



San Diego County
Local Agency Formation Commission
 Regional Service Planning | Subdivision of the State of California

5C

AGENDA REPORT
 Business | Information

June 21, 2024

TO: Special Districts Advisory Committee
FROM: Michaela Peters, Analyst II
SUBJECT: **Tentative Draft Report on Municipal Service Review on the Oceanside Region**

SUMMARY

The Special Districts Advisory Committee (“Committee”) will receive a tentative draft report on the scheduled municipal service review on the Oceanside Region. The tentative draft has been prepared as part of the adopted workplan and independently assesses the availability, need, and adequacy of key public services provided in the region and specifically by the principal local government agencies subject to Commission oversight – City of Oceanside, Oceanside Small Craft Harbor District, and Morro Hills Community Services District. This includes preparing determinations addressing the factors required in statute as part of the municipal service review process as well as informing other LAFCO decision-making – including future boundary changes and sphere of influence updates in the region. The staff presentation will detail the tentative draft report’s preliminary conclusions and recommendations with the qualifier work on the document has been paused at the request of the City to provide comments before a formal public comment period is initiated. The item is being presented for discussion with the opportunity for the Committee to provide feedback on the scope and scale of the tentative draft as well as its performance measurements given its common application going forward for all local agencies.

BACKGROUND

State law directs San Diego LAFCO to regularly prepare municipal service reviews in conjunction with updating each local agency’s sphere of influence as well as informing potential jurisdictional changes within the affected territory over the next five-year period.

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The legislative intent of the municipal service review and its five-year cycle requirement is to proactively inform the Commission regarding the availability and sufficiency of governmental services relative to current and future community needs. LAFCO also utilizes municipal service reviews as source documents to take other actions under its authority, such as forming, consolidating, or dissolving one or more special districts.

DISCUSSION

This item is for the Committee to receive a presentation on San Diego LAFCO's tentative draft municipal service review on the Oceanside region. The tentative draft was presented to the Commission for preliminary discussion at its June 3, 2024 meeting with direction to place a 4-week hold on initiating a public review and comment period and in doing so allow the City to perform a more in-depth review of the document given their initial feedback. The presentation will include a summary of preliminary conclusions and recommendations in the tentative draft for Committee review and discussion. Feedback will aid staff in proceeding forward with preparing a final document for future action by the Commission and/or apply to other future municipal service reviews.

A prospectus covering the tentative draft report's key conclusions and recommendations is provided as Attachment One. The full draft report is available online at www.sdlafco.org.

ANALYSIS

See Attachment One.

RECOMMENDATION

This item is presented to the Committee for discussion and feedback only.

ALTERNATIVES FOR ACTION

None.

PROCEDURES

This item has been placed on the Committee's agenda for information as part of the business calendar. The following procedures are suggested.

- 1) Receive verbal presentation from staff unless waived.
- 2) Discuss item and provide feedback as appropriate.

Respectfully,



Michaela Peters
Analyst II

Attachment:

- 1) Prospectus on the Oceanside Region
Tentative Draft, May 2024



Municipal Service Review OCEANSIDE REGION

Tentative
Draft

PROSPECTUS | MAY 2024



General Themes and Conclusions

The Oceanside region serves as a historical flagship community anchoring northern San Diego County with a current estimated population approaching 180,000 – making it the third largest municipal footprint behind only San Diego and Chula Vista. The City of Oceanside is the economic and social epicenter. It accounts for nearly all residents and jobs in the region. This also includes serving as a daily host to an additional 70,000 residents, workers, and visitors associated with Marine Corps Base Camp Pendleton to the immediate north. Oceanside Small Craft Harbor District overlaps all of Oceanside with service functions focused on the approximate 100-acre Oceanside Harbor and its role as a micro hub for marine and pleasure activities serving locals and tourists.

The physical setting of the region largely reflects a traditional suburban layout. Smaller single-family and multi-family residential lots dominate the older blue-collar developments in Oceanside west of I-5 paired with local serving commercial corridors and headlined by Old Coast Highway.

