A Critical Analysis of the City of Carlsbad Fiscal Impact Report on the Save the Strawberry and Flower Growing Fields Act of 2006

Prepared for
TaxpayersAdvocate.org

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by

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Introduction

Pursuant to Section 9212(a) of the Elections Code, the City of Carlsbad employed the services of Rosenow Spevacek Group, Inc. (RSG) of Santa Ana, California to prepare a fiscal impact report assessing the initial and long-tem financial implications of the enactment of the Save the Strawberry & Flower Growing Fields Act of 2006. The proposed act is an initiative being submitted to the voters of Carlsbad for approval in the November, 2006 general election.

The Save the Strawberry & Flower Growing Fields Act of 2006 creates a new land use designation—"Coastal Agriculture"—and applies that designation to the 420.32 acres reflected on Map 1 as Parcels A-E with Parcel C being the 53.65 acre parcel commonly known as the Carlsbad Flower Fields. The City of Carlsbad General Plan designates all but one of these parcels as Open Space—the one parcel being Parcel A (49.2 acres) at the northwest corner of Interstate 5 and Cannon Road, presently owned by San Diego Gas & Electric, and designated as Travel/Recreational Commercial for land use purposes

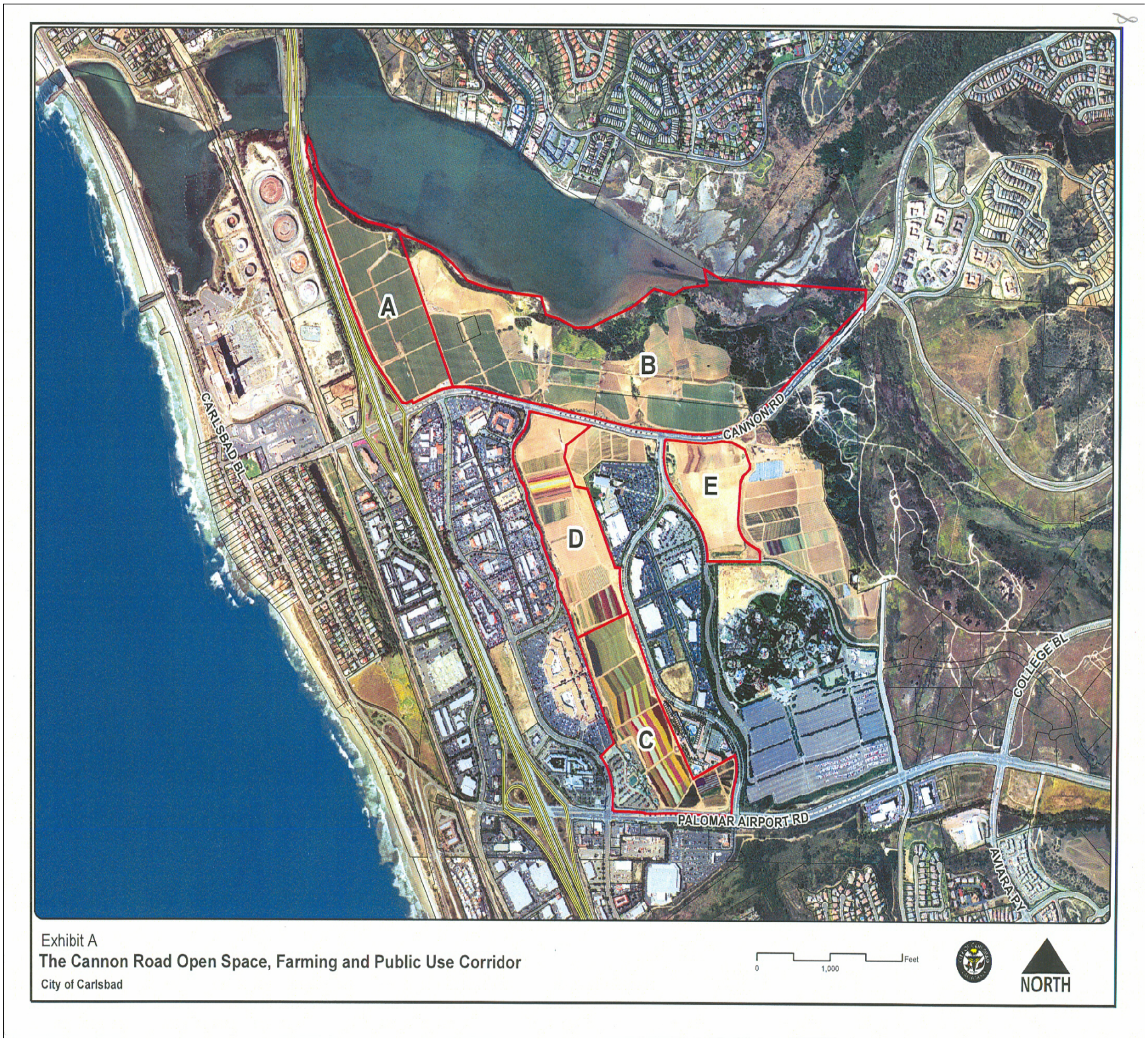
The RSG report addressed fiscal impacts in several key categories, as follows:

