

City of Carpinteria



Elections Code Section 9212 Report on the Pardon Oil and Gas Development Initiative

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Paredon Oil & Gas Development Initiative

Elections Code Section 9212 Report

Executive Summary

I. Overview of the Initiative

This Initiative relates to a private development project, known as the Paredon Project, by Venoco Inc., to explore, develop, produce and gather offshore and onshore oil and natural gas resources and transmit them to the Carpinteria Oil and Gas Processing Facility (“CPF”) located at 5675 Carpinteria Avenue.

The Initiative amends the City of Carpinteria General Plan/Local Coastal Land Use Plan and creates a Specific Plan which mandates that the City Council issue the development permits necessary for the Paredon Project. The Initiative’s provisions carve out exceptions to the City’s resource protection policies exclusively for development at the CPF; establish site specific zoning regulations that allow for the Paredon Project and potentially other related oil and gas projects, and override all City laws, policies and regulations that interfere with the Initiative.

The Initiative includes elements that are unclear, will be decided after it is adopted and/or may be modified in the future at Venoco’s request. The indefinite nature of the Initiative makes identification of all potential impacts and effects not possible, although it is expected to pose environmental risks and affect the use of land and property values nearby.

If the Paredon Project is financially viable, the operators would pay royalty revenues to the State of California that are estimated in the hundreds of millions of dollars. A portion of State royalty revenue is expected to be allocated to the City in an amount that is currently unknown but could range from approximately \$8.1 million to \$58.5 million over the life of the project. This money could potentially be used to help offset certain impacts of the Paredon Project. Funds to support the Carpinteria Education Foundation are not included in the Initiative as the Development Agreement component of the Initiative that included this donation was stricken by the Santa Barbara Superior Court in its review of the legality of the Initiative.

II. Elections Code 9212 Report

Fiscal Effects: The most significant fiscal effect of the Initiative is that the operator of the Paredon Project will be obligated to pay oil and gas royalties to the State of California. Those State royalties have been estimated to range from \$74 million to \$1.3 billion dollars over the life of the project. A portion of those royalties will be reallocated from the State to the City of Carpinteria and the County of Santa Barbara.

Because of a number of factors that cannot be known with certainty at this time, but which will influence the amount of the local allocation as well as the split of that allocation between the City and the County, the City’s estimated royalty revenue ranges broadly from a total of approximately \$8.1 to \$58.5 million over the life of the project. Also, because the availability of royalties to the City and County is controlled by Venoco, and subject to interpretation by the State, a remote possibility exists that, except for a nominal sum, no royalties will be allocated locally.

The City's estimated royalty revenue is significant relative to the City's annual operating budget, currently approximately \$13 million. The City's use of that royalty revenue is limited by state law to expenditures for projects, programs and services that promote coastal related business, protect important coastal lands, establish, improve, operate and maintain public recreational beaches and coastlines and/or mitigate environmental impacts caused by the Paredon Project or any other oil or gas development. The Initiative will also generate revenue for the City from increased property taxes and development impact fees being levied on the Paredon Project. The Initiative is also expected to cause a 10% to 15% loss in residential property values near the project site.

Though the likelihood of such an event is remote, an oil spill accident sufficient in size to pollute local beaches and cause their closure for an extended period of time would negatively affect local businesses and City revenues. A one month closure of local beaches would result in a nearly \$4 million loss in travel-related spending within the City, while a longer closure could result in losses to the local economy in the tens of millions of dollars. The loss in local tax revenue, such as sales tax and hotel bed tax, associated with an extended beach closure would be in the hundreds of thousands of dollars.

The Initiative raises a number of legal issues that are currently being litigated at the taxpayers' expense. Litigation between the City and the Initiative's proponents relating to the Measure's validity is pending in the California Court of Appeal. If the Initiative is enacted, given the vague provisions and conflicts in interpretation, other legal issues are likely to arise that would be subject to litigation. For example, because the Initiative allows for unlimited additions and alterations to the Paredon Project but requires alterations of the CPF to be regulated by existing law, it is expected that there will be disputes over which facilities are part of the Paredon Project and which are not. These disputes regarding interpretation could lead to litigation costs either through the City litigating with the operator or the City having to defend the Initiative from a third-party lawsuit. The nature and extent of the litigation risk is such that the potential legal fees are estimated in the hundreds of thousands of dollars.

Internal Consistency: The Initiative asks voters to find that the Paredon Project sufficiently protects important local coastal resources and the environment. Examples of Carpinteria coastal resources include beaches, coastal access and views, the Harbor Seal haul-out and rookery, nearshore fisheries and visitor accommodations. The establishment and maintenance of these resources are of such importance that they are the subject of many federal and state regulations, as well as those of the City of Carpinteria, which were developed in consultation with the California Coastal Commission.

The Paredon Project has the potential to negatively impact coastal resources and the environment and conflict with important resource and environmental protection policies and laws. The Initiative does not provide voters with information sufficient to determine that the Project would avoid negative impacts to coastal resources and the environment or that it is consistent with the California Coastal Act and/or the City's Local Coastal Program. The Initiative does not include measures that are sufficient to avoid or mitigate many impacts on coastal resources and the environment that were identified in the Proposed Final Environmental Impact Report (EIR) conducted for a prior version of this project. This includes impacts to risk of upset, marine resources, marine mammals, onshore biology, offshore water resources, recreation, land use and viewsheds. While state and regional agencies may require mitigation measures, those will only be imposed after the public votes to decide whether the adoption of the Initiative sufficiently protects the coast and environment. Finally, the Initiative allows development impacts to occur at the CPF that would be prohibited at any other location in the City, which upsets the uniformity of the City's laws and policies. Because of these facts, the Initiative Project would conflict with the California Coastal Act and City Local Coastal Program and create internal inconsistencies with important resource and environmental protection policies and regulations.

Effects on Use of Land and Housing: Onshore drilling into offshore reserves is currently prohibited in Carpinteria. The Initiative would allow development of onshore oil drilling rigs and other new industrial facilities at the CPF to extract oil and gas from the Paredon reserve.

The comprehensive local permitting and oversight regulations which are standard requirements for oil and gas projects in the rest of Santa Barbara County will not be applied to the Paredon Project. The Initiative is written to maintain no regulation and little oversight of the subject oil and gas facilities by the City of Carpinteria. This is contrary to what occurs in the rest of Santa Barbara County for comparable facilities and would represent an unprecedented gap in local government regulation of oil and gas facilities. Regulation of the Paredon Project is left largely to state and regional agencies, which generally regulate in narrowly focused areas (*e.g.* air quality) and often rely on self-reporting rather than audits and inspections to achieve compliance.

The Initiative would not modify the CPF's 1969 oil and gas plant development permit, so the existing oil and gas processing facilities will continue to operate without any modern regulations. The new development authorized by the Initiative will receive separate permits and be subject only to those development conditions included in the Initiative. Development conditions for the protection of public health, safety and the environment that have effectively been applied to all similar projects in Santa Barbara County would not be allowed to be applied by the City to the Paredon Project. Similarly, the City would not have discretionary development permit authority over the operation and maintenance of any facilities that might be added in the future as allowed by the Initiative.

Because the Initiative circumvents local regulation, it unnecessarily increases risks to public health, safety and the environment and does not allow for a process to ensure the development conforms to policies and regulations that serve to protect important public resources and community assets. The Initiative project would also be developed, operated and maintained without an effective City-approved environmental mitigation and monitoring program. For this reason, the Paredon Project could result in traffic, view, noise, odor, vibration and other negative effects influencing the type and location of development on land in the City.

The Initiative project also establishes a unique and potentially important precedent in land use permitting. The effect would be to establish a model for approval of development projects by popular vote that avoids the review and discretion of the City. This would include projects that pose significant risks to public health, safety and the environment and that contradict City policies and regulations.

Impact on Infrastructure and Infrastructure Funding: The amount of revenue projected to be generated by the Initiative is significant and therefore could provide significant benefit to funding of City infrastructure. Examples of the City's infrastructure include streets, parks and open space. Subject to legal limits on expenditure of royalty funds and Development Impact Fees, the City could elect to use the revenue annually to supplement funding for the annual maintenance of infrastructure, it could reserve the revenue for a specific major infrastructure project or it could reserve the revenue and apply the interest earnings to any number of annual or special projects in perpetuity. Similarly, the royalty revenue received by the County and State could fund infrastructure projects in Santa Barbara County and throughout California. The Paredon Project is also expected to result in infrastructure costs to the City, primarily for maintenance and improvement to public streets and intersections.

The Initiative Project could also result in the City acquiring an interest in approximately 20 acres of land currently owned by Venoco, Inc. and located west of Dump Road for purposes of open space and

coastal access. Because the offer of the property is conditional and subject to negotiation, it cannot be known if full legal rights in the property will ultimately be transferred to the City. If it were, this could result in savings to the City for the acquisition of such land. Public ownership of an interest in the property would also involve expenditure of costs for the City, including the loss of property tax revenue and improvement, maintenance and operation costs. Because this property has a history of contamination, it could pose environmental risks, costs and liabilities for the City.

Impact on Business and Employment: It is not expected that the Initiative would generate an amount or type of employment that could significantly benefit the community, nor create a demand for service that could serve as impetus for a significant number of jobs or local businesses to be attracted to and to remain in the community. In general, it is also not expected that the Paredon Project could result in a negative impact on either the business climate or employment in the City. The only exception to this conclusion is the remote possibility that a major oil spill related to Project facilities pollutes local beaches. If such an oil spill should occur, the important tourism and hospitality business sector in Carpinteria and businesses that support or rely upon that business sector would be negatively affected. The loss of a significant amount of travel-related spending in the community would be expected to result in the closure of some businesses and related employment loss.

Public Health, Safety and Environment: The potential that residents would be exposed to acute health risks that could result in death or serious injury, including exposure to fire, explosions, toxic gas releases and oil spills would increase statistically with development of the Paredon Project but would remain a remote risk that would not be expected to occur during the project life.

Risk of exposure of people to chronic health risks that could result in cancer or other diseases from long term exposure to toxic air emissions would decrease. This is due to the expected application of Air Pollution Control District standards that would result in changes to existing equipment at the oil and gas processing facility.

The potential for impacts on the environment, including impacts on wildlife and wildlife habitat, increase with development of the project. Risks include the release of oil and polluted water to the environment and the disturbance and injuring or killing federally protected marine mammals. In the event of a spill, statewide funds and private insurance/bonding may be available to offset the costs of cleanup.

The Initiative states that it will not be subject to the requirement that an Environmental Impact Report be prepared prior to approval of the Paredon Project at the local level. A Proposed Final EIR was previously prepared for the version of the Paredon Project submitted to the City of Carpinteria for permitting in 2004 and identified 11 significant and unavoidable impacts. The Initiative incorporates some of the mitigation measures identified for the prior version of the project into a Mitigation, Monitoring and Reporting program, with some notable changes. As a result, the Initiative Project would likely result in a greater number of significant and unavoidable impacts. At Venoco's request, the permitting process and EIR process for that project was not completed. When compared to the original Paredon project submitted to the City of Carpinteria, the Initiative Project would result in more potential environmental impacts and increase the severity of many identified potential environmental impacts. This increased risk results from the Initiative avoiding mitigation measures (identified as being potentially necessary for the prior project) and delaying implementation of the mitigation measures until the final phase of development.

The Paredon Project would be regulated by a number of governmental agencies responsible for permitting, permit compliance, oversight of operations and financial and performance guarantees. The role of these other agencies is the same with the Initiative Project as it would have been with the prior version of the project. Thus, relative to other oil and gas developments, the Initiative Project would be less regulated, because it circumvents the City's local role. Responsible federal and state agencies normally require oil and gas facility operators to conduct self-inspections and to meet certain reporting requirements; however, third-party or government inspections are rarely required or conducted by these agencies.

The Initiative notably limits the City's monitoring and enforcement duties over the Paredon Project. Ordinarily the City would require that third-party audits of the Paredon Project and the CPF be conducted periodically under the supervision of the City to determine compliance. The Initiative identifies the City's monitoring and enforcement role as conducting periodic site inspections and receiving and reporting on compliance reports from the operator. Thus, under the Initiative, third-party audits of project facilities and operations are not guaranteed, and therefore deficiencies in facility operations and equipment may not be found early enough to avoid subsequent malfunction incidents.

III. Conclusion

The analysis contained in the Elections Code 9212 Report demonstrates that the Initiative is very complex and leaves unaddressed many issues that are usually addressed in the traditional City permit review process to which all other development projects are subject. Should the Initiative be approved, the Initiative takes away authority from the City to exercise discretion in approving the Paredon Project and vests Venoco, Inc. with broad powers to modify elements of the Paredon Project without voter or discretionary City approval. This could result in a project being built or operated that is not the same as the project that was initially approved.

The Initiative Project will generate significant revenue for the City, some of which would be restricted to certain defined uses. It is also expected to incur costs to the City and taxpayers related to loss of property values and taxes, infrastructure needs, and future litigation. The project's impacts on business and employment are not expected to be significant, either positively or negatively. There are areas of ambiguity in the Initiative which make it unclear whether and to what degree the project's significant impacts on the environment will be mitigated.

For most development in Carpinteria, the City is charged with the responsibility to protect the public health, safety and welfare of its citizens. This can only be done with adequate regulatory tools. Many of these regulatory tools are not available to the City under the proposed Initiative. Because of this, the City's ability to carry out its traditional responsibility regarding development projects is significantly impaired under the Paredon Initiative. The public's ability to influence decisionmakers regarding the development and operation of the Paredon Project will also be curtailed by the Initiative, because in the event the electors approve it, the primary regulatory authority will shift away from local government to state administrative agencies and to Venoco.

BACKGROUND

0. Introduction

0.1 Purpose of the Report

The intent of this Report is to provide information regarding possible effects of the Paredon Oil and Gas Initiative (“**Initiative**” or “**Measure**”), to allow for the City Council to make an informed decision about whether to adopt the Initiative by ordinance or to send it to the voters for their potential approval in June 2010. The Initiative is described in detail in the staff report presented to the City Council at its meeting on November 30, 2009, which is incorporated herein by this reference and attached as Exhibit A. The City Attorney’s objective summary of the Initiative and the full text of the Initiative can be found in Exhibit B.¹

0.2 Authorization for the Report

When a proposed initiative is circulated for or qualifies for the ballot, section 9212 of the California Elections Code authorizes the City Council to request a report regarding the initiative’s potential impacts. Specifically, Section 9212 of the Elections Code provides that the report may address any of the following impacts of an initiative.