Densities gradually decrease eastward towards increasingly larger single-family residences via a series of subdivisions constructed between the 1950s and 2000s. The suburban layout cedes at South Morro Hills, which serves as Oceanside's unofficial greenbelt and remains – at least to date – largely agricultural with rural single-family residential uses. Morro Hills Community Services District lies immediately to the east of Oceanside's unofficial greenbelt and has already experienced its own transition away from historical agricultural uses to now mostly upscale residential estimates. More of this acreage appears to have been left fallow and suggests – among other items – the cost of growing avocados in the "Avocado Capital of the World" for many local farmers has become unsustainable.

Consequently, and in the absence of a turnaround and/or replacement crop emerging, the region will increasingly become an intersection point where the demand for housing in greater San Diego County meets the supply of available land.

» General Themes and Conclusions

A review of the Oceanside region relative to San Diego LAFCO's growth management tasks and interests produces seven central themes or conclusions. These conclusions collectively address core policy considerations and related growth and development factors present in the region. The conclusions also address potential sphere of influence changes among the three affected local agencies. The conclusions are independently drawn and sourced to information collected and analyzed by the Commission between 2018 and 2022 with limited exceptions and detailed within each of the agency profiles provided in the next chapter.



The Oceanside Pier, first built in 1888 (and now in its sixth incarnation), is one of the longest wooden piers on the western United States coastline, at 1,942 feet (592 m).

No. 1 Introductory Municipal Service Review

This report represents the first comprehensive municipal service review dedicated to the Oceanside region and three affected local agencies under LAFCO oversight – City of Oceanside, Oceanside Small Craft Harbor District (SCHD), and Morro Hills Community Services District (CSD). (Earlier municipal service reviews covering one or more of the affected agencies were part of countywide reports prepared in 2007 and 2009). The report consequently serves as a dual introduction. This is marked by introducing the affected agencies and their constituents in real-time to an otherwise unfamiliar and relatively detailed outside planning process. The introduction similarly introduces the Commission to the affected agencies and their service functions at depths previously unvisited with the underlying goal of establishing baseline information to track and measure going forward.

No. 2 Pivot to Slower Growth – the Good (Community Empowerment)

The City of Oceanside – the epicenter of the region's economic and social well-being – has experienced a significant slow-down in growth starting in 2000 with the annual population change averaging 0.4% through the end of the five-year report period – or the net addition of two persons each day. This period change marks a five-fold decrease over the prior 20-year span in which Oceanside averaged the net addition of 12 persons each day. This relatively seismic pivot towards slower growth appears largely attributed to changing resident demographics and the accompanying community empowerment to organize opposition to otherwise unwanted developments; the latter reflected in a successful 2020 ballot referendum overturning the City Council's 2019 approval of a 585-unit residential project in South Morro Hills (North River Farms).

No. 3

Pivot to Slower Growth – the Bad (Housing Affordability)

The City of Oceanside’s pivot towards slower growth starting in 2000 has contributed to a sizable acceleration in housing prices over the last 20 years and through the end of the five-year report period with the median home sale increasing from \$195,800 to \$784,800 – an average annual change of 14%. This period change marks a 50% rise over the prior 20-year span in which median home sales experienced an average annual rise of 10%. The acceleration of home prices in Oceanside – among other outcomes – has noticeably impacted the market’s ability to construct new affordable workforce housing at the traditional entry levels – i.e., starter homes. This dynamic is reflected in the most recently completed housing element cycle (2013 to 2021) where only 23% of Oceanside’s assigned housing share at moderate or lower levels received building permits. Permits issued through the first quarter of the current housing cycle (2021–2029) suggest housing affordability at the moderate or lower categories will similarly fall substantively short of goals, albeit at improved levels with current projections showing the attainment level reaching 36%.



Oceanside Harbor

No. 4

Variations in Fiscal Health + Navigating Related Stresses

A prominent schism exists among the three affected agencies in the Oceanside region involving their fiscal well-being and navigating financial stresses. The City of Oceanside has steadied its financial position after several years of operating shortfalls in the General Fund in large part to successfully making the case to voters in 2018 to approve a seven-year one-half cent sales tax. Measure X reset Oceanside’s overall sales tax rate to 8.25% with the additional revenue broadly earmarked to improve City infrastructure and public safety. Measure X has been a clear success; it has reversed shortfalls into surpluses and underlies a significant two-thirds increase in General Fund reserves (\$66.5 to \$112.5 million) over the reporting period. Nonetheless, the extension of the one-half cent sale tax beyond its current sunset date in 2026 remains a pronounced variable in Oceanside’s near-term health and is expected to be taken up by voters in late 2024. While Oceanside’s fiscal health largely ties to the present and near-term status of Measure X, the other two agencies’ standing is comparatively more opaque, although for entirely different reasons. Oceanside SCHD, similar to its parent

