MEMORANDUM

To: Diana Ingersoll, City of Seaside

From: David Zehnder, Ellen Martin, and Sean Fisher

Subject: Monterey Downs Fiscal and Economic Impact Analysis Peer Review; EPS #132049

Date: February 18, 2016

The Economics of Land Use

Introduction

Monterey Downs, LLC (Project Applicant) proposes to construct a mixed-use development project comprising equestrian facilities; an indoor arena and sports complex; and residential, commercial, and hotel uses (Monterey Downs or Project). The proposed Project is located on the former Fort Ord military installation and in the City of Seaside (City) and County of Monterey (County). It is anticipated that the entire Project ultimately will be annexed into the City.

The Project Applicant is seeking the City's approval of the Monterey Downs and Horse Park and Central Coast Veterans Cemetery Specific Plan (Specific Plan). As part of the entitlement application, the City required the Project Applicant to prepare an analysis documenting the fiscal and economic impacts of the proposed Project. The Project Applicant retained Willdan Financial Services to prepare the Monterey Downs Fiscal and Economic Impact Report (Willdan Report).

The City retained Economic & Planning Systems, Inc. (EPS) to conduct an independent, third-party peer review of the Willdan Report. Working closely with the City, EPS evaluated several iterations of the Willdan Report. EPS, Willdan, the City, and the Project Applicant have worked together to refine the analysis methodology and key assumptions. Overall, EPS finds the current draft report, dated August 2015, technically sound, and it applies industry-standard methodologies and metrics to evaluate the economic and fiscal impacts generated by development of the proposed Project. EPS and the City do, however, have continued specific concerns regarding certain analysis inputs and the presentation of analysis results. EPS and City staff determined that it would be most appropriate for EPS to conduct additional sensitivity analysis and to synthesize the range of possible outcomes.

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Purpose of this Memorandum

The purpose of this memorandum is to offer a synopsis of the Willdan Report findings that highlights key factors and variables that City staff and policymakers should consider as they evaluate the Project and as future stages of Project planning proceed. This memorandum therefore discusses and expands on the Willdan findings, offering key sensitivity analysis and narrative to identify areas of uncertainty and variability that could impact the fiscal and economic outcomes of the Project.

Purpose of Fiscal and Economic Impact Analysis

The Willdan Report provides two analysis elements that should be evaluated independently of one another because they have very distinct and different purposes:

1. The **Fiscal Impact Analysis** evaluates the impact of a proposed development project on a government entity, in this case, the City. Limited to the General Fund, the fiscal impact analysis compares the costs of providing public services to a project (e.g., police, fire, public works) to the discretionary revenues generated by that project and received, in this case, by the City (e.g., sales and property tax).

2. The **Economic Impact Analysis** provides a measure of the aggregate economic activity generated by the construction and operations of a proposed project. This type of analysis evaluates the ripple, or multiplier, effect of new spending in the study area, offering an estimate of new jobs, industry output, and income generated by that proposed project.

It is important to note that the Economic Impacts reported are separate and distinct from the Fiscal Impacts, and they do not have direct bearing on the City's budget or fiscal circumstances.

The purpose of these analyses is to provide the City with sufficient information to understand the budgetary implications of the proposed Project, as well as to understand how the Project will contribute to the City's overall economy. It is important to note that the analysis is conducted from the City's perspective and does not yet take County service costs or any future tax-sharing provisions into account. The objective of these analyses is to provide analysis supporting informed land use decisions and future stages of the entitlement process, which will include tax-sharing negotiations with the County.

Summary of Project Elements

As specified in the draft Specific Plan document dated November 2014 and the Willdan Report, the proposed Project comprises the following uses:

- Equestrian training facility with a track for training and potentially racing (Training Track).
- A grandstand and sports arena and entertainment center (Sports Arena).
- A horse park comprising a visitor's center, office space, veterinary clinic, horse stables, and show facilities (Horse Park).
- Approximately 330,000 square feet of commercial development designated as an outdoor shopping designation (the "Country Walk"), including retail, museum, restaurant, office, theatre, and hotel uses.

- An office park, including office, hotel, and recreational (tennis/swim and Aquatic Center) uses.
- 256 workforce lodging units.
- Up to 1,280 residential dwelling units.

Key Analysis Assumptions and Limitations

As one element of the Project entitlement process, the fiscal and economic impact analysis will need to be supported by additional analysis and documentation at future entitlement junctures. Some of this additional analysis likely will be needed to support tax-sharing discussions with the County. Based on discussions with the Project Applicant, Willdan, and the City, EPS understands the following key areas will be addressed through additional analysis and documentation as the entitlement process proceeds:

- **Analysis of Sports Arena and Training Track.** The fiscal impact analysis currently excludes all revenues generated by the Sports Arena and Training Track but does include the Sports Arena and Training Track employees in the calculation of public service expenditures. The Project Applicant has indicated that they intend to defer more detailed fiscal and economic impact analysis of the Sports Arena and Training Track uses until a more detailed Project description is completed. While this approach would appear very conservative, there are some unknowns that carry significant risks. The structure of construction and operations financing for these types of facilities can be very complex and will be the subject of substantial additional discussion and analysis between the Project Applicant and the City.

  While the analysis as currently presented does provide valuable and appropriate information at this stage of the Project, *this is a substantially unresolved issue that could have significant implications for the fiscal impact analysis results.* In addition to General Fund revenues generated by Sports Arena and Training Track development, the fiscal impact analysis of the Sports Arena and Training Track should include a detailed evaluation of public safety and other social impacts, coordinated with the appropriate City staff and departments. This analysis likely is needed before tax-sharing agreements with the County can be finalized.

- **Development Feasibility.** As is typical for economic and fiscal impact analyses, the report does not address the financial feasibility of the Project concept from the Project Applicant's (private-sector) standpoint, nor the viability of Project operations. While this is not a typical element of a fiscal and economic impact analysis, to the extent that assumptions regarding development feasibility have significant impacts on fiscal and economic impact results, supplemental information and analysis may be appropriate. EPS's concern is not the viability of the overall Project, but several important components (e.g., Sports Arena and hotels) that are important drivers of fiscal results. The appropriate response at this stage of the Project is to incorporate targeted sensitivity analysis, as presented in the Wildan Report this memorandum.

