COLAB
San Luis Obispo County

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COUNTY ADMITS DOUBT: SMART GROWTH QUESTIONED

In a rare and somewhat camouflaged act of possible government introspection, the County has tacitly admitted that its massive "Strategic Growth" initiative (formerly "Smart Growth") could be harmful to the economy. On July 12, 2011, the County issued a Request for Proposals (RFP) for a consultant to conduct a "Land Use Economics Study." Are the Board of Supervisors majority members, who have unrelentingly pushed this irrational and costly effort, jolted awake at 3 AM as a result of guilt and doubt? Or, now that election season is on the horizon, do they need a reason to pull back? Or, are they looking for vindication and cover from a study which would find that severely limiting the number of residential units in the unincorporated area and redirecting them to infill (densification) in urban areas will actually work?

The RFP states that the objectives of the Land Use Economics Study are to:

"1. Estimate how much additional future residential development is likely to occur in the unincorporated urban areas in different regions of the county as a result of potential measures to 1) limit growth and development in unincorporated rural areas, especially those areas with resource constraints , and 2) encourage 'infill' development in urban areas with adequate resources."

And (in quite a mouthful),

"2. Estimate potential effects on urban and rural real estate values and related economic effects on different regions of the county of proposed measures that are intended to redirect residential growth from rural towards urban unincorporated areas of the county by limiting growth in rural areas, especially rural areas with certified resource constraints."

You would think that getting the answers to these questions would have been one the first and fundamental tasks required before the County ever made the decision to start the "Smart Growth Program." It is unconscionable that the Board would adopt the policy and then spend millions of dollars on staff and consultants to revise and create plans, ordinances, and regulations without an understanding of the economics, market limitations, and consequences. In fact, and as we have reported in our July 2011 Newsletter, the County did conduct an opinion survey in 2005 which (even with slanted questions) found that 60% of the respondents preferred single family free standing houses " only" even if there were limited or no "amenities." Remember, amenities were defined as "parks, shopping, school and work." Notwithstanding this, the County went right ahead without the data which it is now seeking!

The RFP contains four pages of detailed subjects to be studied and reported upon. Some representative samples include:

- Differences in demand characteristics between residences developed in connection with production agriculture and other rural residential development.
- Socioeconomics of buyers and residents to indicate specific concentrations or trends, such as income,

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employment, race and age.

- Changes in urban real estate and residential demand characteristics for various home sizes within existing urban, village and rural areas in different regions of the county resulting from a reduction in rural development.
- Fiscal effects on the County such as changes is property tax revenue, fees, and the costs of providing services, including the possibility that a reduction in rural residential development results in some measure of additional urban area growth as a scenario.
- Potential economic effects of continued development as usual in rural areas, where approximately 40 percent of all new residential building permits in the unincorporated areas occur. Account for areas where groundwater levels are declining and where water quality could be compromised (possible economic effects include increased costs to drill wells deeper, increased costs to treat and pump water for all uses, and ultimately, loss of property values due to lack of an adequate water supply).

The bulleted task immediately above seems to actually be leading the consultant to the answer in advance. In this regard, the RFP solicitation package contains a 49 page full color document "Strategic Growth Principles, Policies and Implementing Actions," which contains excerpts from the Land Use Element, Circulation Element, and Implementing Strategies. Of course these documents are jam packed with the Smart Growth "doctrine." A smart consultant will know what answer the County wants.

During public comment at a Board of Supervisors meeting, COLAB suggested that the import of this study was so significant that prior to release of the RFP, the matter should be placed on Board agenda for public discussion so that the intent of the Board and staff could be gauged and the independence of the study promoted and guarded. Sadly this has not happened.

In the end and whatever results are obtained, the fundamental problem is that the government (in this case the County) is telling people how to live. If people want to live in large separate rural free standing houses, or neighborhood subdivisions of free standing houses, it is the job of the County Board and staff to figure out how to make it work, not to forbid it because it's "too expensive," desecrates a view shed, or violates United Nations' environmental protocols.

After all, they already know from the 2005 survey how most of their constituents wish to live. Human progress is largely the story of overcoming "resource constraints."

This article was prepared by Mike Brown, Governmental Affairs Director of the Coalition of Labor, Agriculture and Business of San Luis Obispo County. Brown has 42 years of state and local government experience.

DROWNING IN DEBT

San Luis Obispo County's reported outstanding bonded debt grew from $53.4 million in 2001 to $422.8 million in 2010. This information is contained on page 184 of the County's latest Consolidated Annual Financial Report (CAFR) in a table entitled "County of San Luis Obispo Ratios of General Bonded Debt Outstanding." The big increases were the result of the addition of $137.2 million in pension obligation in bonds (POB's) in 2004 and $196 million in water revenue bonds in 2008 for the Nacimiento aqueduct. Readers may recall that COLAB exposed the POB's in its February Newsletter. The County has taken great pains to insist that the water revenue bonds are not real debt of the County but are obligations of the rate payers of the entities which contracted for the water. These are ostensibly citizens of the Cities of San Luis Obispo, Atascadero, and Paso Robles, the Templeton Community Services District, and San Luis Obispo County Service Area 10A. The legal debtor is the San Luis Obispo County Financing Authority, a joint powers authority of which the County is a member. Consequently this debt is disclosed in the CAFR.