1. Its fiscal impact.
2. Its effect on the internal consistency of the city's general and specific plans, including the housing element, the consistency between planning and zoning, and the limitations on city actions under Section 65008 of the Government Code and Chapters 4.2 (commencing with Section 65913) and 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.
3. Its effect on the use of land, the impact on the availability and location of housing, and the ability of the city to meet its regional housing needs.
4. Its impact on funding for infrastructure of all types, including, but not limited to, transportation, schools, parks, and open space. The report may also discuss whether the measure would be likely to result in increased infrastructure costs or savings, including the costs of infrastructure maintenance, to current residents and businesses.
5. Its impact on the community's ability to attract and retain business and employment.
6. Its impact on the uses of vacant parcels of land.
7. Its impact on agricultural lands, open space, traffic congestion, existing business districts, and developed areas designated for revitalization.
8. Any other matters the legislative body requests to be in the report.

At its regular meeting on October 12, 2009, the City Council directed staff to prepare a report on the matters specified above pursuant to Elections Code Section 9212 for the Initiative.

¹ The portions of the Initiative that have been crossed out were invalidated by the Santa Barbara Superior Court and are no longer part of the Initiative.

0.3 Organization of this Report

The remainder of this Report is organized as follows:

- Section 1 analyzes the Initiative's fiscal impacts. In particular the availability and amount of royalties; property tax revenue; sales and transient occupancy taxes; the impacts on demographics, employment, tourism, real estate and the costs of a catastrophic oil spill are assessed.
- Section 2 evaluates the Initiative's consistency with the City's general and specific plans, zoning laws, and the Coastal Act.
- Section 3 describes the effect of the Initiative on the use of land and housing. The Initiative's primary effects relate to the use of the Carpinteria Oil and Gas Processing Facility, the use of neighboring property, the precedent set for land use approvals, and the use of the property dedicated by the Initiative.
- Section 4 analyzes the impacts of the Initiative on the funding for infrastructure and the likelihood of increased infrastructure costs or savings. The funding for infrastructure is affected by City fees and charges, royalty revenues, property taxes, and alleged payments to the Carpinteria Education Foundation, among other things. The Initiative affects infrastructure costs and savings in the areas of streets and intersections; parks and open space; water, sewer and utilities, storm water management; and fire protection and emergency response.
- Section 5 evaluates the Initiative's impact on the community's ability to attract and retain business and employment. The Initiative is anticipated to affect the oil and gas industry and existing businesses.
- Section 6 describes the impact of the Initiative on the use of five primary vacant parcels of land near the Initiative project site including the Marketing Terminal and Buffer Parcel, Tar Pits Park, Bluffs I, Bluffs II and Bluffs III.
- Section 7 analyzes the Initiative's impact on agricultural lands, open space, traffic congestion and the City's business districts.
- Section 8 analyzes the Public Health, Safety and Environmental Risks and Hazards effects of the proposed Initiative.

ELECTION CODE SECTION 9212 ANALYSIS

1. Fiscal Impacts

This section of the Report identifies and reviews various revenue sources to the City that could be affected by the Initiative Project. Defining the fiscal effects of the Initiative Project is difficult because, unlike the development of a high-rise building (for example), which would establish a predictable long-term source of property tax, would diminish ocean view premiums for the foreseeable future, and would result in a known number of residents with predictable local spending patterns, the development authorized by the Initiative Project includes unpredictable influences on a number of community revenue sources. Fiscal effects will vary depending on the term of the project, that could run anywhere from one to 30 years depending on the economic feasibility of onshore production of oil and gas. Fiscal effects are also predicted to be different for each phase of the development from exploration to full development. Yet another challenge in determining the fiscal effect of the project is that it poses the potential for catastrophic impacts which could have very different fiscal effects than if no upset occurs.

The project can be anticipated to have fiscal effects on the City of Carpinteria, either directly or indirectly, generating increased revenues or potentially influencing some revenues negatively. The revenue categories evaluated for this report include oil and gas royalties, property tax, sales tax, transient occupancy tax, litigation expenses and impacts related to a catastrophic oil spill event.

1.1 Royalty Revenue

The requirement and formula for payment of royalties to the state on the oil and gas extracted from the Paredon field is a part of the State Lands Commission lease 3150 of 1964. City royalty revenue estimates have been derived from information provided by Venoco, Inc. and reviewed by City consultants as a part of the preparation of the Original Project Proposed Final EIR and this Report. Table 1 of this Report (below) illustrates the three royalty revenue scenarios provided by Venoco. Total royalties projected to be paid to the State of California are estimated to be in the range of \$74 million to over \$1.3 billion. There are several variables and uncertainties discussed in the following paragraphs that could affect the amount of total royalty paid to the State, the amount of royalty paid to the City and County, i.e., local royalties, and the portion of the local royalties that ultimately could be allocated to the City of Carpinteria.

Table 1

Estimates of Oil & Gas Production and Royalty Revenues²

	P90 Case	P50 Case	P10 Case
Oil Volume (thousands of barrels, Mbbls)	1,128	8,249	13,640
Barrel Price	\$60.00	\$60.00	\$90.90
Gas Volume (millions of standard cubic feet, mmscf)	1,060	7,280	14,500
Gas Price	\$6.00	\$6.00	\$7.95
Total Royalty (\$Thousands)	\$74,040	\$538,620	\$1,355,171
Total City and County Royalty (20% or \$200,000 max.)	\$14,808	\$107,724	\$ 200,000 ³

1.1.1 Methodology

Venoco has provided three royalty estimates, each based on a probability expressed as a percentage. They are referred to as the P90, P50 and P10 cases. For example, the P90 case is based on oil and gas production estimates that Venoco believes has a 90% chance of being met. This of course means that the P90 case is a conservative estimate and likely to be exceeded. On the other end of the spectrum is the P10 case, which is based on production estimates that Venoco believes there is only a 10% chance of meeting. This is a very aggressive estimate of how much oil and gas may be produced. The P90 and P50 cases were the estimates provided by Venoco for the Paredon Project EIR. The P10 case is the case used by Venoco for the royalty estimates included in the Initiative.

In addition to estimating production, Venoco applied royalty formulas necessary to calculate estimates of royalty payments to the State. The royalty formulas are a part of the leases that are issued by the State to oil companies for extracting oil and gas. There are two types of formulas: sliding scale and fixed royalty rate. The sliding scale formula is a part of the existing PRC 3150 lease for oil and was used by Venoco for the P90 and P50 cases discussed in the EIR. (A sliding scale formula adjusts the royalty rate based on factors that include the price of oil. So when prices are high, royalty payments are made based on a higher rate and the State would receive a larger portion of total revenues; when prices are low, royalty payments would be made on a lower rate and the oil company would get to keep a larger portion of total revenues). A fixed royalty rate was used for calculating oil royalties for the P10 case. (A fixed royalty rate does not account for changes in oil price. A fixed royalty rate can negatively influence the economic viability of production when prices are low, and can significantly limit royalties paid to the State when the price of oil is high). A fixed rate is always used for gas. The applicable formula is used to determine the State's share of oil and gas. This share is then multiplied by the price of oil and gas⁴ to determine the royalty amount to be paid to the State.

² These production estimates presented by Venoco in the P50 and P90 cases represent that portion of production subject to royalty payment to the State. The local royalty is allocated as 20% of State royalties. The P10 scenario used by Venoco for the Initiative is explained as a part of the Declaration of Robert Zahner. See Declaration of Venoco, Inc.'s Robert Zahner, Senior Reservoir Engineer, dated June 29, 2009, in *Brown v. Venoco et. al.*, Santa Barbara Superior Court Case No. 1305637. City staff used information provided in Mr. Zahner's declaration to calculate oil and gas production numbers and related local royalty revenue estimates.

³ The assumptions in the P10 case result in a total local revenue estimate over the life of the project of just over \$270 million. Venoco has stated that it believes that state law limits the total local royalties to \$200 million over the life of the project.

⁴ Oil and gas prices for the purpose of calculating royalty payments to the State are determined by the State.

1.1.2 Oil and Gas Prices

For purposes of determining State royalty revenues, the price of oil and gas is determined by the State. The price of oil and gas can be expected to influence royalties both directly and indirectly by affecting the amount of royalty revenue and how much oil is produced over the life of the project. If oil and gas price is a component of the formula used to calculate royalties, a higher oil and/or gas price would result in a greater amount of royalty revenues.

For the Paredon Project Proposed Final EIR, \$60 per barrel of oil and \$6 per cubic foot of gas were used in the estimates provided by Venoco. For the royalty estimate provided in the Initiative, \$90.90 per barrel of oil and just under \$8 per cubic foot of gas were used.

The price of oil has varied significantly over the past several years. Between January 5, 2007 and October 30, 2009 oil prices have ranged between \$31.76 and \$134.44 per barrel. In December 2009 and January 2010, the oil prices have been between \$69 and \$83 per barrel. Gas prices have ranged between about \$2.50 to about \$6 per cubic foot over the past year. The volatility of oil prices and the speculative nature of projecting future prices are a part of the reason that the assumptions predicting future royalty revenues are highly uncertain.

The Initiative allows for a project life of approximately 30 years, while the Venoco royalty revenue estimates assume an oil and gas production period of 14 years. To the extent that the price of oil encourages continued production, even at lower levels than may be economically feasible considering today's oil prices, it could affect royalty revenue positively. Conversely, should the price of oil drop to a level that makes the production of oil from the reserve uneconomical, the project life could be cut short and related royalties stopped.

1.1.3 Production Rate

The royalty estimate is based in part on an estimate of how much oil is expected to be produced over the project life. Venoco has provided three estimates of how much oil and gas might be produced over the life of the project. Two estimates were provided as a part of the EIR preparation in 2007, and another estimate provided as a part of the Initiative. Table 1 illustrates the three production estimates and the affect that they, along with oil and gas price assumptions, have on the local royalty estimates Venoco has provided.

The oil and gas production and price assumptions used by Venoco prior to the Initiative are very different from those that were used by Venoco to generate the royalty estimate in the Initiative. Venoco used production estimates prior to the Initiative that it believes have a 50% and 90% probability of being met. For the Initiative, Venoco used production estimates that it believes have a 10% probability of being met.

Oil and gas production estimates could of course be influenced upward or downward if more or less oil is discovered once production begins. Venoco's original royalty estimates for the Paredon Project were based on a 20-year project life and a 14-year production window. The Initiative Project however allows for a 30-year project life (and possibly longer through amendment), anticipating a potentially longer production window (Exhibit C demonstrates a production curve of 20 years versus 14). The longer production scenario allows for more production if more oil than anticipated is discovered, amounts of oil to be extracted that are less than is currently anticipated to be economically feasible

become economically feasible in the future, or production follows a more typical production curve that is illustrated in the Exhibit referenced above, (i.e., production volumes flatten out over an extended period of time at the back end of the project life). It should be noted that, although State royalty revenues would benefit from any scenario that results in a greater amount of production, the City's allocation of royalty revenues would only increase if the production increase is experienced during the limited period of time that the City is allowed by law to receive such revenue, and does not exceed any royalty revenue cap that is applicable to the City.

1.1.4 Local Royalty Revenue

As illustrated in Table 1, above, Venoco has provided three estimates of local royalties (County and City) that range from a low of \$15 million to a high of \$200 million.

The actual financial benefit in terms of royalty revenue that the City will realize should the voters approve the Initiative Project is dependent on a number of variables and uncertainties, which make quantifying the benefits of the Initiative Project very difficult. Variables include the amount of oil and gas produced and the potential for large swings in the price of oil. The actual benefit to the City is also based on decisions about royalties that have yet to be made. The provisions of law that require a portion of royalty revenue to be allocated to counties and cities have never previously been implemented.

1.1.4.1 Guarantee of Royalties to the City

Existing state law (PRC 6817) requires that a portion of revenues from oil and gas leases in state tidelands be allocated to cities and counties pursuant to terms established in state law and the subject lease. State Lands Commission staff has written the City confirming that the provisions of State law concerning distribution of royalties to local agencies, the City of Carpinteria and County of Santa Barbara, apply to the Paredon Project. It is unlikely but possible that this status could change or the State could change its position. For example, if the status of the development plan submitted by Venoco to the State Lands Commission prior to 2002 were withdrawn or somehow became invalid, the provisions of state law that require allocation of royalty revenues to the City and County would no longer apply. Also, if state law is changed to eliminate local royalty revenue payments, or if the State changes its interpretation of the applicability of state law in this case, royalty revenue allocations to the City and County would be put in jeopardy.

1.1.4.2 1% Oil and Gas Subvention (PRC 6817(a))

The 1% subvention is capped at \$100,000 for each mile of ocean frontage in City limits (the Carpinteria State Beach Park area does not count in this measurement). This revenue source does not appear to have been anticipated in royalty revenue estimates provided by Venoco for the Paredon Project. The City's ocean frontage, for purposes of the Tidelands program, has been established at two miles. Therefore, the maximum annual revenue the City could expect to receive under this provision of state law (PRC 6817(a)) is \$200,000.

1.1.4.3 20% Oil and Gas Royalty Revenue (PRC 6817(b))

Apart from the 1% subvention described above, an additional 20% of state revenues from oil and gas wells from state tidelands is required to be paid to the city or county within whose boundaries the revenue is generated (adjusted annually to reflect Consumer Price Index increases) for up to 20 years, subject to certain conditions. There is a \$200 million cap on the total amount of royalties payable to local governments, although, as described in Section 1.1.4.6, it is not clear whether this is an annual or a cumulative cap.

This legislation, known as the Maddy Bill (AB-1187)⁵, was sponsored by Santa Barbara County in 1995/96 to increase its share of state revenue generated from new oil and gas development on state tidelands within its borders and expired in 2002. It only remains applicable to leases where either a local or state development plan was submitted by January 1, 2002. Venoco, Inc. submitted a state development plan prior to 2002 and State Lands Commission staff has determined that the legislation is effective for Santa Barbara County and the City of Carpinteria as it relates to any state revenue generated from the development of oil from the Paredon Lease (PRC 3150).

