

Agricultural Policies Study and General Plan Amendment

Recommended Approaches to Agricultural Preservation

February 18, 2009

Presented by:

Economic & Planning Systems
House Agricultural Consultants



Overarching City Goal

Establish a viable long-term Agricultural/
Open Space Preservation Program

Key Agricultural Policy Issues in Morgan Hill

- Is agriculture viable in Morgan Hill in the long term?
- What set of policies and programs will lead to long term agricultural land preservation?
- Is mitigation for agricultural land loss needed, and what form of mitigation is feasible?

Tonight's Topics

Tonight we will discuss:

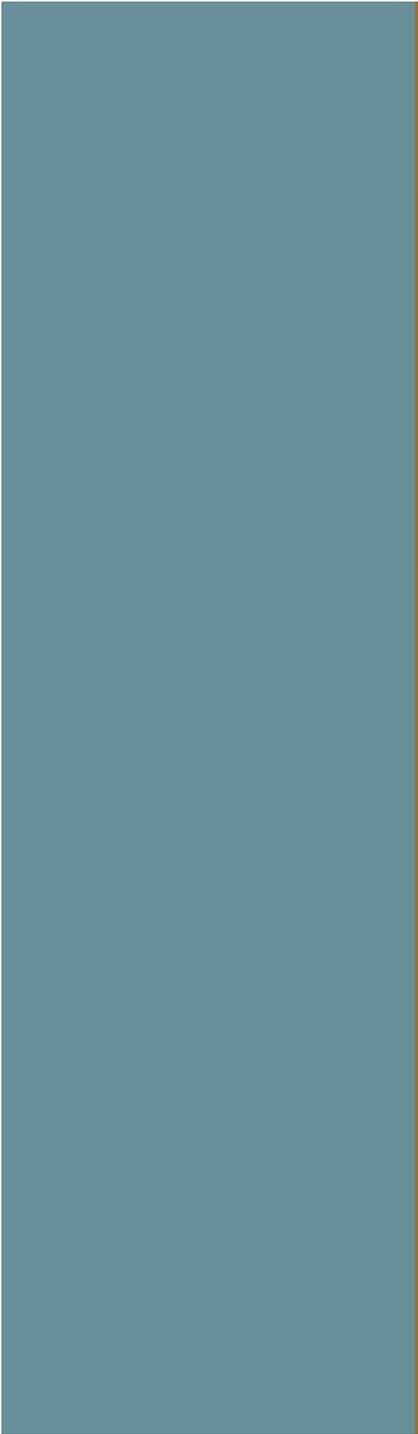
- Agriculture has a viable future in Morgan Hill
- An agricultural land loss mitigation program is feasible
- A comprehensive approach to agricultural land preservation is necessary to make it happen

Agricultural Preservation in Context of Broad City Goals

1. Managed City Growth
2. Promotion of Sports-Recreation-Leisure
3. Potential for future urban development outside existing City limits
4. Greenbelt role for SEQ
5. Preference for preservation and use of funding proximate to Morgan Hill

Presentation Structure

- I. Existing Conditions and Analysis
- II. Recommended Preservation Program
- III. Illustrative Preservation Scenario
- IV. Potential Priority Areas and Conclusions



I. EXISTING CONDITIONS AND ANALYSIS

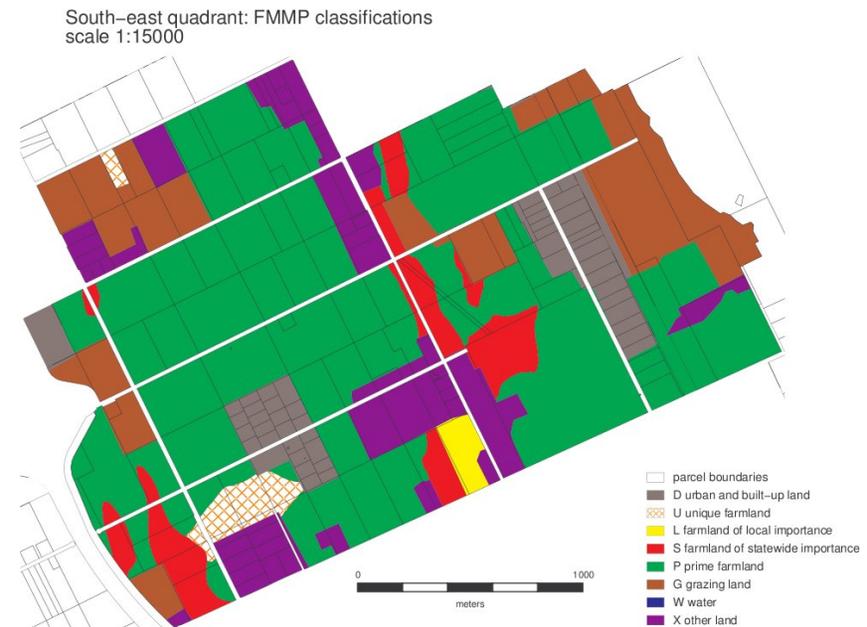
A. Agricultural Viability

B. Economic Conditions/
Development Feasibility

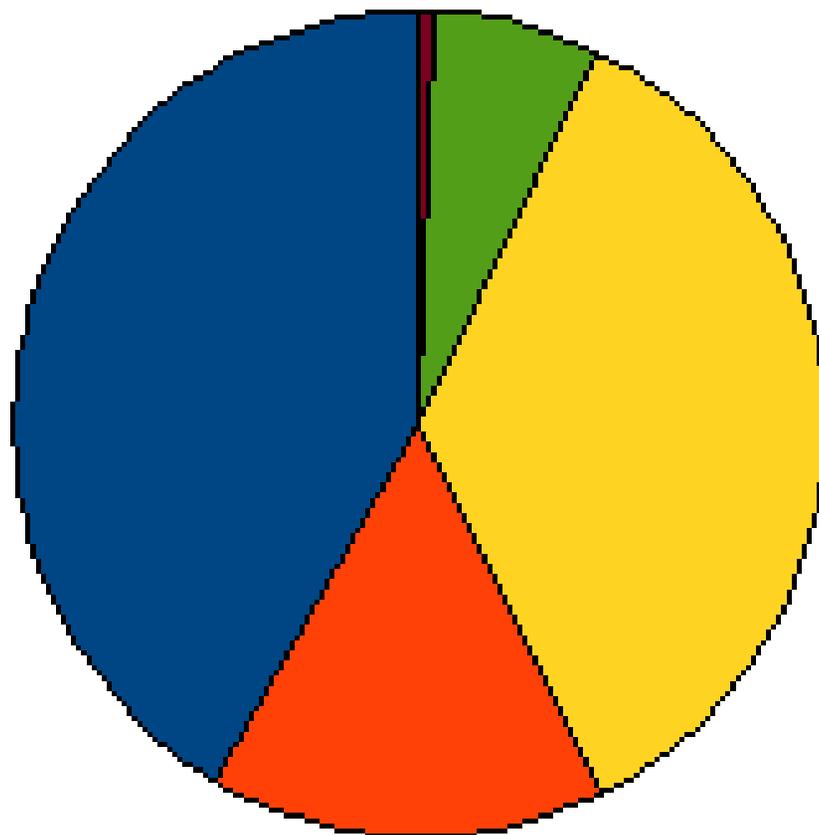
A. AGRICULTURAL VIABILITY

Existing Conditions

- 1,247 total acres in SEQ; 647 are prime farmland
- Many small size parcels
- High land cost for agriculture
- Of 90 total growers, 80 farm less than 50 acres
- This area widely seen as “threatened farmland”
- Disruptions and hazards from urban proximity