  Results of the fiscal and economic impact analysis are predicated on the assumption that the Project is viable and generally will develop in accordance with the current concept. As noted above, certain elements of the Project (e.g., the Sports Arena) will be the subject of ongoing discussions with the City to refine the Project description and associated construction and operations financing strategy, which will inform the viability of Project development.

- **Market Feasibility of Proposed Land Uses.** Because comprehensive market analyses typically are not completed as part of fiscal and economic impact studies, additional analysis to substantiate the market support for proposed uses may be warranted as details regarding Project financing and further entitlements are processed. In response to earlier comments, the fiscal impact analysis has been updated to include key sensitivity analyses and a section outlining key assumptions, analysis drivers, and the associated impacts on the fiscal impact results, should demand for key land uses not materialize as the Project Applicant expects. As noted below, there are key areas where including additional performance metrics may be appropriate and could offer initial indicators regarding market viability as tax-sharing and Development Agreement discussions move forward.

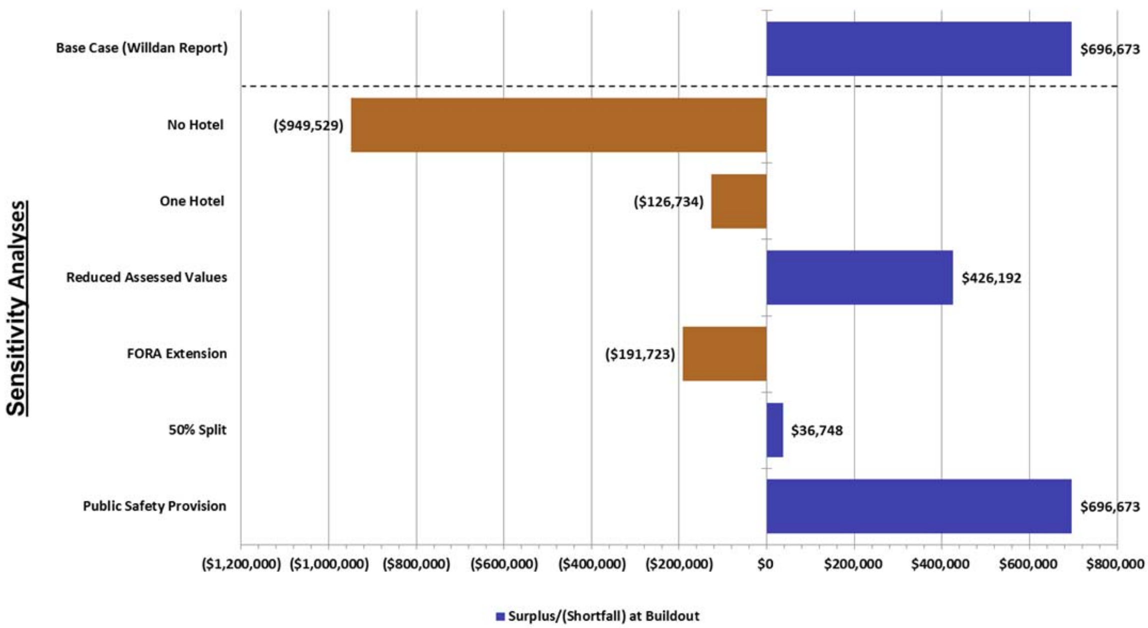
The sections to follow offer a synopsis of the fiscal and economic impact analyses, summarizing key assumptions and sensitivity analyses that should inform City policy decisions regarding the proposed Project.

Fiscal Impact Analysis

As described above, the fiscal impact analysis evaluates the costs the City is expected to incur to provide public services to the Project, and compares those costs to estimated revenues generated by the Project. This analysis helps the City to understand whether or not the Project as proposed will fully cover their service provision costs through the tax revenue generated, or if the City would have to use existing General Fund revenues to provide services to the Project. As documented previously, there are some analysis unknowns at this time that may affect the fiscal outcomes associated with the Project. To that end, the fiscal impact analysis results should be interpreted as a snapshot in time, and should be evaluated with the understanding that changes to key variables substantially may influence the findings.

This section offers a summary of Willdan's fiscal impact findings and EPS's evaluation/ interpretation of those findings, given several unknown and variable factors. **Figure 1** summarizes the fiscal impacts derived by Willdan, as well as the results of additional sensitivity analysis conducted by Wildan and EPS and discussed in the sections to follow.

Figure 1
Annual Fiscal Surplus / (Shortfall) at Buildout by Sensitivity



Summary of Willdan Findings

Using conservative assumptions regarding fire service provision, **Table 1** summarizes the results of the Willdan fiscal impact analysis by Project phase.[1] As shown, Willdan estimates that buildout of Monterey Downs will generate approximately $3.5 million in General Fund revenues for the City in the form of property tax, transient occupancy tax (TOT), sales tax, and other revenues. Willdan estimates that total public-service expenditures (police, fire, and other City service provisions) will be roughly $2.9 million annually, generating an estimated annual net General Fund surplus of approximately **$697,000** at buildout of the Project.

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[1] Because the precise manner in which public safety services will be provided to the Project is unknown at this time, the Willdan Report considers 3 separate fire service provision alternatives. Fire services to the Project could be provided by the existing Presidio Fire Station, Monterey County Regional Fire, or by the City via construction of a new fire station.

From the City's General Fund expenditure standpoint, the most costly alternative is for the City to provide fire services to the Project via a new fire station. To simplify this evaluation, EPS is establishing this fire service provision alternative as the "base case" because it represents the most conservative assumption.

Table 1
Summary of Fiscal Impact Analysis by Phase

Item	Fiscal Impact at Buildout						
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6	**Buildout**
Net Revenues	$1,400,157	$258,441	$48,236	$1,486,837	$269,828	$101,365	$3,564,863
Net Expenditures	$804,857	$360,519	$135,942	$817,052	$420,579	$329,242	$2,868,190
Net Fiscal Impact Surplus/(Shortfall)	**$595,300**	**($102,078)**	**($87,706)**	**$669,785**	**($150,751)**	**($227,877)**	**$696,673**
Cumulative Impact	**$595,300**	**$493,222**	**$405,516**	**$1,075,301**	**$924,550**	**$696,673**	

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Source: Willdan Financial Services.