governing body, has steadied its actual expense-to-revenue relationship through incremental budgeting true-ups. These budgeting actions have contributed to a helpful increase of nearly one-fourth in SCHD’s unassigned fund balance (\$3.7 to \$4.6 million) over the reporting period. However, the budgeting true-ups have not addressed decades of deferred or otherwise neglected maintenance. This qualifier is illustrated in capital assets (docks, pilings, piers, etc.) having surpassed their expected useful lives by more than two-fold and serves as a critical stress test for SCHD going forward. Unlike the other two agencies in the region, Morro Hills CSD has maintained a positive actual revenue-to-expense relationship through the reporting period without any obvious hardships; at least that are known. The CSD operates entirely within the confines of the annual collection of its 1% property tax share, which netted \$0.090 million at the end of the reporting period. Although CSD has been effective in keeping expenses in line with annual revenues – which is also reflected in an unassigned fund balance increasing by more than four-fifths (\$0.142 to \$0.267 million) during the period – less is known regarding pending costs. Specifically, no pavement rating has been performed on CSD’s 6.0-mile roadway system nor has a capital improvement plan been prepared. These factors directly contribute to a subtle – but real and emerging – stress test.



Mission San Luis Rey, Oceanside

» General Themes and Conclusions

No. 5 Adequate Municipal Service Capacities with a Qualifier...

All three affected agencies in the Oceanside region have established sufficient and excess capacities involving their core municipal functions to meet both current and anticipated demands through the report's timeframe – at least on a macro level and irrespective of any micro limitations for specific areas. This overall sufficiency is reflected with the region's principal service provider – City of Oceanside – and its available resources involving water and wastewater, which traditionally represent the services most closely affiliated with either supporting or hindering new development. Markedly, and based on current demand-to-capacity ratios for the reporting period, it estimated the water and wastewater systems can accommodate buildout populations of 970,000 and 275,000, respectively.

A material qualifier applies, nevertheless, to Oceanside's other services that are dependent on General Fund monies and the uncertain status of Measure X and its critical revenue enhancement beyond the current sunset date in 2026. This latter variable suggests added caution in the interim for LAFCO in considering boundary actions and their potential impact – advantageous and disadvantageous – on the Oceanside General Fund.

No. 6 City of Oceanside's Role as an Urban Center + LAFCO Support

The City of Oceanside is favorably positioned to plan and accommodate additional growth and become a focal urban center for North County. This opportunity ties to Oceanside's role as a full-service municipality and the controls it provides paired with its physical location along existing major transportation corridors as well as planned expansions – including the modernization of rail (Metrolink and Amtrak) linking Oceanside throughout Southern California. This opportunity further ties and can be supported by LAFCO's own interests and duties to facilitate orderly and city-centered growth.

No. 7 Proceeding with Limited Sphere Updates + Telegraphing Potential Changes with Special Study Areas

It would be appropriate for LAFCO to proceed with limited sphere of influence updates for all three affected regions in the Oceanside region and defer consideration of more comprehensive actions to the next municipal service cycle. The approach would involve proceeding with affirming all three agencies current designations without changes. It would also involve establishing one or more specific special study areas to all three agencies to memorialize areas the Commission would allow to come forward over the next five-year period without requiring a new municipal service review. A key example includes establishing dual study areas for Oceanside and Oceanside SCHD and their matching spheres to include an approximate 150-acre area immediately to the southwest near Sunset Drive and Melrose Way that qualifies as a DUC under local policy.



Recommendations

The following recommendations call for specific action either from San Diego LAFCO and/or one or more of the three affected agencies in the Oceanside region based on information generated as part of this report. The recommendations are ordered in sequence to their placement in Section 5.0 (Written Determinations). Recommendations for LAFCO action are dependent on a subsequent directive from the Commission and through the annually adopted work plan.