- Fiscal Impact (Election Code Section 9212(a)(1))
- Impact on Funding for Infrastructure (Election Code Section 9212(a)(4))
- Impact on the Community's Ability to Attract and Retain Business and Employment (Election Code Section 9212(a)(5)); and
- Impact on Existing Business Districts and Developed Areas Designated for Revitalization (Election Code 9212(a)(7))

Rea & Parker Research has been asked by TaxpayersAdvocate.Org to critically analyze the RSG report, independent of the City of Carlsbad, in order to assess its accuracy and appropriateness in the determination of the fiscal consequences of enactment of the initiative.

RSG found the following implications of the proposed act:

- One time costs would range from $28.5 to $36.5 million, including possible acquisition costs and unmitigated development fee losses;
- Net annual losses to the City's General Fund, the Redevelopment Agency, and Tourism Business Improvement District (BID) would range from $2.8 to $3.0 million every year, exclusive of potentially significant costs to maintain agriculture on the site;
- Loss of 902-926 jobs to the City; and
- Lower funding of redevelopment and affordable housing projects in the South Carlsbad Coastal Redevelopment Project Area.


A
B
C
D
E
CANNON RD
CARLSBAD BL
PALOMAR AIRPORT RD
COLLEGE BL
AVIARA PY
Exhibit A
The Cannon Road Open Space, Farming and Public Use Corridor
City of Carlsbad
0
1,000
Feet
NORTH

MAP 1

Summary of Findings by Rea & Parker Research

Generally, Rea & Parker Research agrees with the findings of RSG that there will be significant one time costs to the City of Carlsbad, substantial annual losses to the General Fund, Redevelopment Agency, and Tourism BID, and an important loss of jobs to the City. The specific findings, however, of Rea & Parker Research do differ from RSG in a number of important aspects.

Rea & Parker Research has concluded that

- The one-time costs to the City will be greater than RSG determined, with the costs reaching over $50 million—up to 56 percent higher than RSG's $28.5 to $36.5 million.
    - The key element in this one-time cost estimate involves the substantial likelihood that the City of Carlsbad will have to undertake eminent domain action against the subject parcels of land for two reasons, as follows:
        - The restrictions placed against development of these parcels can be expected to trigger inverse condemnation actions that will result in the actual or de facto eminent domain taking by the City.
        - Maybe even more definite is the fact that land use cannot be mandated—only denied or guided. As such, nothing forces the current land holders to continue agricultural operations. Were they to discontinue agriculture, the land holders would likely be forced to sell their property through eminent domain to the City in order for the City to carry out its own ordinance—the continued operation of these parcels for agricultural purposes.
    - The fundamental difference between the two estimates contained in the two studies is between the very low land value assigned by RSG to Parcel A (referred to by RSG as Parcel 1) vis-à-vis that determined by Rea & Parker Research. This difference would impact the condemnation purchase prices. Rea & Parker Research has concluded that the City of Carlsbad is subject to a purchase price on Parcel A alone that is $15 million higher than put forth by RSG.

- Annual costs to the City, on the other hand, in the form of foregone revenue, will be less according to Rea & Parker Research than was estimated by RSG. Annual net losses to the City of Carlsbad from the proposed act will more likely total between $2.2 and $2.6 million—13-21 percent lower than RSG.
    - There are two critical differences between Rea & Parker Research and RSG on the issue of foregone revenue. The first is the inclusion by Rea & Parker Research of more than $300,000 of annual costs for public safety, public works, and other community and general services that RSG concluded were not applicable.
    - Second, RSG made no allowance for the possibility that a certain portion of the sales that occur at the new retail space might be transferred from other Carlsbad retailers rather than entirely new. By allowing for a 25 percent substitution factor, sales taxes are reduced by approximately $500,000.
- Job losses will also be higher than those estimated by RSG. Rea & Parker Research has estimated losses of 1,263-1,389 jobs in the City due to this proposed ordinance—a 40-50 percent greater job loss than RSG suggested.

There are many other differences between the RSG and Rea & Parker Research analyses, including construction costs, property taxes, sales taxes, business license revenue, and acquisition costs for the other parcels impacted, all of which are discussed in detail in the report that follows. The format that the report will follow is to present the details from the RSG report, followed by the Rea & Parker critical analysis. Tables are included throughout that highlight and visually depict these differences.