As shown in **Table 1**, Phase 1 generates a fiscal surplus sufficient to mitigate the shortfalls generated by Phases 2 and 3 and to avoid shortfalls on a cumulative basis. Similarly, Phase 4 is estimated to generate a substantial surplus, which contributes to the resulting net surplus at buildout of the Project, despite shortfalls generated by subsequent phases (Phases 5 and 6).

The surpluses generated in Phases 1 and 4 are therefore integral to the fiscal impact analysis findings for the Project as a whole. As will be discussed in detail below, each of these phases includes development of a 200-room hotel—this assumption is a key driver of the fiscal impact analysis results.

General Fund Revenues

Table 2 provides additional detail regarding the projected General Fund revenues by phase, identifying revenues by category and phase. Key findings include these:

- Property tax and TOT revenues combine to generate more than 84 percent of the total estimated General Fund revenues generated by the Project.
- Of the $3.6 million in General Fund revenues at buildout, Phase 1 generates $1.4 million (nearly 40 percent).
- Phase 4 generates nearly $1.5 million in General Fund revenues (more than 40 percent of General Fund revenues at buildout).
- Combined, Phases 1 and 4 (each of which includes a 200-room hotel) generate more than 80 percent of the total General Fund revenues generated by the Project.

The inclusion of a 200-room hotel in Phase 1 and another in Phase 4 are clear drivers of the positive fiscal results, as those phases generate most of the Project-related General Fund revenues. Hotel uses largely are a function of visitation levels. Given ongoing concerns regarding the assumed visitation levels, EPS conducted several sensitivities (documented later in this section) to evaluate the impacts should hotel development not materialize at the levels currently anticipated by the Willdan Report.

Table 2
Monterey Downs
Fiscal and Economic Impact Analysis
Summary of General Fund Revenues by Phase

	Phase 1		**Phase 2**		**Phase 3**		**Phase 4**		**Phase 5**		**Phase 6**		**Buildout**	
General Fund Revenues	Revenue	Percentage of Revenue	Revenue	Percentage of Revenue	Revenue	Percentage of Revenue	Revenue	Percentage of Revenue	Revenue	Percentage of Revenue	Revenue	Percentage of Revenue	Total Revenue	'ercentage o Revenue
Property Tax	**$466,135**	**33.3%**	**$212,391**	**82.2%**	**$36,709**	**76.1%**	**$328,046**	**22.1%**	**$220,185**	**81.6%**	**$56,385**	**55.6%**	**$1,319,850**	**37.0%**
Property Transfer Tax	$12,978	0.9%	$6,364	2.5%	$550	1.1%	$5,219	0.4%	$6,598	2.4%	$845	0.8%	$32,554	0.9%
Sales Tax	-	0.0%	-	0.0%	-	0.0%	$249,375	16.8%	-	0.0%	-	0.0%	$249,375	7.0%
TOT	**$838,332**	**59.9%**	**-**	**0.0%**	**-**	**0.0%**	**$838,332**	**56.4%**	**-**	**0.0%**	**-**	**0.0%**	**$1,676,664**	**47.0%**
Franchise Fee	$12,161	0.9%	$5,835	2.3%	$1,614	3.3%	$9,684	0.7%	$6,329	2.3%	$6,489	6.4%	$42,111	1.2%
Business License Tax	$5,523	0.4%	$2,650	1.0%	$733	1.5%	$4,398	0.3%	$2,874	1.1%	$2,947	2.9%	$19,126	0.5%
Utility User Tax	$46,201	3.3%	$22,167	8.6%	$6,131	12.7%	$36,791	2.5%	$24,044	8.9%	$24,653	24.3%	$159,988	4.5%
Licenses and Permits	$4,456	0.3%	$2,138	0.8%	$591	1.2%	$3,549	0.2%	$2,319	0.9%	$2,378	2.3%	$15,432	0.4%
Fines	$1,231	0.1%	$590	0.2%	$163	0.3%	$980	0.1%	$640	0.2%	$657	0.6%	$4,261	0.1%
Income from Other Investments	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Revenue from Other Agencies	$209	0.0%	$100	0.0%	$28	0.1%	$166	0.0%	$109	0.0%	$111	0.1%	$722	0.0%
Fees and Charges	$5,910	0.4%	$2,836	1.1%	$784	1.6%	$4,706	0.3%	$3,076	1.1%	$3,154	3.1%	$20,466	0.6%
Miscellaneous	$7,021	0.5%	$3,369	1.3%	$932	1.9%	$5,591	0.4%	$3,654	1.4%	$3,747	3.7%	$24,314	0.7%
Total Revenues	**$1,400,157**	**100.0%**	**$258,441**	**100.0%**	**$48,236**	**100.0%**	**$1,486,837**	**100.0%**	**$269,828**	**100.0%**	**$101,365**	**100.0%**	**$3,564,863**	**100.0%**
Revenue by Phase as Percent of Buildout Revenue		***39.3%***		***7.2%***		***1.4%***		***41.7%***		***7.6%***		***2.8%***		***100.0%***

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Source: Willdan Financial Services

General Fund Expenditures

Table 3 provides additional expenditure detail by phase, identifying the projected General Fund expenditures for public services demanded by Project residents and employees. The primary expenditure categories are related to the provision of public safety services—the police department and the fire department.[2] Combined, these two categories represent more than 85 percent of the total General Fund expenditures generated by Project development.

Willdan used an industry-accepted approach to estimating police and fire service costs, using a persons-served method that identifies the marginal cost required to provide public safety services to new residents and employees (with employees discounted to reflect their reduced demand for these services relative to a resident). Residential development is therefore a key driver of these expenditure categories, and Project phases adding substantial new residents generate the highest costs (e.g., Phase 1: 1,520 new residents, and Phase 4: 878 new residents). Employees also contribute to these expenditure estimates, but their impact is estimated to be only 50 percent of a resident, so their contribution to public safety expenditures is muted.

It should be noted that based on feedback from City, police department, and fire department staff, this industry-standard approach may not fully address the needs associated with providing public safety services to this Project, given existing service capacity and other issues. Additional specific case-study analysis will be necessary as the Public Safety Services Protection Plan is developed and the Project moves forward.

