

COASTAL CONSERVANCY

Staff Recommendation

December 6, 2018

GAZOS AND VALENCIA WATERSHED CONSERVATION

Project No. 18-034-01

Project Manager: Tom Gandesbery

RECOMMENDED ACTION: Authorization to disburse up to \$1,000,000 to the Peninsula Open Space Trust (POST) for acquisition of the 320-acre Gazos Creek property located near Butano State Park in the Santa Cruz Mountains of San Mateo County for conservation purposes, which will facilitate POST's acquisition of a conservation easement over the 607-acre Valencia Creek Property in the Santa Cruz Mountains of Santa Cruz County.

LOCATION: Gazos Creek watershed in San Mateo County and Valencia Creek watershed in Santa Cruz County

PROGRAM CATEGORY: Integrated Coastal and Marine Resource Protection

EXHIBITS

Exhibit 1: [Project Location and Site Maps](#)

Exhibit 2: [Site Photos](#)

Exhibit 3: [Project Letters](#)

RESOLUTION AND FINDINGS:

Staff recommends that the State Coastal Conservancy adopt the following resolution pursuant to Chapter 5.5 of Division 21 of the Public Resources Code:

“The State Coastal Conservancy hereby authorizes disbursement of an amount not to exceed one million dollars (\$1,000,000) to the Peninsula Open Space Trust (POST) for the acquisition of fee title to approximately 320 acres in the Gazos Creek watershed (*San Mateo County Assessor's Parcel Number: 089-150-030*) This authorization is subject to the following conditions:

1. Prior to disbursement of any funds for acquisition of interests in the properties, POST shall submit for the review and approval of the Executive Officer of the Conservancy:

- a. All relevant acquisition documents, including without limitation, the appraisal, purchase and sale agreement, deed, escrow instructions, environmental or hazardous materials assessment, and title report;
 - b. Baseline conditions report;
 - c. Monitoring and reporting plan; and
 - d. Evidence that sufficient funds are available to complete the acquisition.
2. POST shall not pay more than fair market value for the property acquired pursuant to this authorization, as established in an appraisal approved by the Executive Officer.
 3. The property acquired in fee under this authorization shall be managed and operated for the purposes of watershed protection, habitat conservation, environmental restoration, open space protection and public access. The property shall be permanently dedicated to those purposes through an irrevocable offer to dedicate the property or by another appropriate instrument approved by the Executive Officer.
 4. Conservancy funding shall be acknowledged by erecting and maintaining a sign on the property or in a nearby publicly-viewable area, the design and location of which are to be approved by the Executive Officer.”

Staff further recommends that the Conservancy adopt the following findings:

“Based on the accompanying staff report and attached exhibits, the State Coastal Conservancy hereby finds that:

1. The proposed authorization is consistent with Chapter 5.5 of Division 21 of the Public Resources Code (Section 31220), regarding integrated coastal and marine resources protection.
2. The proposed project is consistent with the current Conservancy Project Selection Criteria and Guidelines.
3. POST is a nonprofit organization existing under section 501(c)(3) of the U.S. Internal Revenue Code, and whose purposes are consistent with Division 21 of the Public Resources Code.”

PROJECT SUMMARY:

The proposed authorization will provide a \$1,000,000 grant to Peninsula Open Space Trust (POST) to acquire fee title to approximately 320 acres of redwood forest and other habitat in the Gazos Creek watershed. This acquisition will result in the land being protected from potential subdivision and development. The project will ensure the preservation of critical wildlife corridors, will help support the recovery of Coho and South-Central California steelhead trout, and will preserve potential habitat for marbled murrelet and other sensitive species. POST’s purchase of the Gazos Creek property is an integral part of a transaction in which POST will also acquire a working lands conservation easement over an additional 607 acres of redwood forest in

the Valencia Creek watershed.

The Conservancy's funding will be used to acquire the 320-acre Gazos Creek property located south and adjacent to Butano State Park (see Exhibit 1B), in San Mateo County. It consists primarily of high quality, second-growth redwood forest that has not been harvested since at least the early 1950s. The Gazos Creek watershed sustains both Coho salmon and steelhead trout and also contains essential habitat for marbled murrelets.¹ The presence of these species and their habitats makes the watershed a high priority for conservation. The property is partially surrounded by Butano State Park, and a trail frequently used by visitors to the park crosses the property. The property is currently owned by the McCrary family, who also own Big Creek Lumber.

