



City Council AGENDA REPORT

DATE: 6/8/2022

AGENDA OF: 6/14/2022

DEPARTMENT: Planning and Community Development

SUBJECT: Downtown Plan Expansion, Preferred Development Scenario for Study under CEQA (PL)

RECOMMENDATION: Motion to direct staff to initiate work on an Environmental Impact Report (EIR) relating to the area identified for expansion of the boundary of the Downtown Plan, and provide that the preferred development scenario include the following: a minimum of 1,800 housing units; maximum heights of 225 feet for one taller building element, 185 feet for three taller elements, and 145 feet of one taller element, with each height being inclusive of anticipated height increases associated with a 50% density bonus and with the taller building elements comprising only a portion of shorter podium building forms; an option for auto circulation including the permanent closure of Spruce Street east of Pacific Avenue; the creation of new civic space in the closed Spruce Street right of way; enhanced pedestrian connections between the Downtown and the beach; and options for the location of a permanent arena facility for the Santa Cruz Warriors, with a preferred location being on the south side of Spruce Street between Pacific Avenue and Front Street.

BACKGROUND: The Downtown Plan was first adopted as the Downtown Recovery Plan in 1991 in aftermath of the 1989 Loma Prieta Earthquake. The plan has been amended since, including in 2017, when it was renamed to the Downtown Plan. The 2017 amendments included measures that encourage new development along Front Street and Pacific Avenue between Soquel Avenue and Laurel Street, including increased height limits in some areas of the Downtown. Following these amendments, there was an increase in the number of housing applications in the downtown, including new deed-restricted affordable housing and supportive housing units.

Staff has continued to address local housing needs and take advantage of statewide funding opportunities to further this success. In October of 2020, the City Council directed staff to apply for a Regional Early Action Planning (REAP) grant to expand the current boundaries of the Downtown Plan as a means to accommodate additional residential and commercial development capacity. The project proposal met the main goal of the REAP grant funding source to accelerate housing production and received the full funding allocation of \$300,000 in January of 2021. An additional \$150,000 in project funding was also approved through the Local Early Action Planning grant (LEAP).

Prior to beginning the consultant procurement process for the current project, staff sought direction from the City Council in March 2021 on a draft expansion boundary. The selected project boundary extends the Downtown Plan south from Laurel Street to the intersection of Pacific Avenue and Center Street, down both sides of Pacific Avenue, and east to the San Lorenzo River levee. The project boundary and was selected based on the goals for the project together with the existing zoning, General Plan, and physical conditions in the area. Below are the current goals for the expansion of the Downtown Plan, which continue to be refined during the process:

1. Add capacity for multi-family housing.
2. Create opportunities for public amenities and infrastructure including parks, the Santa Cruz Riverwalk trail, or other spaces for community use.
3. Better connect downtown with the river and beach areas.
4. Create new economic opportunities for local businesses and workers.
5. Generate new tax revenue to support City services.
6. Improve the pedestrian & bicycle experience.
7. Incorporate a permanent, financially-viable Warrior's arena into the plan.

Following a standard purchasing process, Kimley-Horn Associates (KHA) was selected as the prime consultant to lead this project at the Council meeting on June 22, 2021. The Council-approved Scope of Services and Schedule are included in the attachments. The first phase of the project involved the consultant team conducting an existing conditions analysis to understand the relevant physical, financial, and legal characteristics of the project area. Coordination with key stakeholders such as the Warriors began during this phase and an initial community outreach meeting was then held on November 13, 2021 to hear from the community and establish a vision for the neighborhood as redevelopment takes place. The work from this phase is summarized in the attached Real Estate Market Overview Report and Community Outreach Report.

