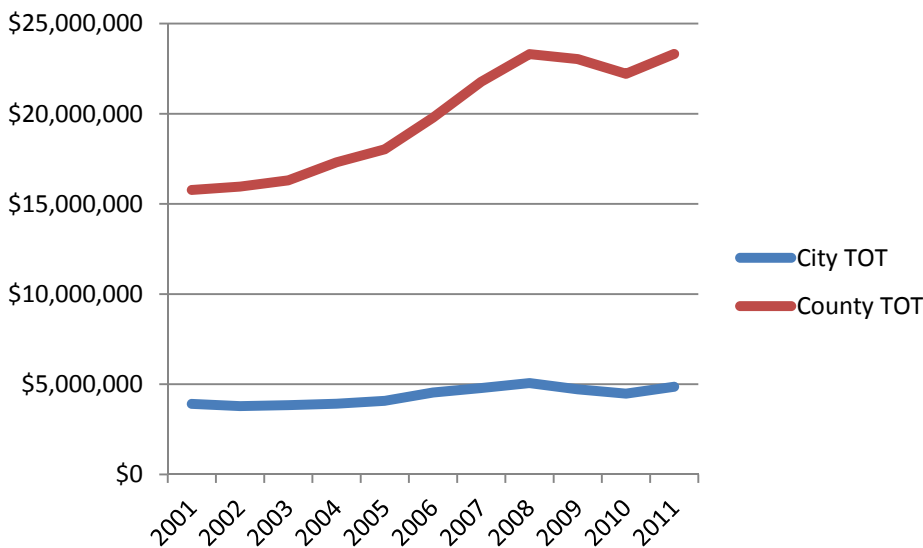
The transient occupancy tax trend after 2001 showed generally positive growth until 2008, when the recession hit the travel sector across the country, as shown in Figure 2.3-2. Compared to the retail sales, the TOT collections did not falter until the recession began in 2008. In addition, the recession impacted the city more than the county as a whole. However, 2011 showed a strong recovery in the TOT collections, once again a year after the recovery started in the retail sector.

³ San Luis Obispo, Council of Governments. San Luis Obispo County 2040 Population, Housing & Employment Forecast. Prepared by AECOM. August 11, 2011. p.46.

Table 2.3-4. Comparison of San Luis Obispo County Transient Occupancy Tax (TOT) Collections, 2011

Community	Annual TOT Revenues	Percent of Total
Arroyo Grande	\$390,200	1.7%
Atascadero	\$525,500	2.3%
El Paso De Robles	\$3,023,300	13.0%
Grover Beach	\$219,100	0.9%
Morro Bay	\$1,868,300	8.0%
Pismo Beach	\$6,268,900	26.9%
San Luis Obispo	\$4,859,400	20.8%
<i>Incorporated Total</i>	\$17,154,700	73.6%
<i>Balance Of County Total</i>	\$6,162,200	26.4%
San Luis Obispo County Total	\$23,316,900	100.0%

Source: ADE, Inc., data from Dean Runyan Associates.



Source: ADE, Inc.; data from Dean Runyan Associates.

Figure 2.3-2. Transient Occupancy Tax Trends, 2001 to 2011

Visitor spending represents a significant generator of retail demand. According to state tourism data from Dean Runyan Associates, tourism spending in San Luis Obispo County totaled approximately \$1.14 billion, as shown in Table 2.3-5.⁴ This visitor spending includes overnight accommodations, transportation, recreation, entertainment, restaurant as well as retail spending. About \$723 million of this visitor spending goes towards retail stores (retail stores, food stores, food service, and ground transportation/fuel). Based on the city’s share of the countywide transient occupancy tax and taxable retail sales receipts, the estimated annual visitor spending potential for San Luis Obispo totaled approximately \$285 million in 2010.⁵

⁴ Dean Runyan Associates; *Travel Impacts by County*; 2011.

⁵ The countywide visitor spending data separates the spending by visitors requiring overnight accommodations from other visitors. San Luis Obispo’s spending by overnight visitors was based on the city’s share of countywide transient occupancy tax (TOT) receipts. Spending by other visitors was based on the city’s share of countywide taxable retail sales.

Table 2.3-5. Comparison of San Luis Obispo County Visitor Spending, 2010

Visitor Spending by Commodity	San Luis Obispo County Visitor Spending	City of San Luis Obispo Visitor Spending Potential (Estimate)
Total	\$1,143,000,000	\$285,050,000
Accommodations	\$255,000,000	\$51,400,000
Food Service	\$332,000,000	\$81,842,000
Food Stores	\$48,000,000	\$11,833,000
Ground Trans and Motor Fuel	\$104,000,000	\$28,515,000
Arts, Entertainment, Recreation	\$156,000,000	\$51,848,000
Retail Sales	\$239,000,000	\$58,917,000

Source: ADE, Inc., data from Dean Runyan Associates.