Though adopted and in effect for several years, the Maddy Bill has never been effectuated in that the State has not previously allocated 20% of its royalty revenues to a local jurisdiction under the bill's provisions. Also, oil and gas produced from the Initiative project comes from a reservoir that, according to information provided by Venoco, spans three separate leases. It is not clear that oil and gas produced from these other leases would have the same Maddy Bill status as PRC 3150, and therefore it cannot be known if any local royalty revenue would be allocated based on oil and gas produced from these areas. If a portion of the produced oil and gas from the Initiative project comes from lease areas outside of PRC 3150 and those lease areas are not subject to the Maddy Bill, this could significantly reduce the amount of local royalties paid to City and/or County.

Staff finds, in reviewing the three estimates of oil and gas production provided by Venoco, the 50% and 90% probability scenarios (discussed in detail in sections above) to be a reasonable set of assumptions for estimating a range of local royalties. As illustrated in Table 1, these assumptions yield a local royalty, i.e., County and City, revenue estimate ranging from approximately \$15 to \$108 million.

1.1.4.4 Leases

As described above, information submitted by Venoco illustrates that the oil reserve proposed to be developed may span three separate leases: 3150, 3133 and 1824. Venoco currently has a 50% interest in Lease 3150 as shown on Exhibit D. ARCO also has a 50% interest in Lease 3150. It is not known what rights, if any, Venoco will have to the other leases. The State Lands Commission would have to approve any transfer of rights of Lease 3133 (Exxon/Mobil) and Lease 1824 (Chevron and Exxon/Mobil) to Venoco. If the royalty rate is different for the other leases or, as discussed above, the Maddy Bill does not apply to them, royalty revenue to the City would be affected.

Also, because Lease 1824 is not within City limits, this is expected to affect the City's allocation of royalty revenues. It is anticipated that State Lands Commission would calculate the amount of oil and gas, or area of the reserve, which is estimated to be a part of each of the three leases, and determine

⁵ Available online at http://www.leginfo.ca.gov/pub/95-96/bill/sen/sb_1151-1200/sb_1187_bill_960919_chaptered.pdf.

which lease formula to apply (should they differ) and how to allocate local royalty revenue between City and County.

1.1.4.5 City/County Split

In the sections above, a City/County, i.e., local, royalty revenue estimate range of \$15 to \$108 million is discussed⁶. State Lands Commission staff has indicated that the determination on the split of royalty revenues between City and County would be based at least in part on the percentage of the lease area subject to royalty payments that is within the City and County respectively. The State Lands Commission has previously determined that 54.16% of the area of Lease 3150 is within the City and 44.6% of Lease 3133. Based on this specific factor for determining the royalty split, if total County and City royalty revenue falls within the range of \$15 to \$108 million as estimated by Venoco, staff calculates that the City's portion would range from approximately \$8.1 to \$58.5 million.

Further, if Venoco's oil and gas production estimates are based on the total Paredon reserve (rather than only oil and gas from Lease 3150 that it currently has interest in), then the City's portion of the local allocation of royalty revenue would be further reduced since no allocation to the City would come from royalty revenues derived from Lease 1824 that is not within City limits, and a greater portion of royalties produced from Lease 3150 would go to the County. However, there is no present guarantee that the City/County split will occur in this manner.

1.1.4.6 Royalty Cap and Term

PRC 6817(b) limits both the total amount of local royalty revenue and the period over which it can be allocated. The maximum amount of royalty revenue is \$200 million. Whether this amount is per year or over the life of the project is unclear. This is not expected to serve as a limiting factor for revenues projected for this project; however, Venoco and State Lands Commission staff have stated that they believe that the \$200 million cap is a cumulative total rather than an annual cap. If this proves to be the case, the cap could limit local royalty revenues in the most aggressive revenue estimate scenario (i.e., the P10 case). State law limits the period over which local agencies are allocated royalty revenues to 20 years. In the longer production scenario allowed for by Venoco in the Initiative Project, it is expected that royalty revenues would be greater due to more production during the project life. However, because City royalty revenues are limited to 20 years and most of the additional production would be expected to occur outside of 20 years, City royalty revenues may not be affected significantly.

1.1.4.7 Royalty Revenue Use

As described in Section 4 of this report, use of Tidelands revenues in the City of Carpinteria is limited per State law. Public Resources Code 6817 includes limits on how both the 1% and 20% allocations to local agencies are spent. Also, special legislation enacted at the time the City annexed the tidelands area, including portions of the PRC 3150 and 3133 lease areas, into its incorporated area (Chapter 1044, Statutes of 1968, amended by Chapter 1069, Statutes of 1971 and Chapter 697, Statutes of 1978) may serve to apply additional limits on how revenue generated from the annexed area can be used. That special legislation may also require the City to seek State Lands Commission approval for any use

⁶ The assumptions in the P10 case result in a total local revenue estimate over the life of the project of just over \$270 million. Venoco and State Lands staff have stated that they believes that state law limits the total local royalties to \$200 million over the life of the project.

of funds (project) exceeding \$250,000 and may cap the City's annual Tidelands Fund Balance at \$250,000, requiring 85% of any remainder to be returned to the State.

Lease and royalty income from the project would be placed in the City's Tidelands Trust Fund. This fund currently has a balance of approximately \$183,000 and historically has received lease and royalty payments ranging from \$200,000 to \$250,000 annually. It is estimated that a 20-year project would generate a new average annual royalty revenue stream ranging from approximately \$405,000 to \$2,925,000. Over a 14-year project life, the average annual royalty revenues stream is estimated to range from approximately \$578,600 to \$4,178,600. The City's current year budget is \$13 million for fiscal year 2009-2010. The local royalties projected in the 14-year project life scenario above represent additional revenue in the range of 3% to 23% of the budget. In the 20-year project life scenario above, the additional revenue represents an increase to the budget in the range of 4% to 32%.

As described in Section 4 of this report, use of Tidelands revenues in the City of Carpinteria is limited by State law. Public Resources Code 6817 includes limits on how both the 1% and 20% allocations to local agencies are spent. Also, special legislation enacted at the time the City annexed the tidelands area into its incorporated area (Chapter 1044, Statutes of 1968, amended by Chapter 1069, Statutes of 1971 and Chapter 697, Statutes of 1978), including portions of the PRC 3150 and 3133 lease areas, may serve to apply additional regulations on how revenue generated from the annexed area can be used. That special legislation may also require the City to seek State Lands Commission approval for any use of funds exceeding \$250,000 and may cap the City's annual Tidelands Fund Balance at \$250,000, requiring 85% of any remainder to be returned to the State unless the amount in excess of \$250,000 is reserved for certain capital projects.

1.2 Property Tax Revenue

It is expected that the project would result in two sites generating increased property tax revenue for the City: the existing onshore CPF site and the Lease 3150 site. Based on the projected (with project improvements) assessed value of the CPF property, the Initiative Project would be expected to generate an additional \$840,000 in property tax revenue, cumulatively, over the life of the project, or on average about \$60,000 in additional property tax revenue per year. Assessed value of the oil and gas reserve and any oil and gas extraction infrastructure located in tidelands is subject to property tax, a portion of which would be allocated to the City. The value of the oil and gas in the ground is taxed as property once it is being produced, i.e., extracted from the ground. The State would determine the tax rate to be established for the tideland area that is a part of the City. In a similar situation in another part of the County, at the Ellwood facility in Goleta, the tax rate area was established to match the nearest onshore facility. If this methodology were established for the Paredon Initiative Project, the City could expect to receive about 9% of the property tax. Nine percent of the Ellwood property tax revenue is about \$190,000 annually. Also, in this scenario, all other jurisdictions receiving a portion of the property tax within the onshore tax rate area used would also receive revenue. These jurisdictions include County of Santa Barbara, Carpinteria Unified School District, Carpinteria Sanitary District and Carpinteria-Summerland Fire Protection District.

Property tax would also be affected by any change in the term of the project and the amount oil and gas discovered. Generally, the longer the project improvements are maintained at the CPF and the more oil and gas that is discovered, the greater the property tax revenue that would come to the City and any other agency receiving a share of the property tax.

The total property tax component of the project is estimated in the range of \$60,000 to \$200,000 annually. As with all property tax revenue, it would be placed in the City's General Fund and would be unrestricted in its use. Currently the General Fund receives approximately \$2,645,000 in property taxes annually. The City's unrestricted undesignated General Fund balance currently stands at \$5,687,098.

1.3 Sales and Transient Occupancy (hotel bed) Taxes

In assessing potential impacts of the Initiative Project on sales and bed tax, impacts of the project on demographics, employment, tourism and residential and commercial real estate have been assessed, as well as impacts projected based on a catastrophic oil spill scenario.

1.3.1 Demographics

The development and operation of the Initiative Project is not projected to change existing population growth forecasts for the Carpinteria area. These projections are a part of the City's General Plan and regional projections made by the Santa Barbara County Association of Governments (SBCAG). The City's population is expected to grow by approximately 1,100 residents by 2040, an annual growth rate of slightly less than 0.25 percent. It is also not expected that the project would change trends in average age, education and household income of Carpinteria residents. It is expected that the City's location, current land constraints, housing prices and housing supply will play a more important role on future population growth and demographics of the community than will the Initiative Project.

1.3.2 Employment

The Santa Barbara County Association of Governments' Regional Growth Forecast (2007) predicts that from 2010-2040, the City can expect a 5.11% growth in employment, or 380 new jobs based on the addition of over 100,000 square feet of non-residential development. SBCAG also projects that employment on the South Coast of Santa Barbara County will grow more slowly than in the rest of the County. It is not expected that the Initiative Project will have a significant effect on future employment growth within the City because existing employment centers and areas available for future commercial development are not within the area of project impact. Current constraints on available land and future commercial space supply will play a more critical role on employment growth than the Initiative Project. The exception to this is any impacts the Initiative has on the viability of commercial development of the Bluffs vacant parcels identified and discussed in Section 6 of this Report.

The Initiative could impact existing employment should an oil spill or similarly impactful accident affect tourism in the City. This type of scenario and the likelihood are discussed in more detail in Section 5 of this Report. The Initiative Project itself is not expected to generate significant employment numbers either during the exploration phase or the development and operation phase. The maximum number of employees projected for the project is fewer than 50 during construction and a fraction of that for day-to-day operation.

Although a reduction in local jobs could affect local spending, a significant project impact on local employment such that sales tax or other revenue sources to the City are either positively or negatively impacted is not expected.

1.3.3 Tourism

While revenue from the travel industry has declined in recent years due to recession, visitorship in the City remains strong. Carpinteria State Beach has seen annual increases in visitors since 2006 and taxable retail sales for the City have remained consistently strong in the summer months (third quarter results). The only blemish is the City's 2008/09 fiscal year bed tax results which were 6.2% less than the prior fiscal year. This decline is believed to be temporary and related to the national recession.

A key component of the City's attraction to visitors is its location on the coast. The Initiative Project location adjacent to the coast and near a popular coastal attraction (a Harbor Seal haul out and rookery) is expected to have the greatest influence on tourism. It is estimated that the City experiences about 454,000 unique visitors annually and that the Harbor Seal haul out and nearby beach and park areas attract approximately 20,000 visits annually. Development of the Initiative Project could dissuade roughly half of those unique visits and affect the other attractions in Carpinteria such as the State Beach Park, Downtown, City Beach and Salt Marsh Park. Overall, the City could expect a reduction in tourism in the range of 2 - 4% to result from the project. A 2001 economic analysis of the spending patterns of visitors to Carpinteria beaches estimated that the City received about 0.49 cents per visitor in sales tax. If this estimate is applied to a 4% loss in annual visitation, the loss in sales tax to the City would be approximately \$8,900 in 2001 dollars. Using similar methodology, the loss in bed tax revenue to the City would be approximately \$23,000.

1.3.4 Residential and Commercial Real Estate

The Initiative Project would add to and extend the life of industrial operations at the CPF. To the extent that such industrial uses limit or deter development of certain uses on the adjacent Bluffs I and nearby Bluffs III parcels, the project would negatively affect the development of these sites. Also, the impacts identified above to tourism could have an associated impact on commercial businesses that rely on visitors.

The visual and noise impacts from the development are not anticipated to damage the commercial real estate market in the City because a vast majority of commercial zoned land is not located near the area of project impacts. It is also unlikely that commercial tenants would choose to leave or not locate to the City based on the operation of the Paredon Initiative Project.

Research shows that the value of residential real estate adjacent to oil and gas facilities is affected negatively. The City's socio-economic consultants believe that residential properties located in the project sphere could expect a loss in value of 10 to 15%. The City as a whole is not likely to experience depression of residential home values at the zip code level as a result of the Initiative Project. As evidenced by recent history, the larger macro-trends that influence housing prices will continue to have a more profound role in determining future home values in the area. In addition, the City's location on the coast is a mitigating factor to widespread price depreciation.

1.3.5 Catastrophic Oil Spill

There are a number of accidents that could result during the development and operation of the Initiative Project. Staff believes that an oil spill event that impacts the shoreline poses the greatest risk to the local economy.

An oil spill that impacts a significant segment of the Carpinteria shoreline and requires beach closure for clean-up could have a significant negative effect on the local economy. For example, if a spill resulted in beach closures for a period of one month during the summer, it would be expected to result in a 30% decline in sales and bed tax collected by the City for that one month period of time. This equates to a loss of over \$70,000 in tax revenue to the City and a loss of \$3.8 million in travel-related spending in the community. This temporary decrease in revenue would be comparable to the loss of 11,500 square feet of retail space and 29 full-time equivalent jobs in the City. For a six-month period, the off-season monthly impacts are less severe than the summer month example. However, the cumulative loss in local travel-related spending rises into the tens of millions of dollars.

If a spill results in the oil and gas operation being shut down for an extended period of time, project royalty revenues would also be negatively affected.

