AGENDA REPORT

DATE: May 18, 2021

AGENDA OF: May 25, 2021

DEPARTMENT: Economic Development

SUBJECT: Resolution Declaring Two Non-Contiguous City-Owned Parcels on the 300 Block of Front Street as Exempt Surplus Property Pursuant to the Surplus Lands Act (Cal. Govt. § 54220, et seq.) (ED)

RECOMMENDATION: Resolution declaring two non-contiguous parcels designated in the records of the Santa Cruz County Assessor as APN-005-151-48 (consisting of approximately 4,623 sq. ft.) and APN-005-151-35 (consisting of approximately 4,407 sq. ft., as exempt surplus property pursuant to the “Surplus Lands Act” (Cal. Govt. Code § 54220, et seq.).

BACKGROUND: The City of Santa Cruz is the owner in fee simple title of three parcels along Front Street north of Laurel: (i) APN 005-151-34 containing 4,081 square feet and located directly across Front Street from Maple Street; (ii) APN 005-151-35, a 4,407 square foot parcel located generally north of the Santa Cruz Community Credit Union at 322 Front Street and currently used as a portion of a City parking lot; and (iii) APN 005-151-48, a 4,623 square foot parcel currently used as a landscape buffer between Laurel Street and a parking lot leased by the City at 316 Front Street.

Over the past year, City staff have been in communication with a private developer concerning the developer’s proposal to acquire two of the City-owned parcels to incorporate into a mixed use commercial/hotel project (the “Project”) that would span north from the corner of Laurel and Front St., bordered by Front St. and the San Lorenzo River levee. The Project would include a 152,000 square foot, six-story hotel with 228 guest rooms, with amenities including retail and café space along Front St., meeting rooms, event/ball room, restaurant/bar with outdoor terraces facing the San Lorenzo Riverwalk, gym/spa, and rooftop pool and cocktail lounge. The parcels highlighted in blue, below, would be incorporated into the Project footprint.
As part of the Project, the developer would be required to improve the City-owned parcel to the north (highlighted in green) into a public paseo, pursuant to the Downtown Plan, connecting Front Street with the San Lorenzo Riverwalk. This would in effect serve as an extension of the public paseo currently being designed for Maple Street between Pacific Avenue and Front Street as part of the Pacific Station South project, the 89 unit mixed-use affordable housing project currently in development across the street from the proposed Project.

DISCUSSION: Under the California Surplus Land Act (hereinafter “the Act”) (Cal. Govt. Code § 54220, et seq.), when a local agency sells or leases land that is no longer necessary for the agency’s use, it must prioritize it for affordable housing, open space, and other state purposes if it meets certain criteria. As a threshold matter, the Act applies to land meeting the criteria set forth in the statute, unless it qualifies as “exempt surplus land”. “Surplus land” is broadly defined as land owned in fee by any local agency “for which the agency’s governing board takes formal action in a regular public meeting declaring the land is surplus and is not necessary for the agency’s use.” “Exempt surplus land” is defined in the Act, in part, as land that is sold to an owner of contiguous land that is “(i) less than 5,000 square feet in area, or (ii) less than the minimum legal residential building lot size for the jurisdiction in which the parcel is located, or 5,000 square feet in area, whichever is less . . .” The parcels the developer is seeking to acquire for the Project, meet the definition of “exempt surplus land” because APN-005-151-35 is less than 5,000 square feet in area and, although APN-005-151-48, as measured by its property boundaries it exceeds 5,000 square feet, the developable portion not encumbered by a City right-of-way measures 4,623 square feet.

Prior to the recommendation to declare the City-owned property as exempt surplus land, staff evaluated the parcels referenced above for suitability as affordable housing. While the two contiguous City-owned parcels located at the northern end of the proposed Project, APN 005-151-34 and APN 005-151-35, currently meet the minimum zoning requirements to develop as mixed-use affordable housing, the combined parcels are still undersized and the limited economy of scale and development cost per unit would be cost prohibitive and unlikely to attract an affordable housing developer. Additionally, as referenced above, the northernmost City-owned parcel APN 005-151-34 is not under consideration for declaration or exempt surplus land or public sale and has long been identified as the main public paseo connection to the San Lorenzo Riverwalk as a continuation of the existing Maple Alley corridor (future Maple Public Paseo) which has been incorporated into the Downtown Plan, numerous grant funding applications, and currently in development as part of the two Pacific Station mixed-use affordable housing projects, Pacific Station North and Pacific Station South.

Pursuant to Section 54221(f)(2) and 54222(b) of the Act, prior to the disposal of exempt surplus land located within a Coastal Zone, a written notice of the availability of surplus land for open-space purposes must be sent to: (1) any park or recreation department of any city within which the land may be situated; (2) any park or recreation department of the county within which the land is situated; (3) To any regional park authority having jurisdiction within the area in which the land is situated; and (4) the State Resources Agency or any agency that may succeed to its powers. If the Council approves the proposed resolution, City staff will send written notification to the above entities to begin the noticing process for the availability of the above declared exempt parcels for purchase at fair market value. Following the conclusion of the noticing period, staff will return to Council for consideration of any park related interest or, if no interest is received, to receive Council direction regarding negotiating with the developer of the proposed Project concerning price and terms of the potential sale of the proposed exempt surplus property. At a minimum, the sale would
be contingent on the developers’ securing necessary land use approvals and financing, and pursuing construction of the project to completion.

*Health in All Policies.* The three pillars of Health in All Policies include equity, public health, and sustainability. The proposed action considers these pillars in a variety of ways. It would provide for the enhancement of pedestrian access to the Riverwalk and a direct link between the Pacific Avenue commercial corridor and the Riverwalk. It would convert a portion of an existing parking lot to a new community paseo for residents and visitors alike to enjoy. It would promote sustainability by contributing to a vibrant downtown, activating the enjoyment of the San Lorenzo River corridor with new shops and cafes, while providing a new source of badly needed revenue of City sales and hotel tax revenue, which will enhance the City’s general fund to pay for services and amenities like parks and recreation facilities and programs, transportation improvements and public safety services.

**FISCAL IMPACT:** The proposed Project would have a positive fiscal impact including a one-time revenue increase for the sales price of the parcels, and an ongoing positive fiscal impact in the form of increased transient occupancy tax revenue generated by the Project, and sales tax revenue from the Project as well as from local businesses that serve hotels guests.

Prepared/Submitted by:  
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Approved by:  
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**ATTACHMENTS:**  
1. RESOLUTION