The trend lines in Figure 2.3-2 suggest that the City has not participated to a high degree in the expansion of tourism in the County during the first part of the last decade. Much of this expansion was the result of the development of the winery industry in North County. The Economic Strategic Plan recommends that wine development and value-added agriculture may be appropriate areas for expansion in the City. As part of its emphasis on SLO life, the City may want to consider whether expansion of lodging opportunities should also be part of the mix.

Retail Market Supply and Demand

The retail sector is an important contributor to the quality of life in the community, both in terms of providing a desirable array of goods and services for local and visitor consumption, but also as a major tax generator, supporting local municipal services as discussed above in Section 2.2 Fiscal/Financial. The retail market analysis consists of three main parts: an assessment of regional retail competition in the County; an estimate of household and business retail spending in San Luis Obispo; and a comparison of overall spending potential and sales by San Luis Obispo retail establishments.

Regional Competition

As the center of commerce in the county, San Luis Obispo has a very large base of retail stores, with strong regional presence across many retail sectors such as food stores, general merchandise stores, apparel stores, and specialty retail. The city has several key commercial centers that serve as regional retail hubs. In particular, key regional retailers have located at the shopping centers along Madonna Road and Los Osos Valley Road, and the downtown area serves as a regional activity focal point and visitor attraction. As a regional hub, San Luis Obispo actually captures more sales than its local market demand supports by itself.

While San Luis Obispo has the largest population in the county, more than 80% of the county population lives outside the city, with a very high proportion of residents living in unincorporated communities, as shown in Table 2.3-6. Even so, San Luis Obispo's role as an economic center far surpasses its share of the population. With its retail base, San Luis Obispo's regional advantage comes from its success with attracting retail spending from several different constituents, including commuters, out-of-town visitors, and shoppers living elsewhere in San Luis Obispo County. The community has several key concentrations of activity that make it unique within the region. Maintaining this regional advantage is key to sustaining the sales tax revenue that the City has received for many years. However, some neighboring communities have established their own regional retail niches unique from the offerings in San Luis Obispo, for example, the outlet centers in Pismo Beach.

Table 2.3-6. Comparison of San Luis Obispo County Population and Retail Sales

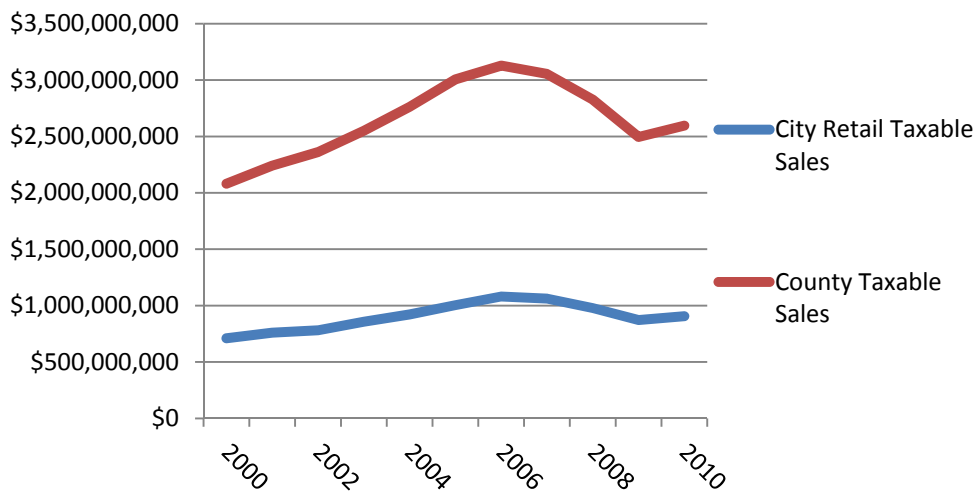
Community	Population 2012	Percent of Total	Per Capita Taxable Retail Sales 2010	Taxable Retail Sales 2010 (000's)	Percent of Total
Arroyo Grande	17,252	6.4%	\$13,438	\$231,841	8.9%
Atascadero	28,310	10.5%	\$7,855	\$222,361	8.6%
El Paso De Robles	29,793	11.0%	\$17,212	\$512,809	19.8%
Grover Beach	13,156	4.9%	\$5,193	\$68,315	2.6%
Morro Bay	10,234	3.8%	\$10,768	\$110,204	4.2%
Pismo Beach	7,655	2.8%	\$23,541	\$180,209	6.9%
San Luis Obispo	45,119	16.7%	\$20,095	\$906,649	34.9%
<i>Incorporated Total</i>	151,519	56.2%	\$14,733	\$363,105	14.0%
<i>Balance of County Total</i>	118,118	43.8%	\$3,074	\$2,232,388	86.0%
San Luis Obispo County Total	269,637	100.0%	\$9,626	\$2,595,493	100.0%

Source: ADE, Inc., data from California Department of Finance and Board of Equalization.

