

*The Economics of Land Use*



## **MEMORANDUM**

To: Monterey Downs, LLC  
From: David Zehnder and Ellen Martin  
Subject: Monterey Downs Fiscal and Economic Impact Analysis Peer Review; EPS #132049  
Date: July 16, 2015

The City of Seaside (City) engaged Economic & Planning Systems, Inc. (EPS) to complete a peer review of the Monterey Downs Fiscal and Economic Impact Analysis. On behalf of the Monterey Downs Project (Project) Applicant, Willdan Financial Services (Willdan) has completed several versions of the draft report document. EPS and the City have responded to each version of the report with comments and suggested revisions.

In June 2015, Willdan submitted a fourth version of the report. At the request of the City, EPS reviewed Willdan's revised draft report, evaluating how the updated draft report responds to prior comments submitted and offering an overall assessment of the analysis. EPS has prepared this memorandum documenting outstanding issues that should be addressed as the Applicant and Willdan prepare the final version of the report for submittal to City Council.

### **Summary of EPS's Findings**

Overall, EPS finds the draft report is technically sound and applies industry standard methodologies and metrics to evaluate the economic and fiscal impacts generated by development of the proposed Project. As one element of the Project entitlement process, the fiscal and economic impact analysis likely will need to be supported by additional analysis and documentation, which may be appropriate at future entitlement junctures. Some of this additional analysis likely will be needed to support tax-sharing discussions with Monterey County (County). Based on discussions with the Applicant, Willdan, and the City, EPS understands the following key areas will be addressed through additional analysis and documentation as the entitlement process proceeds:

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1. **Analysis of Horse Park and Sports Arena/Training Track.** The fiscal impact analysis currently excludes all revenues generated by the Sports Arena and Horse Park but does include the Sports Arena and Horse Park employees in the calculation of public service expenditures. The Applicant has indicated that they intend to defer more detailed fiscal and economic impact analysis of the Sports Arena use until a more detailed Project description is completed. 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 Applicant and the City. This is a substantial unresolved issue that could have significant implications for the fiscal impact analysis results. In addition to General Fund revenues generated by Sports Arena development, the fiscal impact analysis of the Sports Arena 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.
2. **Interim Public Safety Services 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 future Police Protection Services Plan, to be drafted in concert with the City police department. 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.
3. **Development Feasibility.** As is typical for economic and fiscal impact analyses, the report makes no findings regarding the financial feasibility of the Project concept from the 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.

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.

4. **Market Feasibility of Proposed Land Uses.** Relatedly, the economic and fiscal impact analysis does not offer a comprehensive analysis of likely market acceptance of the real estate products proposed. A comprehensive market analysis is not typically completed as part of a fiscal and economic impact study, but 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 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, but a full market study is not expected at this time.

Understanding that the fiscal and economic impact analysis is limited in scope and the additional analysis outlined above may be appropriate at future entitlement junctures, the report or Applicant's cover letter clearly should address how and when the issues identified above will be resolved.

## Remaining Issues

A synopsis of key remaining issues that should be addressed in the final version of the Fiscal and Economic Impact Analysis is offered below:

1. **Distinction between Fiscal and Economic Impact Analysis.** The report more clearly should define the distinction between the Fiscal Impact Analysis and the Economic Impact Analysis: what is the purpose of each distinct analysis, what are key implications for the City, and how are impacts measured? The findings of each distinct analysis should be more clearly delineated in the report executive summary.
2. **Project Concept.** The report more clearly should outline the Project concept and land uses, specifically the distinction between the Horse Park and the Sports Arena/Training Track uses, as well as the employees and visitors each use will generate. The report tables and related narrative sections should make a clear distinction between these two uses and their associated impacts.
3. **Visitation Estimates.** Visitation estimates reported in the economic impact analysis are potentially aggressive and are not documented; EPS's concern primarily revolves around the number of horse shows and other events assumed to occur. 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. While visitation estimates primarily are used to generate economic impact results, a reduction in hotel-generated transient-occupancy tax and property tax revenues will have 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 Applicant draws on visitation estimates for existing equestrian facilities, the 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.

4. **Hotel Market Underpinning.** Related to the above comment, EPS recommends the report further document conditions supporting hotel development, as this is a key driver of the fiscal impact results. Identifying key performance metrics (e.g., occupancy, average daily rates) as they relate to hotel inventory could provide additional insight into the likely performance of a new hotel and could mitigate concerns regarding needed visitation levels to support hotel development. Moreover, results would be bolstered to the extent the report identifies the amount of direct support that will be drawn from events on site or nearby activity and

what capture rate is needed to support new hotels in the Project without influencing the performance of existing hotels in the City.

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