Morgan Hill Sphere of Influence Crop Acres in 2006



acres

795 Vegetables

678 Pasture & hay

298 Fruit & nuts

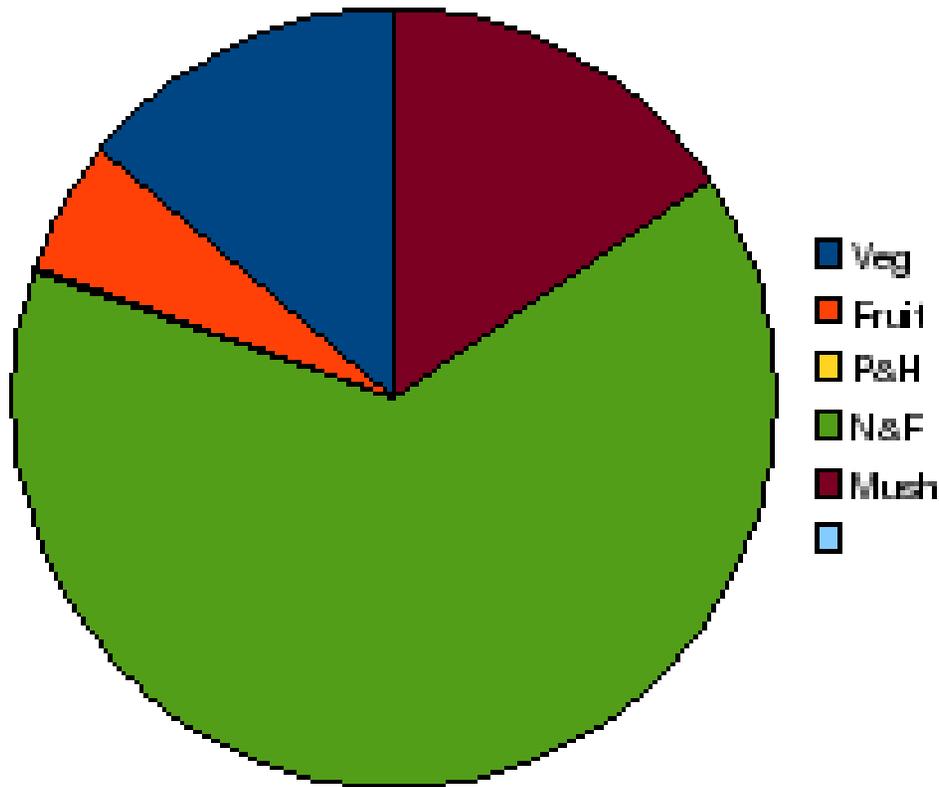
126 Nursery & flowers

12 Mushrooms

1,909 acres total



Morgan Hill Sphere of Influence Dollar Value of Crops in 2008



\$ millions

\$19.2 Nursery & flowers

\$ 4.7 Mushrooms

\$ 4.2 Vegetables

\$ 1.6 Fruit & nut

> \$ 0.1 Pasture & hay

\$29.8 Total

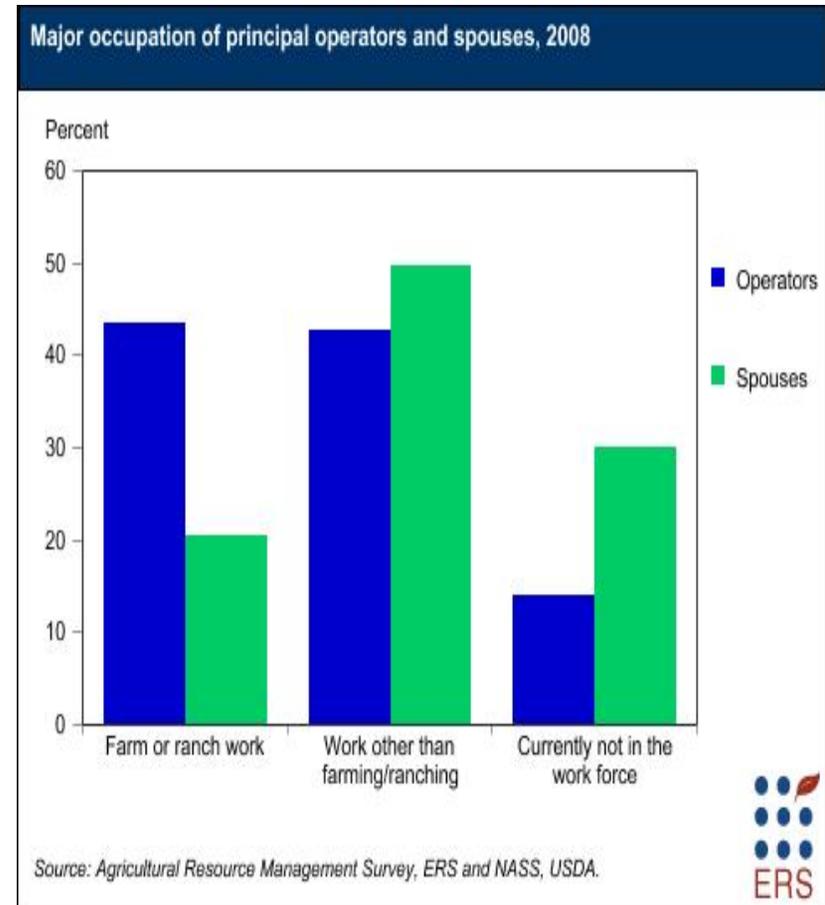
What Does Viable Agriculture Mean in Morgan Hill?



- Land continues to be farmed
- Net profit, multi-year basis
- No distinction in type or scale
- Part-time OR full-time farmers

Major Occupation of Farm Operators in 2008

- Nationally, approx. 43% of farmers say farming is their major occupation
- 42% say work other than farming is their major occupation
- 88% of all Farm Household Income comes from non-farm sources (2004-2008)
- Source: USDA/ERS



Small Farm Sustainability Threshold

January 2010 report by University of California Small Farm Center found:

- A threshold for small farm economic sustainability is approximately \$25,000 in annual gross revenues
- Approximately 50% of farms with \$10,000-\$25,000 annual farm revenue reported a net profit in 2007
- Over 60% of farms with \$25,000-\$50,000 annual farm revenue reported a net profit in 2007
- Over 70% of farms with \$50,000-\$250,000 annual farm revenue reported a net profit in 2007

What Agriculture is Viable in Morgan Hill?

- Large-scale production agriculture not viable in long term
- Small-scale agriculture remains viable
 - Nursery and flowers
 - Farms emphasizing local sales
 - Community farm and education center
 - Community garden allotments



Different agriculture for different MH areas

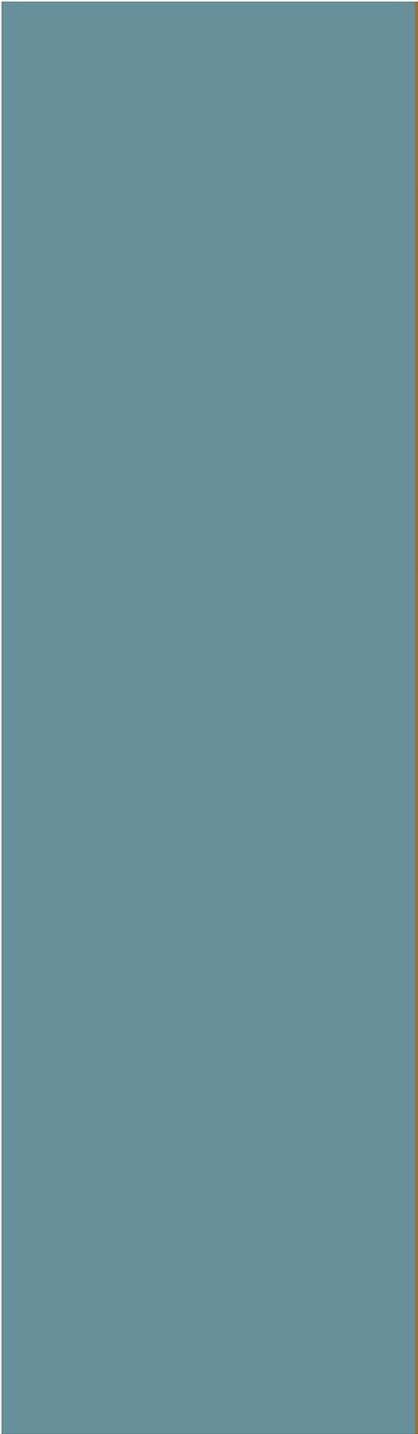


- Community gardens in urban areas and within buffer areas
- Agricultural educational center at urban edge
- Small commercial farms for direct marketing at urban edge
- Nurseries, flowers, small farms near S-R-L uses

What can be done to help viability of agriculture ?