Notes: Per capita calculations are based on comparison of taxable retail store sales with population. Taxable sales do not include sales for nontaxable items such as prescription drugs and groceries. In addition, the data for retail sales excludes some store categories such as building materials dealers that are included in the retail market analysis elsewhere in this report.

Compared to other communities in San Luis Obispo County, the City of San Luis Obispo has the second highest per capita taxable retail sales, as shown in Table 2.3-6. In 2010, San Luis Obispo’s taxable retail sales averaged just over \$20,000 per resident. The county as a whole averaged less than \$10,000 in taxable sales per capita, which means that San Luis Obispo more than doubled the countywide average. In general, the unincorporated areas within the county had substantially lower average taxable sales than the incorporated communities. This is likely due to the lack of significant commercial centers in the unincorporated areas, despite the high concentration of residents in these areas.

The taxable sales trends for both the city and county of San Luis Obispo have tracked very closely over the past decade. As shown in Figure 2.3-3, San Luis Obispo retail stores capture about 34.9% of the countywide total sales. In general, the taxable retail sales trends saw healthy year-to-year increases up until 2006. Beginning in 2007, the taxable sales in the city and county saw a downward trend that began prior to the recession, but dramatically accelerated in 2008. In 2010, the taxable sales began to show a modest recovery as the economic indicators for the rest of the state began to show positive improvements.



Source: ADE, Inc.; data from California Board of Equalization.

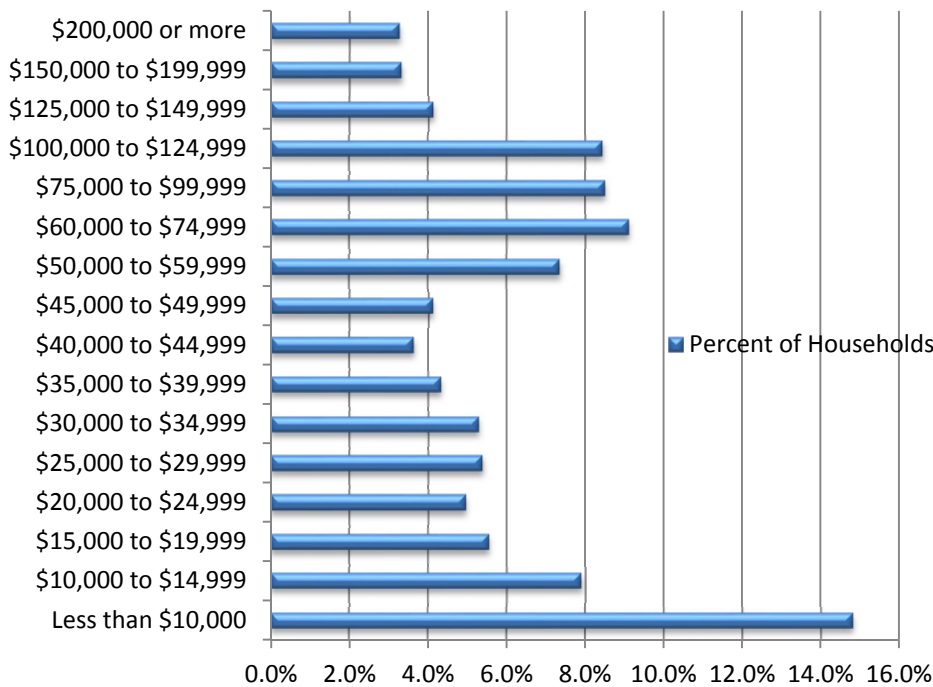
Figure 2.3-3. Taxable Sales Trend, 2000 to 2010

Retail Demand

Local household spending represents the single largest component that supports any community’s retail commercial sectors. The primary factors that affect the demand for retail goods and services include the number of households living in the local market area, and the average income and its distribution across different income groups.

As described later in this section, retail leakage represents the gap between local market demand (which includes household spending by San Luis Obispo residents, and additional retail spending by Cal Poly students and commuters) and retail sales by local retail establishments. This leakage represents an existing shortfall, as well as an opportunity for both retail expansion and possible attraction.

According to the California Department of Finance, the City of San Luis Obispo has a 2012 population of about 45,300 residents, with 19,295 households. The estimated mean annual income for San Luis Obispo households is approximately \$59,000, according to the American Community Survey. As shown in Figure 2.3-4 the average distribution of income for San Luis Obispo shows a large concentration of households with an income below \$10,000, which is likely due at least in part to the student population from Cal Poly.



Source: ADE, Inc.; data from U.S. Census American Community Survey.

Note: Data reflects an aggregated three-year sample from 2008 to 2010, which is the most current data available for the City of San Luis Obispo. ⁶ The ACS data is updated on an annual basis and only reported as a one-year sample for areas with a population of 65,000 or greater. The ACS replaces the Census SF3 socioeconomic data sample that used to be collected as part of the decennial U.S. Census of Population, and would only be reported once every 10 years. Please note that the household total used in the retail market analysis comes from the California Department of Finance’s current household count.

