

*The Economics of Land Use*



## ***DRAFT MEMORANDUM***

To: Monterey Downs, LLC  
From: David Zehnder and Ellen Martin  
Subject: Monterey Downs Fiscal and Economic Impact Analysis Peer Review; EPS #132049  
Date: May 7, 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) completed a draft report, dated March 2014. In coordination with City staff, EPS reviewed Willdan's draft report and submitted comments regarding the content of the report, analysis approach, and methodology and key assumptions.

In November 2014, Willdan submitted an updated draft of the Fiscal and Economic Impact Analysis. 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 prepared a matrix summarizing EPS's and the City's original comments, the manner in which the updated report addressed the comments, and any additional comments or responses from EPS and the City with regard to the revisions.

Willdan produced a third version of the report in March 2015.

This draft memorandum and the attached updated comment matrix offer a synopsis of EPS's review of the document, the manner in which the draft report responds to prior comments, and EPS's and the City's comments.

### **Key Overarching Issues**

EPS's comments are enumerated in detail in the attached **Table 1**. A synopsis of key issues is offered below:

*Economic & Planning Systems, Inc.  
2295 Gateway Oaks Drive, Suite 250  
Sacramento, CA 95833-4210  
916 649 8010 tel  
916 649 2070 fax*

*Oakland  
Sacramento  
Denver  
Los Angeles*

**[www.epsys.com](http://www.epsys.com)**

1. **Project Concept.** The report should more clearly 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.
2. **Analysis of Horse Park and Sports Arena/Training Track.** The analysis currently excludes all revenues generated by equestrian-related uses but does include equestrian employees in the calculation of public service expenditures. The Fiscal and Economic Impact Analysis should be updated to include a comprehensive analysis of these uses, with the associated fiscal and economic impact results identified separately from other Project land uses.
3. **Land Use Assumptions and Development Phasing.** Buildout fiscal impact results continue to be predicated on the realization of unsubstantiated market support. If market support for surplus-generating uses (e.g., hotel/retail) is lacking, the fiscal impact results may be overstated. Early phase deficits projected in earlier rounds of the report have been resolved by adjustments to the phasing plan, but the report also should demonstrate that these adjustments are predicated on viable market assumptions (discussed further below). Key relations between land uses that influence the fiscal impact results should be identified and discussed.
4. **Hotel Market Underpinning.** Conditions supporting development of the hotel should be further documented, 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. Moreover, the report should identify 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.
5. **Visitation Estimates.** Visitation estimates reported in the economic impact analysis are very aggressive and 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.
6. **Property Tax Estimates.** Currently, the Fort Ord Reuse Authority (FORA) receives an allocation of property tax revenues generated by projects on the former Fort Ord. FORA is scheduled to sunset in 2020, which likely will precede Project development. The property tax analysis therefore is based on the assumption that FORA does not receive an allocation of Project property tax revenues. The Applicant should work with the City to arrive quickly at one or more plausible sensitivity analyses to gauge potential reductions from property tax receipts should circumstances vary from current expectations.
7. **Definitions.** Key definitions should be added or referenced early in the document (e.g., direct, indirect, and induced economic impacts and sensitivity analysis) to facilitate understanding by a layperson audience.
8. Other key issues are identified in the attached **Table 1**.

EPS and the City recognize that many of the above issues relate to the market support for potential land uses, and additional detailed market research may be beyond the scope of the fiscal and economic impact analysis. The primary objective of these comments is to elicit more discussion and analysis in the report narrative that identifies key drivers of the fiscal impacts (i.e., nonresidential uses, most notably the hotel uses) and offers discussion regarding the fiscal and economic impact implications should market support for those land uses not materialize. To that end, EPS recommends, at a minimum, the report incorporate a detailed discussion of key assumptions and analysis drivers, offering a robust discussion of how changes to these assumptions would impact the analysis results.

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.