EPS Evaluation

By definition, a fiscal impact analysis is a deterministic model whereby the model results are fully determined by the parameter values and conditions supplied by the analyst. Such an analysis relies on several potentially variable assumptions and inputs. An accepted and appropriate method to evaluate the fiscal impacts of a project include targeted sensitivity analyses that document the effect of adjusting one or more variables and assessing the impact of the change on the analysis results. As part of the fiscal impact analysis, Willdan conducted several sensitivities to appropriately frame the results of the analysis. As part of this evaluation, EPS summarized those sensitivities and, in some cases, conducted additional analysis to tease out the budgetary implications associated with key variables that the City should consider when evaluating the Project.

[2] As previously noted, Willdan evaluated 3 fire service provision alternatives. For simplicity, EPS is using the base case scenario whereby the City constructs an additional fire station to serve the Project, as this is the most conservative approach. Alternatives include providing fire services to the Project from the existing Presidio fire station (with a contribution from the City to cover increased fire service costs), or via the Monterey County Regional Fire District (funded by Monterey County Regional Fire District property tax allocations or other special tax/assessments).

Table 3
Monterey Downs
Fiscal and Economic Impact Analysis
Summary of General Fund Expenditures by Phase

	Phase 1		**Phase 2**		**Phase 3**		**Phase 4**		**Phase 5**		**Phase 6**		**Buildout**	
General Fund Expenditure	Expenditure	Percent of Expenditure	Expenditure	Percent of Expenditure	Expenditure	Percent of Expenditure	Expenditure	Percent of Expenditure	Expenditure	Percent of Expenditure	Expenditure	Percent of Expenditure	Total Expenditure	Percent of Expenditure
General Government	$ 11,096	1.4%	$ 5,324	1.5%	$ 1,473	1.1%	$ 8,836	1.1%	$ 5,775	1.4%	$ 5,921	1.8%	$ 38,423	1.3%
Police Department	**$ 351,754**	**43.7%**	**$ 168,772**	**46.8%**	**$ 46,682**	**34.3%**	**$ 280,108**	**34.3%**	**$ 183,062**	**43.5%**	**$ 187,694**	**57.0%**	**$ 1,218,073**	**42.5%**
Fire Department	**$ 333,399**	**41.4%**	**$ 134,313**	**37.3%**	**$ 73,375**	**54.0%**	**$ 441,622**	**54.1%**	**$ 175,220**	**41.7%**	**$ 77,674**	**23.6%**	**$ 1,235,603**	**43.1%**
Resource Management	$ 5,733	0.7%	$ 2,751	0.8%	$ 761	0.6%	$ 4,565	0.6%	$ 2,984	0.7%	$ 3,059	0.9%	$ 19,853	0.7%
Building Code and Enforcement	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Community and Economic Development	$ 13,950	1.7%	$ 6,693	1.9%	$ 1,851	1.4%	$ 11,109	1.4%	$ 7,260	1.7%	$ 7,444	2.3%	$ 48,306	1.7%
Public Works and Engineering	$ 43,146	5.4%	$ 20,702	5.7%	$ 5,726	4.2%	$ 34,358	4.2%	$ 22,454	5.3%	$ 23,023	7.0%	$ 149,409	5.2%
Recreation Division	$ 45,778	5.7%	$ 21,964	6.1%	$ 6,075	4.5%	$ 36,454	4.5%	$ 23,824	5.7%	$ 24,427	7.4%	$ 158,522	5.5%
Total Expenditures	**$ 804,857**	**100.0%**	**$ 360,519**	**100.0%**	**$ 135,942**	**100.0%**	**$ 817,052**	**100.0%**	**$ 420,579**	**100.0%**	**$ 329,424**	**100.0%**	**$ 2,868,190**	**100.0%**
Expenditures by Phase as Percent of Buildout Expenditures		***28.1%***		***12.6%***		***4.7%***		***28.5%***		***14.7%***		***11.5%***		***100.0%***

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Source: Willdan Financial Services

Fiscal impact analysis assumptions meriting additional analysis include the following items and assumptions:

- Scale and timing of hotel development.
- Assessed value assumptions.
- Property tax allocation assumptions.
- Tax-sharing agreement outcomes.
- Public safety service provision alternatives.

The following sections offer discussion and analysis of each of these elements.

Hospitality Uses

The initial phase of Project development generates a substantial General Fund surplus that mitigates for General Fund deficits generated by later phases of development. Primarily, this is driven by the assumption that one of the two hotels develops as the first project phase. This assumption concerns EPS because the market for hotel development in the City remains uncertain.

Willdan states that "[b]ased on an examination of the competitive landscape, locational factors, and interviews with local experts Willdan believes the hotels are feasible." The fiscal analysis cites growth of California State University Monterey Bay and the adjacent Department of Defense facility as key sources of demand. Visitation generated by the Horse Park and other events also is cited as supporting the level of hotel development proposed.

No metrics are presented, however, to support and confirm that latent demand for additional hospitality development exists. In addition, EPS has remaining concerns regarding the visitation estimates for the Horse Park and the Arena—to the extent that the viability of the second hotel depends on these unsubstantiated visitation estimates for the Horse Park, EPS is concerned that if revenues associated with hotel development are overstated, the Project's projected fiscal surplus could be substantially reduced.

As discussed above, two of the largest revenue categories include TOT and property taxes. TOT is generated exclusively by hotel development and will materialize commensurately with any hotel development that occurs. Hotels also contribute substantially to property tax revenues. Based on Willdan's assessed value assumptions, each hotel generates approximately 5 percent of the overall assessed value and associated property tax revenues generated by the Project.

It is therefore important for policymakers to understand the fiscal implications should one or both hotels not develop, or if the first hotel develops during a later phase of development. In response to concerns expressed by the City, Willdan's analysis includes a sensitivity analysis that excludes TOT revenues generated. The results of this sensitivity analysis and additional EPS analysis are offered below.

<u>Sensitivity Analysis—Hotel Development</u>

Table 4, below, identifies the net fiscal impact by phase should neither hotel be developed. As shown, the combined impact of no TOT revenues and reduced property tax revenues results in a

shortfall for each phase of Project development.[3] It is important to note that this sensitivity analysis continues to assume the most conservative fire service provision alternative—other assumptions would result in improved fiscal impact analysis results.