Figure 2.3-4. Income Distribution of San Luis Obispo Households, Mean Income 2008-2010

The household retail spending totals are calculated from an analytical model developed by ADE. This model estimates spending for over 40 different store types and 100 product categories. The local retail market spending for San Luis Obispo totals approximately \$415 million, as shown in Table 2.3-7. This local market consists of San Luis Obispo households, Cal Poly students living on-campus, and commuters who work in San Luis Obispo and live elsewhere.

⁶ The data presented here is from the 3-year ACS sample, which more current than the 5-year sample, although it does carry a higher margin of error.

Table 2.3-7. Local Market Retail Spending Demand, 2011

Retail Group	San Luis Obispo Household Spending	Commuter Spending	Cal Poly SLO Student (Campus Housing) Demand	Total Local Retail Demand
Total	\$342,104,550	\$60,825,270	\$12,329,854	\$415,259,674
Apparel Store Group	\$14,762,799	\$2,410,600	\$558,161	\$17,731,560
Women's and Men's Apparel*	\$4,948,000	\$997,505	\$171,998	\$6,117,502
Family Clothing	\$6,843,827	\$1,227,754	\$249,946	\$8,321,528
Shoe Stores	\$2,970,972	\$185,341	\$136,216	\$3,292,530
General Merchandise Group	\$63,193,350	\$15,018,604	\$2,651,767	\$80,863,721
Department/Discount Stores and Other General Merch.*	\$48,681,383	\$7,609,108	\$1,895,298	\$58,185,790
Drug & Proprietary Stores	\$14,511,966	\$7,409,496	\$756,469	\$22,677,931
Specialty Retail Group	\$22,569,649	\$6,358,070	\$715,421	\$29,643,140
Gifts & Novelties	\$1,343,870	\$101,464	\$44,007	\$1,489,341
Sporting Goods	\$2,878,713	\$353,071	\$63,687	\$3,295,471
Florists	\$550,074	\$20,732	\$14,830	\$585,635
Photographic Equipment	\$278,214	\$384,340	\$5,208	\$667,762
Records & Music	\$1,205,532	\$38,879	\$38,132	\$1,282,544
Books & Stationery	\$2,994,649	\$140,982	\$114,489	\$3,250,120
Office Supplies/Computer Equipment	\$3,230,322	\$183,448	\$73,870	\$3,487,640
Jewelry	\$2,183,451	\$429,179	\$60,704	\$2,673,334
Misc. Specialty Retail	\$7,904,824	\$4,705,975	\$300,493	\$12,911,292
Food, Eating and Drinking Group	\$100,542,457	\$23,489,552	\$4,279,941	\$128,311,950
Grocery Stores	\$51,528,494	\$5,725,351	\$2,548,512	\$59,802,357
Specialty Food Stores	\$1,469,868	\$724,528	\$73,720	\$2,268,116
Liquor Stores	\$2,397,916	\$307,085	\$94,947	\$2,799,948
Eating Places	\$45,146,179	\$16,732,587	\$1,562,763	\$63,441,529
Building Materials and Home Furnishings Group	\$34,926,168	\$5,654,709	\$921,652	\$41,502,529
Furniture & Home Furnishings	\$10,168,794	\$509,431	\$209,291	\$10,887,516
Household Appliances & Electronics	\$6,824,906	\$4,594,759	\$209,468	\$11,629,133
Used Merchandise	\$715,055	\$19,952	\$22,534	\$757,541
Nurseries & Garden Supply Stores	\$3,309,916	\$127,486	\$103,947	\$3,541,349
Lumber & Other Building Materials	\$8,545,611	\$148,861	\$230,844	\$8,925,316
Home Centers and Hardware Stores	\$4,908,252	\$175,047	\$133,810	\$5,217,109
Paint & Wallpaper	\$453,635	\$79,172	\$11,758	\$544,565
Automotive Group	\$106,110,127	\$7,893,734	\$3,202,912	\$117,206,774
New Cars & RVs	\$56,847,461	\$0	\$1,274,700	\$58,122,161
Used Car Dealers	\$4,172,575	\$0	\$91,997	\$4,264,572
Gasoline Service Stations	\$39,053,542	\$7,893,734	\$1,638,787	\$48,586,062
Auto Parts & Accessories	\$3,698,608	\$0	\$152,772	\$3,851,381
Other Vehicles*	\$2,337,941	\$0	\$44,657	\$2,382,597

Source: ADE, Inc.; data from City of San Luis Obispo, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, International Council of Shopping Centers, Cal Poly University Housing, and U.S. Bureau of Labor Statistics.

Notes: Retail categories marked with asterisks (“*”) are aggregated due to confidentiality restrictions on sales tax data reporting.