The 607-acre Valencia Creek property is located near The Forest of Nicene Marks State Park, in Santa Cruz County. Redwoods cover approximately 500 acres of the property with the remainder being largely mixed oak forest, riparian forest, and coastal shrub communities. The property has long been working forest, and it is currently used for timber production. The property contains approximately three miles of Valencia Creek and its tributaries and also includes a small portion of the Corralitos Creek watershed, which is a drinking water source for the City of Watsonville. The Valencia Creek property is owned by the Cal Poly Corporation (Cal Poly), an affiliate of Cal Poly University San Luis Obispo. Cal Poly has put the property up for sale and has been aggressively marketing it to private real estate buyers.

Together, the two properties have a total of 17 buildable lots (nine on Valencia and eight on Gazos). Conservation of both properties will preserve the natural resources and wildlife connectivity of the properties with adjacent open space properties and contribute to larger landscape level efforts to conserve ecologically important wildlife corridors.

Under the proposed transaction, POST will acquire the Gazos Creek property in fee from the McCrarys. POST will also acquire a conservation easement over the 607-acre Valencia Creek property, and the McCrarys will acquire fee title to the Valencia property. POST's easement will allow for sustainable timber harvest over most of the property while protecting it from residential development. The easement will also protect from harvest a 13-acre area of second-growth redwood forest with trees over 100 years old.

The McCrary family, through Big Creek Lumber, will use the Valencia property for sustainable timber production. Big Creek is the last remaining lumber operation in the region, has a mill located at Waddell Beach as well as several retail locations in the central coast, and specializes in sustainable harvest of redwood. POST initiated this collaboration in part to help support locally-sourced, sustainable timber for the central coast. POST will hold and enforce the conservation easement on the Valencia property in perpetuity. POST will hold the Gazos Creek property and will be responsible for providing public access to the existing trail across the property until the property can be transferred to the State for inclusion in Butano State Park or another appropriate long-term owner.

Through the collaboration with the McCrarys and the pairing of these two acquisitions, POST will not only protect a significant amount of watershed lands in the Santa Cruz Mountains, it will also help achieve the most appropriate conservation uses for each property. The high quality

¹ Marbled murrelet nests have been documented nearby.

species habitat and public access uses found on the Gazos property will be protected from any threat of future development or timber harvest. At the same time existing timber production will be allowed to continue on the Valencia property, and the conservation easement will ensure that it will be done in a sustainable manner that protects water resources on the property. The sustainable forest management practices will also promote forest health, reduce wildfire impacts, and increase greenhouse gas sequestration. Selective timber harvest can benefit overall forest health by allowing trees to grow faster and larger, removes undesirable tree species and other vegetation. Careful management of the forest can also reduce fuel-load and promotes trees that provide habitat for threatened and endangered species.

Site Description: The 320-acre Gazos Creek property is located in the Santa Cruz Mountains within the Gazos Creek watershed. The majority of the property, about 290 acres, is covered by redwood forest that has not been harvested since at least the early 1950s when the property was purchased by the McCrary's. There is also a small amount of knob-cone pine forest. Gazos Creek is one of a few watersheds south of San Francisco where both Coho salmon and steelhead remain. The State Department of Parks and Recreation and the U.S. Fish and Wildlife Service have identified the property and surrounding area as "critical" habitat for marbled murrelet. The property includes about 0.5 miles of the Slate Creek tributary. A trail frequently used by visitors to Butano State Park crosses the property.

The 607-acre Valencia Creek property is located in the Santa Cruz Mountains within the Aptos Creek watershed. Redwoods cover approximately 500 acres of the property, with the remainder largely mixed oak forest, riparian forest, and coastal shrub communities. Mountain lions have been seen on the property, and this is one of the ten largest privately-held tracts of redwoods in Santa Cruz County; it contains approximately three miles of Valencia Creek and its tributaries. The proposed late seral reserve area has large redwood trees estimated to be over 100 years old including some with a diameter of more than 85 inches. This area also contains over 20 acres of the Corralitos Creek watershed, which is drinking water source for the City of Watsonville (Exhibit 1B)

Grantee Qualifications: POST is a California private nonprofit public benefit corporation that protects the open spaces of the greater San Francisco Peninsula from development by acquiring ranches, farms and other under developed land. POST often transfers such properties to public agencies to manage in the long-term. Over the past decade, the Conservancy has funded numerous land acquisitions carried out by POST and, based on our experience, POST is well qualified to carry out this project.