Construction Costs

RSG: The RSG report identifies two potential land use options for Parcel 1 (in Blue on Map 2), which was previously characterized as Parcel A on Map 1, as follows:

1. 463,000 square feet of specialty retail development
2. 391,000 square feet of specialty retail development and 72,000 of a 120-room mid-range, 3-star hotel.

Table 1 shows that, for Option 1 (all retail), RSG estimates that direct construction costs for retail will range from $128 to $158 per square foot plus an additional $32 per square foot for soft costs (consultant fees, marketing, permits, and commissions, among others) and $15 per square foot in construction finance costs, for a total construction cost of approximately $190 per square foot.

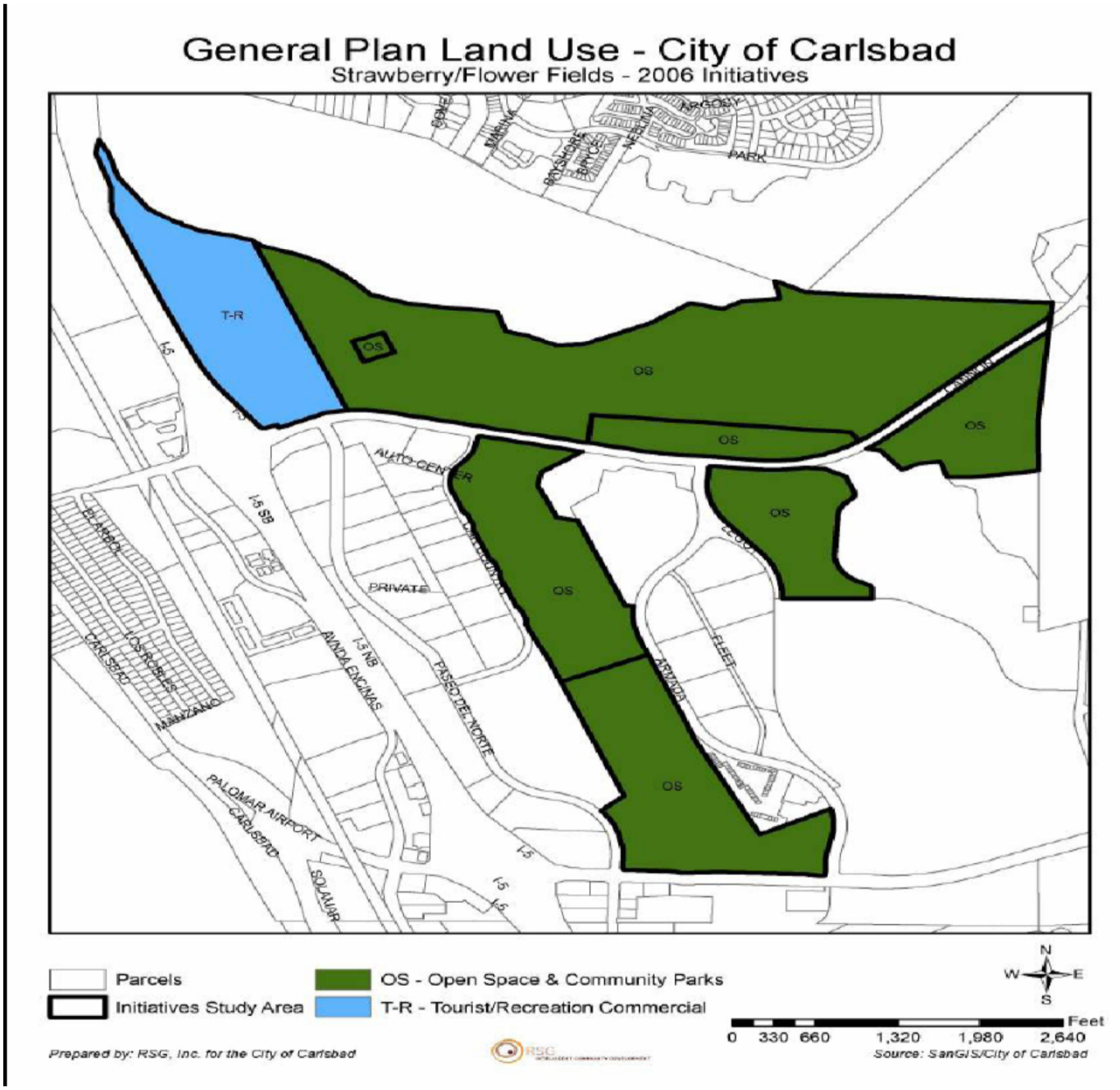
For Option 2 (retail and hotel), these costs increase slightly to $197 per square foot due to direct hotel construction costs averaging $173 per square foot in contrast to retail at $128-$158. There are also correspondingly small increases to the soft and financing costs.