DISCUSSION:

Development Scenarios

The second phase of the project built on the initial community feedback and stakeholder input as well as the established project goals. Three preliminary development scenarios were created to show three different levels of new housing capacity that could be incorporated into the expanded downtown area. The current housing capacity in the project area is around 930 housing units, of which fewer than 200 currently exist. The three development scenarios considered meeting a modest to significant amount of the City's projected housing needs by increasing that number to just over 1,300, 1,500, or 1,700 new units, respectively. In addition to housing capacity, the preliminary scenarios also include ideas for many other project features such as improved streetscape and circulation, beach connectivity, civic spaces, resiliency, and considerations for a new Santa Cruz Warriors arena. These draft project ideas and development scenarios were presented to the public in an open house format on April 20, 2022. They were then presented to the Planning Commission on May 5, 2022 and to the Downtown Commission on May 12, 2022. Additional details and illustrative materials can be found in the attached Planning Commission Staff Report.

Circulation and Beach Connectivity

The project team showed a proposal for altering the existing roadways to realign the connection from Front Street to Laurel Street Extension to move the one-way roadway to the base of the cliff, allowing the closure of portions of Spruce Street and a portion of the existing Laurel Street Extension to provide additional space for civic amenities and housing. Removing a road that currently exists between the expansion area and the San Lorenzo River could open up possibilities for new public space to better engage with the river.

For beach connectivity, the team has considered all three ways that connect the project area to the beach area. Two of these ways are around the hill as is most often used currently. The third was is over the hill and the team has put more thought into the pedestrian experience between the project development, the Cliff Street stairs, and the Boardwalk. A new connection incorporating artistic lighting and appropriate street trees between an overlook at the top of the Beach Hill stairs and the Boardwalk would help beach visitors make the short walk up Beach Hill to take in a view of the San Lorenzo River or the ocean. From there, lighting and wayfinding signage can help them find places to eat and other activities to explore in the downtown, without needing to drive between the beach and downtown.

Resiliency

Planning for a significant amount of new housing also means the City is considering the effects of new demand on the planned water supply. The City's Water Department has planned for growth and continues to look for ways to improve the City's water storage despite climate change threats to supply. Additional storage capacity identified in existing aquifers, together with potential new supply sources such as Pure Water Soquel, provide sufficient water to meet the planned and projected population growth over the next 20 years, particularly given the significant water efficiency of new multi-family development.

Arena and Civic Space

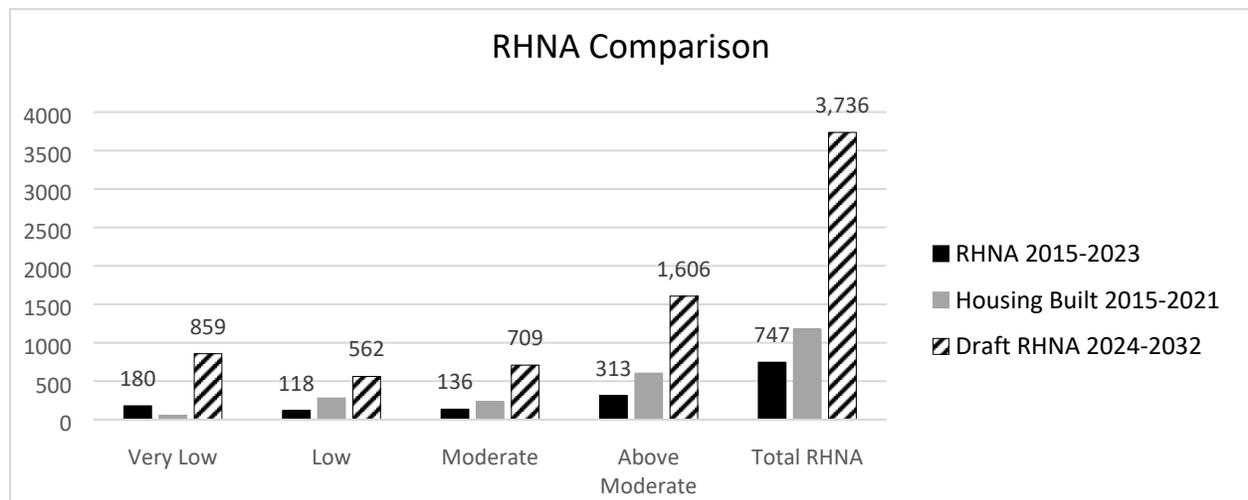
One of the primary goals of this planning process is to incorporate a land use plan that accommodates a possible location for a new, permanent, arena for the Santa Cruz Warriors G-League basketball team. A permanent arena facility would likely be somewhat larger than the existing temporary facility in order to incorporate permanent office space for operations staff, league-standard locker rooms, and modern practice facilities, all of which are not present or below standard in the current facility. A somewhat higher seating capacity and an eye for designing the arena with multi-purpose use in mind (i.e., better acoustics) could create an events venue that is not currently available in the Monterey Bay Area, drawing all kinds of new activity to Santa Cruz. In terms of whether such a facility can be built as a privately funded endeavor, the plan for the project area includes significant development intensity in order to off-set arena construction costs by providing return on investment into substantial residential development.