Local Household Spending

Based on data from ADE's retail demand model, the estimated annual retail spending by San Luis Obispo's 19,295 households totals about \$342 million, as shown in Table 2.3-7. It should be noted that not all of this spending occurs in San Luis Obispo because neighboring communities might provide certain retail offerings not available locally, and about 60% of the San Luis Obispo workforce commutes outside the city for work.⁷

Household spending among local residents is distributed across all retail store categories. The largest retail store spending categories are general merchandise stores, new car dealers, eating places, gasoline service stations, and grocery stores. Each of these retail store categories accounts for more than \$39 million in household spending.

Student Spending

In addition to San Luis Obispo residents, the local market area also includes approximately 6,900 students living in on-campus housing at California Polytechnic State University, San Luis Obispo. Students living on-campus account for approximately \$12.3 million in retail spending annually.⁸ The largest portion of this spending goes towards food-related expenses.

Commuter Spending

As mentioned, San Luis Obispo's job base exceeds the size of its labor force, which has the effect of broadening the local market base for retailers. The city attracts a total of 25,731 workers that commute into San Luis Obispo from outside the city. In addition, about 10,103 San Luis Obispo residents commute to jobs outside the city limits and they presumably will make retail purchases close to their place of work. In order to minimize double-counting, the commuter spending demand for retail goods and services in San Luis Obispo deducts the spending from these out-commuters. Altogether, the commute population adds a net increase of approximately \$60.8 million in annual retail demand to the local retail market.⁹

Restaurant spending represents the largest expenditure category for commuters, with about \$16.7 million in spending by commuters. The other major expenditure categories for commuters include grocery stores, department stores, drug stores, and gasoline service stations.

Other Sources of Spending

San Luis Obispo's role as a retail and services provider clearly extends beyond the local market of San Luis Obispo residents, in-commuters, and Cal Poly students. San Luis Obispo's 2012 household count of 19,295 households represents about 18.7% of the 102,678 total households in the county. Yet, the city has a disproportionately large share of the total taxable retail sales in the county (34.9%), which serves as an indicator that it attracts significant spending from other households residing in the surrounding communities.

The contribution from visitor spending was discussed in the earlier section on tourism and the hospitality sector. In addition, retail demand can also come from local businesses. Business-to-business transactions occur when businesses rely on retailers to supply certain commodities for their operations. Using data from the IMPLAN3 input-output model, which tracks commodity demand that supports industry activity, the total retail demand by businesses in San Luis Obispo County totals about \$378 million.¹⁰

Table 2.3-8 shows the retail demand by other businesses. Retailers in the City of San Luis Obispo would expect to capture a substantial proportion of this spending, given the high concentration of retail sales and employment in the city. According to the Local Employment Dynamics database, San Luis Obispo produces 34.4% of all jobs in San Luis Obispo County, which is nearly identical to the portion of countywide taxable retail sales captured by the city. Assuming that the

⁷ Some large employers such as the California Polytechnic State University, California Men's Colony, and Diablo Canyon power plant are located nearby, but outside of the city limits.

⁸ According to Cal Poly University Housing, the student population living on-campus totals 6,900 residents. The expenditure estimate comes from the California Polytechnic State University's estimated annual student budget for incidental expenses (\$2,289 per student) and the total number of on-campus residents. The household demographics used to calculate the household retail spending already accounts for students living in off-campus housing in the City of San Luis Obispo. The student retail spending total does not include non-retail expenses, or on-campus expenditures for school supplies and books.

⁹ Data for expenditures comes from the International Council of Shopping Centers (ICSC) and UW-Extension. The ICSC survey data accounts for average weekly expenditures by product type. ADE matched the product-based data to the most appropriate retail store categories to calculate the expenditures by store type.

¹⁰ The commodity demand for retail services in the IMPLAN3 model is expressed as gross margins. In order to estimate sales that businesses generate at retail stores, the analysis adjusted the numbers so that they could equate to actual sales.

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city captures a comparable percentage of business-to-business retail demand as its share of the countywide employment, San Luis Obispo's share of this commodity demand potential totals approximately \$130 million.

Table 2.3-8. Retail Demand by Other Businesses, 2010

Retail Category	Business Commodity Demand (SLO County)	Business Commodity Demand Potential (SLO City)
Total Retail and Food Service Demand	\$377,809,109	\$130,020,286
Motor vehicle and parts stores	\$101,514,341	\$34,935,430
Furniture and home furnishings stores	\$4,375,826	\$1,505,909
Electronics and appliances stores	\$11,540,287	\$3,971,507
Building material and garden supply stores	\$28,527,406	\$9,817,501
Food and beverage stores	\$33,265,603	\$11,448,118
Health and personal care stores	\$14,817,506	\$5,099,338
Gasoline stations	\$27,766,495	\$9,555,639
Clothing stores	\$10,783,272	\$3,710,986
Sporting goods, hobby, book, and music stores	\$5,006,484	\$1,722,945
General merchandise stores	\$32,081,228	\$11,040,524
Miscellaneous retail	\$8,935,205	\$3,074,987
Food service and restaurants	\$99,195,457	\$34,137,403

Source: ADE, Inc.; data from IMPLAN3 input-output model. Notes: The commodity demand data for retail sectors is originally expressed as gross margins. The data shown in the table represents an estimate of the actual industry sales, based on the gross margins.