Table 4
Hotel Development Sensitivity Analysis—No Hotels

Item	Fiscal Impact at Buildout						
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6	**Buildout**
Net Revenues	$490,380	$258,389	$48,227	$577,093	$269,774	$101,351	$1,745,214
Net Expenditures	$721,447	$360,057	$133,955	$732,501	$419,366	$327,417	$2,694,743
Net Fiscal Impact Surplus/(Shortfall	**($231,067)**	**($101,668)**	**($85,728)**	**($155,408)**	**($149,591)**	**($226,066)**	**($949,529)**
Cumulative Impact	**($231,067)**	**($332,736)**	**($418,464)**	**($573,872)**	**($723,463)**	**($949,529)**	

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Source: Willdan Financial Services, and EPS

Table 5, below, summarizes the fiscal implications should only the Phase 1 hotel develop. The resulting reduction in TOT and property tax revenues generated by the Phase 4 hotel results in a shortfall of nearly $127,000 at buildout.[4]

Table 5
Hotel Development Sensitivity Analysis—Phase 1 Hotel Only

Item	Fiscal Impact at Buildout [1]						
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6	**Buildout**
Net Revenues	$1,400,044	$258,389	$48,227	$577,093	$269,774	$101,351	$2,654,878
Net Expenditures	$806,085	$360,057	$133,955	$734,732	$419,366	$327,417	$2,781,612
Net Fiscal Impact Surplus/(Shortfall	**$593,958**	**($101,668)**	**($85,728)**	**($157,639)**	**($149,591)**	**($226,066)**	**($126,734)**
Cumulative Impact	**$593,958**	**$492,290**	**$406,562**	**$248,923**	**$99,332**	**($126,734)**	

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Source: Willdan Financial Services, and EPS.

[1] In order to assess this scenario, EPS reproduced the model created by Wildan Financial Services. As a result, values on this table may vary from Table 1 attributable to differing rounding assumptions.

It also is important to consider the timing of hotel development. TOT and property tax revenues are integral to early phase surpluses that mitigate subsequent shortfalls. If the hotel does not develop in the first phase, there likely will be early phase shortfalls that will require mitigation measures to ensure no detrimental budgetary impacts for the City. It should be noted that City staff and the Applicant have discussed requiring construction of the hotel in Phase 1, but such a

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[3] Note that EPS also reduced the service population used to calculate General Fund expenditures to remove the hotel employees.

[4] Ibid.

requirement does not guarantee full market support and associated public revenue generation upon completion of construction.

Property Tax

Willdan's fiscal impact analysis makes several necessary assumptions to estimate projected property tax revenues. Key assumptions include the assessed value of new development and the proportion of property tax revenue that will be allocated to the City.

Reduced Assessed Values

Acknowledging the potential for assessed values and associated property tax revenues to be lower than currently anticipated, Willdan also evaluated the fiscal impacts should property tax revenue be reduced by 20 percent. EPS updated this sensitivity analysis to also adjust the property transfer tax revenues, as those also depend on assumed assessed values. **Table 6** summarizes the results of this sensitivity analysis, demonstrating that while the overall surplus would be reduced, the Project would still generate a cumulative surplus through buildout.

Table 6
Property Tax Sensitivity—Reduced Assessed Value

	Fiscal Impact at Buildout						
Item	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6	**Buildout**
Net Revenues	$1,304,334	$214,690	$40,784	$1,420,184	$224,471	$89,919	$3,294,382
Net Expenditures	$804,857	$360,519	$135,942	$817,052	$420,579	$329,242	$2,868,190
Net Fiscal Impact Surplus/(Shortfall	**$499,477**	**($145,829)**	**($95,158)**	**$603,132**	**($196,108)**	**($239,323)**	**$426,192**
Cumulative Impact	**$499,477**	**$353,648**	**$258,490**	**$861,622**	**$665,515**	**$426,192**	

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Source: Willdan Financial Services, and EPS.

Fort Ord Reuse Authority Extension

EPS conducted an additional sensitivity analysis to evaluate the revenue implications associated with an extension of the Fort Ord Reuse Authority (FORA). Currently, property taxes for property within the boundaries of the FORA jurisdiction are apportioned in accordance with the FORA enabling statute, a rubric under which the City receives an approximately 6-percent share of property tax. Because FORA is due to sunset in 2020, and buildout of Monterey Downs will be much later, the Willdan Report assumed the City would receive approximately 18.4 percent of property tax revenues, consistent with the citywide average. While EPS concurs this is a reasonable assumption, it also is important to consider the implications should FORA be extended. **Table 7** summarizes the fiscal impact results under that scenario, demonstrating that if the City's share of property tax revenue is reduced from 18.4 percent to 6 percent, several Project phases will generate fiscal shortfalls, resulting in an overall shortfall of $192,000 at buildout.

Note that this scenario presumes that FORA is extended indefinitely, but it is impossible at this time to predict whether or not FORA will actually be extended and if so, for how long. In 2014, the State Legislature extended FORA's authorization from 2014 to 2020. It is possible that any future extensions of FORA (should they occur) would be for a limited timeframe anticipated to end prior to buildout of the Monterey Downs project.

Table 7
Property Tax Sensitivity—FORA Extension

Item	Fiscal Impact at Buildout Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6	Buildout
Net Revenues	$1,086,400	$115,480	$23,527	$1,266,028	$121,621	$63,412	$2,676,468
Net Expenditures	$804,857	$360,519	$135,942	$817,052	$420,579	$329,242	$2,868,191
Net Fiscal Impact Surplus/(Shortfall	**$281,543**	**($245,039)**	**($112,415)**	**$448,976**	**($298,958)**	**($265,830)**	**($191,723)**
Cumulative Impact	**$281,543**	**$36,504**	**($75,911)**	**$373,065**	**$74,107**	**($191,723)**	

fora summ

Source: Willdan Financial Services, and EPS.

Tax Sharing: Property and Sales Tax

Annexation of Monterey Downs into the City will require tax-sharing arrangements between the City and the County. These arrangements will be the subject of future negotiations between the two jurisdictions, and the fiscal impact analysis should provide the foundation for the City as they conduct these negotiations. To inform these negotiations, EPS prepared a sensitivity analysis documenting the results of a 50-percent reduction to property tax revenues received by the City, shown below in **Table 8**. This scenario is presented for illustrative purposes only, and should not be considered a proposal for the purpose of future tax-sharing negotiations.