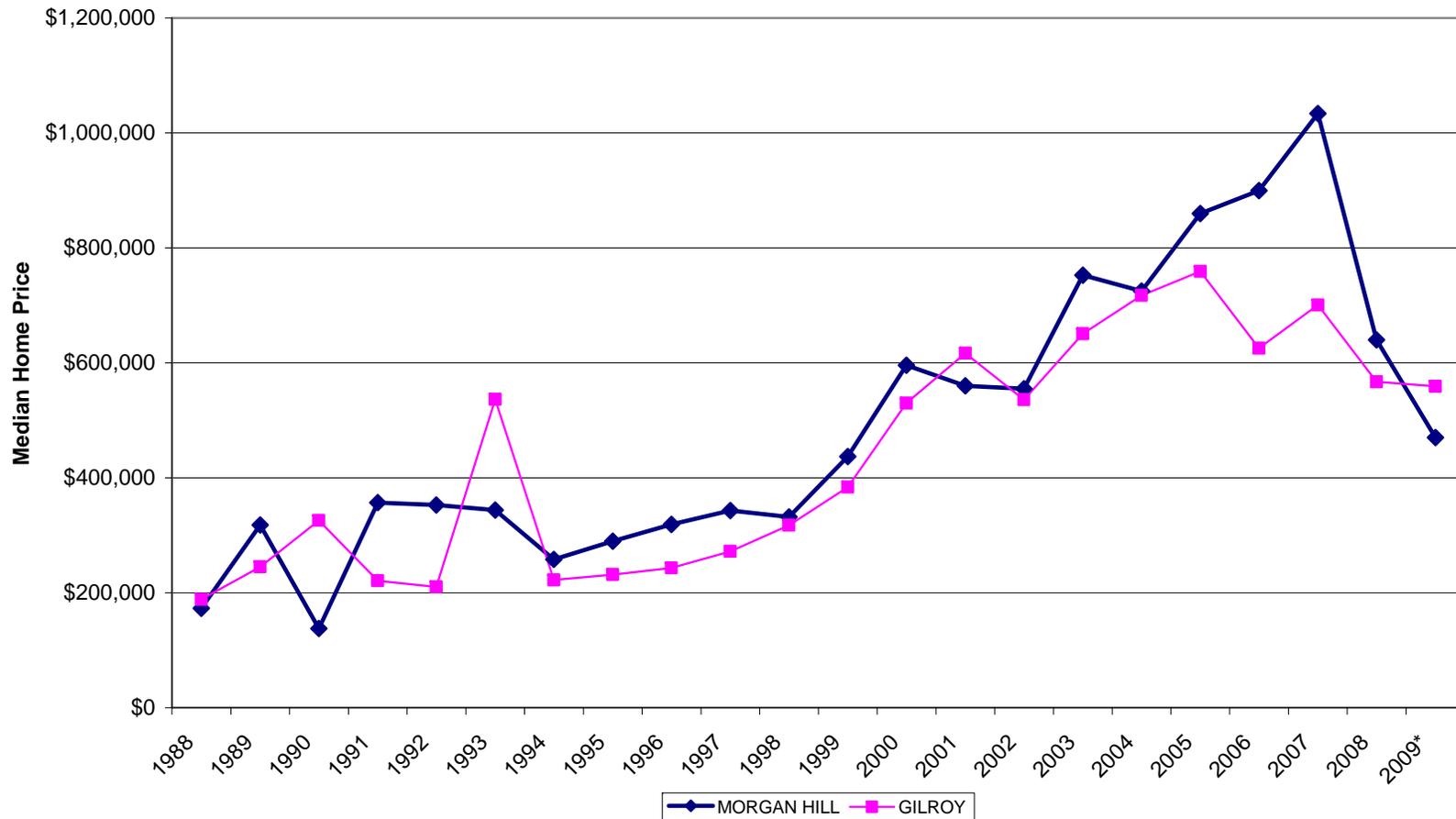
- Keep land costs in line with agricultural income
- Implement traffic calming measures
- Maintain buffers at urban interface
- Keep taxes & fees in line with agricultural income
- Implement supportive policies such as Right to Farm Ordinance





B. ECONOMIC CONDITIONS/ DEVELOPMENT FEASIBILITY

Median Home Prices - New Homes



- Prices of new homes increased an average of 13% annually from 1998-2007
- Prices fell 55% from the 2007 peak

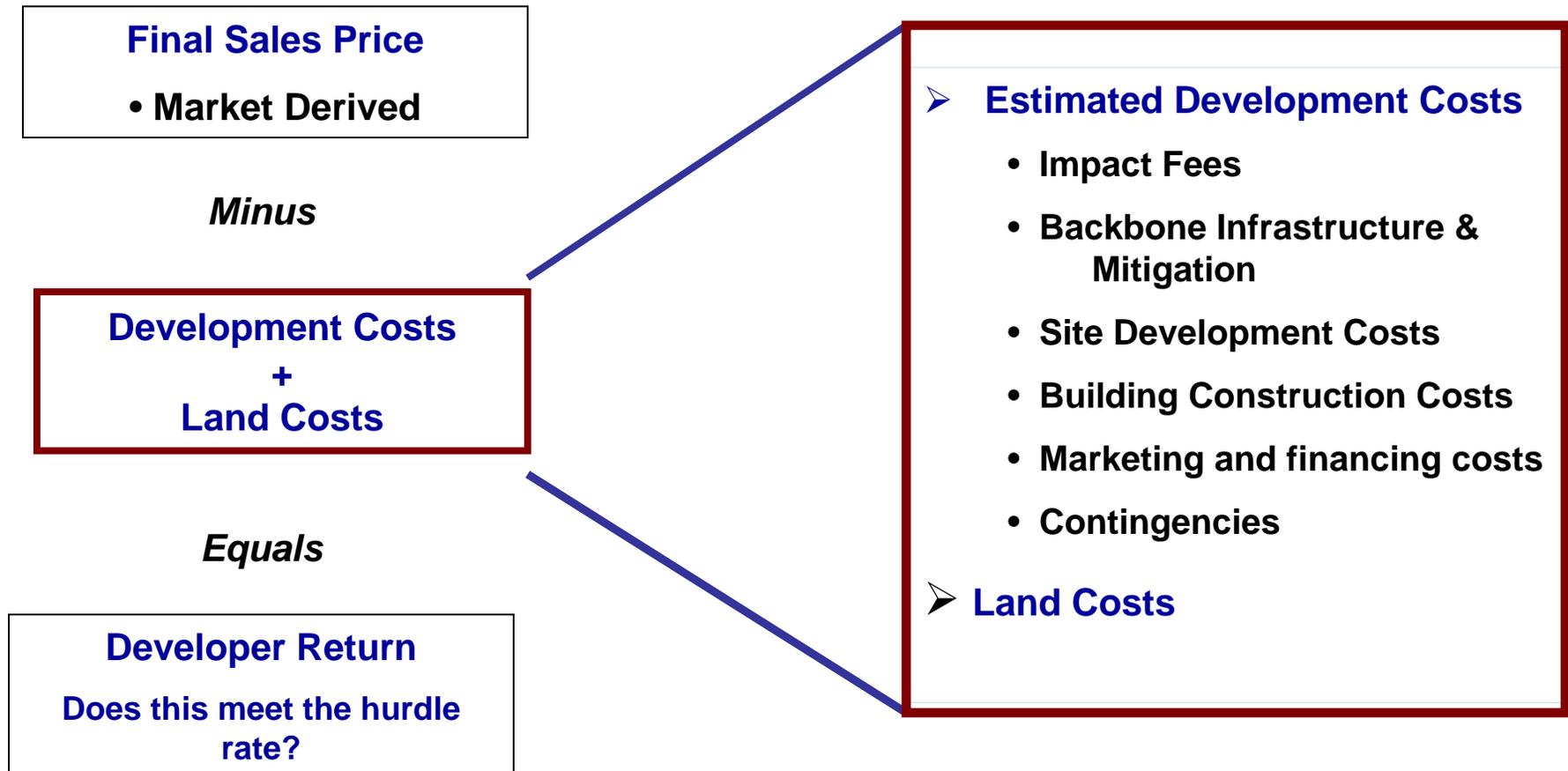
Residential Development Feasibility Illustration