Services Demand

In addition to demand for retail goods, another prominent component of household spending is services. As shown in Table 2.3-9, the local market spending on services totals about \$64.6 million annually. The types of services that local residents use include rentals, professional services, medical services, repair, personal services, and entertainment/recreation. As noted earlier with the retail demand, not all of this services spending will occur in San Luis Obispo because neighboring communities might provide services not available locally, or might have services more convenient to a place of work. Because services are generally nontaxable with no reliable sources available for estimating the revenues by service-producing businesses, this section will only estimate the services spending by local households and students.

Table 2.3-9. Local Market Services Demand, 2011

Service Category	San Luis Obispo Household Spending	Cal Poly Student Spending	Local Services Demand
Total Services Spending	\$62,495,762	\$2,104,742	\$64,600,504
Rental Services	\$8,962,587	\$149,044	\$9,111,631
Professional Services	\$4,236,109	\$162,940	\$4,399,048
Medical and Social Services	\$16,928,550	\$753,330	\$17,681,880
Repair Services	\$13,053,468	\$409,231	\$13,462,699
Personal Services	\$11,907,758	\$458,826	\$12,366,584
Entertainment/Recreation	\$7,407,290	\$171,372	\$7,578,662

Source: ADE, Inc.; data from U.S. Census Bureau, California Department of Finance, California EDD, Cal Poly University Housing, and U.S. Bureau of Labor Statistics.

Rental Services

This category includes rental and leasing services for items such as automobiles, sports equipment, recreational vehicles, health care equipment, formal wear, appliances, furniture, and office equipment. Generally, most of the demand in this category comes from automobile leasing and rentals. Altogether, local spending on rental services totals about \$9.1 million annually, as shown in Table 2.3-9.

Professional Services

Professional services encompass a wide range of professional fields and generally derive most of their revenues from services to business clients. Services to household clients are more limited to accounting, financial, and legal services. Local spending on professional services totals about \$4.4 million.

Medical and Social Services

Medical and social service providers include physicians, dentists, alternative medical providers, home health care, hospitals, eye care professionals, and child care. The household spending by local households on medical services totals \$17.7 million annually.

Repair Services

Most of the local household demand for repair services comes from automobile repairs. Other repair service categories include shoes, appliances, electronics, furniture, and other household items. The annual spending on repair services by local households totals about \$13.5 million.

Personal Services

Personal services include a wide range of business types such as personal care (including beauty services and hair care), funeral services, laundry services, pet care, photo finishing, and auto parking. The annual household spending for personal services totals about \$12.4 million.

Entertainment and Recreational Services

Consumer spending on entertainment and recreational services includes movie theaters, performing arts organizations, sporting events, amusement parks, other event tickets, participant sports (including bowling, skating, skiing, and golfing), recreational lessons, and club memberships. The local market spending in this category totals \$7.6 million.

San Luis Obispo Retail Sales and Retail Leakage

San Luis Obispo's annual retail sales total \$1.27 billion, which exceeds the local market demand of \$415 million, as shown in Table 2.3-10. This means that San Luis Obispo has a significant net capture of sales, with about 67% of its market capture coming from beyond the local market. More importantly, this net capture remains consistently high across nearly all retail store categories. Given how the city's taxable sales performance is well above the countywide average, this confirms that San Luis Obispo serves a regional retail hub with a market reach that extends well beyond the city limits.

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Table 2.3-10. Retail Sales and Retail Leakage/Net Capture by Store Category