Table 8
Tax Sharing Sensitivity—50% Reduction to Property Tax Revenues

Item	Fiscal Impact at Buildout Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6	Buildout
Net Revenues	$1,167,090	$152,245	$29,881	$1,322,814	$159,736	$73,173	$2,904,938
Net Expenditures	$804,857	$360,519	$135,942	$817,052	$420,579	$329,242	$2,868,190
Net Fiscal Impact Surplus/(Shortfall	**$362,233**	**($208,274)**	**($106,061)**	**$505,762**	**($260,844)**	**($256,069)**	**$36,747**
Cumulative Impact	**$362,233**	**$153,959**	**$47,898**	**$553,660**	**$292,817**	**$36,747**	

split summ

Source: Willdan Financial Services, and EPS.

As the City engages in tax-sharing negotiations with the County, both jurisdictions should consider opportunities to dedicate a portion of property tax or other revenues to fund key infrastructure improvements or other amenities that might improve visitation prospects and the associated viability of hotel development. Improving the prospects of Project elements supporting tourism and bolstering the economic base would be in the mutual interest of the City and the County.

Accelerated Public Safety Service Provision

The manner in which public safety services are provided to the Project remains to be determined. Given existing service capacity issues, police services, in particular, may need to be provided at a more accelerated rate than currently assumed by the fiscal impact report. As set forth in the Environmental Impact Report (EIR) mitigation measures, these issues will be addressed in a

Police Protection Services Plan, to be drafted in concert with the City police department prior to issuance of the first grading permit. The protection plan may consider other interim service provision alternatives, at which time the fiscal impact analysis may be updated to reflect revised public safety costs and timing.

In the absence of a completed Police Protection Services Plan, the Wildan Report estimates police service costs based on an estimated cost per person served, developed in conjunction with Police Department staff. This cost per person served is then applied on a linear basis to the persons served population generated by each phase of Project development. This is generally considered an acceptable methodology to estimate the costs associated with police services. The City and the Police department are concerned, however, that actual costs will be more heavily frontloaded on early phases of Project development, due to the existing service capacity issues mentioned above. Additionally, while police service costs are modeled on a linear basis, the City will actually incur costs on a "lumpier" basis, incurring substantial increases in costs as certain thresholds are reached and the City has to expand service capacity (i.e., hire new staff).

To evaluate the implications of this potential circumstance and to inform the future development of the Police Services Protection Plan, EPS evaluated the impact of accelerated police service costs. EPS assumed that 50 percent of the buildout cost for police services would be required at the outset of Project development, and the remaining 50 percent would be required commencing with Phase 3. It should be noted that this is a hypothetical scenario intended to demonstrate how accelerated public safety costs would impact the City's General Fund. As shown in **Table 9**, while the net impact at Project buildout remains unchanged, accelerated public safety costs could result in temporary shortfalls that would have to be backfilled by the City's General Fund or otherwise mitigated until future phases move forward and generate sufficient revenues to cover the costs.

Table 9
Public Safety Service Provision Sensitivity

	Fiscal Impact at Buildout						
Item	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6	**Buildout**
Net Revenues	$1,400,157	$258,441	$48,236	$1,486,837	$269,828	$101,365	$3,564,863
Net Expenditures	$1,064,033	$191,997	$697,037	$537,671	$237,005	$140,447	$2,868,190
Net Fiscal Impact Surplus/(Shortfall)	**$336,124**	**$66,444**	**($648,801)**	**$949,166**	**$32,823**	**($39,082)**	**$696,673**
Cumulative Impact	**$336,124**	**$402,568**	**($246,233)**	**$702,933**	**$735,756**	**$696,673**	

PS Summ

Source: Willdan Financial Services, and EPS.

Summary of Fiscal Impact Sensitivity Analysis

Table 10 summarizes the results of each sensitivity scenario at Project buildout. Note that because this table evaluates Project buildout only, intervening deficits occurring in certain scenarios are not shown.

Table 10
Monterey Downs
Fiscal and Economic Impact Analysis
Summary of Sensitivity Analysis - at Buildout

		Sensitivity Scenarios					
		Hotel Scenarios		**Property Tax Scenarios**		**Tax Sharing**	**Accelerated Public Safety**
Item	**Base Case**	No Hotel	One Hotel	Reduced Assessed Values	FORA Extension	50% Split	**Service Provision**
Key Assumptions	*City constructs new fire station. Represents Willdan's Estimate*	*No TOT Revenue. Reduced Property Tax. Reduced Service Population.*	*Reduced TOT and Property Tax Revenues. Reduced Service Population.*	*Reduced Assessed Value of All Property by 20%. Reduction in Property Tax and Property Transfer Tax.*	*City retains 6% of Property Tax Revenue.*	*50% Split of Property and Sales Taxes between the City and County.*	*50% of all Police Department expenditures in Phase 1 and the remainder in Phase 3.*
Annual General Fund Revenues at Buildout							
Property Tax	$1,319,850	$1,187,408	$1,253,468	$1,055,880	$431,453	$659,925	$1,319,850
Property Transfer Tax	$32,554	$30,574	$31,564	$26,043	$32,554	$32,554	$32,554
Sales Tax	$249,375	$249,375	$249,375	$249,375	$249,375	$249,375	$249,375
Transient Occupancy Tax	$1,676,664	$0	$838,332	$1,676,664	$1,676,664	$1,676,664	$1,676,664
Franchise Fee	$42,111	$40,852	$41,481	$42,111	$42,111	$42,111	$42,111
Business License Tax	$19,126	$18,554	$18,840	$19,126	$19,126	$19,126	$19,126
Utility User Tax	$159,988	$155,205	$157,596	$159,988	$159,988	$159,988	$159,988
Licenses and Permits	$15,432	$14,970	$15,201	$15,432	$15,432	$15,432	$15,432
Fines	$4,261	$4,134	$4,198	$4,261	$4,261	$4,261	$4,261
Income from Investments	$0	$0	$0	$0	$0	$0	$0
Revenue from Other Agencies	$722	$701	$711	$722	$722	$722	$722
Fees and Charges	$20,466	$19,854	$20,160	$20,466	$20,466	$20,466	$20,466
Miscellaneous	$24,314	$23,587	$23,950	$24,314	$24,314	$24,314	$24,314
Total Revenues	**$3,564,863**	**$1,745,214**	**$2,654,878**	**$3,294,382**	**$2,676,467**	**$2,904,938**	**$3,564,863**
Annual General Fund Expenditures at Buildout							
General Government	$38,423	$37,274	$37,849	$38,423	$38,423	$38,423	$38,423
Police Department	$1,218,073	$1,181,657	$1,199,865	$1,218,073	$1,218,073	$1,218,073	$1,218,073
Fire Department	$1,235,603	$1,110,965	$1,173,429	$1,235,603	$1,235,603	$1,235,603	$1,235,603
Resource Management	$19,853	$19,260	$19,557	$19,853	$19,853	$19,853	$19,853
Building Code and Enforcement	$0	$0	$0	$0	$0	$0	$0
Community and Economic Development	$48,306	$46,862	$47,584	$48,306	$48,306	$48,306	$48,306
Public Works and Engineering	$149,409	$144,942	$147,176	$149,409	$149,409	$149,409	$149,409
Recreation Division	$158,522	$153,783	$156,153	$158,522	$158,522	$158,522	$158,522
Total Expenditures	**$2,868,190**	**$2,694,743**	**$2,781,612**	**$2,868,190**	**$2,868,190**	**$2,868,190**	**$2,868,190**
Surplus/(Shortfall) at Buildout	**$696,673**	**($949,529)**	**($126,734)**	**$426,192**	**($191,723)**	**$36,748**	**$696,673**