Development Feasibility and Market Conditions

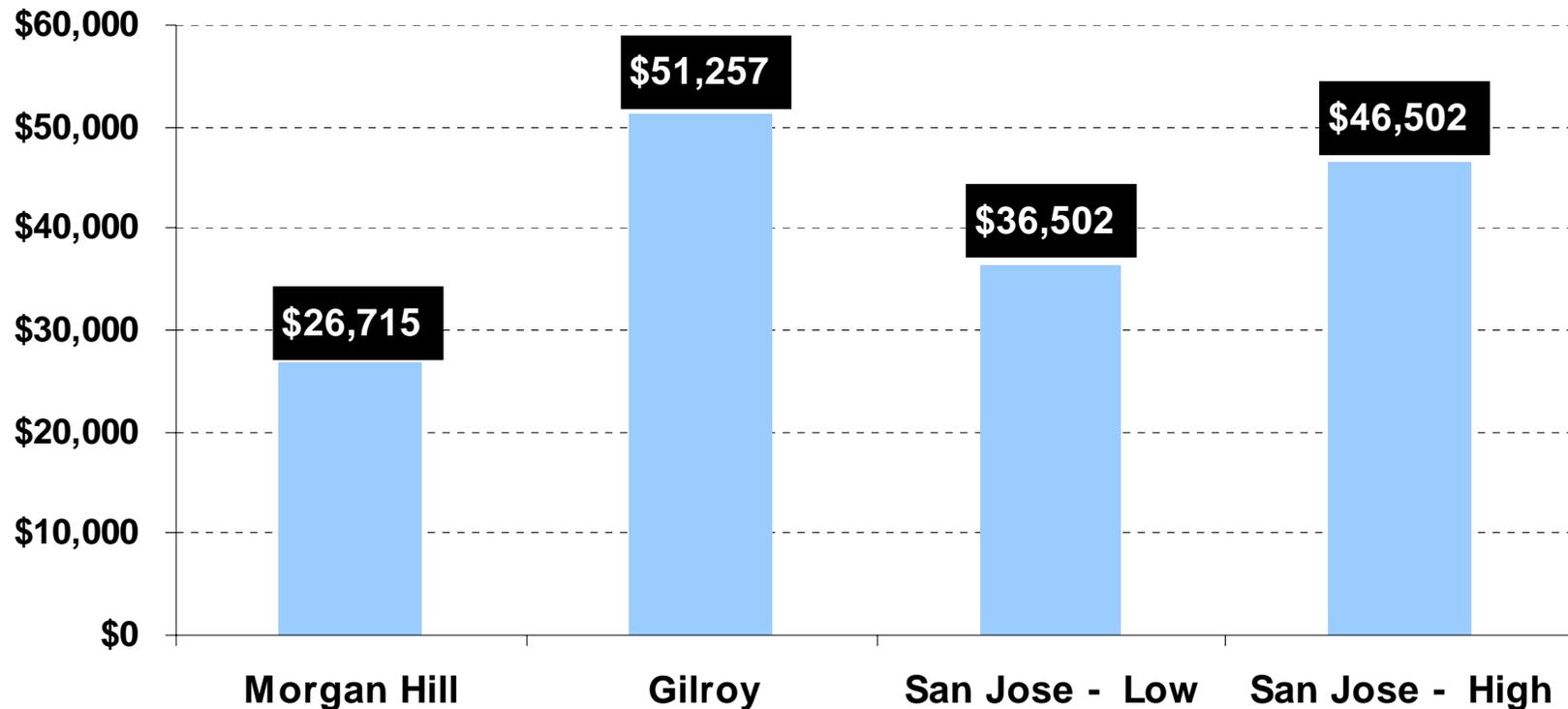
Item	Current	Improved	Signif. Imp.
Sales Price	\$500,000	\$525,000	\$600,000
Costs	\$500,000	\$475,000	\$520,000
Profit	\$0	\$50,000	\$80,000
Return	0 %	10.5 %	15.5 %

Hurdle Return: 10 – 15 %

Builder Feasibility Test?

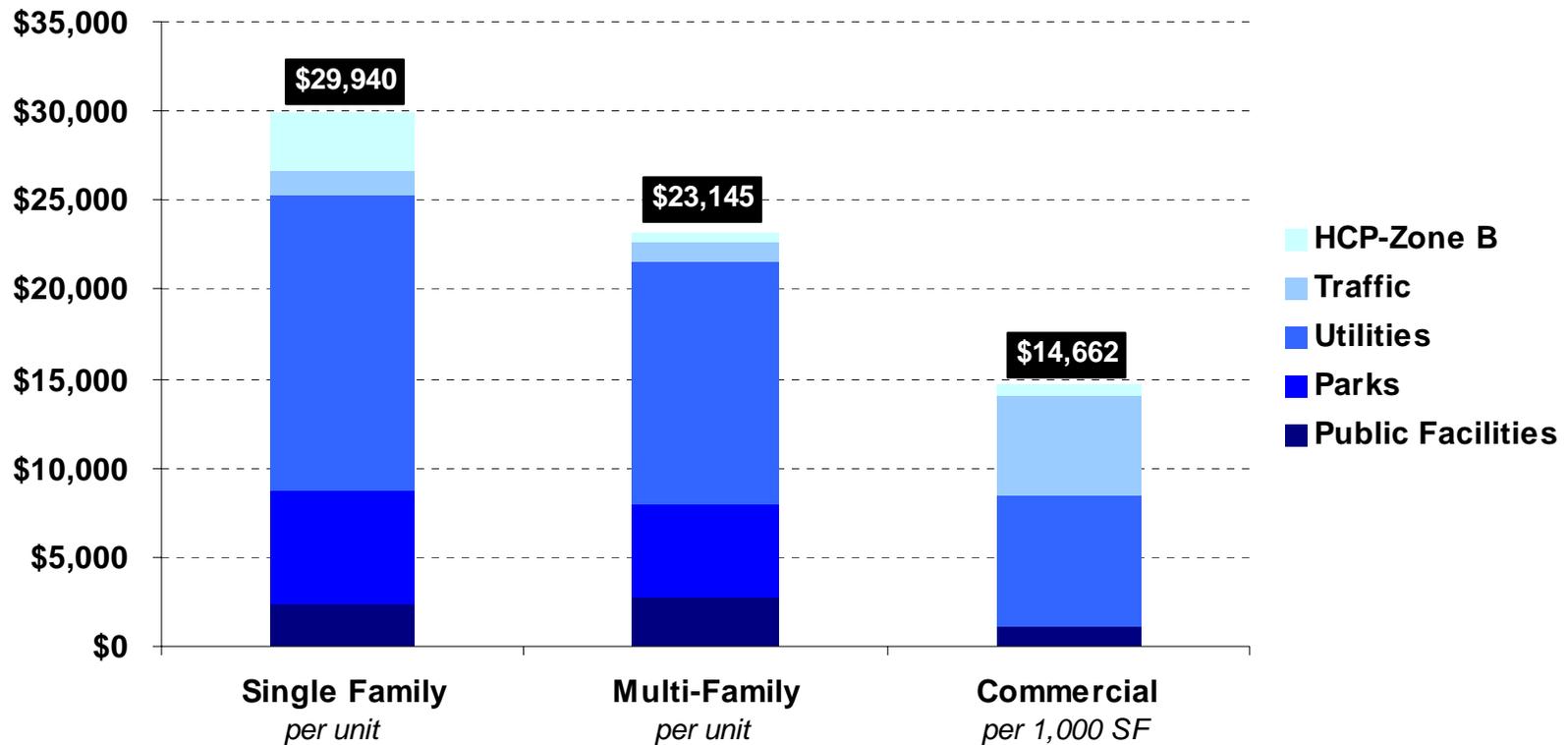


Local Development Fee Comparison



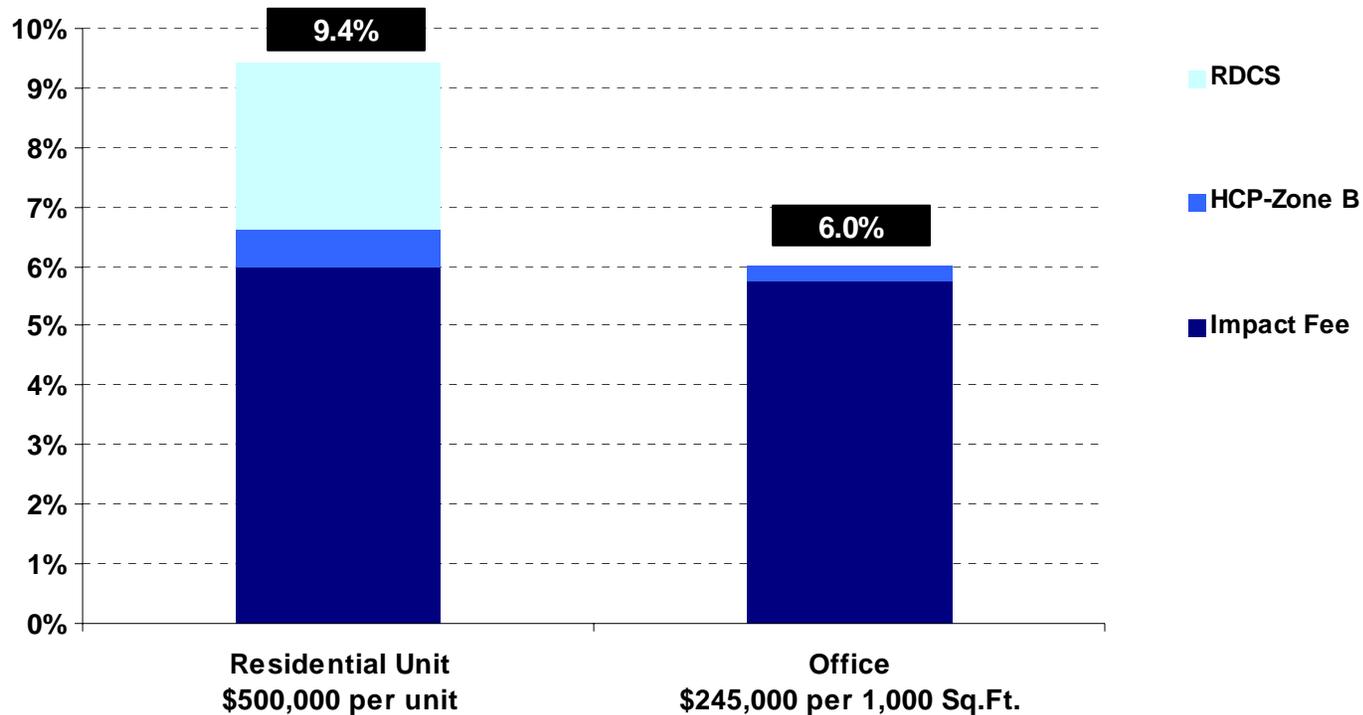
- Fees per single-family unit
- Include local development impact fees; Do not include HCP fees
- San Jose fees vary based on the level of the traffic fee which in turn vary by sub-area