Retail Store Category	Total Local Retail Demand	Total Retail Sales	Sales Leakages	Net Capture of Regional Sales
Total	\$415,259,674	\$1,274,147,067	\$1,309,567	\$860,196,960
Apparel Store Group	\$17,731,560	\$70,246,600	\$0	\$52,515,040
Women's and Men's Apparel	\$6,117,502	\$29,173,100	\$0	\$23,055,598
Family Clothing	\$8,321,528	\$36,985,700	\$0	\$28,664,172
Shoe Stores	\$3,292,530	\$4,087,800	\$0	\$795,270
General Merchandise Group	\$80,863,721	\$200,585,525	\$0	\$119,721,804
Department and Discount Stores/Other General Merch.	\$58,185,790	\$157,408,520	\$0	\$99,222,729
Drug & Proprietary Stores	\$22,677,931	\$43,177,005	\$0	\$20,499,074
Specialty Retail Group	\$29,643,140	\$129,286,510	\$0	\$99,643,370
Gifts & Novelties	\$1,489,341	\$10,371,226	\$0	\$8,881,885
Sporting Goods	\$3,295,471	\$42,721,421	\$0	\$39,425,950
Florists	\$585,635	\$1,126,432	\$0	\$540,797
Photographic Equipment	\$667,762	\$3,584,700	\$0	\$2,916,938
Records & Music	\$1,282,544	\$2,153,100	\$0	\$870,556
Books & Stationery	\$3,250,120	\$14,037,800	\$0	\$10,787,680
Office Supplies/Computer Equipment	\$3,487,640	\$11,488,600	\$0	\$8,000,960
Jewelry	\$2,673,334	\$5,091,692	\$0	\$2,418,358
Misc. Specialty Retail	\$12,911,292	\$38,711,538	\$0	\$25,800,247
Food, Eating and Drinking Group	\$128,311,950	\$315,775,141	\$1,309,567	\$188,772,758
Grocery Stores	\$59,802,357	\$180,446,212	\$0	\$120,643,855
Specialty Food Stores	\$2,268,116	\$958,549	\$1,309,567	\$0
Liquor Stores	\$2,799,948	\$9,539,980	\$0	\$6,740,032
Eating Places	\$63,441,529	\$124,830,400	\$0	\$61,388,871
Building Materials and Home Furnishings Group	\$41,502,529	\$217,152,284	\$0	\$175,649,755
Furniture & Home Furnishings	\$10,887,516	\$28,129,058	\$0	\$17,241,542
Household Appliances & Electronics	\$11,629,133	\$65,439,100	\$0	\$53,809,967
Used Merchandise	\$757,541	\$1,730,200	\$0	\$972,659
Nurseries & Garden Supply Stores	\$3,541,349	\$14,066,733	\$0	\$10,525,384
Lumber & Other Building Materials	\$8,925,316	\$52,981,400	\$0	\$44,056,084
Home Centers and Hardware Stores	\$5,217,109	\$51,092,492	\$0	\$45,875,383
Paint & Wallpaper	\$544,565	\$3,713,300	\$0	\$3,168,735
Automotive Group	\$117,206,774	\$341,101,007	\$0	\$223,894,233
New Cars & RVs	\$58,122,161	\$159,367,200	\$0	\$101,245,039
Used Car Dealers	\$4,264,572	\$9,441,400	\$0	\$5,176,828
Gasoline Service Stations	\$48,586,062	\$155,784,307	\$0	\$107,198,245
Auto Parts & Accessories	\$3,851,381	\$12,125,400	\$0	\$8,274,019
Other Vehicles	\$2,382,597	\$4,382,700	\$0	\$2,000,103

Source: ADE, Inc.; data from City of San Luis Obispo, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, International Council of Shopping Centers, Cal Poly University Housing, and U.S. Bureau of Labor Statistics.

The taxable sales data is an annual total listed by retail category. The businesses included in the analysis encompass all of the retail businesses operating in the City of San Luis Obispo. The retail sales data comes from the California State Board of Equalization sales tax allocation records. The City of San Luis Obispo reviewed the data before providing it to ADE in order to ensure that any taxable sales information released to the public would not disclose confidential information about individual businesses. Because certain retail items, such as food and prescription drugs, are not taxable, the retail sales totals include a conversion that estimates nontaxable sales.

Findings for retail sales and sales leakage/net capture by major store group are summarized below.

Apparel Stores

Apparel stores consist of stores specializing in clothing, accessories, and shoes. Altogether, these stores in San Luis Obispo generated about \$70.2 million in 2011. About half of these sales occur in family clothing stores (\$37.0 million). Apparel stores for men and women account for another \$29 million in sales. The net capture of regional sales in this category (\$48.7 million) accounts for about 75% of the total sales, which indicates a very high proportion of sales to residents throughout the county and out-of-town visitors.

General Merchandise Stores

The general merchandise category includes a cross-section of stores that carry broad merchandise lines in multiple product categories. These stores include traditional department stores, discount department stores, warehouse clubs, variety stores, and drug stores. Stores in this category generated over \$200 million in sales in 2011. Net capture of regional sales accounted for just over half of the sales for general merchandise stores. Most of the large scale retailers in this category are located along Los Osos Valley and Madonna roads.

Specialty Retail Stores

Specialty retail stores focus on particular product groups, and as a group they encompass wide variety of different product offerings and store types. These stores generated a total of \$129 million in 2011 retail sales, with over \$92.8 million in net regional sales capture. In particular, many types of specialty retail stores orient their product offerings to out-of-town visitors and other travelers, and this high net regional capture indicates that San Luis Obispo has a prominent role in the regional tourism trade. Among the individual store categories, the largest sales generators are sporting goods stores and miscellaneous specialty retail stores. Other store categories with more than \$10 million in annual sales include gift stores, book/stationery stores, and office equipment stores. Each of these store categories generated more than \$40 million in retail sales.