As such total construction costs for Option 1 are $87,971,209 and for Option 2, they are $91,129,903.

Rea & Parker Research: Rea & Parker Research has made some adjustments to the RSG estimates based upon construction cost research of comparable type construction projects. These adjustments are also shown in Table 1.

Construction costs for retail development of a specialty, non-enclosed nature should more likely approximate $100-$130 per square foot and mid-range hotels without a food and beverage component are averaging $157 at the high end of their cost range. Inasmuch as this is a development planned for Carlsbad, the higher end of the range, which can go as low as $90 per square foot, is being utilized. Corresponding per room construction costs for mid-range hotels are averaging $74,000-94,000 without food and beverage, and the Rea & Parker Research estimate is at the top end of that range also.

On the other hand, no corresponding reduction is made by Rea & Parker Research for soft and financing costs. As a matter of fact, Rea & Parker Research has estimated that financing costs will be greater than suggested by RSG. Without plans in place, these is no way to accurately predict the amount of consultant services that will be required or the amount of time the construction will actually take, but applying industry averages that show soft costs ranging between 17 percent and 35 percent of direct costs and financing costs between 17 percent and 24 percent, Rea & Parker Research, in accepting the soft cost estimates by RSG, is placing that estimate at 22% of direct costs and, in raising the finance cost estimates of RSG, is bringing those estimates to the bottom of the range (17 percent) from RSG's relatively low estimate of approximately 10 percent. The Rea & Parker Research estimate, besides being in line with industry averages, corresponds to a combined 10 percent APR construction loan and land loan in amounts that equate to 100 percent of cost (80 percent loan-to-value) for 2 years from planning and land acquisition to completion. The use of this somewhat higher than current rate also protects against future increases in interest rates and potential cost over-runs.



MAP 2

Total construction costs, therefore, according to Rea & Parker Research, can be expected to be $77,089,000 for Option 1 (approximately $10.9 million less than RSG's estimate) and $80,690,000 (approximately $10.5 million less than RSG). Per square foot, Option 1 for Rea & Parker Research totals $166 for Option 1 and $175 for Option 2.

On-Going Annual Fiscal Impact (@ Full Build out) to the City of Carlsbad

RSG: Table 2 depicts the estimated net positive fiscal impact that the City of Carlsbad will receive from development of Parcel 1 along with the golf course property (Parcels 4, 10, and 11)—see Map 2. RSG has included, under benefits to the City's General Fund, the following components:

- Property Tax Revenue: Although not clearly stipulated in the RSG report, inasmuch as Parcel 1 (the retail/hotel development parcel) is contained within the South Carlsbad Coastal Redevelopment Project Area, taxes received by the City are approximately 17 percent of the amount of taxes paid on Parcel 1 prior to the creation of the Redevelopment Project Area plus 2% increase per year and additional taxes of 17 percent of total taxes from the other parcels. The amount currently received by the City from these parcels equals $6,400, according to RSG, which is very short of the $66,000 and $67,000 shown by RSG. Therefore, it is concluded that RSG has included development of the golf course property (Parcels 4, 10, and 11) as its source of tax revenue, inasmuch as development of Parcel 1 will produce tax increments for the Redevelopment Agency only.
- Sales Tax Revenue: Depending upon the specific retailer mix, RSG applied $195 to $550 per square foot of retail space to arrive at its estimate that the City's 1 percent share of sales at the site will generate for the General Fund $1,966,000 from Option 1 (all retail) and $1,601,000 from Option 2. These estimates reflect average sales of approximately $410-$425 per square foot of retail.
- Transient Occupancy Tax: The transient occupancy tax is 10 percent of an average $150 room rate, assuming 75 percent occupancy
- Business License Fees: Business license revenue is $0.35 per $1,000 of gross receipts for the retail stores (based on $410-$425 sales per square foot) and hotel (based on $150 rooms and 75 percent occupancy).
- Tourism Business Improvement District: There is a $1 charge added to hotel rates to fund tourism promotion. The assumptions above produce the estimated proceeds.