1.4 Potential Costs of Future Legal Challenges

There are three basic areas in which the Initiative could potentially trigger litigation expenses. First, the Initiative is currently the subject of litigation. The litigation was filed by the City Attorney in the Santa Barbara Superior Court. The City Attorney sought declaratory relief from his duties under the Elections Code to prepare a ballot title and summary for the Initiative, due to a concern that the Initiative was unlawful. The City Attorney made six primary arguments, each of which related to the theory that the Initiative was beyond the scope of the people's reserved initiative power. Briefly stated, the City Attorney's complaint alleged that: the Initiative (1) is not legislative in nature, as required by the California Constitution, (2) creates inconsistencies with the GP/CP and zoning in violation of the state Planning and Zoning Law, (3) impairs essential City functions, including the City's land use authority, in violation of the California Constitution, (4) violates the California Environmental Quality Act by circumventing the environmental review for a development project, (5) unlawfully names Venoco, Inc., a private party, as a beneficiary of the Initiative in violation of the California Constitution and (6) contains vague, misleading and false statements in violation of the California Constitution and Elections Code. The trial court agreed with a portion of the City Attorney's complaint and on that basis struck the Development Agreement from the Initiative. However, the Court found the remainder of the Initiative to be valid and directed the City Attorney to proceed with the ballot and election process. The City has since appealed this decision to the California Court of Appeals. This future litigation will cause the City to incur legal fees. If the City is unsuccessful in its appeal, the proponents may seek legal fees. However, it is anticipated that these fees would be denied for the same reasons they were at the trial court level. To date, the litigation has cost the City \$260,000.

Second, if the Initiative is enacted, there will be questions during its life of 30 or more years as to whether, how and to what extent the Initiative does and does not apply to development and activities at the CPF. Any disagreement regarding the applicability, interpretation or implementation of the Initiative, whether by the proponents or the opponents of the Initiative, can only be settled by litigation to which the City must be a party with the related burden of legal fees. Rather than attempt to enumerate the opportunities for litigation based on the language of the Initiative here, staff has noted in the body of this report areas of foreseeable litigation. However, it is likely that additional exposure to litigation will become known to the City only as the Initiative is implemented.

Third, if the Initiative is enacted by the people, it will be subject to review for consistency with the Coastal Act by the California Coastal Commission. The Coastal Commission's determination may be

subject to litigation, whether by the proponents or the opponents of the Initiative. Because of the implications the litigation may have for the City, it is likely that the City must be a party to that litigation and therefore would incur legal fees.

At this time it is not possible for staff to quantify the total potential legal fees that could be generated from this Initiative. However, it is safe to say that further litigation is likely. Further, it is reasonable to assume that the legal fees could easily run into hundreds of thousands of dollars over the life of the project. Additionally, depending on the nature of the litigation, a court could order the City to pay the legal fees of the party filing the litigation, thus creating greater financial risk. All legal fees would be paid for at taxpayer expense. It is not known at this time to what extent the Initiative will produce royalties or if the royalties could be used to pay for the legal fees, given the restrictions on the expenditure of such funds.

2. Internal Consistency

Elections Code 9212(a)(2) authorizes an analysis of an initiative's "effect on the internal consistency of the city's general and specific plans, including the housing element, the consistency between planning and zoning, and the limitations on city actions..." Because the LCP boundaries are coterminous with the City's boundaries, the consistency of the Initiative with the Coastal Act of 1976 is also analyzed in this section.

2.1 General Plan and Zoning Consistency

Under state law, general plans and specific plans must be internally consistent. Furthermore, any development project approved by a city must be consistent with the general plan and any adopted specific plans. A plan or project is consistent with a general plan or specific plan if it will further the objectives and policies of the general plan. A project is considered inconsistent with a general or specific plan if it obstructs the attainment of the city's policies or conflicts with a policy.

As noted above, Section II of the Specific Plan and Section 6 of the Initiative state that the Specific Plan and the Initiative, respectively, are consistent with the City's GP/CP. Therefore, the voters are being asked to consider whether they agree with the Initiative's consistency determinations. This area is the subject of the City Attorney's litigation pending before the California Court of Appeal. Venoco has recognized the need for consistency but argued at trial that the Initiative does not create any inconsistencies. The trial court agreed and did not find any inconsistency between the Initiative or its Specific Plan with the City's GP/CP. However, the City Attorney believes that this issue has been wrongly decided. Until the Court of Appeal provides direction on this issue, staff has determined that the general plan consistency findings in the Initiative cannot be made because they are not supported by any evidence. Instead, the evidence shows that the GP/CP amendments would create inconsistency by (1) amending some but not all of the mandatory policies, thereby creating internally conflicting policies and (2) exempting the Paredon Project from the City's otherwise mandatory policies, thereby obstructing the attainment of the City's policies. This conclusion is explained in more detail in the following paragraphs.

In staff's analysis, the inconsistencies created by the Initiative are numerous. Rather than identify each inconsistency, the issue is illustrated here by two examples. First, the City has numerous mandatory policies in the GP/CP that require the viewshed of the Bluffs to remain unobstructed and require structures on the Bluffs to be low intensity and visually subordinate to the landscaping. Several of these policies are amended by the Initiative to make a narrow exception to allow development at the CPF. However, many other applicable GP/CP viewshed policies are not amended by the Initiative. Staff has determined that the Initiative's failure to comprehensively amend the GP/CP results in a plan that is internally inconsistent. For the Paredon Project to be found consistent with the GP/CP, the Initiative must consistent with all of the policies, not just the few that are proposed to be amended. Since many unamended City policies prohibit the obstruction of views on the Bluffs, staff has concluded that the Initiative, which would authorize development of oil rigs ranging from 140 to 175 feet tall on the Bluffs for 30 years or more, cannot be found consistent with the policies of the GP/CP. Furthermore, making an exception for development at the CPF obstructs the attainment of the GP/CP's policy to protect views by restricting the height of development. In staff's determination, exceptions that allow development that will be almost six times higher than the City's current height limit (30 feet) at the CPF cannot be found consistent with the GP/CP's mandatory viewshed policies.

Second, numerous policies in the GP/CP protect the local population of harbor seals and the seal habitat area from noise, vibration and disturbances. The Initiative would amend some, but not all, of these policies to allow Venoco to operate the Paredon Project and CPF year round. For the same reasons stated above, the Initiative's failure to comprehensively amend the GP/CP results in a plan that is internally inconsistent. In addition, the Initiative makes narrow exceptions from the Harbor Seal protection policies to allow the development at the CPF to disturb the seals. In staff's determination, these exceptions for a project that would allow noise, vibration and disturbances of the seals are inconsistent with the GP/CP's mandatory seal protection policies.

State law also requires that the zoning code be consistent with the General Plan. The Initiative does not amend the City's zoning code. However, numerous provisions of the development proposed in the Initiative are inconsistent with the Zoning Code. For example, onshore oil drilling into offshore reservoirs is not permitted in Carpinteria. In staff's determination, the Initiative creates inconsistencies with the City's Zoning Code. Venoco relies on a harmonizing or precedence clause in Section II of the Specific Plan to resolve any inconsistencies between the Initiative and the Zoning Code. The clause states that the Specific Plan shall supersede any inconsistent ordinances, rules, regulations or official policies of the City. In the City Attorney's view, the courts in California have rejected this approach to achieving consistency. In staff's analysis, this precedence clause should not be given any effect, and therefore the resulting inconsistencies remain. Any future Court of Appeal decision on the City Attorney's litigation may provide additional input on the legality of this precedence clause approach.

2.2. Coastal Act Consistency

The California Coastal Act of 1976 (codified at Public Resources Code Section 30000 *et seq.*) establishes a comprehensive set of specific policies for the protection of coastal resources and the management of orderly economic development throughout the coastal zone. Section II of the Specific Plan and Section 7 of the Initiative states, without evidentiary support, that the Specific Plan and the Initiative are consistent with the Coastal Act. The voters are being asked to consider whether they agree with the Initiative's consistency determinations.

Further, the Initiative requires that those who vote for the Initiative make the following specific findings that:

- 1) The Paredon Project will be performed safely and consistent with the geological conditions of well sites;
- 2) Facilities related to the Paredon Project will be consolidated to the maximum extent feasible and legally permissible;
- 3) The extended reach drilling which will be conducted from an existing oil and natural gas processing facility is environmentally safe and feasible;
- 4) The Paredon Project will not cause or contribute to subsidence hazards;
- 5) All oilfield brines will be reinjected into oil-producing zones unless the Division of Oil, Gas and Geothermal Resources (DOGGR) of the Department of Conservation determines to do so would adversely affect production of the reservoirs and unless injection will increase environmental risks;
- 6) Any oil produced from the Paredon Project will be transported onshore by pipeline only; and
- 7) Any oil produced from the Paredon Project will be transported to processing and refining facilities by pipeline.

Many of these consistency findings appear to be included in order to satisfy requirements of the Coastal Act.

The Coastal Act encourages coastal-dependent industrial facilities to locate or expand within existing sites so long as that growth is consistent with the Coastal Act. In general, all new development must be consistent with the Coastal Act's policies. However, Section 30260 of the Public Resources Code makes an exception by providing an override for coastal dependent development projects to be approved even if they are inconsistent with Coastal Act policies if (1) alternative locations are infeasible or more environmentally damaging, (2) to do otherwise would adversely affect the public welfare and (3) adverse environmental effects are mitigated to the maximum extent feasible. Under this statute, new or expanded coastal-dependent facilities must be analyzed using a two-part test. First, it must be determined if the development can feasibly be accommodated consistent with the Act. Second, if not, it must be determined if the three substantive requirements of Section 30260 are satisfied. If either of these findings can be made, the oil and gas development can be deemed consistent with the Coastal Act.

Because the Coastal Commission is ultimately responsible for making the determination of whether the Initiative is consistent with the Coastal Act, staff will not analyze this issue in detail. However, staff's initial analysis suggests that although the Paredon Project would be collocated with the CPF, thereby consolidating coastal-dependent industrial uses, there is no evidence to conclude that the proposed Paredon Project is consistent with the resource protection policies of the Coastal Act. Such policies include Public Resources Code section 30230, which requires that marine resources be maintained, enhanced and, if feasible, restored, and that special protection be given to areas and species of special biological or economic significance. (See also §§ 30210 [public access], 30230 and 30231 [water quality], 30233 [dredging and filling coastal waters], 30240 [protecting significant disruption of sensitive habitat areas] and 30250 [restricting location of new hazardous development].) Because the proposed Paredon Project would allow year round drilling and operation of the CPF without any vibration monitoring for the harbor seals and their rookery, and because the Paredon Project has fewer mitigation measures than the Original Paredon Project (which was found to have a number of unmitigable impacts), staff has concluded the coastal resources would not be maintained under the Paredon Initiative Project in a manner consistent with the Act. Similarly, the fact that the Initiative does not allow the City to perform environmental review and then delays much of the self-imposed mitigation until Phase III, while making all the mitigation measures under the Initiative modifiable, puts at risk the City's other significant natural, scenic, wildlife, marine, ecological, archaeological, cultural and scientific resources. This risk is evident from the unmitigable impacts that were identified in the Proposed Final EIR for the original Paredon Project relating to the risk of upset and impacts to marine resources, marine mammals, onshore biology, offshore water resources, recreation, land use and viewsheds.

Since the first prong of the test does not appear to be satisfied, the Paredon Project must comply with the second prong of the test to be found consistent with the Coastal Act. Thus, for the voters to find that the Initiative is consistent with the Coastal Act, they must determine that (1) alternative locations of the Paredon Project are infeasible, (2) prohibiting the Paredon Project at the CPF would adversely affect public welfare and (3) the adverse environmental effects have been mitigated to the maximum extent feasible. In staff's determination, there is no evidence to support these findings.

With respect to the first finding, the Paredon Initiative did not consider alternative locations and therefore there is no evidence to suggest that other locations for the Paredon Project are infeasible.

The Proposed Final EIR for the Original Paredon Project identified several other locations for the development, including offshore locations.

With respect to the second finding, a determination of adverse impacts on the public welfare requires consideration of the preservation and protection of the state's natural resources and the ecological balance of the coastal zone, as well as the need for a particular type of coastal-dependent development. In staff's initial determination, under the circumstances presented by the Initiative the risk of harm to the highly sensitive and unique natural resources in and around Carpinteria outweighs the public's need to permit oil and gas development at this particular location. For that reason, staff does not believe that prohibiting the Paredon Project would adversely affect the public welfare.

With respect to the third finding, staff does not believe that the adverse environmental effects have been mitigated to the maximum extent feasible. When the mitigation measures for the Original Paredon Project under the Proposed Final EIR and the mitigation measures for the Initiative Paredon Project are compared, the mitigations for the Initiative Paredon Project are less stringent, less comprehensive and subject to modification. Moreover, it is not possible to determine if the project is safe and environmentally sound, since environmental review for the Initiative is not authorized. Accordingly, staff cannot agree that findings required under Public Resources Code 30262, such as the Project will not cause or contribute to subsidence hazards, can be made.

Based on the foregoing, the second prong of the consistency test is not met, and staff cannot conclude that the Initiative is consistent with the Coastal Act. The voters must analyze this issue and draw their conclusions as part of their vote on the Initiative, since a vote for the Initiative requires that the voter agree that the Initiative is consistent with the Coastal Act.

3. Effect on Use of Land and Housing

3.1 Use of Land

This section of the Report analyzes the potential for the Initiative to influence the use of land near the Initiative Project site and in the community in general. This report section also reviews the effect of the offer to dedicate land to the City on the use of that land.

Should the Initiative be approved, it could be expected to affect the use of land in four ways: (1) the Initiative would affect the use of the CPF by amending the GP/CP and adopting the Paredon Specific Plan; (2) the Initiative's authorization of industrial operations at the CPF could affect the use of neighboring parcels and other locations in the community; (3) the Initiative could set a precedent for other developers to attempt to obtain approval for development and make exceptions to the City's land use policies and regulations; and (4) the Initiative could affect the use of the land west of Dump Road that may be offered for dedication to the City. Each is discussed in more detail below.