**Table 1**  
**Monterey Downs Fiscal and Economic Impact Analysis Peer Review**  
**EPS and City Comments and Responses**

Original Comment (March 2014 Report)	November 2014 Report Revisions	EPS/City Response	March 2015 Report Revisions	EPS/City Response
<b>Overall Assessment</b>				
1. The Report generally follows industry-standard approaches and methodology but lacks important detail and documentation. A thorough analysis of key fiscal and economic impacts associated with Project development will require significant additional detail and in depth analysis.	Certain areas include additional detail, mainly as noted in the specific comments below.	The November 2014 report is an improvement, but remains rather limited in terms of key details and transparency in quantitative calculations. The level of detail provided is minimally sufficient to understand the basic methodology, analytical framework, and analysis results.	Some additional detail provided.	The level of detail provided remains minimally sufficient to understand the basic methodology, analytical framework, and analysis results. Additional context, analysis and narrative should be provided throughout the narrative.
2. Results are predicated on the realization of unsubstantiated market support; accordingly, the fiscal and economic results may be overstated, to the extent market support for intended uses may be lacking.	Sensitivity analyses are included that reflect reduced property tax revenues and the exclusion of TOT revenues. Fiscal impacts are presented by project phase.	Sensitivity analysis should also be accompanied by discussion citing circumstances under which those scenarios may materialize and should address potential fiscal mitigation measures in the event of substantial deficits.	Some additional explanation included.	Sensitivity analysis should address potential fiscal mitigation measures in the event of substantial deficits. Property tax sensitivity analysis should also discuss possibility that tax sharing arrangements with Monterey County could result in changes to the proportion of property taxes allocated to the City General Fund.
3. The Report does not include an evaluation of the estimated fiscal and economic impacts of the potential horse racing use. These impacts should be evaluated on both a quantitative and qualitative basis, taking into account the potential for social impacts associated with gaming activity. To the extent availability of quantitative data is limited, qualitative analysis supported by relevant case studies may be appropriate.	The fiscal impact analysis continues to exclude this use, adding slightly more detail regarding the applicant's expectations that this use will be a "contained development."  The potential external, social impacts of gaming are not addressed.	Additional discussion is warranted, explaining why this use would not generate costs for City services such as police, fire, EMS and other key expenditure categories (i.e., which services would the horse racing use provide?). Alternatively, the analysis should demonstrate whether or not anticipated City General Fund revenues would be sufficient to cover these costs.	General service costs included based on employees of Horse Park. No revenues are assumed.	The Fiscal and Economic Impact Analysis should include a comprehensive analysis of the Sports Arena/ Training Facility and Horse Park uses, evaluating the fiscal and economic impacts of operating these uses.
4. Project development will include annexation of unincorporated property into the City. The Report should therefore take into consideration the "Policies and Procedures Relating to Spheres of Influence and Changes of Organization and Reorganization," published by the Local Agency Formation Commission of Monterey County. In particular, the analysis should address service provision and property tax-sharing requirements set forth in this document.	Report caveats property tax estimates as contingent upon ultimate tax sharing arrangements with County of Monterey. Includes a sensitivity analysis showing impact of a 20 percent reduction in property tax revenues.	Any available data from prior tax County tax sharing agreements or other sources that might offer clearer insight into likely City of Seaside property tax share should be cited.  Sensitivity analysis should offer additional narrative to explain circumstances that may generate lower than expected property tax revenues.	Updated analysis includes property tax sensitivity analyses and accompanying discussion.	Ensure that narrative discussing property tax sensitivities includes discussion of all circumstances that could generate lower than anticipated property tax revenues including (but not limited to): lower than anticipated real estate values, slow absorption, extension of FORA, etc.
6. Additional detail regarding the nature of Project land uses would be helpful in evaluating associated impacts. For example, the "Affordable Extended Stay" hotel concept requires elaboration, and additional information regarding the nature of anticipated equestrian facilities and the indoor arena should be provided. Case-study data may be helpful to understand the likely impact of these facilities.	No additional detail provided.	Additional detail should be included. In particular, hotel products should be clarified. EPS understands that the Phase 3 hotel project will comprise an extended stay business travelers hotel. Are the ADR and resulting TOT revenues for this product expected to match the traditional hotel projected for Phase 4? This is particularly important as TOT revenues are split equally between the 2 hotel projects and are large drivers of positive fiscal results.	No change.	EPS and the City remain concerned that market support for the hotel use and equestrian facilities remains largely unsubstantiated.  Report should more clearly distinguish between Sports Arena/ Training Facility and Horse Park uses.