scen_summ

Source: Willdan Financial Services, and EPS.

Economic Impact Analysis

The economic impact analysis offers a framework to understand the contributions of a new development project to the local economy in terms of jobs, income, and industry output. Using an input-output modeling framework that identifies interindustry relationships, the economic impact analysis evaluates how activity in one sector of the local economy impacts other sectors as they purchase goods and services from intermediate suppliers and employ people that spend their income in the economy.

The analysis therefore quantifies the "multiplier" or "ripple" effect of new dollars in the local economy, measuring how new "direct" expenditures generate demand for other goods and services (indirect effects) and increase consumer spending through the employees of the directly and indirectly affected businesses (induced effects).

Development activity can generate two types of economic impacts:

- **Construction Impacts.** Construction activity generates a one-time infusion of economic activity that exists only for the construction period. Construction of a project requires hiring construction workers and purchasing building materials, some of which will be purchased from local businesses and suppliers. The economic impact analysis measures the total direct, indirect, and induced effects of the temporary economic activity associated with Project construction.

- **Project Operations.** Once a project is constructed, the operations of the commercial enterprises will generate ongoing economic impacts for as long as they remain in operation. For example, a new restaurant will hire workers and will purchase food, supplies, and services from their suppliers, some of which will be located in the local economy. Those suppliers, in turn, may have to hire additional workers and increase production capacity to accommodate the new demand. The economic impacts of Project operations are measured on an annual basis, and the impact is identified as ongoing.

Again, it is important to note that the economic impact analysis and its findings are separate and distinct from the fiscal impact analysis, although there are key areas of overlap in terms of inputs and assumptions. The economic impact results are a measure of the increased economic activity generated in the City, but they do not have direct bearing on the City's budget or the fiscal outcomes of the Project, which are documented in the fiscal impact analysis.

Summary of Wildan Report Findings

The Willdan Report documented the projected economic impacts occurring in the City as a result of development of Monterey Downs. Willdan found that the Project would generate the following economic impacts:

- **Project Construction.** Based on the estimated value of new construction, Willdan estimates the Project will generate the following effects distributed over the projected 10-year timeframe for construction:
  - 1,714 jobs, including 1,177 direct jobs, 289 indirect jobs, and 247 induced jobs. It should be noted that this figure represents total "job years" and should be divided by the total number of years over which construction activity is anticipated (10 years) to reflect

the average annual jobs during the construction timeframe (roughly 170 jobs each year for the 10-year construction timeframe).

- Increased earnings for direct, indirect, and induced employees are anticipated to total $108.5 million (approximately $63,000 per employee).
- Overall industry output (the value of goods and services produced in the economy) is projected to increase by $261.6 million (this number includes employee earnings, as reported above).

- **Project Operations.** Primarily relying on estimates of visitation and visitor spending, Willdan estimates ongoing operations of the Project (including the Sports Arena, which was excluded from the fiscal impact analysis) will generate the following ongoing economic effects:
  - A total of 290 new jobs, including 245 direct jobs, 22 indirect jobs, and 23 induced jobs.
  - Those direct, indirect, and induced employees are anticipated to earn approximately $10.2 million annually (approximately $35,000 per employee).
  - Operations of the Project will generate roughly $26.0 million in new industry output annually. It should be noted that this number includes employee earnings, as reported above.

EPS Evaluation

It is important to note that policymakers should use care when interpreting the results of an economic impact analysis. In isolation, the results of an economic impact analysis can be misleading and are best used to compare multiple competing projects or land use scenarios. In this circumstance, the economic impact analysis can provide valuable insight into how and the degree to which various alternatives integrate with the existing economic structure (i.e., build on existing supply networks) and produce the types of jobs the City desires (i.e., diversify the employment base, produce higher income jobs).

In the case of an economic impact analysis that evaluates a single project, the report essentially is providing a comparison to a "No Project" alternative, where the economic impacts would be zero.

The Willdan Report offers limited detail regarding the specific methodology used to derive the economic impacts, complicating the reproduction of results. In general, the economic impact methodology appears to follow industry standard practices and represents a reasonable estimate of the likely increased economic activity associated with the Project, based on the inputs used.

EPS does, however, have a major concern regarding visitor estimates, which is the primary analysis input used to estimate the ongoing economic impacts. These concerns are discussed in detail below.

Visitation Estimates

Visitation estimates reported in the economic impact analysis are not fully documented. To the extent these numbers are not validated, demand for hotels and the overall level of associated economic activity remains a concern. In particular, the draft report states the viability of developing the second hotel hinges on support from the Horse Park and event center.

Note that while visitation estimates primarily are used to generate economic impact results, a reduction in hotel-generated TOT and property tax revenues will have major implications for the fiscal impact findings.