3.1.1 Effect on the CPF

The Initiative amends the City's GP/CP, establishes the Paredon Specific Plan and supersedes existing zoning regulations to allow onshore oil and gas drilling of offshore reserves at the Carpinteria Oil and Gas Processing Facility (CPF). This use is currently not allowed under existing zoning regulations anywhere within the City and therefore represents a significant change to the existing regulatory setting. In addition to introducing a major new industry to the City, the Initiative also represents the potential for a significant new investment at the CPF, since facility improvement costs are estimated in the tens of millions of dollars.

The Initiative also allows for future development at the CPF not described in the Initiative, including any "equipment, pipelines, buildings and structures necessary for the Exploration, Development, Production, Gathering and Transmission of oil and natural gas resources from onshore and offshore oil fields." This open ended allowance for the addition of other processing equipment and facilities has the potential to result in changes to the use and characteristics of the CPF that raise additional risk and compatibility issues with adjacent residential and open space land uses in the vicinity that cannot be known at this time. The scope of development authorized by this section of the Initiative will likely be the subject of future litigation.

In addition to these substantive policy changes, the Initiative also affects the coastal development permitting process. The City's permit review process was developed in conjunction with the Coastal Commission to ensure that Carpinteria's coastal resources are protected and will be available for future generations to enjoy. Currently, applications for development in the coastal zone go through a thorough review process that is iterative in nature and involves three key components: environmental review, architectural review and permit review processes. The Initiative short-cuts each of those key components of the City's Coastal Development Permit process. As a result, there are many uncertainties as to how the permit for the Initiative project would be processed by the City and the California Coastal Commission.

Normally, the City has full discretionary authority to approve, conditionally approve or deny applications for Coastal Development Permits. However, the CDP to be issued for the Initiative Project is identified in the Initiative as being "ministerial," i.e., similar to a simple building permit.

Thus, it is not subject to environmental review, nor would the City have the discretion to condition the application to mitigate known environmental harms or to achieve consistency with the City's policies. Besides the uncertainties and lack of discretion afforded the City, the Initiative's requirement that the CDP be issued ministerially could result in damage to coastal resources and/or impede coastal access, two of the most important components of the Coastal Act that are implemented at the local jurisdiction level through the Coastal Development Permit process. Because the Initiative interferes with the City's essential governmental functions of issuing CDPs, the City Attorney is seeking review of the validity of this proposed change in the litigation pending before the Court of Appeal.

Another effect the Initiative has on the City's land use is that the Initiative permanently zones the CPF as M-CD with a Paredon Overlay. The nature of initiatives is that they remain in place until they are repealed or revised by another vote of the people. This means that even if, for example, the oil drilling operations at the CPF are decommissioned and the property is abandoned, the CPF cannot be rezoned by the City Council or the California Coastal Commission to accommodate the City's changing needs without an affirmative vote of the public preceding both of those agencies' actions. The need for an election in order to change zoning once the oil and gas use of the site has run its course could be a deterrent to reinvestment and redevelopment of the site for other desirable coastal uses such as a hotel.

Finally, the Initiative would not modify the CPF's 1969 oil and gas plant development permit, so the existing oil and gas processing facilities will continue to operate without any modern regulations. The new development authorized by the Initiative will receive separate permits and be subject only to those development conditions included in the Initiative. Development conditions for the protection of public health, safety and the environment that have effectively been applied to all similar projects in Santa Barbara County would not be allowed to be applied by the City to the Paredon Project. Similarly, the City would not have discretionary development permit authority over the operation and maintenance of any facilities that might be added in the future as allowed by the Initiative. And, given that some of the facilities are shared between the existing CPF and the proposed Paredon operations, it would be difficult to ascertain which facilities are to be governed by which permit. With the Original Paredon Project reviewed in the Proposed Final EIR, it was clear that the City's permit, if approved, would have encompassed the whole of the existing facility and allowed the City to modernize that permit to reflect current conditions and monitoring requirements.

3.1.2 Effect on Other Land Uses

Although the Initiative Project has the potential to generate significant revenue for State, County and City, it is not expected to have a multiplier effect on the business community or to otherwise promote any specific commercial, industrial or residential use of land in the community. The offer of dedication of the parcels west of Dump Road, should the offer be consummated with a transfer of ownership to the City, could result in the establishment of open space and recreation use of those parcels.

The Initiative Project includes the expansion and intensification of oil and gas operations at the plant that would serve to create limitations on the possible use and development options for the adjacent Bluffs I parcel and the partially-developed Marketing Terminal and Buffer Parcel sites west of Dump Road. Under the existing zoning for Bluffs I, a broad array of uses could be proposed for development there. The existing CPF could limit the area where certain development, such as residential uses, could be developed due to air quality impacts, i.e., the cancer risk footprint identified in the proposed Final EIR extends onto the Bluffs I parcel (Figure 4.2-2) due to risk of upset/accident. A hazards and risk

analysis was completed for the Proposed Final EIR and updated for the Initiative project and is included in this Report in Section 8, Public Health, Safety and Environment.

It should be noted that it has been estimated that the odds of an oil spill at the CPF impacting areas outside the CPF for the current operations is approximately one chance in 1,000,000 per year. With the addition of the Initiative Project, the odds of an oil spill impacting areas outside the CPF would increase to approximately one chance in 190,000 per year. This increase in risk would be the result of the new oil tanks, oil piping and production well piping, as well as potential blowouts during drilling operations. These risks of an oil spill migrating offsite are very low because all areas within the CPF are currently (and would be for the Initiative Project) contained within berms and discharges from the CPF are controlled with closed drain valves.

For the pipeline from the CPF to Ventura, the Proposed Final EIR estimated the odds of an oil spill less than 100 barrels to be between one chance in 30 per year and one chance in 15 per year depending on the location along the pipeline route. The odds of an oil spill greater than 100 barrels were estimated to range between one chance in 137 per year and one chance in 36 per year depending on the location along the pipeline route. The existing pipeline is not proposed to be modified and therefore the risk does not change with or without the Initiative Project.

These risks along with view, noise, odor, vibration and other effects of the project would serve to influence the type and location of development on parcels adjacent to the CPF, including the Bluffs I parcel to the east and the Marketing Terminal site west of Dump Road. However it should be noted that the impact analysis contained in the Proposed Final EIR was not finalized by the City and the document was not certified, although extensive work was done on the document and changes made to the document to respond to public and agency comments received on the impact analysis and mitigation measures included therein.

3.1.3 Effect on Land Use in the Future

The GP/CP acts as the constitution of the City, a document with which all other city policies and actions must be consistent. By carving out unique exceptions to important policies of the GP/CP that are aimed at protecting unique coastal resources and community character, the Initiative could have wider implications, such as setting a precedent for future development proposals that are inconsistent with City policies and regulations to be approved. Rather than propose a development that conforms to the City's policies, applicants may rely on the Paredon Initiative as a model for seeking approval of parcel-specific amendments to the City's GP/CP and spot zoning. If the Initiative is approved and the Paredon Project is successful, it may also encourage developers of other important sites in the City, e.g., the Bluffs III Resort Hotel site, to skip the City's land use permitting process altogether and seek approval directly from the voters via initiative. This could result in development being approved that is incompatible with neighboring properties, and the vision of the community, and that could have any number of significant environmental impacts including but not limited to, impacts on traffic and parking, ocean views and environmentally sensitive habitat areas.

3.1.4 Effect on Dedicated Land

The Specific Plan includes an offer to dedicate to the City the land between Dump Road and the Arbol Verde neighborhood, which is made up of two parcels, commonly known as the Buffer Parcel and Marketing Terminal. As discussed in more detail in Section 4.2.2 of this Report, it is not clear what

the nature of this grant is. Assuming it is a grant of fee ownership, it appears that the land could nevertheless only be used as “an open space area” and for “coastal access.” It is not uncommon for local governments to receive grants of land or other property that the grantor offers on the condition that it is used in a particular manner. It is not clear at this time, however, which uses fit within the open space / coastal access restriction contained in the Initiative. For example, it is unknown whether active recreation would be allowed.

3.2 Availability and Location of Housing

The Initiative has the potential to affect the availability and location of housing in the following ways, discussed in more detail below: (1) generation of new housing demand and (2) effect on housing near the CPF.

3.2.1 Generation of New Housing Demand

The project is not expected to generate employment in numbers or income categories that might alter demand for housing in the area. Carpinteria housing is already highly desirable and prices reflect a premium paid for locations near the coast line and in the desirable small town setting. The City’s location in the Coastal Zone with a defined Urban/Rural limit line and State and County laws that protect against the conversion to other uses of agricultural land surrounding the City, is expected to remain the most significant influence on the City’s future potential for growth in the amount of residential property available in or adjacent the City.

3.2.2 Housing Near the CPF

Housing near the project site includes the Concha Loma/Arbol Verde single family neighborhoods, located approximately 1,000 feet west of the proposed drill site. Developed over 40 years ago, there are 227 lots in this area, and only five lots remain undeveloped. There are second homes in this area which are occupied on an intermittent basis only; however, in general there is a very low annual inventory of houses for sale in this highly desirable neighborhood. Development of the Initiative Project could create a larger percentage of available housing units for rent or sale if current residents choose to relocate temporarily from the area during the construction and drilling phase or to relocate away for a longer term due to increased risks associated with the proposed drill rig activities and increased production at the CPF.

As mentioned in Section 1 of this report, the value of some properties in the Concha Loma/Arbol Verde neighborhoods could depreciate by as much as 15%. It is not known if this effect on value would be sufficient to prompt sales or conversions of owner occupied homes to rentals. The conversion of owner occupied homes to rentals would have the effect of increasing the amount of rental housing availability in the City.

3.3 Regional Housing Needs

The City of Carpinteria must provide its fair share of affordable housing for the Santa Barbara County region pursuant to State Housing Law. For the current planning cycle, that fair share is 305 units of affordable housing across five income categories defined by the State Department of Housing and Community Development (HCD). This number was established through the Regional Housing Needs

Allocation (RHNA) process managed by the Santa Barbara County Association of Governments (SBCAG).

In its Draft 2009 Housing Element Update, the City relies on affordable units being provided by the developer of a hotel development on the Bluffs I property located immediately to the east of the Initiative Project site and at the future resort development slated for the Bluffs III property at the eastern edge of the City's coastal bluff. Both of these sites are required to provide affordable employee housing units to support their commercial uses. The City's stated preference in its policy is that the units be provided on the same site where the hotel development would occur, thereby minimizing traffic trips associated with the commercial development and ensuring developer control of the subject housing units.

As mentioned above, it is not expected that the Initiative has the potential to significantly influence housing demand or opportunities in the region. Nor is it expected to significantly influence the City's ability to plan for the provision of housing pursuant the General Plan Housing Element and the allocation of housing that's a part of the Regional Housing Needs Assessment. Rather, if an effect of the Initiative, (discussed as a possibility in Section 6 of this report), is the delay or prevention of development on Bluffs I and III sites, 20 affordable housing units planned to be a part of the development of those sites in the City's Housing Element would correspondingly be delayed or not developed at all.

As discussed in Section 1 of this report under Fiscal Impacts, the City may receive royalties as a result of the Pardon Initiative Project. Unlike the City's general fund monies, which may be expended for any purpose, the royalty monies are restricted to certain types of expenditures. Staff does not interpret these restrictions as authorizing the expenditure of the royalty funds to produce or subsidize housing in Carpinteria. Thus, even if the development authorized by the Initiative displaces housing, the City could not use the royalty funds to offset that impact.

4. Impact on Infrastructure and Infrastructure Funding

Under Elections Code 9212(a)(4), staff may analyze the Measure’s “...impact on funding for infrastructure of all types, including, but not limited to, transportation, schools, parks, and open space.” The report may also discuss “whether the measure would be likely to result in increased infrastructure costs or savings, including the costs of infrastructure maintenance, to current residents and businesses.”

4.1 Impact on Funding for Infrastructure

Through payment of Development Impact Fees (DIFs), royalties and property tax, the project would provide funding for a variety of infrastructure improvements and maintenance. The City’s Capital Improvement and Transportation Programs establish which projects, programs and services of citywide benefit are needed. State law establishes the parameters for determining appropriate use of oil and gas royalty revenues, including the type of infrastructure, programs and services that oil and gas royalties may be used to fund.

4.1.1 Impact Fees and Charges

The City charges Development Impact Fees, known as DIFs, pursuant to Carpinteria Municipal Code Chapter 15.80, to help finance required citywide public facilities and service improvements and to pay for new development’s fair share of public infrastructure construction costs. It is anticipated that the project would pay into the following DIF categories: Streets & Thoroughfares; Highway Interchanges & Bridges; Traffic Control; General Facilities; Storm Drainage; Parks and Open Space. The total amount of DIFs related to the Initiative project is estimated to be approximately \$950,000. DIFs are collected at the time of building permit issuance.

4.1.2 Royalty Revenues

Any oil and gas royalty revenues received by the City could be used for infrastructure improvements and maintenance subject to the parameters for the use of such revenues established in State law, Public Resources Code 6817(d)(1) as follows:

The amounts paid to cities and counties shall be deposited in a special tide and submerged lands fund established by the cities or counties, to be held in trust and to be expended only for the promotion and accommodation of commerce, navigation, and fisheries, for the protection of the lands within the boundaries of the cities and counties, for the promotion, accommodation, establishment, improvement, operation, and maintenance of public recreational beaches and coastline for the benefit of all the people of the state, and for the mitigation of any adverse environmental impact caused by exploration for hydrocarbons on state tide and submerged lands within city or county boundaries or caused by production or transportation of hydrocarbons produced on these tide and submerged lands.

Also potentially affecting the use of any City royalty revenues is the State statute pertaining to the tidelands area within the City limits of Carpinteria. Enacted at the time of annexation of the tidelands area to the City, the statute includes limitations on the use of any revenues derived from that area. The limitations are similar to those of PRC 6817(d)(1) but more detailed and therefore, potentially, more

limiting. In general, Tidelands revenues must be used for projects, programs and services that benefit coastal recreation, access and environments.

4.1.3 Property Tax

The City may use property tax for any purpose including the improvement and maintenance of infrastructure. A portion of the property tax also goes to the County of Santa Barbara, the Carpinteria Unified School District, the Carpinteria-Summerland Fire Protection District and the Carpinteria Sanitary District. This revenue is unrestricted and could be used by any of these public agencies for infrastructure improvements and maintenance. With development of the Initiative Project, the City could expect to receive increased property tax revenue.