- Savings in Operating Expenditures: If agricultural uses are fixed by law, then trails in HUB Park will likely need not be maintained, saving the City approximately $3,000 per year (@ $2,750 per mile for 1.2 miles). Public safety expenditures, along with community services and development, public works, and general government are all assumed to be unaffected by the development of Parcel 1. The golf course is not mentioned, but it is appropriate to assume that the greens fees charged will be sufficient to offset any expenses.
- Property Tax Increments to Redevelopment Agency: Instead of the City's 17 percent of property taxes, the Redevelopment Agency retains the full amount of taxes paid from land within its boundaries, which, in this event, is only Parcel 1. The rate paid within the City of Carlsbad is 1.0278 percent of assessed valuation. RSG did not include the land in its determination of the assessed value of the new construction and, therefore, estimated taxes to the Redevelopment Agency of $704,000 for Option 1 and $729,000 for Option 2. These amounts should represent 1 percent (the additional .0278 percent being earmarked for other uses) of the construction value less the amount of taxes currently paid on Parcel 1 only. The full tax increment based upon RSG construction costs would be 1 percent of construction costs excluding land should total $879,712 and $911,299 for Options 1 and 2, respectively. The estimated amounts represent approximately 80 percent of those costs, thereby allowing for the pass through of a portion of incremental taxes to the City, San Diego County, and the school district.
- Costs to Maintain Agricultural Operations: RSG posed the possibility that the proposed ordinance could commit the City to maintain operations of the strawberry fields even in the face of rising costs for water, environmental mitigation, insurance, and so forth. This is a highly speculative possibility but one that should be mentioned, which RSG has done.

In sum, RSG estimates that the City of Carlsbad can be expected to benefit from development of Parcels 1, 4, 10, and 11 to the extent of $2,808,000 and $2,903,000 from Option 1 and Option 2, respectively. Turning that concept around, a permanent agricultural land use designation will cause the City to forego these substantial sums.

Table 1 Taxable Value of Development Alternatives								
	RSG				Rea & Parker Research			
	Without Hotel		With Hotel		Without Hotel		With Hotel	
Direct Construction Costs (Hard Costs)		$66,563,098		$69,163,009		$53,245,000		$56,233,000
Cost/sf-Retail	$128-$158		$128-$158		$100-$130		$100-$130	
Cost/sf-Hotel	----		$173		----		$157	
Cost/room-Hotel	----		$104,000		----		$94,000	
Soft Costs		14,643,881		14,956,662		14,644,000		14,957,000
Soft Costs as % of Hard Costs	22%		21.6%		27.5%		26.6%	
Financing Costs		6,764,230		7,010,232		9,200,000		9,500,000
Financing Costs as % of Hard Costs	10%		10.1%		17.3%		16.9%	
Total Construction Cost		$87,971,209		$91,129,903		$77,089,000		$80,690,000
Total Cost/sf	$190		$197		$166		$175	
Land Purchase Price		$9,150,000*		$9,150,000*		$24,200,000		$24,200,000
Land Purchase/sf	$6.05		$6.05		$16.00		$16.00	
Total Taxable Value (Land & Construction)		$97,121,209*		$100,279,903*		$101,289,000		$104,890,000

* In the Pro Forma analysis by RSG, it was assumed that there was no cost for the land—as if the current owner were going to develop the project itself. The amounts shown as total cost in that report were only the construction totals. If, on the other hand, the land is sold to a developer, that sales price becomes part of the cost and ultimate property taxable assessed value. This distinction not only impacts the development costs estimate, but also, more importantly for this study, the property tax revenues that can be expected to accrue to the City of Carlsbad.

Table 2
On-Going Annual Net Fiscal Impact of Development Alternatives

	RSG		Rea & Parker Research	
	Without Hotel	With Hotel	Without Hotel	With Hotel
City of Carlsbad General Fund Revenue				
Property Tax	$66,000	$67,000	$28,000	$30,000
Sales Tax (net of substitutions-1/3*)	1,966,000	1,601,000	1,563,000	1,415,000
Transient Occupancy Tax	----	493,000	----	525,000
Business Licenses	69,000	57,000	55,000	48,000
Total City General Fund Revenue	$2,101,000	$2,218,000	$1,646,000	$2,018,000
LESS: City General Fund Expenditures				
Trail Maintenance	<$3,000>	<$3,000>	<$3,000>	<$3,000>
Public Safety	----	----	123,000	123,000
Community Development	----	----	22,000	22,000
Community Services	----	----	54,000	54,000
Public Works	----	----	68,000	68,000
General Government	----	----	36,000	36,000
Total City General Fund Expenditures	<$3,000>	<$3,000>	$300,000	$300,000
Net Annual Fiscal Benefit to City General Fund	$2,104,000	$2,221,000	$1,346,000	$1,718,000
Property Tax Increments to Redevelopment Agency	$704,000	$729,000	$810,000	$839,000
Carlsbad Tourism Business Improvement District	----	$33,000	----	$35,000
Maintain Agricultural Operations	Speculative/ Potentially costly	Speculative/ Potentially costly	Speculative	Speculative
Annual Net Fiscal Benefit to City of Carlsbad	$2,808,000**	$2,983,000**	$2,156,000	$2,592,000