Another component of the debt increase arises from the certificates of participation (COP's) for various County facilities. These increased from $10.9 million in 2001 to $30 million in 2010.

The shocking news is that these numbers in no way tell the full story. They contain only the principal amount and do not disclose the hundreds of millions in interest that the County residents will have to pay over the life of these instruments. For example, the County Financing Authority borrowed $196 million in principal for the Nacimiento project. However, the interest is another $217 million for a total debt cost of $414.1 million!

Similarly, the 2004 Pension Obligation Bonds original principal amount was $137.2 million. This is reported as being paid down over seven years to $125.4 million as of June 30, 2010. Again the full story is not presented. When interest and a 2009 refunding bond issue are included, the total cost, which will ultimately be paid by County taxpayers, will be $269.3 million, not the publicized $137.2 million.

Soon the County will borrow $169.3 million for the $189 million Los Osos sewer project. County agenda items related to this project list an $83.1 million loan from the US Department of Agriculture (USDA) [Federal Stimulus funds] and an $86.2 million from the California State Water Resources Water Board Revolving Fund (SRF). The interest on the USDA loan is projected at $63.2 million and the interest of the SRF loan is projected at $37.2 million. Accordingly, the total principal and interest costs for the project are $269.7 million. Moreover, this means that the total costs for the whole project are $289 million, not the $189 million which has been listed in various County documents. Payment schedules for these loans are not available. Conversations with County staff indicate that annual payments on average will be $7.5 million per year. Again, the County has stressed that this is not a debt of the County but is the responsibility of the property owners in the Los Osos Prohibition Zone (the area mandated by the Regional Water Quality Control Board to be served by the new sewer system).

The debt will be financed by property assessments and monthly sewer fees to be paid by the residents. It has been pointed out that the limited geographic area, small population size, and constrained economic stature of Los Osos will financially stress many residents who must make these payments.

Normally when a jurisdiction issues debt such as bonds, it prepares an analysis called the " official statement (the OS)," which explains the purpose of the debt, how it will be paid off, the management competency of the issuing jurisdiction , and the economic strength of the jurisdiction or district area responsible for paying off the debt. The OS, annual financial reports (such as the CAFR, budgets, and, other supporting information) are often reviewed by independent rating agency firms which evaluate the jurisdiction's credit worthiness and issue a credit rating. Since the Los Osos Sewer System financing does not come from normal publicly issued revenue bonds, but is sourced from loans by government agencies, there is no OS, no evaluation, and no independent assessment of the ability of the residents of the Prohibition Zone to support the debt payments and overall operating costs of the new system. Even though the County insists that it is not in any way responsible, it could not tolerate a default because such a major default would negatively impact the bond market's view of the County Government itself and

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WHAT IF RATE PAYERS REVOLT?

every other issuing jurisdiction within the County including the cities, special districts, and school districts. The County would be obligated morally and practically to step in and salvage the situation. Ominously the whole house of cards is based on the personal incomes and economic success of the residents of the Los Osos Prohibition Zone.

Because the Nacimiento Water Project Revenue Bonds were a public offering, the San Luis Obispo County Financing Authority received a rating back in 2007. The bonds are periodically reviewed and rerated from time to time because they are bought and sold by investors. In 2010 Fitch, (one of the major rating firms along with Moody's, and Standard and Poor's) affirmed its AA-rating for the Nacimiento revenue bonds. The rating was maintained (not lowered) because the debt is backed up by "take-or-pay" provisions which require the user jurisdictions to pay for the contracted water whether or not they use it and whether or not the rate payers of the member jurisdictions can afford the payments. Fitch also liked the jurisdictions' willingness to approve rate increases to pay for the debt. Given the weak housing market, foreclosures, bankruptcies, empty stores, and emerging double dip recession, projected water use growth estimates are not likely to be met. In turn, this will require the member jurisdictions to continuously raise rates on the static economic and population base. A rate payer revolt could raise the specter of default. Once again, and even though the County insists it has no legal responsibility or liability, as the senior partner and "Water Agency," it would have moral and practical responsibility to forestall an embarrassing and damaging default. Of course the County's burgeoning regulatory scheme will not help job growth and related markets.

Further aggravating this risky picture, the County's unfunded pension liability, not counting the pension obligation bonds, is $278.9 million as of December 31, 2010. This is projected to grow to $560 million by 2020, assuming a 7.75% return on the market value of the system's assets for all future years. You probably don't want to bet the ranchette on that, assuming you are allowed to build a ranchette.

SIERRA CLUB SLAMS REGULATORY REFORM (AGAIN)

Well boo hoo; the local Chapter of the Sierra Club is outraged by Congress' attempt to do something about unemployment and the economy. You would think from reading the spew by the Chapter' s Executive Committee in a recent New Times Opinion Page, that Congress was hell bent on annihilation of the planet. Birds will refuse to migrate, "evil" corporations will drill for oil, the Great Lakes will not be restored, there will be less fish and wildlife grants, and hungry bears will prowl the streets of San Luis Obispo. (We don't have a Town and streets named Osos for nothing).