A new, permanent arena also creates a significant opportunity to create a safe, accessible, and engaging social gathering space for the community. The three development scenarios show options for two different locations for a new Warriors arena: the current location south of Spruce Street between Front Street and the river levee or on the adjacent block on the south side of Spruce Street between Pacific Avenue and Front Street. The different locations provide different opportunities for new civic spaces, a difference in heights adjacent to the San Lorenzo River, and practical considerations for the Warriors during the construction period.

The Spruce Street right of way contains significant underground utility infrastructure for the City’s flood control and wastewater systems, and therefore complete abandonment of this roadway is not feasible or advised. However, vehicular access could be limited to utility services and the area converted to a pedestrian plaza. By closing parts of Spruce Street to traffic, two of the development scenarios show a possible civic plaza space in its place between Pacific Avenue and Front Street. While conceptual at this point, this plaza could potentially provide space for thousands of community members and visitors to gather for a variety of events. With a successful arena project, a plaza like this could be activated by adjacent commercial uses wrapping portions of the arena exterior or on adjacent properties. A public, urban plaza of this scale could provide a powerful connection to the San Lorenzo River levee area as well. The project area is a bridge between the Downtown, the river, and the beach and it provides an opportunity to create a vibrant neighborhood inspired through art, entertainment, technology, and illumination.

Housing and RHNA

The primary goal for this project is housing production and adding housing capacity that will benefit the City not just in the near term, but also for many generations to come. The City’s draft Regional Housing Need Allocation (RHNA) was released following the start of this project and was taken into consideration in the preliminary development scenarios. The RHNA is the first step in the Housing Element cycle and is intended to ensure that housing is planned for where it is most needed. Factors used by the Association of Monterey Bay Area Governments (AMBAG) in considering the distribution of housing requirements across the region included: the regional growth forecast, a jurisdiction’s share of jobs in the region, the jobs/housing ratio, existing transit routes, wildfire and sea level rise risk, race and affluence concentration, and State of California opportunity mapping. The final draft RHNA would require the City to plan for 3,736 housing units. By comparison, the current cycle of the RHNA required the City to accommodate 747 new housing units between 2015 and 2023.



While more detailed analysis will take place in the beginning phases of the Housing Element Update (slated to start by the summer of this year), staff recognizes that the existing planned housing capacity of the adopted 2030 General Plan will not be sufficient to meet this new requirement. The City needs to identify additional locations and properties to accommodate the City’s housing obligation. By taking advantage of this project area to add more housing in an

ideal downtown location, the City will be in a better position during this upcoming Housing Element Update process if sites for further housing capacity need to be identified.

The expansion area represents a rare opportunity to plan for a significant amount of new housing in a location that is among the most sustainable sites in the region to grow based on its proximity to jobs, amenities, recreation, and transportation options. New multi-family buildings will have an expected life span of well over 60 years, which means this added capacity can help meet the housing needs of future generations of Santa Cruzans. With that in mind, while it is important to add capacity in the near term to help the City meet its upcoming 2023-2031 RHNA requirement, it is just as important to consider the medium and long term benefits of adding housing and that this housing can lay the groundwork for meeting future RHNA requirements as well.