*** RSG made no effort to account for sales that occur via transfers from other Carlsbad merchants. Rea & Parker Research allocated 1/3 of all sales to that category and deducted that 1/3 from total sales.**

****Small arithmetic error in RSG report**

Rea & Parker Research: Table 2 also depicts the estimated net positive fiscal impact that the City of Carlsbad will receive from development of these parcels in accordance with a critical analysis of the RSG estimates by Rea & Parker Research. Although there are several points of departure between the analyses by Rea & Parker Research and RSG, the ultimate conclusion is the same—that these are economically valuable parcels of land (in particular, Parcel 1) that the City of Carlsbad can expect to generate substantial revenue for the City were they to be developed as discussed. RSG determined that the benefits would be $2,808,000 (Option 1) or $2,903,000 (Option 2) per year to the City, and Rea & Parker Research have found the RSG estimates to be high, with benefits of $2,156,000 (Option 1) or $2,592,000 (Option 2)—still estimates of much substance. The differences between the reports regarding on-going annual benefits are summarized below.

- Property Tax Revenue: Inasmuch as the golf course is presented in the RSG analysis as a municipal venture, property taxes are not expected to be paid. Therefore, the $66,000-$67,000 shown by RSG would not be payable nor would the $6,400 that RSG identifies as currently being received from these parcels, causing a reduction in tax receipts to the City of $6,000 ($6,400 rounded to the nearest $1000) rather than the suggested increase.
- On the other hand, a portion of the incremental property taxes from the development will pass through to the City, instead of the Redevelopment Agency. This amount is set by state law and increases in three stages over 30 years. Inasmuch as the RSG study does not assume any growth over time, instead establishing build-out as a completed and fixed state. The first tier (20 percent pass through) will be assumed, and the City of Carlsbad will receive its proportionate share of the 20 percent of the tax increment based upon its present share of tax revenues—17 percent of the 100 percent—or $34,000 for Option 1 and $36,000 for Option 2 (see full discussion of tax increment below). Deducting the foregone $6,000 from each yields an additional $28,000 from Option 1 and $30,000 from Option 2.
- Sales Tax Revenue: Rea & Parker Research finds that $450 per square foot for specialty retail in Carlsbad is more likely than $410-$425. This increase raises the estimated sales tax to $2,084,000 (Option 1) and $1,827,000 (Option 2). Further RSG made no effort to include a factor for substitutions or transfers—meaning that some of the sales at the new retail shops will be "cannibalized" or transferred from existing Carlsbad retailers. The amount of transfer requires further study to identify with any reasonable degree of confidence, but for purposes of this report, a 1/4 transfer or substitution is anticipated, reducing the above sales tax benefits to $1,563,000 for Option 1 and $1,415,000 for Option 2. The

estimate for Option 2 includes an additional $45,000 of sales tax revenue from the tourists at the adjacent hotel.

- Transient Occupancy Tax: With the exception of assuming 80% occupancy for hotels near to the coast, the Rea & Parker Research estimate and RSG estimate coincide. No transfer effect is factored into this estimate under the assumption that there is significant demand for rooms in this location that will only increase the market rather than cannibalize exiting facilities.
- Business License Fees: Business license is adjusted upward for the higher volume of sales and hotel occupancy then reduced by 1/4 for sales transfers.
- Tourism Business Improvement District: There is a $1 charge added to hotel rates to fund tourism promotion, which is slightly higher than RSG because of the higher assumed occupancy.
- Savings in Operating Expenditures: The golf course and trail components remain unchanged from RSG; however, there is a significant difference in the treatment by Rea & Parker Research regarding General Fund expenditures for public safety and other public costs. RSG has used a marginal cost approach, claiming that this development can be serviced by existing staff and workloads. This may, in fact, be very true, and it is a legitimate approach to take. However, the weakness of marginal cost fiscal impact analyses lies in the fact that if nothing is charged against development that can be serviced within the existing framework, then the one project that "tips the scale"—the one that requires a new police station or a new water main—is to be allocated the full cost for that improvement. As such, it is both more common and more reasonable to utilize an average cost methodology.

  Average cost is the most common fiscal impact approach taken to assessing expenses associated with proposed development. This method attributes costs to new development according to average cost per unit of service in the subject jurisdiction multiplied by the number of units the growth is estimated to create. It does not take into account excess or deficient capacity to deliver services. Alternatively, marginal costing relies on analysis of demand and supply relationships for public services. It views growth not in a linear context but rather in inconsistent and cyclical terms, sometimes costing very little and at other times costing more than average. Marginal costing is very difficult to apply in actuality.