Food, Eating, and Drinking Group

Food-oriented retail stores generated about \$316 million in retail sales in 2011, with \$180 million in sales coming from grocery stores and \$125 million from restaurants and other eating places. About 60% of the estimated sales in this category come from net capture of regional sales.

It should be noted that less than half of the restaurant sales come from net capture of regional sales. This indicates that San Luis Obispo's restaurants do not capture as much of the sales potential from outside of the local market as with other retail categories, despite the growth in the number of restaurants and the size of the lunchtime worker crowd. This means that tourism in particular is likely more widely spread throughout the county, with neighboring communities concentrating more of their retail base around eating places.

In addition, specialty food stores, which include categories such as meat markets and produce stores, are under-represented in San Luis Obispo. Specialty food stores are the only store category that has retail sales leakage.

Building Materials and Home Furnishings Stores

The building materials and home furnishings group includes stores that specialize in home improvement products, and also includes electronics/appliance stores, furniture stores, and used merchandise stores. Altogether, these stores generated about \$217 million in retail sales, with sales predominantly occurring in household appliances and electronics, lumber and building materials, and home centers. Each of these categories captured more than \$50 million in annual sales. The overall net capture in this group totals \$176 million, which is over 80% of the total sales. With the home improvement categories in particular, a significant portion of their sales come from contractors and other business-to-business transactions.

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Automotive Group

Retail businesses in the automotive group include new and used automobile dealerships, gasoline service stations, auto parts stores, as well as dealers for other vehicles such as boats, motorcycles, and trailers. In this category, the \$341 million in total retail sales is about \$224 million greater than the local market demand. New car dealerships (\$159 million) and gasoline service stations (\$156 million) make up the vast majority of the sales in this group. San Luis Obispo has an auto mall located along Los Osos Valley Road, which serves as a regional hub for automobile purchases and services.

Conclusions and Further Study

San Luis Obispo has a strong economic base but there are opportunities to develop jobs that better meet the needs of its workforce, particularly for more experienced heads of households. The City has a number of assets that can be leveraged to attract further business expansion with jobs that provide stable incomes sufficient to support families and with career ladders to promote long term economic advancement. These assets include global broadband infrastructure, strong educational and research institutions, an outstanding quality of life and cultural amenities, and a solid regional network of partners to address issues of workforce and industry cluster development.

The City also has a substantial inventory of sites for business development, but further work is needed to ensure that infrastructure and services can be funded and phased in as needed. In addition, there is the need for ongoing review to ensure that planning and entitlement systems are operating efficiently.

The City has focused on developing more knowledge-based businesses, which is consistent with the dominant trend in the general economy and fits well with the strengths of the community. Other locally based businesses are also important, such as creative services, local value added agricultural products, including wine and organic produce, as well as cultural services. Along these lines, the tourism market is vital to San Luis Obispo's economy, yet the city's relatively low TOT capture seems to indicate that San Luis Obispo has some existing deficiencies and opportunities. A strategic view of San Luis Obispo's role in the regional tourism market, and its existing areas of needed improvement would also potentially benefit the retail sector, because improved tourism capture would also increase retail spending.

Regarding the retail sector, San Luis Obispo's strong market capture of local and regional spending is a good sign of a diverse and well represented retail store base. However, the lack of retail leakage also makes it difficult to identify obvious business attraction targets, since retail leakage indicates potential opportunities and unmet demand that can be recaptured.

As a guide for policy decisions, opportunities in the retail market will need to come from a more granular examination of the city's retail base and where the demand comes from. Even with strong net capture of regional sales in specific retail categories, are there niches within those store groups currently underrepresented that the City can try attracting to San Luis Obispo? For example, the city's restaurants as a group do not capture as much of the regional demand as other retail sectors. Is this due to higher end restaurants attracting customers away from San Luis Obispo? Is this due to better highway commercial configurations elsewhere along Highway 101 attracting tourism spending away from San Luis Obispo? Are there culinary niches that San Luis Obispo does not currently have?

With minimal opportunities coming from retail leakage, the city is more in a position of having to maintain its market position. The city has successfully positioned itself as a regional retail hub in nearly all retail store categories. However, neighboring communities that experience high retail leakage can more readily recapture this sales leakage by attracting their own regional retail stores. For San Luis Obispo, maintaining a regional retail advantage means ensuring the viability of their existing commercial centers. This means having sites available for retailers that might want different space configurations to remain competitive and improving infrastructure, which for retail would primarily entail improved transportation access, whether by car, foot, bike, or transit.

San Luis Obispo has promoted mixed-use development as a planning policy. Integrating housing with stores, offices, and other services helps to fulfill a variety of planning objectives. For the retail sector, mixed use development benefits retail stores by simply increasing the number of customers. But, where these mixed use developments are situated also affects retail trade because it potentially changes the configuration on commercial sites. This will be another area of further research as the LUCE process moves forward.

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Please see the next page.