Development Scenarios: Height

The building heights shown in the preliminary development scenarios show the addition of taller components as buildings start to exceed six or seven stories, with maximum heights between 120 and 200 feet. The proposed building form would dictate that these taller elements are limited to a certain percentage of the total building footprint and are not considered for the entirety of any of the parcels. These scenarios are an increase to the allowed maximum heights in the City and present the opportunity to create a new downtown skyline that helps define the city's core as a distinct place with a strong urban identity. The taller buildings can also serve as a beacon for visitors to the City, drawing them to downtown where they can support local businesses. The taller building elements are proposed to be located in five distinct areas across four sites, all located away from the historic residential district to the west that is outside of the expansion area.

Open House and Commission Meetings

These development scenarios and topic areas were presented to the community at the second community open house held on April 20, 2022. Following this large community open house, the materials were presented to the Planning Commission on May 5, 2022, and to the Downtown Commission on May 12, 2022. The attached Planning Commission Staff Report of May 5, 2022 includes all the referenced materials. The purpose of the materials presented was to generate feedback and collect ideas for the project going forward and to define the preferred scenario that will become the project description for the purposes of environmental review under the California Environmental Quality Act (CEQA). The comments received at the April 20, 2022 open house event are shown in the Open House Comments attachment and are organized by topic area. The draft minutes from the Planning Commission and Downtown Commission are also attached.

Following this feedback, staff developed recommendation for the preferred development scenario detailed in the following sections. The presentation to the Council at the June 14, 2022 meeting will also provide further detail and enhanced context.

Based on feedback provided at the April 20 open house and online comments received as of this writing, community members are very supportive of the proposed concepts for changes to the roadway circulation, improved connectivity with the beach area, new civic spaces, and increased housing intensity in the project area. Participants contributed local insights and existing concerns regarding beach-bound traffic congestion and shared ideas about future programming and activation for the new civic spaces and the new arena, such as considering the acoustics of the space so it could serve the needs of the Santa Cruz Symphony. Some expressed concerns about

any new development, but most showed support and enthusiasm for a significant change in the project area. Many comments also advocated for increased street closures and further limiting through traffic on Pacific Avenue, Laurel Street Extension, and Cliff Street.

Community comments advocated for green roofs and community garden space, for making roof decks publicly accessible, and for pursuing alternative transportation options like trolleys, shuttles, and pedicabs for better mobility between the beach and downtown. Existing tenants like the Hub for Sustainable Living and existing residential tenants raised questions and concerns about how they can fit into a redeveloped neighborhood and what their options are for relocation. Another common theme was the need for more housing options for moderate- and lower-income households and support for creating a neighborhood with housing options for all income levels.

The community reacted favorably to proposing taller buildings in order to add more housing capacity and create a new, vibrant node in Santa Cruz. Many participants in the public open house expressed a motivation to increase housing options and to make efficient use of urban land while creating the space for significant public improvements and amenities associated with new development like multi-family housing and the arena. Some community members were initially surprised by the proposed building heights and had questions about how height could be effectively regulated and why taller elements were proposed. As the project team was able to show the increase in the number of housing units, explain the reasons for pursuing taller elements situated over shorter podium building forms, and show the three-dimensional renderings of the massing for different options, many became supportive and even excited about the opportunity created by a new urban neighborhood with thousands of new residents. Some others remained skeptical about the degree of change proposed and expressed a preference for one of the more moderate development scenarios. The attachment showing the Open House Comments captures the written comments made by community members during this event.

Planning Commission

The Planning Commission discussed the various components of the development scenario during a regularly-scheduled meeting on May 5, 2022. The Commissioners reacted positively to the ideas for the civic spaces and enhanced connections to the river and beach area. The concept for the realignment of the roadway connections raised concerns among some Commissioners regarding the existing residential care facility at 126 Front Street, and Commissioners requested that the language in the Downtown Plan be clear that the roadway realignment could not take place until an alternative location for the facility could be identified. The Commissioners spent time discussing the advantages of different height limits and building forms, the right number of housing units to recommend for this neighborhood, and the best location for a potential permanent arena site. The motion that passed was passed on a 4-3 vote after some debate. The attachment showing the Planning Commission Minutes of May 5, 2022 includes the full text of the successful motion, and a separate attachment provides additional staff responses (beyond those below) to the motion.