1. As a long-term principle, LAFCO should prioritize and direct growth in the region to the City of Oceanside – including development that would otherwise occur in the surrounding unincorporated areas – and its appropriate role to serve as an urban center in San Diego County.
2. LAFCO should coordinate with SANDAG to develop current buildout estimates within the Oceanside region – including potential lot-splitting as allowed under Senate Bill 9 (Weiner) and incorporate the information into the next scheduled municipal service review.
3. LAFCO should coordinate with the County of San Diego to identify and map active wells and septic systems within the Oceanside region and incorporate the information into the next scheduled municipal service review.
4. Should Measure X's ½ cent sales tax expire during the timeframe of the report, all jurisdictional changes involving the City of Oceanside shall demonstrate de minimis impacts on the City General Fund unless overriding policy considerations are made by the Commission on a case-by-case basis.
5. It is appropriate for LAFCO to defer the identification and evaluation of mutual water companies in the Oceanside region as otherwise prompted in the LAFCO statute to a future informational report.
6. The City of Oceanside should revisit its arrangement with Oceanside SCHD involving the payment plan associated with the SCHD patrol vessel to account for the City's usage of the capital asset outside of the Oceanside Harbor.
7. Morro Hills CSD should explore options to contract with the City of Oceanside or the County of San Diego to provide road maintenance services at a pre-agreed hourly rate to help protect the CSD from variables – costs and availability – associated with the current practice to utilize private contractors as needed.



8. As the City of Oceanside proceeds to implement the initial phases of its novel Re-Beach program, it would be pragmatic to explore opportunities to enlist other local agencies in consolidating efforts – functional or political – given inescapable impacts and interests in beach restorations along the greater coastline. LAFCO should assist if Oceanside and/or other stakeholders wish to explore a political model to organize sand nourishment on a larger scale.
9. Efforts should be taken by Oceanside SCHD to publicly distinguish its role as a stand-alone governmental entity separate from the City of Oceanside.



Oceanside
Lighthouse at
Harbor Village

» Recommendations

10. Oceanside SCHD should formalize its existing relationship with the City of Oceanside through an official memorandum of understanding to clearly outline roles and responsibilities and associated costs in utilizing City staff, supplies, and resources in carrying out District duties.
11. Oceanside SCHD informally deactivated its previously authorized and active patrol and rescue municipal function in 2009 in step with these responsibilities being assumed by the City of Oceanside. SCHD’s legal authorization to provide patrol and rescue – however – remains active under State law. To clarify service expectations and mitigate potential liabilities, SCHD should formally request divestiture approval under Government Code 56824.10.
12. LAFCO is aware there is community interest in exploring the reorganization of Oceanside SCHD into an independent agency to provide direct constituent influence on decision-making. It would be appropriate for the Commission to consider authorizing a future governance study to assess alternatives – functional and political – for the benefit of both agencies and their shared constituents.
13. It appears appropriate for LAFCO to proceed with limited sphere of influence updates for both the City of Oceanside and Oceanside SCHD to affirm the existing designations with one or more common special study areas.
 - (a) One special study area has been identified to date and spans nearly 150 acres covering DUC lands located immediately southwest of the agencies near Sunset Drive and Melrose Way; it also currently lies within the Vista sphere. Establishing this special study area would provide LAFCO the opportunity to discuss the potential annexation of the DUC lands with both Vista and Oceanside and in doing so help facilitate the delivery of elevated municipal services to the community consistent with State law.
14. It appears merited for LAFCO to partner with the Morro Hills CSD in sponsoring or otherwise supporting a legislative change to the principal act to reduce the number of Board members from five to three consistent with existing special provisions in State law.
15. The Morro Hills CSD Board should revisit conditions on Sleeping Indian Road and its most recent traffic assessments and the analysis therein that appears to support a significant increase in the speed limit.
16. It would be advantageous for Morro Hills CSD to explore interest among adjacent landowners that presumably benefit and use the road system to annex and have direct participation in Board decision-making while concurrently expanding the CSD property tax base.
17. It appears appropriate for LAFCO to proceed with a limited sphere of influence update for Morro Hills CSD to affirm the existing designation with the addition of a special study area. The special study area represents the notional expansion of the CSD to capture adjacent lands that presumably use and benefit from the roadway system.