4.1.4 Payment to Carpinteria Education Foundation

The portion of the Initiative that included an annual payment to the Carpinteria Education Foundation of an amount matching the royalty payment paid to the City but not to exceed \$1 million annually and \$5 million total has been struck by the Court and would not apply should the Initiative be approved.

4.1.5 Parks and Open Space

The Initiative provides that upon initiation of Phase III of the development and the City's approval to relocate any existing CPF equipment or facilities, an "open space area and coastal access" would be offered for dedication to the City. The area subject to the offer includes the two parcels west of and including Dump Road. The Initiative is not clear as to what property right(s) would be conveyed to the City through the offer of dedication. Should the City receive rights sufficient to use the space for public park and/or open space, public trails and coastal access, it would contribute to the City's inventory of parks and open space and offset costs for land acquisition for such purposes.

4.1.6 Utilities (Electric, Natural Gas, Water and Sewer)

The developer of the Initiative Project would be required to acquire permits and pay for any costs associated with project related utility improvements. It is not expected that the project would result in any changes to franchise fees paid to the City by utilities currently using public street rights-of-way.

4.1.7 Statewide Infrastructure

It is not believed that the State would be limited in its use of oil and gas royalty revenue. It is possible that State revenue received from the project could be used for funding statewide infrastructure such as State Highways or State Parks.

4.2 Likelihood of Increased Infrastructure Costs or Savings

Development projects can create unique or acute impacts on infrastructure that are not addressed through payment of DIFs and must be evaluated and addressed through project environmental mitigation and project conditions. The Initiative Project does not evaluate this type of impact on City infrastructure nor propose any measures to fund the public cost of addressing such impacts. In particular, it is anticipated that the Initiative Project construction and operation will have negative impacts on the function of public street intersections and Highway 101, and result in damage to public roads used for construction and operational truck traffic. As such, the Initiative Project would create potentially significant public costs associated with improvement and maintenance of streets and intersections in the City.

4.2.1 Streets and Intersections (Traffic)

Traffic associated with the construction of the Project is projected to increase traffic on local roads and the Highway 101, cause damage to local streets including Carpinteria Avenue, Bailard Avenue, Casitas Pass Road and Dump Road (private), impact public access via Dump Road to the beach, Tar Pits Park and the Coastal Vista Trail, and potentially impact public street parking in the area of the project.

Without either environmental mitigation or project conditions of approval, the Initiative Project traffic impacts would likely be greater than the mitigated project analyzed in the Proposed Final EIR due to the following:

- The Initiative does not include repavement and drainage improvements to Dump Road to mitigate damage that could occur as a result of heavy construction traffic. Dump Road provides the only vehicular access to the development site and is currently in poor condition.
- The Initiative does not include a Parking Plan to ensure that parking from the Initiative Project does not occur south of the railroad tracks and on Carpinteria Avenue. Dump Road is used by the public for access to the beach, Tar Pits Park, the Coastal Vista Trail and the nearby seal haul out/rookery viewing area, and added traffic (in particular truck traffic) and parking on Dump Road could discourage that public use.
- The Initiative does not include any restriction on employee and delivery commuting to the project site during the peak hours of morning and afternoon traffic congestion and could therefore result in greater traffic congestion on various streets and intersections, e.g., Casitas Pass Road intersections at Highway 101 and Carpinteria Avenue, Bailard Avenue intersections at Highway 101 and Carpinteria Avenue, and on Highway 101 and Carpinteria Avenue.
- The Initiative does not include any guarantees to protect streets from damage caused by construction related traffic/deliveries. It is expected that oversized vehicles and heavy loads will be required to access the site routinely during construction and drilling operations, and such trips can cause damage to both surface asphalt and the underlying structural base of City streets.

4.2.2 Parks and Open Space

The Initiative includes a conditional offer of dedication of the project area west of and including Dump Road. City staff believes that acquisition of the parcels could be found consistent with City policies that support improved public access to the coast and the preservation of environmentally sensitive habitat areas.

The Initiative is not specific if the offer is to dedicate in fee, a surface easement or if additional terms and conditions of transfer would be necessary. The Initiative offer is contingent upon the City granting any approvals and permits necessary to relocate existing CPF facilities off of the dedication site. The Initiative does not specify what facilities Venoco would request to relocate, nor to where. It cannot be known if the relocation of facilities that might be proposed by Venoco is consistent with City policies and regulations. Also, a determination cannot be made by the City in advance of any required project review. Because it is uncertain if the contingency included in the offer of dedication of land west of Dump Road can be met, it is also uncertain if any rights to the land would transfer to the City for public benefit should the Initiative be approved by voters.

Both the parcels included in the offer of dedication have a history of hazardous materials clean-up related to fuel storage and agricultural uses and the parcels have been inspected and analyzed for environmental contamination. Contamination issues have been delineated and characterized and clean-up plans have either been implemented or are in progress. Both parcels are likely to be the subject of future and ongoing monitoring. Future potential costs associated with environmental liability could be significant. Prior to acceptance of the offer of dedication, responsibility for known and unknown environmental liability would need to be negotiated and terms agreed to. In approximately 2001, Venoco sought to transfer the same site to the City as a part of a State Tax Credit program. At that time the prospect of significant future environmental liability and the associated costs were an obstacle to Venoco and the City reaching an agreement.

In order to determine what improvements to the property would be necessary for public access and park use, an assessment of existing conditions would need to be prepared. It is anticipated that the assessment would include but not be limited to determining the disposition of existing improvements such as any buildings and relic oil and gas facilities and the remediation of open space management issues for public safety. The type of work anticipated includes the removal of hazardous building materials such as asbestos and vegetation trimming or removal.

It is estimated that it would cost about \$30,000 for the assessment of the property, building materials testing, and a forestry management plan as necessary to identify public health and safety and habitat issues. The cost of mitigation of the items described above cannot be determined until the survey work is completed, but it can be expected that it would be significantly more than the cost of the assessment.

4.2.3 Water, Sewer and Utilities

The Initiative Project would not be expected to generate a demand for service beyond that currently available, nor jeopardize other projects due to capacity shortages. No new or physically altered water or sewer system improvements would be required. Similarly, no significant changes in electric or natural gas utilities is anticipated that could serve to either increase costs or result in savings to the City or its residents or businesses.

4.2.4 Storm Water Management

The project does not include any of the storm water management mitigation measures included in the Original Project Proposed Final EIR. The project sponsors would be required to develop a Storm Water Pollution Prevention Plan and obtain a discharge permit from the Regional Water Quality Control Board. This permit could require both construction-related and permanent storm water management improvements and facilities to prevent storm water pollution. The City of Carpinteria is responsible to ensure local compliance with federal and State surface water quality standards. However, without City regulations in place for the project, the Regional Board would be relied upon to determine both infrastructure and program needs, conduct inspections and enforce regulations related to the project.

4.2.5 Fire Protection and Emergency Response

The Initiative Project creates a demand for improvement to the firewater system capacity at the site. A firewater tank would be installed if the project proceeds to Phase III of development. Since the Initiative only calls for a study of the firewater system during the exploration and delineation phases, there is no guarantee that any modification would be made to add capacity to the existing system if the project does not proceed to Phase III. The lack of adequate onsite firewater capacity could place additional demand for firefighting equipment and/or services, e.g., water tenders, on the Carpinteria-Summerland Fire Protection District. If there were an emergency that affected the water mains, such as an earthquake, the lack of firewater could severely limit the ability of emergency response personnel to handle an emergency at the CPF during the exploration and delineation drilling phases of the project.

4.2.6 Statewide Benefits

The project would result in oil and natural gas being sold to The Gas Company for use in its natural gas distribution system and to manufacturers of petroleum based products such as gasoline. The City has no information that would suggest that either the oil or natural gas developed from the project could have a significant influence on the cost of regional or Statewide infrastructure that use natural gas, gasoline or other petroleum based products, e.g., the cost to operate natural gas fired electric power plants and transit systems that use gasoline or diesel fuel for transportation.

5. Impact on Business and Employment

Elections Code 9212(a)(5) authorizes an analysis of an initiative's impact on the community's ability to attract and retain business and employment.

There are several key business and employment sectors in Carpinteria including tourism and hospitality, high-tech industries, corporate offices and agriculture. Much of what attracts and maintains these businesses in Carpinteria cannot be controlled by the community; however, there are aspects of what makes Carpinteria attractive to these business sectors that can be managed. This section of the report analyzes the Initiative Project for its potential to attract and retain business independently, and its potential to affect those conditions and characteristics in Carpinteria that have made it attractive to the noted business sectors.

5.1 Oil & Gas Industry

In a small community such as Carpinteria, distinct industries and large single employers can have significant influence on the overall business climate. Recall the importance that software producer QAD once held and its impact upon leaving. Venoco, Inc. is not as large as QAD once was in the community, but as a large corporate office presence in Carpinteria, represents a portion of an important business segment in the community. Although the CPF may be the reason Venoco chose to locate its corporate office in Carpinteria, as an industry, oil and gas development does not have a significant economic footprint in the City. A study by MMS (MMS 98-0048) suggests that this has been the case throughout Santa Barbara County stating, "Although oil and gas have been a steady part of the local economies... the region would have been equally as well off economically had there been no such activity." This reflects the case in Carpinteria where the CPF generates very little employment and few opportunities for other businesses that serve the industry.

The proposed Initiative Project would not be expected to generate an amount or type of employment that could significantly benefit the community, nor create demand for services that could serve as impetus for a significant number of jobs or local businesses to be attracted to or remain in Carpinteria.

5.2 Project Impact on Existing Business Sectors

As noted above, the important business sectors in Carpinteria are tourism/hospitality, high-tech industries, corporate office and agriculture. The Initiative Project would not be expected to significantly affect these business sectors either in the development or operational project phases. The Initiative Project is not expected to provide any significant multiplier effect in attracting or retaining business and employment, nor would it discourage the establishment or retention of businesses in these key sectors. Only through an accident scenario would the Initiative Project be expected to have a significant effect on the important business sectors and employment in the community.

The number of jobs created by the Paredon Oil and Gas Initiative is estimated to be fewer than 50 during the development and exploratory project phases and a fraction of that during day-to-day operations once established. It is expected that most jobs would be transient in nature and would come and go dependent on the phase of development or a specific activity associated with the routine operation, such as a well workover. These types of jobs are very technical in nature and require specialized skill sets. The number of jobs generated is not expected to have an impact on local

employment or businesses. Furthermore, based on research conducted by the Minerals Management Service (Pacific OCS Region), the petroleum industry's long presence in Santa Barbara County has had important economic impacts in terms of its contributions to the County tax base. However, unlike a variety of other industries in the region, e.g., tourism, the petroleum industry has not stimulated significant growth in the private economy. In economic impact terms, the industry has had a low multiplier effect in its ability to create additional indirect and induced spending in the regional economy as a result of its operations.

The City of Carpinteria supports important business sectors in the City by providing programs and services that maintain or enhance valuable attributes of the environment and community. For example, the City has worked cooperatively with the Carpinteria Valley Association, Citizens for the Carpinteria Bluffs, the Land Trust of Santa Barbara County and others to preserve and protect open space along the coast including the Bluffs and the Salt Marsh. The City also funds programs for the maintenance of the City beach and improvement and maintenance of a coastal trail system. Finally, the City has made significant improvements to downtown streets and parkways and spends significantly on an annual basis to maintain landscaping, lighting and other unique improvements that promote the downtown as a pedestrian friendly, public gathering place. The downtown has thus become a vital part of the City's economy. All of these efforts and more serve to maintain and improve upon aspects of Carpinteria that are attractive to visitors and businesses and therefore support key business sectors such as tourism and hospitality.

Should a catastrophic event such as an oil spill affecting Carpinteria's three-mile beach area occur at the CPF, the tourism and hospitality industry in particular would expect to be negatively and significantly impacted because important aspects of what is attractive to visitors, i.e., a clean, healthy coastal environment, would be damaged. It is estimated that a spill on the magnitude of 2,000 barrels could have this type of effect⁷. Such a spill could occur due to an oil spill at the CPF or from a spill associated with the pipeline that conveys the processed oil from the CPF to Ventura. This type of catastrophic event could have both short and long term impacts on business. Local businesses that rely on visitors might be forced to close. Also, the City's reputation as having a safe, clean, family-friendly environment could be damaged from an extended period of beach or ocean pollution from an oil spill. The human health and environmental hazards and risks associated with the Initiative project are discussed in detail in Section 8 of this report.

⁷ This estimate is based on the impact area of the American Trader oil spill near Huntington Beach and it is possible due to any number of variables such as weather and tide that the impact area from a spill could vary dramatically.

6. Impact on Uses of Vacant Parcels of Land

This section of the Report reviews the potential for the Initiative to influence the use of vacant parcels of land nearby the project site. There are several vacant parcels of significant size nearby the project site. Three of the sites are on the Carpinteria Bluffs, two other parcels are currently owned by Venoco and are located adjacent to and west of the CPF, and one parcel is owned by the City and maintained as public open space (Tar Pits Park).

As discussed in Section 3 of this Report, the Initiative Project would represent a significant new investment at the existing CPF (facility improvement costs are estimated in the tens of millions of dollars), and would introduce a major new industry, mining, to the City. Although the project has the potential to generate significant revenue for State, County and City government, it is not expected to have a multiplier effect on the business community or to otherwise promote any specific commercial, industrial or residential use of land in the community. Therefore, it is not expected that the Initiative project would result in proposals to develop vacant parcels of land in the area for use that supports the oil and gas operation. The sites are identified as shown in the figure below.



As discussed in Section 3 of this Report, the Initiative includes approval of a development project, normally an administrative function, which in staff's view is inconsistent with City General Plan/Coastal Land Use Plan policies and zoning regulations. This raises the specter of a precedent being set, should the Initiative be approved, that developers of the remaining large vacant parcels of land in the City could seek to gain approval of uses that are not currently allowed and would be inconsistent with City policies and the vision for important areas such as the Carpinteria Bluffs.