One of the primary points of disagreement among commissioners was the appropriate height and building form of new buildings in the project area. The motion that passed recommended lower heights than even Scenario 1. However, one of the Commissioners who voted for the motion offered a friendly amendment to the motion to remove this restrictive height cap, but the friendly amendment was not accepted by the maker of the motion, and the Commissioner voted in favor of the prior motion that included the height limitations. The language regarding height in the Planning Commission recommendation was for the maximum height in the expansion area to be

no taller than the Palomar building (90 feet), inclusive of the use of density bonus, so long as a maximum of 1,600 units can be achieved. Staff is opposed to part of the motion.

The Planning Commission's maximum height proposal, by itself, is actually more restrictive than even the current Downtown Plan, where its maximum heights are not inclusive of the density bonus. As discussed in greater detail in the height regulation section on page 10, the City would have to set base building heights in the plan even lower to account for the use density bonus. Because the City can only use base height in the Housing Element unit count, this could require even more units to be accounted for elsewhere in the City and increase the possibility of rezoning needed outside of the Downtown.

This recommendation removed all taller height elements in favor of using solid block buildings all at the same height to achieve a maximum of 1,600 units. In order to achieve this unit maximum, the building heights throughout the project area would have to all be seven stories with six floors of residential over one floor of commercial. Given current building typologies and construction cost economies of scale, it is not as likely that some buildings will even achieve that height, particularly on the smaller parcels along Pacific Avenue, reducing the realistic potential of housing development and the likelihood of full build-out of the public and private improvements desired for this area. Based on this lack of feasibility on some sites, Planning Commission's recommendation is more likely to produce a maximum of 1,458 units. In order to achieve the full 1,600 units, additional height would be needed. An increase of one story to achieve 1,600 units (creating a neighborhood of eight-story buildings) is not likely to be economically feasible either due to the fire code constraints that appear after 75' of floor height. These structural requirements add significant costs to projects and would need to be off-set by a commensurate shift in returns in the form of many additional stories containing additional units.

Should it even be feasible for all buildings throughout the expansion area to achieve the maximum 90' height that allows for seven or eight stories, there is a strong aesthetic and urban design argument in favor of taller building elements. Large blocks of buildings all at the same 90-foot height would look and feel monotonous and oppressive. Taller building elements, which will create a distinctive skyline, would actually feel lighter and allow the base portions of all buildings in the project area to be in scale with their environment, including a lower height along the west side of Pacific Avenue transitioning toward the Neighborhood Conservation zone. Narrower but taller elements also shorten the amount of time that shade is cast on adjacent properties versus longer and wider buildings. Importantly, taller building elements would also function as a beacon and provide a strong way-finding element in the City skyline, which supports downtown businesses, improves the economic development potential of the downtown, and helps create an anchor and magnet for activity in the new civic spaces.

The Warriors and their development partners currently have some control over blocks A, B, C, and D in the expansion area that are shown in the attached development scenarios. The Planning Commission's recommendation specifically removes the taller building elements on all of these four blocks and, therefore, removes housing development capacity that could help privately fund the arena and other public amenities. Specifically, the Planning Commission's recommendation would accommodate approximately 894 units in total across the four blocks, while staff's recommended Scenario 3.1 would accommodate approximately 1,239 units in total across those same blocks

The Planning Commission also raised questions about potential displacement of current City residents – both directly within the project site as redevelopment occurs and indirectly as new investment raises property values in adjacent neighborhoods. Direct displacement will be addressed under existing State law and City ordinances requiring tenant relocation assistance, replacement housing for any units occupied by lower-income qualifying households, and the first right of return for those displaced tenants as new affordable housing units are created. Indirect displacement is a broad and complicated issue and one for the City to consider comprehensively as housing costs continue to rise throughout the region. As an important citywide issue, it requires a comprehensive response, not one limited to the geographic area contained within the Downtown Plan Expansion area, which is what would occur if the issue were addressed through policies only applicable in the Plan area. Staff recommends that the City consider this issue on a citywide scale as part of the upcoming Housing Element update, where comprehensive analysis of both direct and indirect displacement is required by California law as part of the City’s duty to affirmatively further fair housing under AB 686 of 2018.