Project History: In 1995, Al Smith, the founder of Orchard Supply Hardware, donated his land holdings to the California Polytechnic State University Foundation. The largest holding was Swanton Pacific Ranch which was permanently encumbered for use by the University as a forestry and agricultural research facility. The other property donated to the University, the Valencia Creek property, was not so encumbered and has been held as a financial asset by the University. In 2016, CalPoly began aggressively marketing the Valencia Creek property to private buyers.

In 2013 POST, along with three other conservation partners, acquired the 8,532-acre property previously known as CEMEX Redwoods, now named San Vicente Redwoods. POST and Big Creek Lumber have built a cooperative relationship through recent management of the San Vicente Redwoods property, with Big Creek using its expertise to the implement restoration

thinning and sustainable timber harvests. Through this relationship, POST and the McCrary family began to explore a project that would permanently protect the Valencia Creek forest from development, preserving the ecological and economic benefits of sustainably managed working forestland. It was through this collaborative relationship that the proposed acquisition of the Gazos Creek property was negotiated.

PROJECT FINANCING

Coastal Conservancy	\$1,000,000
POST	\$1,100,000
Wildlife Conservation Board	\$1,400,000
Total Project Cost	\$3,500,000

In addition to the above financing for the acquisition of the Gazos Creek property, POST and the Gordon and Betty Moore Foundation are expected to put \$3,497,000 and \$1,250,000 respectively toward the purchase of the conservation easement over the Valencia Creek property.

Conservancy funds for the acquisition of the Gazos Creek property are expected to come from an appropriation to the Conservancy from the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1, Water Code section 79700 *et seq.*). Funds appropriated to the Conservancy derive from Chapter 6 (commencing with Section 79730) and may be used “for multi-benefit water quality, water supply, and watershed protection and restoration projects for the watersheds of the state” (Section 79731). Section 79732 identifies specific purposes of Chapter 6, which include: protecting and restoring coastal watersheds, including, but not limited to bays, marine estuaries, and nearshore ecosystems; and assisting in the recovery of endangered, threatened or migratory species by improving watershed health, instream flows, fish passage and coastal or inland wetland restoration. Because the proposed project consists of acquisition of interests in land to protect and improve the health of two coastal watersheds, it is an appropriate use of Proposition 1 funds.

As required by Proposition 1, the proposed project provides multiple benefits. The acquisition would retire development rights to both the Gazos Creek and Valencia Creek properties for a total of 17 potential home sites thereby protecting the watersheds from potential degradation due to development. Benefits of retiring the development rights include preventing habitat fragmentation, protecting forest health and hydrologic function. Additionally, the acquisition of the easement will protect 13 acres from logging and protect the remaining acres as a working forest that allows for sustainable timber harvest consistent with state and county timber harvest regulations.

In accordance with Section 79707(b), which requires agencies to prioritize “projects that leverage private, federal, or local funding or produce the greatest public benefit,” this project leverages substantial private funding, as noted above. The project was selected through a competitive grant process under the Conservancy’s *Proposition 1 Grant Program Guidelines* adopted in June 2015 (“Prop 1 Guidelines”). (See Section 79706(a)). The proposed project meets

each of the evaluation criteria in the Prop 1 Guidelines as described in further detail in this “Project Financing” section, the “Project Summary” section and in the “Consistency with Conservancy’s Project Selection Criteria & Guidelines” section of this report.

CONSISTENCY WITH CONSERVANCY’S ENABLING LEGISLATION:

The proposed authorization is consistent with the purposes and objectives of Chapter 5.5 of Division 21 of the Public Resources Code, regarding improving and protecting coastal and marine water quality and habitats (Section 31220). Section 31220(a) permits the Conservancy to provide grants for coastal watershed and coastal water quality, sediment management, and resources protection projects, if the projects meet one or more of the objectives detailed in Section 31220(b). Pursuant to Section 31220(b)(2), the Conservancy is authorized to undertake a project or award a grant for a project that protects fish and wildlife habitat in a coastal watershed. The Gazos Creek -Valencia Creek watershed conservation project will protect 937-acres of redwood forest and other habitat, including riparian habitat from development that could degrade the coastal watershed.

As required by Section 31220(c), the project is consistent with the local watershed management plan. See “Consistency with Local Watershed Management Plan” section, below.