All this rhetorical hand wringing is because a Federal Budget appropriations bill (H.R. 2584), known as the Department of the Interior, Environment, and Related Agencies Appropriations Act, actually slices off some of the environmental pork (grants to States and localities for waste treatment plants, fish ladders, climate action planning, etc.) and crimps the ability of the U.S. Department of Environmental Protection's (EPA) to carry out its activities. Local Sierra Club chapters all over the County are baying about the bill in unison. We figure there must have been a dictat from the national Sierra Club headquarters politburo in San Francisco.

H.R. 2584 contains appropriations not only for the US Department of the Interior but for everything from the National Endowment for the Arts to the National Parks Service to Sequoia National Park. The problem for the Sierra Club is that Congress added some restrictions on the EPA's enforcement and regulatory discretion. Specifically the legislation forbids the EPA from using its budget dollars to administer, enforce, or expand many of its existing regulations. Some of the benefits of local interest include:

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- Stops the EPA from imposing even more restrictive dust standards.
- Stops the EPA from imposing what amounts to a cow tax on livestock producers.
- Stops the EPA from implementing double permitting requirements for pesticide applications that are already being regulated.
- Forestalls more ethanol requirements and subsidies. (There is an immense world- wide grain shortage driving up food prices and threatening large populations in poorer countries with starvation. Are government officials who require the use of ethanol and who thereby starve millions of people guilty of crimes against humanity?)
- Slows down imposition of ever higher automobile and diesel engine emission requirements.
- Reduces restrictions on the development of domestic energy sources.
- Forbids the EPA from enforcing its rule that carbon dioxide and other greenhouse gases are pollutants.

Overall, the bill attempts to slow down the torrent of forty years of crushing accumulation of regulations. It also attempts to reduce the discretion of agency bureaucrats in issuing new rules which have not been legislatively approved. It is estimated that the nation's total regulatory financial impact has reached $1.7 trillion per year. The bottom line news here is that the more conservative House of Representatives is actually listening to the American people and taking practical action to curb the regulatory burden which severely hamstrings the economy and prolongs unemployment.

This is not the first time that the local Chapter has criticized attempts at regulatory reform. In an unattributed article in its current monthly newspaper, The Santa Lucian, the Chapter attacks the San Luis Obispo Board of Supervisor's efforts to improve Planning and Building permit processing as "Fixing a Fake Problem." Clearly the Sierra Club sees the putative improvements as an intrusion into its mission to delay and/or kill projects and blackmail applicants into having to fund so called mitigations. The article criticizes efforts of the Board of Supervisors to make the permit process more customer-friendly. The article suggests that Planning and Building Department staffers "send projects through the pipeline" in the name of "client service" … "rather than telling the permit applicant and would-be developer right up front that this won't fly." In fact, one of the prime directives in the County's effort is to "provide bad news early" and avoid long, fruitless and costly application processes. The Santa Lucian never mentions this important fact.

In a further stretch, the article cites the Chapter's successes in delaying or defeating proposals such as the Hearst Ranch Golf Resort, Santa Margarita Ranch, San Miguel Ranch, and Salinas "gravel mines" as examples of projects which "involved those desiring development at any cost." The Sierra Club's assertions have nothing to do with process improvement. In fact the County's package of process improvements includes having the planner assigned to analyze a particular application use standard project management techniques and tools. Project management uses deterministic techniques such as Gantt Charts, Milestone Charts, and Pert Charts. Asserting that systemic process improvements are tantamount to promoting "development at any cost" is absurd. As an adjunct to project management, the Board is now requiring that its staff practice good customer service, which includes the timely returning of phone calls, keeping applicants and other stakeholders advised of the status of an application, and providing complete information with respect to all requirements. To assert that such practices are harmful to the public interest is disingenuous.

The local Sierra Club offers no plan to combat the recession and the accompanying suffering. Remember, they even opposed the Carrizo solar plants.

COLAB

Santa Barbara County & San Luis Obispo County

A Prescription for California Recovery

Wednesday, October 5, 2011
Santa Maria Fair Park
937 S.Thornburg Street, Santa Maria, CA

Guest Speakers

Victor Davis Hanson
Internationally known Conservative
Columnist and Author

Timothy Sandefur
Principal Attorney, NLC
Pacific Legal Foundation

Hosted Beer and Wine will be served beginning at 5:30 p.m.

DINNER & AUCTION - 6:15 p.m.

$50 per person/$500 for a table of ten

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http://www.colabsbc.org/events.aspx

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To achieve its mission, COLAB will engage in political activities which promote those common business interests and, in doing so, foster a positive image for agriculture, business, and labor in the community. COLAB represents is members before the SLO County Board of Supervisors and any other local or national governing body. If necessary, we will take legal or administrative action for the mutual benefit of the members.

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