Similarly to Planning Commission’s concerns around displacement, the motion also included direction to pursue significantly higher inclusionary housing requirements. Increasing inclusionary housing requirements requires detailed studies and market analyses to ensure a rate that can maximize affordable housing production while also making housing development financially feasible and likely to occur. These studies can take significant time and resources. The State of California deems inclusionary requirements a potential impediment to the development of housing and requires evidence that an inclusionary rate is not such an impediment as part of a Housing Element Update. In other words, the state seeks to ensure that inclusionary requirements are not abused to prevent or limit housing production. Given that the City is undertaking the Housing Element this summer, increasing the inclusionary rate as part of this project could complicate the Housing Element process and certification. If Council chooses to consider a higher inclusionary rate staff recommends that a separate consultant be brought on board to evaluate the implications of such a change, along with any implications an alternative rate could have on the viability of the privately-funded amenities and the overall viability of development. Staff would also recommend a presentation to Council regarding implications of such work on the Advance Planning Division’s and Economic Development & Housing Department’s respective work plans.

The Planning Commission motion also included a number of other recommendations, and responses to each of those recommendations is contained in an attachment to this report.

Downtown Commission

The Downtown Commission (DTC) discussed the preliminary development scenarios during a regularly-scheduled meeting on May 12, 2022. The DTC received the same materials presented to the Planning Commission. The discussion addressed questions relating to parking in and around the project area, programming elements relating to the proposed new commercial space in the project area, plans for affordable housing, state housing element law, and opportunities for the new civic space. The DTC was enthusiastically supportive of the concepts for the civic spaces and increasing activity and engagement in this area of downtown. Commissioners also identified the possibilities for existing local businesses as newly-built commercial space comes on to the market, noting that new development in this area could support existing businesses that are currently considering costly updates to older commercial buildings.

The DTC favored the most intense development scenario and was excited about creating a downtown expansion area with a distinct identity and skyline. The DTC noted the opportunity this project offered and expressed interest in even more intensity in this area in order to make efficient use of the land and the strengths of this area. The Commission encouraged the project team to capitalize on the economic opportunities facilitated by a modern sports arena and events venue and pursue more intensity in the project area.

Coastal Commission

Local staff of the California Coastal Commission (CCC) reviewed the scenarios and submitted written comments to staff which can be read in the Coastal Commission Comments from June 8, 2022 attachment. CCC recognizes the importance of this project for the City and is supportive of increased densities in the proposed project areas so long as other amenities proposed in the plan are included. CCC staff desire that attention is paid to both the river side of the project area (i.e., improved connectivity in terms of public recreational access but also aesthetic and ecological connectivity) and to siting/design measures that can reduce perceived scale (e.g., upper stories setback from lower stories, no cantilevers, and the use of cutouts, articulation, etc.). City staff agree on the importance of the river in terms of access and design. These latter, more specific design details will be developed in the next phase of the project as objective standards are created.

CCC did not provide specific direction on maximum building heights in the expansion area but did state that it will be important for the EIR and related materials to thoroughly evaluate such height and massing increases. CCC also stated that the EIR should include alternative height scenarios to ensure that any proposed massing makes sense from a coastal resource standpoint, and they also sought clarity on how the density bonus would apply in the area and within the context of the Local Coastal Program. CCC reiterated the value of visual simulations of scenario alternatives in order to understand potential coastal resource impacts whether they are visual or access-related. These comments will be reflected in the EIR scope of work. CCC stated that the EIR should also provide detailed information on the proposed treatments of the public rights of way throughout the project area to help understand how they might relate to the intensification and densification proposed. Given the programmatic level of the EIR, detailed public right of way design will not be included in the EIR itself but will be in the final plan. Staff agrees with CCC that providing such information will help ensure that public right of way improvements function seamlessly with proposed building development while enhancing multi-modal transportation (bicycle/pedestrian/transit) and vehicular access.