Existing and Proposed Development Fees



- HCP fees assumed for Zone B (agriculture) area and calculated by estimating a development density for each use.
- City is expected to review its current traffic fee; updated traffic fee is not reflected in chart.

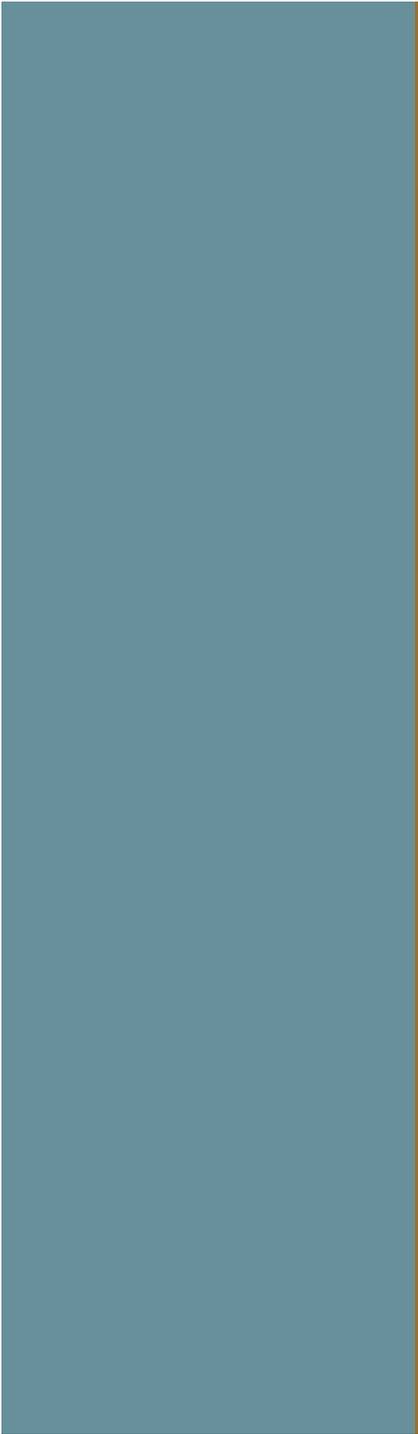
Estimated Fee Burden



Market values for residential and office uses estimated based on recent market reports. RDCS revenue includes \$6,000 for parks, \$3,000 for Open Space, and \$5,000 for other capital improvements. Does not include commitments to below market rate units.

Additional Development-Based Charges?

- Difficult time to add development fees/ charges
- Market will improve over time providing opportunities for increased fees
- Development fees/ charges should be refined over time as market/ other factors change (periodic updating)
- Selected exemptions/ fee reductions may be appropriate (e.g. less intensive S-R-L uses; economic development)



II. RECOMMENDED PRESERVATION PROGRAM

- A. Preservation Mechanism/ Approach
- B. Governance
- C. Agricultural Mitigation
- D. Clustering
- E. Transfer of Development Rights
- F. Other Tools/ Funding Sources



A. Permanent Preservation Mechanism and Approach

Permanent Preservation Tool

Permanent Agricultural Conservation Easements on:

- Private ownership
- Public ownership
- Have been used for agricultural land preservation in USA for nearly 30 years
- The Land Trust Alliance reports there are currently 1,700 land trusts in the USA using conservation easements to protect wild lands and farmland

Key Conservation Easement Features

Typically a permanent easement:

- Prohibits subdivision or urban development
- May permit residential structure, but location limited
- All agricultural uses are permitted
- Farm buildings permitted
- Land typically remains in private ownership, encumbered by easement
- In some cases, land is owned by public or quasi-public entity, still encumbered by conservation easement

City Adopts ACE Program

- ACE =Agricultural Conservation Easement Program
- City or land trust to obtain funding, identify willing sellers, complete transaction, and either monitor easements or manage land or leases
- Ability to pool multiple sources of funding and take strategic approach to purchases
- Funding often from mitigation fees, grants, and other available sources
- Also hold dedicated or donated easements
- Requires experienced organization with necessary skills and sufficient funding for both acquisition and ongoing management and administration
- Only voluntary strategies with willing landowners being considered by City

B. Governance

Governance Structure

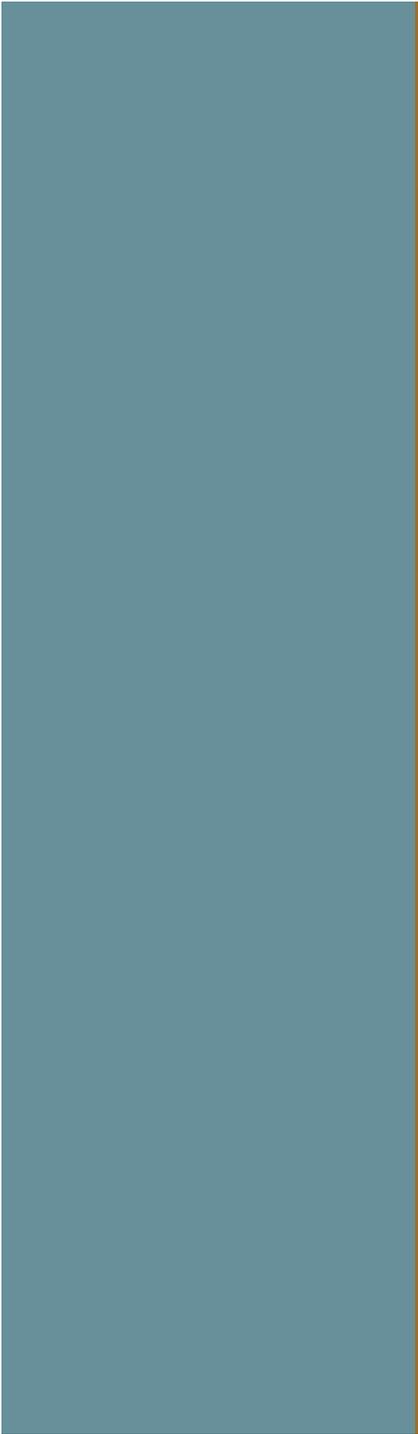
Ownership and Maintenance

- Ownership responsibilities
 - Monitoring use-compliance with the easement
 - Defending legal challenges to the easement
- A regional land trust, such as Santa Clara County Open Space Authority (SCCOSA), may be best suited to holding (or co-holding with the city) the agricultural-conservation easements.

Governance Structure

Role of Local Land Trust

- It is suggested that a local land trust:
 - Pursue strategy for land preservation
 - Negotiate deals and make acquisitions
 - Hold easements or co-hold with the city
- Experience shows that in land conservation, land trusts and conservancies are viewed with greater trust, have greater latitude to negotiate, and get more popular support than government agencies.



C. Agricultural Mitigation Program

Preservation Tools

Agricultural Mitigation Program: Purpose

- If a development project would result in agricultural land loss and that loss is significant, then under California Environmental Quality Act (CEQA), feasible mitigation must be provided.
- Mitigation programs can help avoid lawsuits
- LAFCo calls for adoption of agricultural preservation policy

What Agricultural Land Loss is Significant?