  The units by which average costs are multiplied can be any of a number of different options, including new residents and/or employees to be brought into the community by the development, acres or square footage being developed, or housing units, among others. The determination of the applicable unit of analysis depends upon the nature of the new development. If the development is exclusively housing, new residents or housing units might be applicable. If the development has no residential component, employees might be the applicable unit of analysis. Of late, fiscal impact analyses are making increased use of the concept of Equivalent Dwelling Units (EDUs).

Equivalent Dwelling Units (EDUs) are used frequently for allocating costs and benefits, particularly for open space, parks, wastewater, sewage, development mitigation fees, public works, and transportation. EDUs seek to standardize all land uses in terms of how their public costs and revenues compare to a single family detached home. EDU methodology assigns an EDU value of 1.0 to the single family detached home and assigns values relative to the single family detached home to other land uses.

Using commonly accepted EDUs, it is determined that Carlsbad consists of 53,858 EDUs. The public expenditures of the City can be allocated per EDU as follows:

Public Safety	$706/EDU
Community Development	$126/EDU
Community Services	$308/EDU
Public Works	$390/EDU
Administration/General Government	$206/EDU

With the budget of Carlsbad allocated in this manner, the 174 EDUs contained within the proposed development options (34.74 acres @ 5 EDUs per acre) yield the costs indicated in Table 2 allocated to the project totaling $303,000 per year.

- Property Tax Increments to Redevelopment Agency: Using the total construction cost plus land from Table 1, and allowing for no tax increment currently earned from Parcel 1, yields tax increment revenue from these development options of $1,013,000 and $1,049,000 for Options 1 and 2, respectively, of which $810,000 and $839,000 would accrue to the Redevelopment Agency (80 percent). To exclude the land value form property tax increment, as was done by RSG, would assume that the present owner of Parcel 1 (SDG&E) will develop the parcel itself using its land at a zero cost basis. That is highly unlikely. Far more reasonable is to assume that SDG&E will sell the land to a development company and that the purchase price of the land will increase the assessed valuation basis and corresponding tax receipts to the Redevelopment Agency. The value of the land being included is what is reflected the greater amount of tax increment revenue shown by Rea & Parker Research compared to RSG. The substantial differential between the land value estimated by Rea & Parker Research and that of RSG will be discussed in detail in the succeeding section of the report.
- Costs to Maintain Agricultural Operations: No difference between RSG and Rea & Parker Research.

One-Time Costs to the City of Carlsbad

Table 3 contains the estimated costs to be incurred by the City of Carlsbad in the event that development of these parcels is precluded. RSG estimates that the City will be exposed to $32,344,000 of one-time costs, while Rea & Parker Research estimates these costs to be substantially higher at $50,179,000. The preponderance of this difference is due to significantly different assessments of the value of the land by Rea & Parker Research from that of RSG.

RSG: First, a point-by-point description of the components of this portion of the RSG report.

- Infrastructure Impact Fees: RSG consulted with the City Engineering Department in order to identify fees payable by future development that reimburse the City for infrastructural improvements already constructed in a phased development approach to development impact fees and infrastructure. The Engineering Department identified $6,296,000 of fees for drainage, sewer, water, public facilities, traffic impact, and bridges and thoroughfares that would be payable by development of Parcel 1 and $580,000 of such fees from parcels 4, 10, and 11. Further, the development of Parcel 1 would cause the City to forego $350,000 of agricultural mitigation fees.
- Update Local Codes and Ordinances: City staff will be responsible for securing the appropriate changes from the California Coastal Commission, which will likely include amendments to the General Plan, the Agua Hedionda Local Coastal Program, the Zoning Ordinance, the Carlsbad Ranch Specific Plan, and the Habitat Management Plan. Costs are estimated to range between $100,000 and $250,000 to complete these changes.
- Relocation of AHLF Discovery Center: The initiative does not exempt the Agua Hedionda Lagoon Foundation (AHLF) Discovery Center from mandatory agricultural land use. Although it is not clear that the Center must move, RSG, in holding to the strict terms of the proposed ordinance, has estimated that relocation of the 3,500 square foot Visitor Center would conservatively cost $700,000.

- Savings of Development Costs for Trails in HUB Park: The City has been planning to construct 1.2 miles of trails through HUB Park, as was discussed previously in this report. This use is not consistent with agricultural activities and would not be required or even permitted, thereby saving the City $542,000.
- Acquisition of Parcels: The premise is that inverse condemnation would be brought about by owners of the private lands that will have had their development rights taken away by the initiative. Without rendering a legal opinion of the merit of such action, the possibility that Carlsbad will be forced to acquire the land is very real. Further, the only way that Carlsbad can truly guarantee that the land will continue to be used for agricultural purposes

is to purchase and operate the land itself.