The Initiative Project is not subject to the City's traditional environmental review process and related project mitigation measures. Environmental mitigation measures included in the Mitigation Monitoring and Reporting Program within the Initiative are a modified subset of the measures included in the Proposed Final EIR for the original Paredon Project and therefore do not cover all of the potential impacts that are expected from the Initiative Project. Also, the Initiative delays implementation of many measures such that the related impacts on the environment would not be addressed at all in the initial phases of development activity. Finally, all of the mitigation measures

may be changed, or even eliminated, at Venoco's request, if the Initiative's provisions for modifying the standards of the Specific Plan are interpreted broadly. If project related environmental impacts are not mitigated adequately and affect vacant parcels of land in the area, the use of these parcels could be constrained or development discouraged.

6.1 Marketing Terminal and Buffer Parcel

Vacant property to the west of the site comprises two properties owned by Venoco and known as the Marketing Terminal (partially vacant and the former site of above ground fuel storage tanks) and Buffer Parcel (vacant). The Marketing Terminal site is zoned for Coastal Dependent Industrial use and the Buffer Parcel is zoned for Recreation and Open Space use. For many years, the property has served as an open space buffer between the industrial uses associated with the Carpinteria Oil and Gas Processing Facility and the low-density residential uses to the west. The Buffer Parcel has served as a restoration area for replanting vegetation lost during the soil remediation efforts on the Marketing Terminal parcel in the late 1990s. These properties have also historically served as a monarch butterfly habitat area and a foraging, roosting and nesting area for raptors. The Buffer Parcel supports a small wetland habitat area as well.

The southern portion of the Marketing Terminal property is currently used as a storage yard for equipment associated with the Carpinteria Processing Facility and the offshore platforms where offshore oil and gas production operations occur. The northern portion of this property is vacant.

According to the Paredon Specific Plan in the Initiative, upon initiation of Phase III of the project, these lots would be offered for dedication to the City as an open space and coastal access area. Although the nature of the grant is not described in the Initiative, Staff interprets this grant to potentially be in fee without a reservation of easement or any other rights to Venoco, based on the other provisions of the Initiative. The Initiative does not specify for how long the offer will be made available to the City. The City interprets the offer as being made for 21 years, based on standard dedication practice. Another area of uncertainty is what conditions, if any, would govern the City's use of the dedicated lands. As is discussed in Section 3, the grant is made for "open space" and "coastal access." Although the precise uses that fit within those definitions are unclear, the City would likely rely on its Zone Code to interpret the scope of the grant. Because the nature of the grant is unclear, it may be subject to litigation in the future.

Should the City gain control of the dedicated lands for open space and coastal access purposes, this would be a beneficial result of the Initiative in that improved public access to the coast could be established and important habitat could be protected. If the lands were not granted to the City and instead remained in private ownership, even with the Recreation (REC) zoning designation, it is possible that any of the allowed uses in that zone might be developed there. Uses allowed in the REC zone include: campgrounds, golf course, tennis courts, other recreational facilities and supporting infrastructure such as a parking lot or concession stands. As discussed previously, some of these uses such as a private campground, would likely be inhibited by the Initiative Project's impacts on neighboring properties.

6.2 Bluffs I

The vacant Bluffs I property comprises approximately 23 acres directly adjacent to and east of the CPF. The Bluffs I parcel adjacent to the CPF is currently developed with a golf driving range on its northern portion and is used for agricultural operations in its southern portion. Both of these uses exist without significant structural development and are authorized under short term leases from the property owner. The property is zoned Planned Unit Development (PUD) with a Planned Unit Development (PUD) Land Use Designation in the General Plan/Coastal Plan. There are two separate parcels that comprise the property: the portion north of the railroad tracks that includes the driving range and agricultural operations and the portion south of the tracks that is undeveloped open space area that supports coastal sage scrub habitat and includes well-worn public trails along the blufftop.

The property is currently bank-owned and is actively being marketed for hotel and residential development, both uses that are allowed by right in the PUD zone district. During the seven years when the 170-foot tall drilling rig is located on the site, the visual effects of the structural development and noise and vibration from drilling operations could potentially be incompatible with these adjacent existing and future land uses. Drilling operations would occur 24 hours per day, seven days per week during both Phases I and II of the Initiative Project, without any monitoring occurring in nearby residential areas or open space areas and without any method of reducing noise from these activities unless and until the project proceeds to Phase III.

During drilling and throughout the operations phase of the project, the risk of upset potential could also cause a significant impact to these properties, possibly affecting their marketability, future development and use. These impacts from the Initiative Project would result from the potential for hazards associated with gas liquids, pressure relief systems, aging pipeline facilities, operation and maintenance of the odorant facility, and accidental oil spills or gas releases which can cause impacts to humans, wildlife and habitat areas.

Other impacts that would affect this and other adjacent properties include impacts from increased traffic on Carpinteria Avenue, associated air quality impacts and potential impacts to the seals at the rookery on the beach below the project site. Examples of such impacts are those resulting from employee and construction equipment traffic, air pollution from compressors and drilling equipment, noise and vibration impacts from drilling operations, and the introduction of more lighting that can affect habitat areas for wildlife.

The coastal bluff portion of the Bluffs I property is also zoned and designated PUD and is currently vacant. The property is land-locked in that there is currently no legal access across the railroad tracks to access the property. However, the property is highly used by pedestrians and bicyclists who access the property from the Carpinteria Bluffs Nature Preserve to the east or the City's Tar Pits Park and Coastal Vista Trail from the west. The property is situated on a bluff top overlooking the beach below which is the home of a harbor seal rookery. The property has well worn trails from years of public access and recreation activities here, including access to a "ramp" that leads to the beach below.

As indicated above, development of the Initiative Project would create environmental impacts. These impacts include a significant risk hazard for the vacant Bluffs I parcel. As drilling operations would be added to the facility, new risks associated with the potential for hydrogen sulfide gas, potential releases of flammable and toxic gases, and the potential to mobilize contaminated soil or impact groundwater, would be created as a result of those drilling operations. And, as shown in the Impacts and Mitigation

Measures Matrix Comparison Table, attached to the November 30, 2009 City Council staff report associated with this Report, the Initiative Project is not subject to the same mitigation measures (identified in the Proposed Final EIR and designed to reduce the risk hazards) that would have applied to the Original Project. Should the Initiative Project be developed as proposed, it is expected to impose significant constraints on the use and development of the adjacent vacant Bluffs I parcel.

6.3 Bluffs II

There is a single 3.37-acre vacant parcel remaining in the Bluffs II area. Bluffs II is developed primarily with professional offices and research and development space. It is unlikely that the Initiative project would affect the development of this parcel for the anticipated professional office use or research and development uses.

6.4 Bluffs III

The property known as Bluffs III is the easternmost blufftop lot in the City of Carpinteria. It is situated on the coastal bluff overlooking Rincon Point to the southeast. The property includes various parcels totaling approximately 25 acres of vacant land zoned Resort (RES) and designated in the City's General Plan/Coastal Plan for Visitor-Serving Commercial (VC) use. As discussed above relative to impacts from the Paredon Initiative Project, the viewshed from this property would be significantly impacted by a drill rig. Additionally, the construction and drilling noise and potential for risk of upset could affect the marketability and timing of development of this property as a resort hotel site. It should be noted that the Bacara Resort hotel in Goleta was developed and operates adjacent to an oil and gas facility with significant risks for upset. Further discussion of economic impacts related to the Initiative Project is provided in Sections 1 and 5 of this report.

7. Impact on Agricultural Lands, Open Space, Traffic Congestion and Business Districts

This section of the Report analyzes the Initiative's impact on agricultural lands, open space, traffic congestion, existing business districts and developed areas designated for revitalization.

7.1 Agricultural Lands

There are agricultural lands within the City, including ongoing agricultural operations on a portion of the parcel adjacent to and east of the existing CPF. Also, much of the land abutting the City within the County of Santa Barbara is zoned and used for agriculture. The Bluffs I property immediately to the east of the Paredon Initiative Project site supports flower and other row crops on the southern portion of APN 001-170-013. As has been noted in Section 6 of this Report, development of the Initiative Project would create environmental impacts, including a significant risk hazard for the Bluffs I parcel. Accordingly, depending on the nature of the environmental impacts and/or if an upset event occurred at the CPF, it could significantly affect the use and development of the adjacent agricultural operations on the Bluffs I parcel. For example, air pollution or groundwater contamination from the Initiative Project could affect the growth of the crops or could endanger agricultural employees. As indicated previously in this Report, agricultural use is a priority use in the Coastal Zone and protected by State, County and City regulations.

7.2 Open Space

As discussed in Section 6, the Initiative would cause significant impacts to adjacent properties used and/or zoned for Open Space.

The coastal bluff portion of the Bluffs I property is highly used by pedestrians and bicyclists who access the property from The Carpinteria Bluffs Nature Preserve to the east or the City's Tar Pits Park and Coastal Vista Trail from the west. The property is situated on a blufftop overlooking the beach below which is the home of a harbor seal rookery. The property has well worn trails from years of public access and recreation activities here, including access to a "ramp" that leads to the beach below. The viewshed, noise, vibration and risk impacts are expected to negatively affect the experience of Carpinteria residents and visitors to the open spaces in the area, including biking and hiking trails and the Harbor Seal viewing area. For purposes of the Fiscal Effects, Section 1 of this Report, it is projected that half of the visitors to the Harbor Seal area could be kept away by project activities in addition to those that would otherwise use the coastal trail system.

To the west of the project site is Tar Pits Park, one of the City's natural open spaces. The property is a passive park in a rural setting with little physical improvements. There are well worn trails that have been created from years of use by residents and visitors alike. The property is immediately adjacent to the Carpinteria State Beach Park, which includes a popular campground and day use area. Similar to the impacts that would occur to the Bluffs I vacant parcel to the east, noise and visual impacts could also affect the use of Tar Pits Park by the creation of a visual intrusion into the skyline, introduction of long periods of continuous noise and vibration from the drilling operation, and the increased risk associated with these types of industrial operations.

7.3 Traffic Congestion

The Initiative Project would introduce traffic into the area during construction and operation of the drill rig and other facilities needed to support the oil and gas exploration, development, production, processing and transmission. Traffic would be associated with employee vehicles, as well as large trucks that would be needed to transport significant amounts of pipe for well drilling and installation. Given the large size of these trucks, they have the potential to cause traffic congestion as they access the site from U.S. Highway 101 via Bailard Avenue or Casitas Pass Road and Carpinteria Avenue to Dump Road. While traffic volumes other than at Casitas Pass Road would not likely trigger significant effects, Initiative Project-related traffic would affect the level of service on area roadways, as these large trucks tend to move more slowly, require wide turning radius space, and when carrying heavy loads, cause pavement deterioration much more quickly than under normal passenger vehicle wear and tear. Ordinarily the City requires mitigation for such impacts by imposing conditions of approval on projects to restrict the number of traffic trips, to limit the routes used, and to regulate the time that the trips can occur. The City also may require that an applicant photo-document the condition of the area roadways prior to commencement of construction activities such that a before and after comparison can be made. In this way, significant impacts to roadways can be corrected at the expense of the developer that was responsible for the impacts, rather than passing that cost burden on to the residents through the City's street maintenance program. The Initiative does not contain such mitigation measures, and appears to preclude the City from imposing them. As a result, the Initiative has the potential to result in serious impacts to traffic congestion and infrastructure within the City.

7.4 Existing Business Districts

The City's primary business districts can be identified as the Downtown, the Casitas Pass Road commercial area and the Carpinteria Avenue Corridor. Sections 1 and 5 of this Report review the Project's effects on the local economy including key business sectors, e.g., the tourism/hospitality businesses which support the various business districts in the City. Business districts such as the Downtown are unique in that the success of individual businesses is linked, at least in part, to the health of the district as a whole. A significant number of vacancies in the Downtown results in the remaining businesses suffering economic decline. In this regard, should the Initiative Project negatively affect key business sectors such as tourism/hospitality, resulting in closure of restaurants or hotels, it would be expected that the business districts within which these businesses are located would be negatively affected overall. Given the information available at this time, it is not clear whether such impacts can be anticipated.

Also, as mentioned in Section 4 of this Report, the Initiative project is expected to have negative effects on the function of streets and intersections that serve the project site. The freeway interchange at Casitas Pass Road and its intersection with Carpinteria Avenue, as well as the intersection of Carpinteria Avenue and Dump Road, are some of the streets and intersections expected to be negatively affected by vehicle trip and truck traffic associated with the project. These streets and intersections also serve the Casitas Pass commercial area and Carpinteria Avenue corridor business districts. Poor levels of service at key intersections and deteriorated roadway conditions can serve to dissuade customers from visiting businesses located in business districts served by those streets and intersections.

8. Public Health, Safety and Environment

The Paredon Initiative Project would involve modifying the existing Carpinteria Oil and Gas Processing Facility (CPF) to include the drilling of oil and gas production wells, and the expansion of existing oil and gas processing facilities. As with any oil and gas facility, there are potential hazards and risks associated with the oil and gas operations that could affect both humans and the environment. The remainder of this Report discusses the various hazards of the oil and gas operations and provides information on the risks that these hazards pose to humans and the environment.

8.1. Human Risk

The risks to humans fall into two major categories. The first is acute risk, which is a result of hazards associated with accidents or upset conditions. These hazards include fires, explosions, toxic gas releases and oil spills. While these types of accidents or upset conditions are not expected to occur during the lifetime of the operations, if they do occur, they could result in serious injuries or fatalities to people in the immediate vicinity of the CPF. The second is chronic risk, which is a result of toxic air pollutants emissions from the operations that can lead to increased cancer risk in the immediate vicinity of the CPF. Each of these various human risks is discussed below.

8.1.1 Acute Risk

As part of the Proposed Final Paredon Project Environmental Impact Report (EIR), prepared by the City of Carpinteria, estimates were made of the risk associated with these types of accidents. The risk estimates focused on the potential for serious injuries or fatalities to people in the immediate vicinity of the CPF. The risk estimates from the original Paredon Project Proposed Final EIR were used to determine the odds that an individual would be seriously injured or killed as a result of an accident at the CPF. The Paredon Project risk numbers are based on the population that could be exposed to the hazards in the immediate vicinity of the CPF such as people visiting the seal rookery, City Hall, the roller hockey rink, etc.