- CEQA does not specify what types of agricultural land
- CEQA Guidelines suggest evaluating loss if there is conversion of the 3 top land-use categories of the California Important Farmland Mapping System:
 - (1) Prime Farmland
 - (2) Unique Farmland
 - (3) Farmland of Statewide Importance
- LAFCo has a different definition of Prime Farmland
- Williamson Act offers a third definition of Prime Farmland

Recommended Agricultural Land Loss Determination Tool for Morgan Hill

- Use the Important Farmland Mapping System Maps and its definitions and categories of Farmland except that if irrigation is feasible then there is no time requirement for the use of irrigation
- Use a modification of the California Land Evaluation and Site Assessment (LESA) model to evaluate the significance of individual tracts of land
- LESA evaluates soil quality, water availability, size of site, presence of nearby agriculture, and presence of nearby land protected from urban development
- Modify the California LESA such that a 10-acre or larger land parcel is fully scored as viable and sustainable.

Preservation Tools

Agricultural Mitigation Program: Recommend

GP Policy Recommendation

Establish Citywide Agricultural Mitigation Program

- (1) Phased mitigation fee for conversion of agricultural land found to be significant (using modified LESA model)
 - Phase 1 (2010): No Mitigation Fee
 - Phase 2 (2011/ 2012): \$10,000 per acre
 - Phase 3 (2013 +): \$20,000 per acre
- (2) Periodic review/ update of fee over time (feasibility, program success)
- (3) No fee on rural residential development under existing zoning
- (4) Potential exemptions/ reduced fees
(e.g. less intensive S-R-L; economic development etc.)

D. Clustering Program

Preservation Tools

Clustering Program: Definition/ Potential

- Clustering allows landowners to cluster existing homesite entitlements in exchange for permanent preservation on other portion of land
- Clustering can be a powerful mechanism for preserving agricultural land and generating value for land owners
- Potential Benefits to Landowners: savings in infrastructure costs, assembly of more marketable parcels, and appeal of an adjacent preserved area
- Limited interest if parcel sizes already small, need for distinct well/ septic systems for each parcel, and road network already provides access to most of the parcels

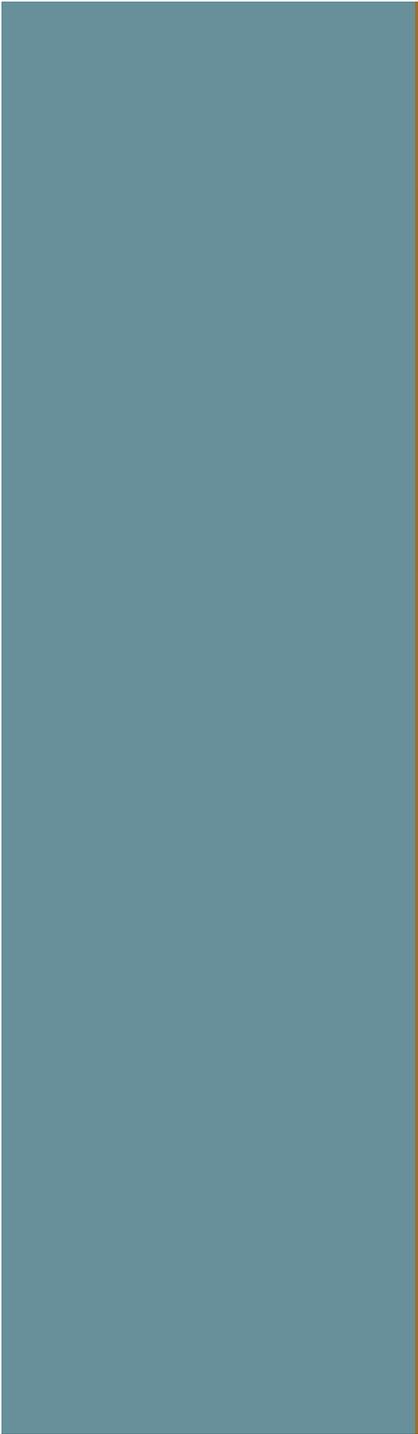
Preservation Tools

Clustering Program: Recommend

GP Policy Recommendation

Establish Clustering Program

- Retain flexibility to decide on case-by-case basis whether to allow clustering on particular sets of parcels
- Establish consistent set of ground rules if clustering allowed
- City retains say on which portion(s) of land suitable for homesite clustering versus preservation
- City sets rule on proportion of land requiring agricultural/open space easement dedication
- For example, dedication requirement of between 30 and 70 percent of overall land area
- Consider allowing low intensity S-R-L uses on preserved areas



E. Transfer of Development Credits Program

Preservation Tools

TDC Program: Existing Program

- Existing Citywide Transfer of Development Credit (TDC) ordinance/ program
- Under Residential Development Credit System (RDCS), developers can contribute towards open space preservation in hillsides
- Contributions increase points, increasing competitiveness for allocation of limited residential entitlements

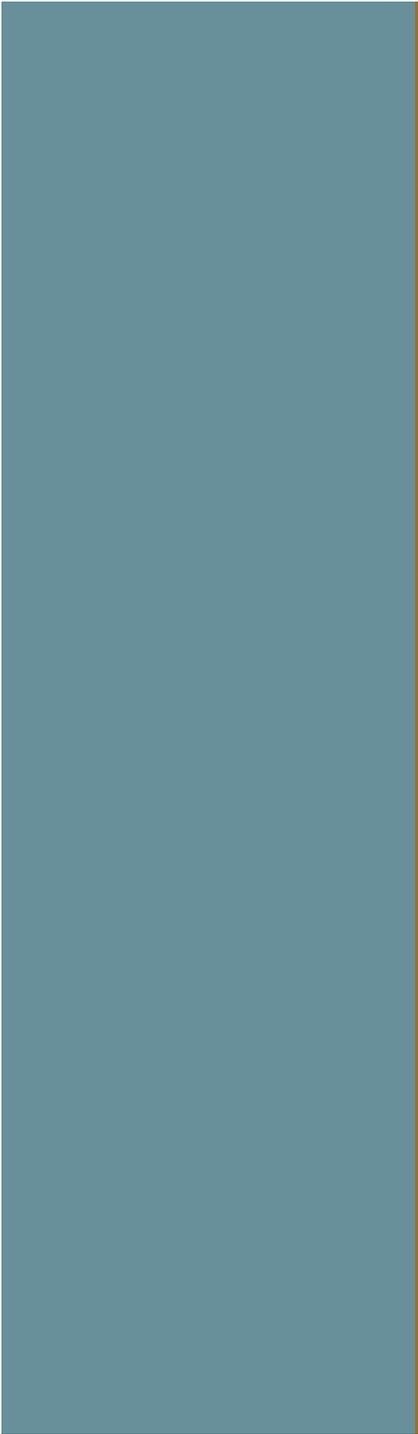
Preservation Tools

TDC Program: Recommend

Ordinance Refinement Recommendation

Refine existing TDC Ordinance

- Refine ordinance to allow use of funds for broader City goal of preservation of agricultural/ open space lands
- Allow revenues to support agricultural preservation program



F. Other Tools/ Funding Sources

Preservation Tools

Other Tools/ Funding Options

Donations

- Federal and State laws provide tax benefits to landowners for donating land for agricultural or open space purposes
- Recommend: Ensure donation opportunity provided and advertised by implementing entity/ partner

Agricultural Preservation Grants (Federal, State, Other)

- Farm & Ranch Preservation Program (USDA), California Farmland Conservancy Program, and Packard/ Other Private Non-Profit Foundations
- Applicants with matching funds have higher priority
- Recommend: Implementing Entity should pursue broad set of grant opportunities

Preservation Tools

Other Tools/ Funding Options, cont'd

Partnerships/ Collateral Grants

- Other grants available for related benefits (open space/ greenbelts/ habitat preservation)
- A number of organizations/ efforts with potentially overlapping goals, such as The Nature Conservancy, Trust for Public Land, Local Land Trusts (Santa Clara County Open Space Authority/ Peninsula Open Space Trust), Santa Clara Valley Habitat Conservation Plan
- Recommend: Seek opportunities to partner and additional grant funding