CONSISTENCY WITH CONSERVANCY’S 2018-2022 STRATEGIC PLAN GOAL(S) & OBJECTIVE(S):

Consistent with **Goal 5, Objective 5A** of the Conservancy’s 2018-2022 Strategic Plan, the proposed project will protect 927 acres of significant coastal and watershed resource properties.

Consistent with **Goal 5, Objective 5B**, the proposed project will protect approximately 500 acres of working lands, specifically sustainable forestry management on the Valencia Creek property.

Consistent with **Goal 5, Objective 5C**, the proposed project will preserve critical wildlife corridors between core habitats.

CONSISTENCY WITH CONSERVANCY’S PROJECT SELECTION CRITERIA & GUIDELINES:

The proposed project is consistent with the Conservancy’s current Project Selection Criteria and Guidelines in the following respects:

Required Criteria

1. **Promotion of the Conservancy’s statutory programs and purposes:** See the “Consistency with Conservancy’s Enabling Legislation” section above.
2. **Consistency with purposes of the funding source:** See the “Project Financing” section above.

3. **Promotion and implementation of state plans and policies:** By funding the acquisition of these properties, the Conservancy will be implementing or supporting elements of the following plans:

California @ 50 Million: The Environmental Goals and Policy Report. Promotes Pillar 5: Stewarding natural resources, including forests, working lands, and wetlands to ensure that they store carbon, are resilient, and enhance other environmental benefits. Advances the Development Goal to reduce land consumed for development.

California Water Action Plan, 2016 Update (California Natural Resources Agency, California Department of Agriculture, California Environmental Protection Agency): Action 4 of this plan is to “protect and restore important ecosystems (restore coastal watersheds and strategic coastal estuaries to restore ecological health and nature system connectivity to benefit local water systems and help defend against sea level rise, eliminate barriers to fish migration.” The proposed project protects Gazos and Valencia Creeks from future degradation.

California State Wildlife Action Plan, 2015 (California Department of Fish and Wildlife): The project implements goals in the Central Coast Province for Southwest region of the state by protecting riparian Forest and Woodland habitat native species are dominant through the strategy of land acquisition and easements.

Final Central California Coast Coho Salmon ESU Recovery Plan (National Marine Fisheries Service 2012): Implements the Central CA Coho Salmon Recovery Plan as follows: For Gazos Creek -Objectives 3.1 “Address the present or threatened destruction, modification, or curtailment of the species habitat or range” by “Conserve(ing) and manage(ing) forestlands and riparian corridors to retain shade and provide sources of LWD (Action Step 3.1.3.3) and “prevent impacts from future water development (Action Step 25.1.1); For Aptos Creek- Objectives 5.1 Address the present or threatened destruction, modification or curtailment of the species habitat or range” by “Avoid (ing) new development, or road construction within floodplains, riparian areas, unstable soils or other sensitive areas” (Action Steps 5.1.2.1) and “Conserve(ing) open space in contiguous Landscapes, protect floodplain areas and riparian corridors, and develop conservation easements” (Action Step 5.1.2.2).

CA Climate Adaptation Strategy/Safeguarding California: Reducing Climate Risk Plan. Implements Goal F2 and the next steps of F2-4 and F2-6 of increasing the acreage of forestland protected by conservation easements that can provide habitat for diverse species and prevent future development, and providing private landowners with incentives for forest protection through easements and working forests that can return revenue from timber harvesting.

4. *Recovery Plan for the Marbled Murrelet* (US Fish and Wildlife Service 1997): The project implements the recovery plan by protecting a large block of terrestrial habitat including stands of mature redwoods (Section II (b). page 112).
5. **Support of the public:** The project is supported by the Land Trust of Santa Cruz County, Save the Redwoods League and The Sempervirens Fund, as well as State Senators Monning and Hill and Assemblymembers Stone and Berman (Exhibit 3)