Particularly with respect to the Horse Park, the report should document and provide concrete examples for the types of events and level of programming organizers intend to attract, as well as associated visitors and the duration of the visitor stays. To the extent the Project Applicant draws on visitation estimates for existing equestrian facilities, the Project Applicant should ensure the scale of proposed Horse Park facilities are comparable to these existing facilities (i.e., in terms of stalls provided, number and type of arenas, specialty facilities, and other key elements) and should include those metrics in the report tables and narrative.

As part of the peer review process, representatives of the Monterey Horse Park provided EPS with supporting documentation offering visitor estimates and economic activity associated with comparable facilities throughout the United States. Monterey Horse Park representatives emphasized that the facility will target high caliber events with the potential to attract substantial numbers of exhibitors and spectators from outside the region. Current estimates provided by the Monterey Horse Park suggest that exhibitors and equestrian support staff alone could generate roughly 140,000 visitor days – this figure would exclude any spectators or horse show personnel.

At this time, however, much remains unknown regarding the phasing of the Monterey Horse Park, the timing of full buildout, the ultimate spectator capacity, and the events programmed. All of these factors will contribute to the levels of Horse Park visitation achieved. Given these unknowns, EPS conducted a sensitivity analysis summarizes the changes to the economic impact analysis should visitation to the Horse Park fall 25 percent to 50 percent lower than currently estimated in the Wildan report, summarized in **Tables 11, 12** and **13**, below.

Table 11
Visitation Reduction Estimates—Out of County Horse Park Visitation Sensitivity

Item	Willdan Estimate	25% Reduction in Horse Park Visitation	50% Reduction in Horse Park Visitation
Horse Shows			
Local Horse Shows	0	0	0
Regional Shows	4,800	3,600	2,400
State Shows	54,600	40,950	27,300
National Shows	266,000	199,500	133,000
Total Horse Shows	**325,400**	**244,050**	**162,700**
Concerts	20,000	20,000	20,000
Music Festivals	18,200	18,200	18,200
Misc Events	16,500	16,500	16,500
Total	**380,100**	**298,750**	**217,400**

visits

Table 12
Estimated Project Operating Expenditures—Out of County Horse Park Visitation Sensitivity

Item	# Visitor Days	Expenditure per Visitor	Amount	Zip Code 93955 Proportion	Zip Code Expenditures
25% Horse Park Visitation Reduction					
Visitor Expenditure					
Hotel Expenditure	298,750	$80	$23,900,000	35%	$8,365,000
Visitor Misc. Expenditures	298,750	$50	$14,937,500	30%	$4,481,250
Horse Park Operations					
Visitor Revenues (shows, rent, facilities)			$6,050,246	35%	$2,117,586
Horse Park Operating Expenditures			$1,921,750	100%	$1,921,750
Total Operating Expenditures			**$46,809,496**		**$16,885,586**
Impact Reduction Factor					17.16%
50% Horse Park Visitation Reduction					
Visitor Expenditure					
Hotel Expenditure	217,400	$80	$17,392,000	35%	$6,087,200
Visitor Misc. Expenditures	217,400	$50	$10,870,000	30%	$3,261,000
Horse Park Operations					
Visitor Revenues (shows, rent, facilities)			$6,050,246	35%	$2,117,586
Horse Park Operating Expenditures			$1,921,750	100%	$1,921,750
Total Operating Expenditures			**$36,233,996**		**$13,387,536**
Impact Reduction Factor					34.32%

op exp

Table 13
Summary of Annual Economic Impacts at Buildout—Visitation Sensitivity

		Estimated Seaside Impacts		
Activity	**Impact Type**	Jobs	Earnings	Econ. Output
Willdan Estimate				
Operations	Direct	245	$8,300,000	$20,400,000
Local Business Activity	Indirect	22	$1,000,000	$2,700,000
Employee Expenditures	Induced	23	$900,000	$2,900,000
Total Operations (Annual)	**Total**	**290**	**$10,200,000**	**$26,000,000**
25% Horse Park Visitation Reduction				
Operations	Direct	203	$6,880,000	$16,900,000
Local Business Activity	Indirect	18	$830,000	$2,240,000
Employee Expenditures	Induced	19	$750,000	$2,400,000
Total Operations (Annual)	**Total**	**240**	**$8,460,000**	**$21,540,000**
50% Horse Park Visitation Reduction				
Operations	Direct	161	$5,450,000	$13,400,000
Local Business Activity	Indirect	14	$660,000	$1,770,000
Employee Expenditures	Induced	15	$590,000	$1,900,000
Total Operations (Annual)	**Total**	**190**	**$6,700,000**	**$17,070,000**

impacts

As shown, if the Horse Park realizes only a portion of the current visitor projections, the economic impacts would be reduced commensurately. Note that this sensitivity analysis is static in nature—it evaluates the change to the economic impacts based on changes to visitor spending and does not consider the implications associated with the feasibility of the second hotel, should anticipated visitation levels not materialize.

Conclusions

EPS finds the Willdan Report, overall, is technically sound and appropriately estimates the fiscal and economic outcomes of the proposed Project. The report findings would be bolstered by the inclusion of refined visitor estimates and metrics demonstrating the viability of hotel development at the levels proposed.

Each sensitivity analysis documented in the Wildan report and in this memorandum documents the impact of adjusting certain analysis elements or variables in isolation. Should circumstances be combined (e.g., only one hotel develops, FORA is extended, and assessed values are lower than anticipated) the impact on the analysis results would compound.

As the City evaluates the Project and engages in future planning efforts and negotiations, such as tax-sharing discussions with the County and Development Agreement negotiations with the Project Applicant, the outcomes of the sensitivity analyses offered here should provide a foundation for policy-making that protects the City’s interests. In particular, the City should note that the positive fiscal outcomes rely upon the inclusion of two hotels in the Project, as well as the assumption that the City receives a property tax allocation commensurate with their current average allocation.

EPS recommends that future analysis efforts focus on evaluating the existing market support for hospitality uses as well as refining and bolstering projected visitation levels to assess the likely feasibility of the second hotel.

Of particular note, the City should ensure that the Project Applicant provides assurances that the Project Applicant will offer mitigation for any fiscal shortfalls occurring because of specified conditions. These terms should be established as part of Development Agreement negotiations.

EPS looks forward to working with City staff, the Project Applicant, and Willdan to evaluate the fiscal and economic dynamics of the proposed Project. Please contact David Zehnder or Ellen Martin with questions regarding this memorandum.