Recommended Development Scenario

Based on the input from all of the above sources, the project team is recommending that the City Council provide direction to study a slightly modified development scenario called Scenario 3.1. Given the great desire for increased housing, the general interest in taller buildings, the visual draw that taller buildings can have to downtown, and the aspiration to take advantage of the rare opportunity the area presents, Scenario 3.1 was created to be like Scenario 3 in every way but with slightly higher maximum heights on the taller building elements. In Scenario 3.1, the five taller elements in Scenario 3 would be allowed an additional 25 feet in height to provide more housing capacity and allow for greater flexibility with Density Bonus calculations. Scenario 3.1 has the following features:

- 1) A total housing unit count of no less than 1,800 dwelling units.
- 2) Maximum building heights of no more than 145 feet on one taller building element, 185 on three taller building elements, and 225 feet on one taller building element. The taller

building elements will be controlled to be only a small portion of a site that rises above the associated and respective podium building. This promotes a lighter and more varied feel from the ground and when viewing the skyline.

- 3) A preferred circulation option that relocates the existing connection from Front Street to Laurel Street Extension to the bottom of Beach Hill, so long as that the residential care facility at 126 Front Street and any existing residents are relocated to an appropriate replacement facility elsewhere in the project area or within the County. Alternatives shall be considered should the facility and its residents not relocate.
- 4) Consideration for two options for the location of a permanent Warriors Arena:
 - a. The preferred location on the adjacent block, on the south side of Spruce Street between Pacific Avenue and Front Street; and
 - b. The current site of the temporary arena.
- 5) Permanent closure of Spruce Street to automobile traffic east of Pacific Avenue.
- 6) Creation of new civic spaces within the closed Spruce Street right of way and connecting to the San Lorenzo River levee.
- 7) Enhancement of streetscape in all areas within the project area as well as both sides of Cliff Street connecting to Beach Street.

This recommendation reflects the project team's understanding of the community interest in focusing housing intensity into the City's downtown and stepping down height towards the neighborhood conservation district to the west. Scenario 3.1 takes greater advantage of the opportunity for redevelopment in this area. Pursuing a building form where a taller building is situated over a smaller portion of a shorter podium building is the most feasible way to achieve housing development in the desired amount. Helping promote the likelihood of development in the expansion area also helps to privately fund the many great public benefits and public realm enhancements envisioned with this project area, including but not limited to the Warriors arena that would allow them to stay in Santa Cruz. As noted above, in expansion blocks A through D, where the Warriors development team has some partnerships, our recommended Scenario 3.1 anticipates approximately 1,239 housing units while the Planning Commission Scenario would achieve only approximately 894 units, a difference of 345 units that could help fund various public and private amenities. In addition to project feasibility, taller building forms create distinct urban design and wayfinding opportunities that would not be created by shorter, blockier buildings. By adding more height in limited locations, the City can help to create hundreds more housing units for a variety of household sizes and affordability levels, while also increasing the economic and social vitality of Santa Cruz.

Height Regulation

Like Scenario 3, Scenario 3.1 reflects what staff anticipates as the allowed heights of buildings, inclusive of the current maximum 50% Density Bonus for market rate development. There are a few options for achieving these thresholds. First, a property owner could enter into a Development Agreement (DA) with the City to cap heights at the respective 145-foot, 185-foot, or 225-foot levels (corresponding to the height limits anticipated in for different buildings in Scenario 3.1), in exchange for build out of some of the public benefits planned for the area. This option requires the City and each affected property owner where taller buildings are anticipated to agree on the terms of a contract that will apply to these sites, and once such an agreement is in place, would allow the City to count the number of housing units established in the DA toward efforts to meet the RHNA requirements. Alternatively, the City could think of these heights as

the heights that would be allowed after the application for a State Density Bonus, setting the regulations in the Downtown Plan and Zoning code at a lower level of development intensity on the assumption that many of the developers will pursue bonuses. This alternative has a draw back in that the City cannot be sure how many developers will pursue a State Density Bonus and to what level, and, therefore, the only units that can be counted toward meeting the RHNA requirement are the units in the base plan and zoning with the lower height limits. This option would likely leave the community looking for more sites to identify for increased residential capacity as part of the Housing Element process in order to demonstrate full compliance with the state laws requiring planning for adequate housing.