Preservation Tools

Other Tools/ Funding Options, cont'd

Citywide/ Countywide Special Taxes

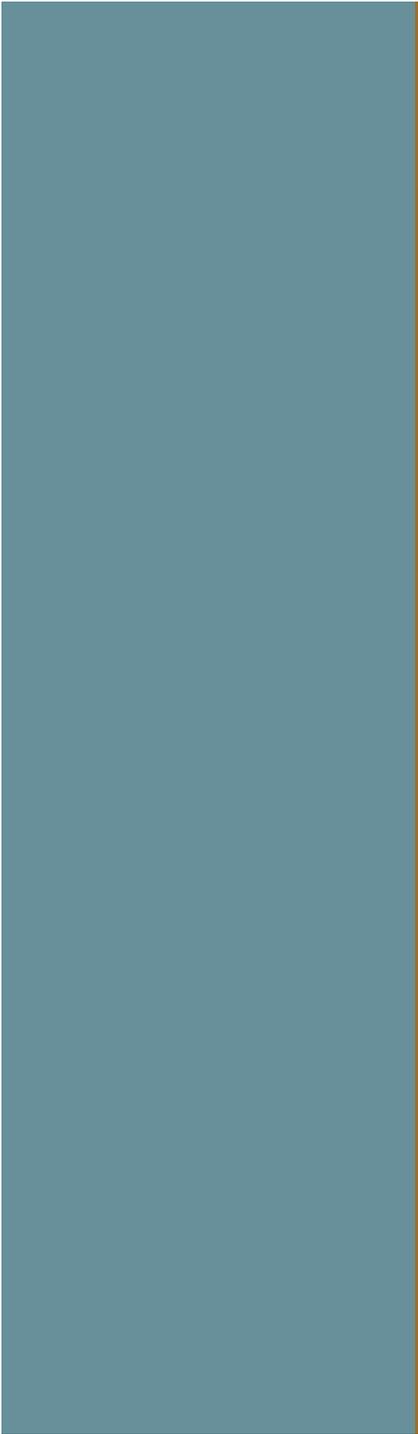
- The most successful agricultural/ open space preservation programs have ongoing source of dedicated local funding available
- Sonoma County Agricultural and Open Space District sales tax; East Bay Regional Park District assessments
- Requires two-thirds vote in favor
- Recommend: Explore support for agricultural/ open space special tax in City of Morgan Hill

Preservation Tools

Other Tools/ Funding Options, cont'd

Development Impact Fees

- More appropriate role for mitigation fees in supporting agricultural/ open space preservation
- Feasibility constraints given existing fee structure and potential Habitat Conservation Plan and agricultural mitigation fee additions
- Recommend: Limit role of development impact fee to inclusion of agricultural education center in public facilities capital improvement list



III. ILLUSTRATIVE PRESERVATION SCENARIO

Land Preservation Potential



(1) Portion of funding may be allocated to ongoing agricultural preservation costs.

Fee Title Land Values

Land Values	Now	Improved
Incorporated City, Zoned Residential (served by infrastructure)	\$500,000	\$650,000 per acre
Outside MH City Limits		
2-acre residential lots (ready to go)	\$250,000	\$325,000 per acre
4/ 5-acre parcels	\$150,000	\$250,000 per acre
5 - 20 acre parcels	\$60,000	\$100,000 per acre
20-acre parcels	\$35,000	\$65,000 per acre
Gilroy		
Gilroy Agricultural Parcels	\$10,000	\$30,000 per acre

Illustrative Optimistic Revenue Estimates

Item	Year 0 [1]	Years 1-10	Years 11-20	Total
		<i>millions</i>		
RDCS Open Space Fund [2]	\$2.0	\$4.2	\$3.2	\$9.4
Mitigation Fees [3]	\$0.0	\$2.7	\$2.2	\$4.8
Mitigation Fees (SRL in SEQ) [4]	<u>\$0.0</u>	<u>\$1.0</u>	<u>\$1.1</u>	<u>\$2.1</u>
Total	\$2.0	\$7.8	\$6.5	\$16.3

[1] Includes a portion of the existing \$2.7 million in the Open Space Fund.

[2] Assumes 50 percent of estimated \$3,000 in RDCS open space revenue per unit. Expected development based on City forecast of roughly 240 units per year (outside of Downtown).

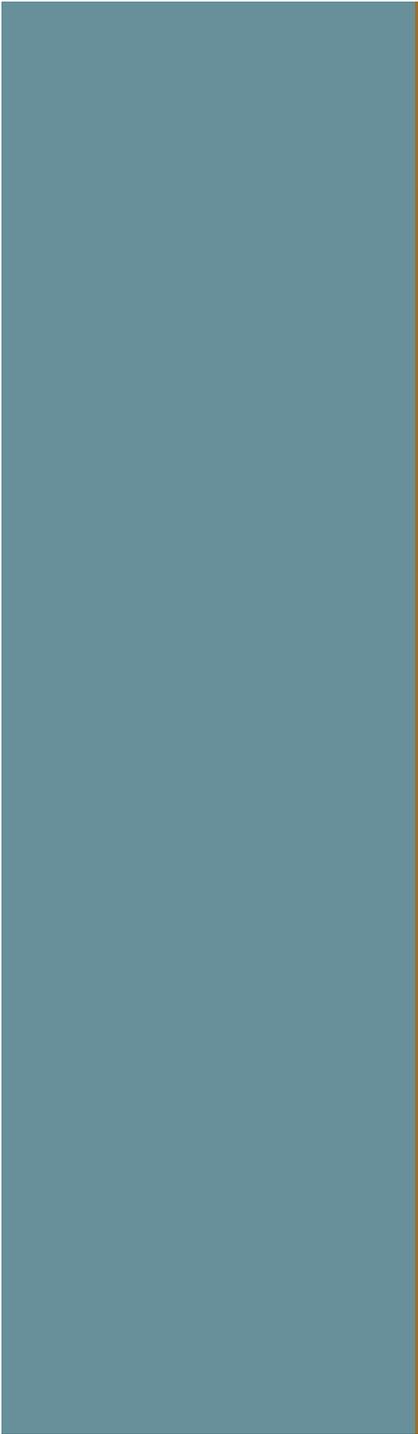
[3] Assumes \$10,000 per acre mitigation fee in 2011-2012 and \$20,000 per acre mitigation fee thereafter (no dedication) paid by development. Of the roughly 1,200 acres of development expected over the 20 year period, 250 acres of prime farmland of significance in the City limits are projected to be subject to the mitigation fee.

[4] Development of 110 SRL acres expected over the period, all inside subdistrict B, where more intensive SRL may be allowed.

Optimistic Preservation Scenario

Item	Year 0	Years 1-10	Years 11-20	Total
		<i>acres</i>		
Acres Conserved via Easement/ Purchase [1] (@\$50,000 per acre)	32	125	104	260
Acres Conserved via Clustering/ Dedication	<i>-- to be determined --</i>			

[1] Acres conserved calculated by assuming 80 percent of program funding is put towards fee title or conservation purchase (program funding from previous slide). This amount is divided by an illustrative blended easement purchase price of \$50,000 per acre.



IV. POTENTIAL PRIORITIES AND CONCLUSIONS

Why do any planning for agriculture?

- There is viable agriculture worth preserving
- There are tools available to assist in preservation
- Community can plan its future
- Process is voluntary for landowners

What are your planning goals for agriculture in Morgan Hill?

- Greenbelt, city separator
- Landscape, scenic open space
- Local food self sufficiency
- Educational center
- Thriving agricultural businesses



Local Food Production

Table 4.1: Per Capita Consumption Estimates by Food Group, in Pounds

Food Group	Loss-Adjusted Food Availability Data		FCID (Dietary Surveys)
	Primary Weight (lbs)	Consumer Weight (lbs)	Dietary Survey Weight (lbs)
Fruits	266	175	202
Vegetables	350	238	106
Protein	546	416	87
Milk	284	252	248
Grains	161	142	74
Nuts, Oils, Herbs	95	75	26
Sugars*	141	125	52
Total	1,842	1,423	794

* Not recorded in Ag Commissioner production data

Source: Derived from Loss-Adjusted Food Availability, USDA/Economic Research Service; Revised Food Commodity Intake Database, USDA/Agriculture Research Service.