The table below shows the odds of fatality from various types of accidents. In all cases, the odds of a fatality from an accident at the CPF are very low. The odds for the Paredon Initiative Project are less than the odds of being killed by lightning and slightly greater than being killed in an earthquake or other ground movement event.

The Paredon Initiative Project would increase the odds of a fatality due to an accident above those of the existing CPF by a factor of about three. This increase is due to potential accidents associated with drilling operations and the use of the large natural gas liquid storage vessels that are currently out of service.

Comparison of Odds of Fatalities for Various Accidents	
<u>Accident</u>	<u>Odds per year</u>
Motor Vehicle	1 chance in 6,539
Assault	1 chance in 16,360
Uncontrolled Fire in a Building or Structure	1 chance in 113,300
Fall from Stairs or Steps	1 chance in 175,448
Drowning in a Swimming Pool	1 chance in 488,480
Drowning in a Bath Tub	1 chance in 861,939
Ignition of Highly Flammable Material	1 chance in 4,706,461
Wildfires	1 chance in 5,702,059
Hit by Lightning	1 chance in 6,117,230
<i>Paredon Initiative Project</i>	<i>1 chance in 7,647,686</i>
Earthquake or Other Ground Movement	1 chance in 8,013,704
Bitten or Struck by a Dog	1 chance in 8,985,062
Explosion and Rupture of Pressurized Devices	1 chance in 11,404,118
<i>Mitigated Paredon EIR Project</i>	<i>1 chance in 12,615,122</i>
<i>Existing CPF</i>	<i>1 chance in 24,249,605</i>
Flood	1 chance in 24,708,922
Bitten or Stung by Nonvenomous Insect	1 chance in 32,945,229
Contact with Venomous Snakes and Lizards	1 chance in 42,358,152

Source: CPF Accidents adapted from Paredon Project Proposed Final EIR.⁸
All other Accidents from the National Safety Council, year 2005, United States Only⁹

The mitigated Paredon Project from the Proposed Final EIR has lower odds of a fatality than the Initiative due to the requirement to fireproof the large natural gas liquid storage vessels, which reduces the odds of a fatality.

The odds of a serious injury¹⁰ from the existing CPF operations to people in the immediate vicinity of the facility are approximately one chance in 648,613 per year. With the Paredon Initiative Project, the odds of serious injury would decrease to approximately one chance in 1,203,651, assuming that the natural gas odorant tank is relocated away from a more densely populated area. This reduction in the odds of a serious injury is due to the proposed relocation of the natural gas odorant tank away from City Hall and the hockey rink. With the Initiative Project, the relocation of this tank would not occur unless the project moves into the development phase and The Gas Company agrees to move the tank (the odorant tank is owned by The Gas Company). If, based upon the results of the exploratory phase, the project is found to be uneconomical, then the existing odorant tank would not be relocated and the reduction in risk for the existing operations would not be realized. If The Gas Company does not agree to move the tank, there would be no reduction in risk of serious injury.

The Proposed Final EIR found that the risk of a serious injury or fatality from the mitigated Paredon EIR Project was considered significant based upon the City of Carpinteria's adopted California

⁸ The Paredon odds are based upon the population that could be exposed to the hazards in the immediate vicinity of the CPF.

⁹ These odds are based upon the number of deaths in the United States from each accident type divided by the total population of the United States.

¹⁰ A serious injury is defined as an injury that requires a visit to the hospital.

Environmental Quality Act (CEQA) thresholds. The risk of a serious injury or fatality with the Initiative Project would also be considered significant using the same City thresholds.

8.1.2 Chronic Risk

The operations at the CPF result in emissions of hazardous air pollutants. The major source of these pollutants is from the burning of natural gas and diesel fuel. Hazardous air pollutants are materials that are known or suspected to cause cancer, genetic mutations, birth defects or other serious illnesses in humans. In assessing the impact of these hazardous air pollutants, the Proposed Final EIR assessed the “cancer risk” to the population in the immediate vicinity of the CPF. Cancer risk refers to the increased chance of contracting cancer as a result of a lifetime (70-year) exposure, and is expressed as a probability: chances-in-a-million. The values expressed for cancer risk do not predict actual cases of cancer that will result from exposure to toxic air contaminants. Rather, they state a possible risk of contracting cancer over and above the background level, which is referred to as “excess cancer risk.”

In 2006, the SBCAPCD conducted a health risk assessment of the existing CPF operations and estimated that the excess cancer risk was 11.3 per million. The Proposed Final EIR estimated that the excess cancer risk from the Paredon Project was 8.6 per million. This reduction in risk from the current operations was due to the implementation of a number of mitigation measures, such as electrifying a number of compressor engines, requiring tanks to have a vapor recovery system and installing emission control devices on the Ingersoll Rand (IR) #3 compressor.

The Initiative includes the provisions to electrify the compressors, but does not include provisions for vapor recovery or installation of emission controls on the IR#3 compressor. However, both of these would be required under the SBCAPCD rules for the Paredon Project. So long as the SBCAPCD requires that these measures be implemented, the excess cancer risk from the Initiative Project would be 8.6 per million, which represents a reduction in cancer risk from the current operations. The Proposed Final EIR found that the level of excess cancer risk was considered not significant based on the thresholds established by the SBCAPCD (10 per million).

Under the Initiative Project, these measures would not be implemented unless the project moved into the development phase. If the project does not reach the development phase, then the measures would not be implemented and the reduction in excess cancer risk would not occur.

8.2. Environmental Risk

The major environmental risks associated with the Paredon Project are related to releases of oil and produced water to the environment.

8.2.1 Oil Spills

The Proposed Final EIR estimated the risk of an oil spill impacting areas outside of the boundaries of the CPF. These oil spill risk estimates would apply to the Paredon Initiative Project. Oil spill risk was estimated for the equipment at the CPF as well as for the existing oil pipeline that runs from the CPF to Ventura. This existing pipeline is used to move oil from the CPF and the other Rincon oil production sites to local refinery destinations. The oil from the Paredon Project would be moved via this existing pipeline.

The Proposed Final EIR estimated that the odds of an oil spill at the CPF impacting areas outside of the CPF for the current operations was approximately one chance in 1,000,000 per year. With the addition of the Paredon Project, the odds of an oil spill impacting areas outside of the CPF would increase to approximately one chance in 190,000 per year. This increase in risk would be a result of the new oil tanks, oil piping, and production well piping, as well as potential blowouts during drilling operations. These risks of an oil spill getting offsite are very low because all areas within the CPF are contained within berms, and discharges from the CPF are controlled with closed drain valves.

For the pipeline from the CPF to Ventura, the Proposed Final EIR estimated the odds of an oil spill less than 100 barrels to be between one chance in 30 per year and one chance in 15 per year depending upon the location along the pipeline route. The odds of an oil spill greater than 100 barrels were estimated to range between one chance in 137 per year and one chance in 36 per year depending upon the location along the pipeline route. These are the odds of an oil spill for the current pipeline, which would not increase with the addition of the Paredon Initiative Project.

The Proposed Final EIR found that impacts to the environment in the event of an accidental oil spill were considered significant based upon the CEQA thresholds used in the Proposed Final EIR. The environmental impacts of an oil spill from the Paredon Initiative Project would also be considered significant.

8.2.2 Contamination of Groundwater

As part of the Paredon Project, produced water (water that is recovered with the oil) was to be injected back into the oil producing reservoir. The Proposed Final EIR evaluated the impacts that the injected produced water could have on underlying Carpinteria Basin aquifers. The Proposed Final EIR found that the impact of injected produced water on the aquifers was not significant. This finding was based on the fact that all the produced water would be injected south of the Rincon Creek Thrust Fault, which provides a barrier to the Carpinteria Basin aquifers located north of the fault. In addition, injection of produced water at a depth of 5,000 feet is approximately 3,000 feet below the effective base of fresh water in Storage Unit 1 and 4,200 feet below the effective base of fresh water in Storage Unit 2, thus further minimizing the potential for impairment of water quality as a result of produced water injection. The injection wells would be designed to meet all of the rules and regulations of the California Division of Oil, Gas and Geothermal Resources (DOGGR). All of the injection wells would have steel casing that would be cemented in place. All of the produced water would be injected through injection tubing that would run down through the steel casing. The tubing would be placed in the well to a point just above the perforations, located at the zone of water injection, and a packer is used near the bottom of the tubing to seal it against the casing. The packer prevents water from entering the space between the tubing and casing when water is injected down the tubing. All of these measures would ensure that the impacts to groundwater from injecting produced water would not be significant.

8.2.3 Releases During Drilling

Releases during drilling activities can occur due to equipment failures, such as ruptured piping or valve structural failures, or can be due to over pressurization of the drilling system due to the lack of well control and control of reservoir pressures, or blowouts.

Blowouts occur when the drilling encounters an area of sufficient pressure, where the reservoir fluids cannot be contained by that the drilling muds and the reservoir pressure causes oil and gas to flow back up the well to the surface. Blowouts can also occur subsurface where the casing cement cannot contain the reservoir fluids, and oil/gas or drilling muds can flow into the surrounding ground and then travel to the surface via cracks in the ground. A subsurface release could surface at a location within the CPF or outside the CPF. These subsurface releases are sometimes called “frac-outs.”

The Proposed Final EIR evaluated the risk of these types of releases occurring during drilling based upon historical data from the Minerals Management Service and DOGGR. The risk estimates from the Proposed Final EIR were used to determine the odds that a release during drilling would impact areas outside of the CPF. The odds that a surface release during drilling would impact areas outside of the CPF were estimated to be one chance in 1,190 per year during drilling. The odds that a subsurface release during drilling would impact areas outside of the CPF were estimated to be one chance in 1,845 per year during drilling.

The Proposed Final EIR found that impacts to the environment in the event of an accidental release during drilling were considered significant based upon the CEQA thresholds used in the EIR. The environmental impacts of a release from drilling for the Paredon Initiative Project would also be considered significant.

8.3 Risk Management

The existing CPF represents a baseline of existing public health, safety and environmental risks. The Paredon Project represents an opportunity to analyze those risks and take measures to control them. However, in many ways, the Initiative misses this opportunity.

The Initiative allows for the existing oil and gas plant to continue to operate under a 40-year-old development permit. This permit is the oldest oil and gas facility permit in coastal Santa Barbara County; all other permits have been updated and substantially modernized for the protection of public health, safety and the environment. The experience of Santa Barbara County in providing local regulation and oversight of oil and gas facilities demonstrates that it is an important part of the regulatory setting, complementing the responsibilities of other regional, state and federal agencies which are usually carried out by having operators file self-monitoring inspection and compliance reports.

Santa Barbara County provides extensive and effective local government regulation of oil and gas facilities. An oil and gas project in the County is subject to a half dozen or more County permits and through the County permit and environmental review process, environmental impacts are identified and hundreds of mitigation measures and conditions are incorporated into the permits to protect public health and safety and the environment. The County staff and its consultants monitor compliance and effectiveness of permit conditions, approve system designs and conduct third-party safety audits of facilities. A review of recent safety audit results for oil and gas facilities regulated by the County

demonstrates that annually, many important public health and safety deficiencies are identified and corrected through this local government effort.

The Initiative lacks a comparable City development review and environmental permitting process, and related project conditions of approval and oversight authority that would result. This leaves a project that is less safe and would potentially result in more severe impacts on the environment than a comparable project that is permitted, developed and operated anywhere else in the County.

The City Council also requested that this report compare the project Mitigation Monitoring program to environmental impacts and proposed mitigation previously identified in the original Paredon Project Proposed Final EIR. These differences are described in Table 1. The comparison suggests that the Initiative Project would potentially result in more environmental impacts and increase the severity of many potential environmental impacts in comparison to the original Paredon Project.

The project would be regulated by a number of regional, state and federal government agencies. These agencies include, but are not limited to, the Santa Barbara County Air Pollution Control District, the Carpinteria-Summerland Fire Protection District, the California Coastal Commission, the State Lands Commission, the U.S. Minerals Management Service and U.S. Department of Transportation. Agency requirements include development review and permitting for the project and its various processes and operations, reporting requirements related to various aspects of the construction, operation and maintenance of the project, and the establishment of procedures, such as an Oil Spill Response Plan, aimed at ensuring that the operator's employees are prepared and trained to safely and effectively operate and maintain the facilities and respond in the case of an emergency. Some of these agencies also require financial and performance guarantees, and various kinds of insurance.

As with other areas of local permitting discussed above, local authority to require oil and gas operators to prepare and update risk management plans, demonstrate financial responsibility, guarantee performance and carry certain insurance can be complementary to the requirements of other agencies and addressing local concerns and issues that may not be effectively addressed by other government agencies. Providing local regulation protects the City in that only the City can modify permit requirements, rather than relying on another agency whose regulations might change without any input from the City.

8.4 Emergency Preparedness

Responsibility for primary emergency response rests with the Carpinteria-Summerland Fire Protection District. A large oil spill would trigger response by the County of Santa Barbara Office of Emergency Services (OES), the Coast Guard (if the spill affects the ocean) and the Department of Fish and Game (if the spill affects a creek or the ocean). Each of these agencies has oil spill response plans and protocols. A major oil spill would trigger a cooperative response from these agencies using the Incident Command System and a Unified Command structure. Through a Memorandum of Understanding, the County of Santa Barbara OES represents the City of Carpinteria in the Unified Command for oil spills. None of this would be modified with passage of the Initiative.

APPENDIX

Abbreviations

ARB – Architectural Review Board
CDD – Community Development Department
CDI – Coastal Dependent Industry Land Use Designation
CDP – Coastal Development Permit
CEQA – California Environmental Quality Act
CMC – Carpinteria Municipal Code
CPF – Carpinteria Oil and Gas Processing Facility
Commission – California Coastal Commission
GP/CP – General Plan / Local Coastal Land Use Plan
Initiative – The Paredon Oil and Gas Development Initiative
LCP – Local Coastal Program
M-CD – Coastal Industry Zone District
Measure - The Paredon Oil and Gas Development Initiative
SBCAPCD - Santa Barbara County Air Pollution Control District