The full details for Scenario 3.1 are included in the attachments, along with a three-dimensional rendering showing the overall building massing that are recommended. The project team has also modeled the Planning Commission recommendation, and these materials can also be found in an attachment to this report. Planning staff is recommending Scenario 3.1 as the superior option, because it would result in approximately 350 more units of housing compared to the development expected with the Planning Commission recommendation, it is economically more feasible, and it reshapes the Santa Cruz skyline, identifying the entire downtown as a vibrant urban center serving as an attractor and wayfinding tool for both locals and visitors alike.

Next Steps. Following direction by the City Council, staff and consultants will finalize the project description for the EIR and begin work on the required analyses. The EIR process will take approximately ten months. More specific details and policies of the plan, such as objective design standards, will be drafted during this time and will include further input from the community. Following completion of the required studies, staff will bring the proposed amendments to the Downtown Plan, General Plan, Beach/South of Laurel Plan, Local Coastal Program, Municipal Code and Zoning Maps, together with the Draft EIR, back to the Planning Commission, Downtown Commission, and City Council for recommendation and adoption in the spring and summer of 2023.

HEALTH IN ALL POLICIES. The components of the current proposal are consistent with the Health in All Policies pillars of equity, public health, and sustainability in that they would encourage creation of both needed housing and economic opportunities and foster greater accessibility between the Downtown, San Lorenzo River, and beach areas. Development in the Downtown area is in close proximity to transit, jobs, amenities, and a wide range of entertainment and recreational activities, making it one of the most sustainable places to grow in the region. From an equity perspective, the project area will include space for new inclusionary low-income housing, including replacement housing for any existing low- and very-low income residents. This project encourages active transportation modes that support both personal health and environmental sustainability.

CEQA: The Downtown Plan Expansion will require environmental review prior to Council's final consideration. It has been determined that an EIR will be prepared for the project. As the California Coastal Commission recommended, the EIR will include analysis of height and massing alternatives as well as visual simulations of these alternatives. The final proposed amendments to the Downtown Plan, General Plan, Local Coastal Program, Beach/South of Laurel Plan, and Municipal Code, together with the Draft EIR, are anticipated to be considered by the Planning Commission for a recommendation to the City Council by the summer of 2023.

FISCAL IMPACT: This report is part of the grant-funded project to expand the Downtown Plan boundary. The total project cost is currently scoped to be \$555,000. Planning was awarded two grants for this project, totaling \$450,000, and general fund sources will be used to cover the full cost of the project beyond the grant amount. The City is considering creative solutions to allow the beneficiaries of the plan to reimburse City general fund costs towards the funding of the plan, including staffing costs associated with the development of the plan, and policies will be considered for incorporation into the final plan to address these reimbursements. Further grant funding may also be pursued, should opportunities arise.

As the project area is built out, staff anticipates that the additional property, admissions, and sales taxes, together with any special assessments elected for the project area, will have positive impacts on the City's long-term fiscal conditions. Provision of services to the area will result in additional costs to the City, but given the location and efficiency of land uses under consideration, revenues should be expected to exceed expenses. Creating a new urban destination with distinct urban character and a major events venue of regional importance could make this project the center of a highly successful economic development endeavor, bringing residents and visitors from throughout the region into the downtown and helping them navigate between key points of interest at the beach, river levee, and Downtown. Detailed and precise information on the longer-term fiscal implications will not be fully known until new uses and buildings are constructed and operating.

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ATTACHMENTS:

1. Planning Commission Staff Report of May 5, 2022 and attachments
2. Recommended Preferred Development Scenario Materials
3. Planning Commission Preferred Development Scenario Materials
4. Minutes of the Planning Commission from May 5, 2022
5. Staff Responses to Planning Commission's May 5, 2022 Motion
6. Action Agenda of the Downtown Commission from May 12, 2022
7. Coastal Commission Comments from June 8, 2022
8. Public Correspondence - Downtown Expansion Plan