- Estimated annual land needs for 40,000 population:
- 400 acres fruit
- 150 acres vegetables
- 500 acres grain
- (Table 4.1 from San Francisco Foodshed Report by the American Farmland Trust, 2008)

Community Farm & Education Center



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Support Local Farmers

- USDA grants available for food-related education, building community facilities, and rural business enterprises
- Potential for Gavilan College to establish agricultural program
- Community farm and community garden plots

Example Preservation Concept: Greenbelt



Source: City of Morgan Hill Community Development Department, MBA GIS, 2009



Michael Brandman Associates

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Land Use Program 2

CITY OF MORGAN HILL SOUTHEAST QUADRANT GENERAL PLAN AMENDMENTS
ENVIRONMENTAL IMPACT REPORT

Example Preservation Ag. Preserve



Source: City of Morgan Hill Community Development Department, MBA GIS, 2009



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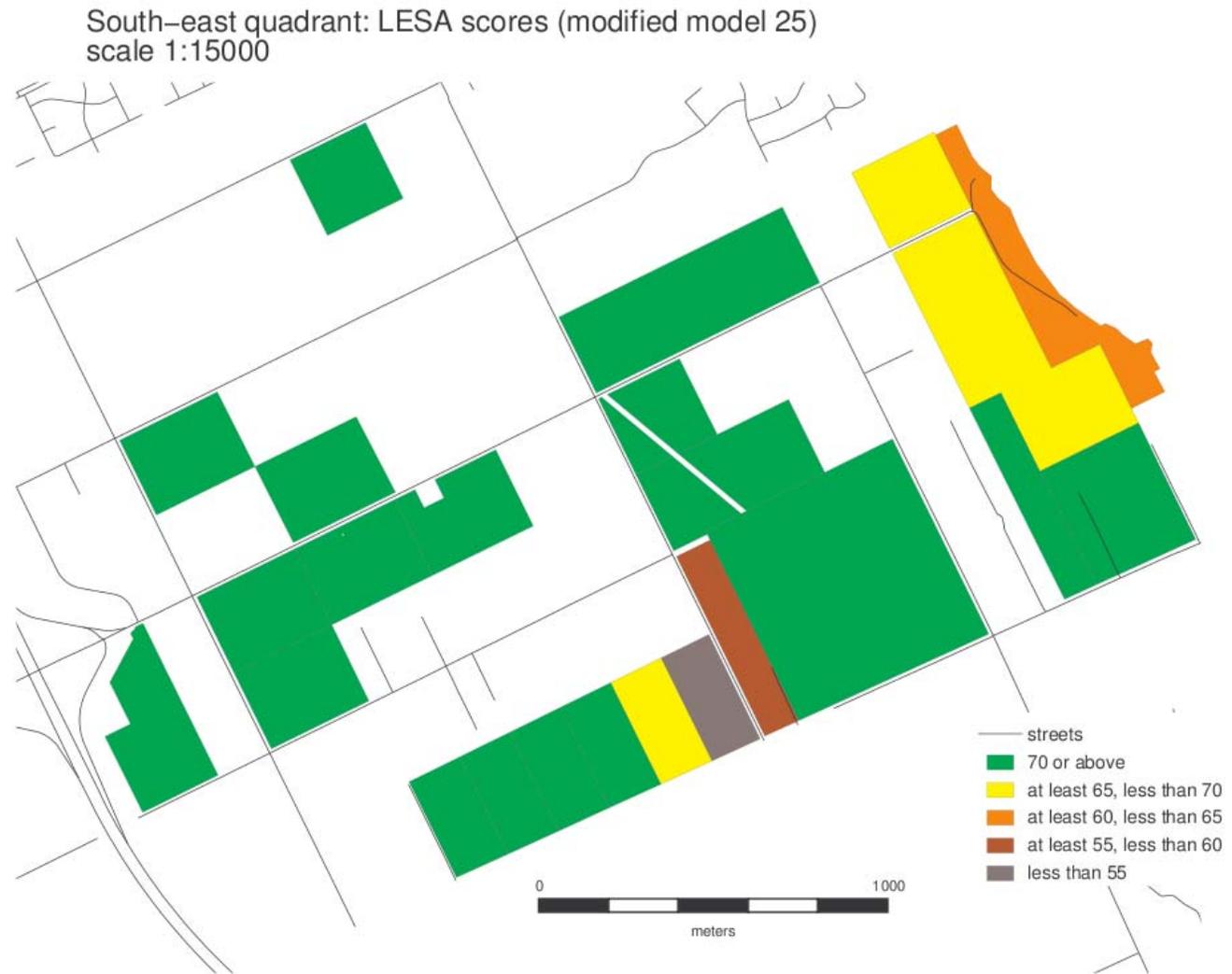
Land Use Program 1

CITY OF MORGAN HILL SOUTHEAST QUADRANT GENERAL PLAN AMENDMENTS
ENVIRONMENTAL IMPACT REPORT

Recommendation: Create & Adopt a Preservation Priority Map

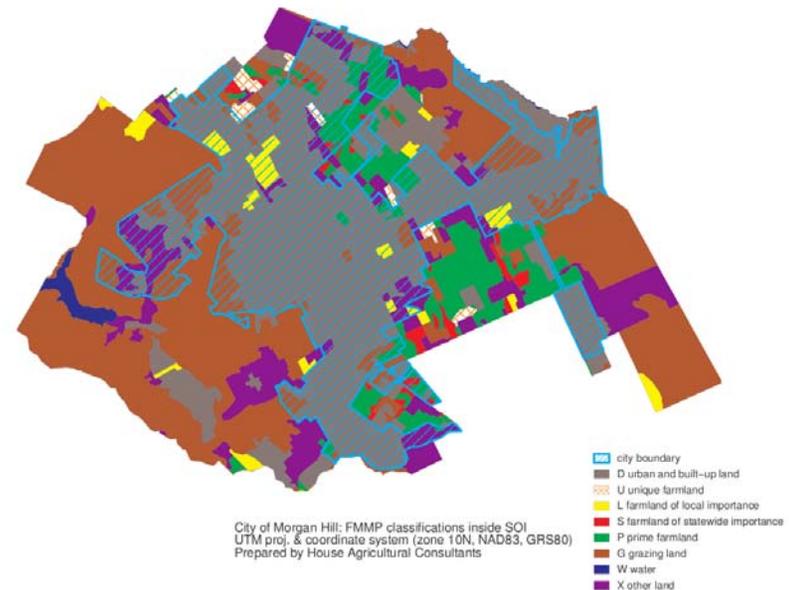
- Modified LESA model can be used to identify lands with high priority for preservation
- Target Prime Farmland (per Important Farmland Maps)
- Properties over 10 acres in size are a priority
- Contiguous blocks of land are highly desirable for undisturbed agricultural operations
- Priority Areas not just a goal for mitigation program, but a community goal to be pursued using all types of preservation methods discussed tonight
- Following example uses the modified LESA, prioritizes approximately 419 acres

LESA Model Priority Area Map: SEQ



Priority Modeling for Entire Morgan Hill Area

- LESA model can be used to prioritize lands worth preserving throughout city
- Criteria can be modified to reflect different needs for different areas of MH, such as
 - 1) farm enterprise district
 - 2) community gardens
 - 3) education center



Benefits of Farm Land Preservation in Morgan Hill

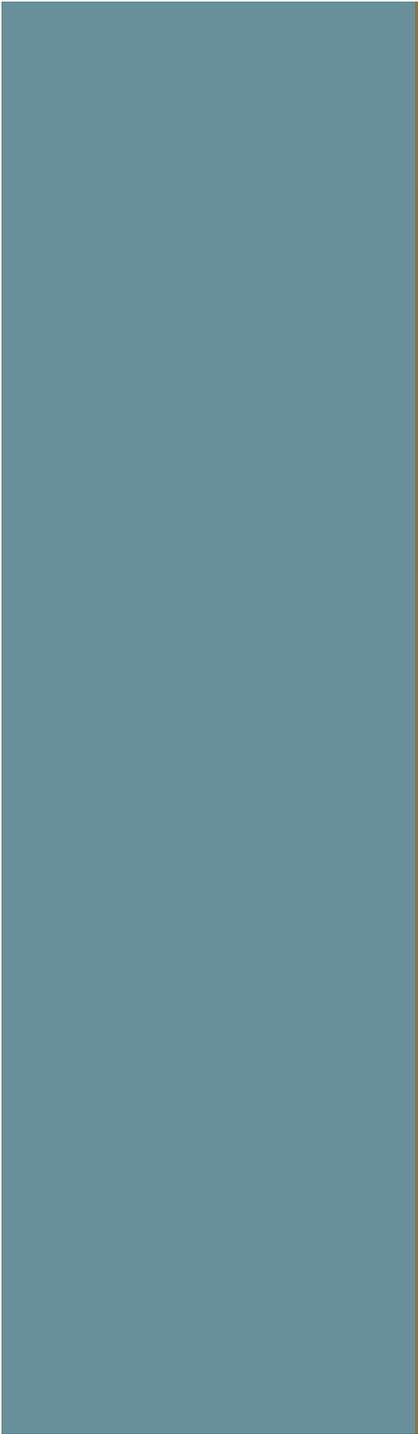
- Greenbelt and greenway buffers
- Retain/enhance local food production
- Retain agricultural history/character of Morgan Hill
- Community farm, gardens, educational center



Conclusion: Farmland Preservation is Possible in Morgan Hill!



- Supportive City policies and GP Amendment
- Establish mitigation and clustering programs
- Apply for grant funding
- Develop partnerships
- Local land trust needed
- Community participation: this is your place



Questions/Comments