6. **Location:** The Gazos Creek property is in San Mateo County near the county border with Santa Cruz county and within a few miles of Año Nuevo State Park; the Valencia Creek property in the southern extent of the Santa Cruz Mountains near Aptos (Exhibit 1B). The project will benefit anadromous fish species by protecting these coastal watersheds that support such species. The project will also potentially benefit the marbled murrelet, an endangered marine bird that relies on mature redwoods for nesting.
7. **Need:** The subject properties serve as a critical link in wildlife areas and corridors. The Gazos Creek property is adjacent to Butano Creek State Park and near Big Basin State Park which are major wildlife preserves. In addition, the Valencia Creek property is adjacent to The Forest of Nicene Marks State Park. If not acquired to preserve these functions and services, the property faces threat of development or conversion to other uses. This project will not occur without Conservancy support.
8. **Greater-than-local interest:** The project will protect redwood forests in the Santa Cruz Mountain range, which supports a myriad of endangered and special status species. In addition, the Gazos Creek property is likely to become part of Butano Creek State Park and the Valencia Creek property will be managed for sustainable timber harvest thereby providing locally sourced timber and benefiting the local economy.
9. **Sea level rise vulnerability:** The project area is located inland from the coast and is not vulnerable to sea level rise.

Additional Criteria

10. **Urgency:** The purchase and preservation of these properties is urgently needed to preclude their sale for alternative uses. POST's holds an option on the Valencia property, which expires March 22, 2019.
11. **Resolution of more than one issue:** The project will ensure the preservation of a critical wildlife corridor, help support the recovery of Coho and South-Central California steelhead trout, as well as preserve potential habitat for marbled murrelet and other sensitive species, by precluding residential development that would fragment the existing habitat. The working lands conservation easement on the Valencia Creek property will allow for sustainable timber harvest, which will help supply locally-sourced building materials.
12. **Leverage:** See the "Project Financing" section above.
14. **Readiness:** POST has secured funding commitments and is ready to close escrow on both the easement and fee title on March 22, 2019.
15. **Realization of prior Conservancy goals:** See "Project History" above.
17. **Cooperation:** This project can move forward because of the cooperative relationship that exists at the present time between POST, Cal-Poly and the McCrary Family/ Big Creek Lumber.

CONSISTENCY WITH LOCAL WATERSHED MANAGEMENT PLAN/ STATE WATER QUALITY CONTROL PLAN:

Projects undertaken pursuant to Chapter 5.5 of Public Resources Code Division 21 (Section

31220) must be consistent with local watershed management plans, if available, and with water quality control plans, adopted by the state and regional water boards. The Water Quality Control Plan for the Central Coastal Basin adopted by the Regional Water Quality Control Board states that discharges of pathogens to Valencia Creek are occurring at levels in surface waters that are impairing beneficial uses and, therefore, constitute a serious water quality problem (Page 4-108). The Regional Board has developed a Total Maximum Daily Load (TMDL) for pathogens, as measured as fecal coliform, and Valencia Creek was found to be in exceedance of allowable limits. Acquisition of the Valencia Creek property is consistent with the water quality goals of the plan because it will prevent future residential development and therefore potential discharge of pathogens to the Creek. The Basin Plan does not identify any specific water quality impairment for the Gazos Creek watershed.

The project is also consistent with the *Gazos Creek Watershed Assessment* (April 2003, Coastal Watershed Council) and the *Aptos Creek Watershed Assessment* (April 2003 Coastal Watershed Council). The *Gazos Creek Watershed Assessment* recommends that for the Slate Creek sub-watershed, sources of excess sediment be managed and unused roads be decommissioned (page 67). Acquisition of this property will allow POST to address erosion sources and legacy roads as part of a future project. Valencia Creek is a major tributary to Aptos Creek and constitutes roughly half the area of the entire watershed (Exhibit 1B). The *Aptos Creek Watershed Assessment* recommends that natural (“base”) flows be maintained and that sediment delivery to channels be reduced by encouraging property owners to undertake conservation actions including erosion-risk assessments to protect the Creek. (Pages 48, 51). By acquiring a working lands conservation easement on this property, POST will be in a position to compel the property owner to undertake erosion control. In addition, by preventing residential development, the existing hydrology and base flows in Valencia Creek will remain constant. In addition, permits for timber harvest in Santa Cruz County require the owner or operator to undertake sediment reduction actions as a part of the harvest.

COMPLIANCE WITH CEQA:

The proposed acquisition of the Gazos Creek property is categorically exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to 14 Cal. Code of Regulations Section 15325 as a transfer of ownership of interests in land in order to preserve open space and existing natural conditions for purposes of habitat protection. The acquisition of the Valencia Creek easement, facilitated by the Gazos acquisition, is also exempt pursuant to 14 Cal. Code of Regulations Section 15325 as a transfer of ownership of interests in land in order to preserve open space and continued agricultural use in the form of timber harvesting.

Upon approval of the project, staff will file a Notice of Exemption.