- Parcel 1 is the only parcel with significant allowed economic use (Tourist/Recreational Commercial). This parcel is the one planned for the hotel and retail development. Using a residual valuation method, whereby the ultimate value of the development is estimated and the cost of construction deducted from that ultimate value, the land value is arrived at as the residual difference between those two estimates. RSG used this to estimate that the land is worth somewhere between $5.55 and $6.54 per square foot.
- Parcels 4, 10, 11 are discussed as potential golf course land. The owner of a portion of these lots, Carlsbad Ranch Company, was recently asking $2 per square foot for it and has not sold it as yet. Residual analysis yields $1.64 per square foot.
- The remaining 7 parcels are strictly agriculture. Assuming that it would be priced at what Coastal Sage Scrub habitat mitigation land sells for or what irrigated agricultural land is worth, RSG estimated a value for this land between $0.50 and $1.00 per square foot.

Rea & Parker Research has no issues of difference with the RSG report regarding the Updating of Codes, the relocation of the AHLF Discovery Center and the Trail savings. Further the differences with two of the other components of this section are quite minor, as follows:

- Purchase Price of the 7 Agricultural Parcels: Rea & Parker Research has found that mitigation and/or agricultural land near the coast sells for much closer to $1.00 per square foot than to $0.50 and has used that higher value in Table 3.
- Golf Course Development Impact Fees: As was discussed above, if the golf course is to be a municipal course, development impact fees will either not be paid or they will be paid by transferring City funds from one account into another and are not really a loss to the City.

The major difference rests in the valuation of Parcel 1. The RSG residual value of $6.05 (midpoint of range) is considered by Rea & Parker Research to be very low. While the residual value approach may be of some use, the market comparison approach, when comparable property data is available, is a stronger appraisal method. It is known that parcels of this size in Oceanside, much farther from Interstate 5 sell for $10-$12 per square foot. The School District owns property at Cannon Road and College Boulevard that it was considering seeking trying to sell at a price of $1 million per acre ($23 per square foot). It was determined that they would not be able to achieve that price; however, the fact that they were considering that price is reflective of the $6.05 value being much too low. Rea & Parker Research, as is the case with RSG, is not an appraiser of real estate; however, it is felt that a $16 per square foot value is much closer to reality than is $6.05, and the $16 cost is used in this report.

Table 3
One-Time Costs to City of Carlsbad from Passage of
"Save the Strawberry & Flower Growing Fields Act of 2006"

	RSG*		Rea & Parker Research	
Infrastructure Impact Fees**	$7,226,000		$6,646,000	
Update Local Codes/Ordinances	175,000		175,000	
Acquisition of Parcel 1	9,150,000		24,200,000	
Acquisition Price/sf	$6.05		$16.00	
Acquisition of Parcels 4, 10, 11	6,200,000		6,200,000	
Acquisition Price/sf	$1.64		$1.64	
Acquisition of Other Parcels	9,600.000		12,800,000	
Acquisition Price/sf	$0.75		$1.00	
Relocation of AHLF Discovery Center	700,000		700,000	
Savings on Trail Improvements	<542,000>		<542,000>	
Total One-Time Costs to City of Carlsbad	$32,334,000		$50,179,000	

*RSG provided range of possible values in report without indicating probabilities for either extreme. In those cases, the numbers used in Table 3 are midpoints of the RSG ranges.

** A number of other impact and processing fees are generally paid by developers at the commencement and/or during construction. These fees include plan checks, environmental impact reports and assessments, master and specific plan revisions, and various processing fees, among others. For purposes of this report, these fees are considered to offset actual expenses incurred by the City in processing the potential development and are, therefore, not shown as either a benefit or cost.

Impact on Employment

Table 4 shows the number of jobs estimated to be created by development of the Parcel 1 alternatives. RSG shows that somewhat in excess of 900 jobs will be created at the rate of 1 job per hotel room and 1 job for every 500 square feet of retail space. RSG, as was the case above, did not employ any substitution factor to reduce this estimate to account for movement of employees from one Carlsbad retailer to another as sales shift among them.

Table 4 Job Generation by Development Alternatives			
RSG		**Rea & Parker Research**	
Without Hotel	**With Hotel**	**Without Hotel**	**With Hotel**
926	**902**	**1389***	**1263***
*** Assumes that 1/4 of retail employees are transfers from elsewhere in Carlsbad—consistent with substitution effect.**			

Rea & Parker Research shows a stronger job growth at approximately 1,200 jobs. The difference between Rea & Parker Research and RSG lay in the job creation factors used for retail. Whereas RSG uses 1 job per 500 square feet, Rea & Parker Research has found that 1 job for every 250 square feet for retail is a better factor. That alone would result in 1852 jobs for Option 1 and 1684 jobs for Option 2; however, when the 1/4 substitution factor is applied, the number of new jobs is reduced to 1,389 for Option 1 and 1,263 for Option 2.