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7. Key assumptions, such as service-provision assumptions for public safety and other critical services, should be coordinated with the City to ensure a robust and nuanced evaluation of Project impacts. The fiscal impact analysis should consider a "typical" budget year versus the depressed conditions associated with Fiscal Year (FY) 2012–13.	Incorporates Case Study analysis for Police and Fire Services.  Budget data updated to FY 14/15.	Additional coordination with City, police and fire departments necessary to ensure that Case Study reflects expected City costs and appropriate interpretation of City data provided.  See Attachments A & B regarding revised development forecasts for fire protection and ongoing operating costs. Please include reference that construction costs for the fire station will be negotiated as part of the Development Agreement process.	Additional detailed analysis of 3 fire service provision scenarios included.	Maintain analysis of all 3 fire service provision scenarios.
8. The Report is "end-state" with no reference to phasing and, therefore, no discussion of potential interim fiscal impacts or the temporal nature of economic impacts. To the extent a portion of the Project most likely is to develop, versus more speculative later phases, these land uses should be evaluated in isolation. Remaining development then could be evaluated in 5 year increments or other appropriate segments. Interrelations and dependencies between and among Project land uses should be discussed and addressed as part of the analysis. Key variables should be evaluated through the use of sensitivity analyses.	Updated report includes analysis of 6 separate development phases.	Interrelations and dependencies between and among Project land uses should be discussed and addressed as part of the analysis.	Phasing plan adjusted to include hotel in Phase 1.	Interrelations and dependencies between and among Project land uses should be discussed and addressed as part of the analysis. For example, if residential absorption is slower than anticipated, would retail sales tax revenue projections change? Similarly, if visitation estimates are less than currently projected, would retail sales levels be negatively impacted?
9. The economic impact analysis evaluates the impact of Project construction and operations on the Monterey County economy. The City requested the economic impact analysis be based on the use of available ZIP code level data to isolate impacts on the City.	Updated report utilizes zip code data for the City of Seaside.	Would be helpful to include a map or narrative description describing how zip code and City of Seaside boundaries relate.	No Change.	
10. The Report should be more accessible to the general public. Please look for opportunities to make table titles and headings more descriptive to assist navigation of the Report and comprehension of the analysis by a reader unfamiliar with key municipal finance and regional economics concepts.		As mentioned above, additional detail and analysis transparency is warranted to make the report digestible by the general public.		As mentioned above, additional detail and analysis transparency is warranted to make the report digestible by the general public.

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<b>Fiscal Impacts</b>				
Page 1. The Report states, "This analysis does not consider the net impact of the equestrian uses or the sports arena." These key elements of the Project should be included throughout the fiscal and economic impact analysis, as should the potential for horse racing activities.	Minor change to footnote #2, explaining that Sports Arenas are generally "contained developments".	As noted above, additional discussion needed to explain why Sports Arena excluded, how/what services are internally provided, what external impacts might occur, and how those impacts are handled.	Additional discussion included describing nature of services and provided.	Sports Arena/Training Facility and Horse Park should be comprehensively evaluated as part of the Fiscal and Economic Impact Analysis.
Page 1 (Footnote 1). Related to the previous item, Footnote 1 states key aspects of the Project require a subsidy (e.g., property tax and other revenues from the sports arena, equestrian facilities, etc. are needed to support their development). If this subsidy is unavailable and associated facilities are not constructed, what are the implications for the remainder of the Project and projected fiscal and economic impacts? Do these facilities have public service cost implications (e.g., police, fire, emergency services)?	Not addressed.	Revised report should include more detailed discussion and potentially analysis of sports arena, equestrian facilities, etc. in accordance with original comment.	Public service cost estimates included, but no additional discussion of implications for the remainder of the Project and projected fiscal and economic impacts if required subsidy not realized.	Sports Arena/Training Facility and Horse Park should be comprehensively evaluated as part of the Fiscal and Economic Impact Analysis.
Page 2 (Table 3). The Report does not offer evidence that the proposed retail (105,000 square feet [SF] including restaurants), office (160,000 SF), and hotel (656 rooms including Affordable Extended Stay) will be feasible within the projected Project construction timeframe. These projects are critical to realizing Project-generated General Fund revenues. As such, the Report, or other analysis, should include some assurance of market conditions, competitive position, and financial feasibility. Any available supporting market research should be provided to the City for review.	Updated report includes analysis of net fiscal impacts by phase, as well as key sensitivity analyses identifying the impact of reduced property tax and TOT revenues.	Additional explanation regarding the circumstances that would result in reduced revenues should be included (i.e., explain relevance of reduced property tax and TOT revenue scenarios). Identify key drivers of net fiscal impact results (e.g., nonresidential uses).	Some additional explanation included.	Additional analysis and context would be helpful. What are key drivers of net fiscal impacts? How would changes to the sequencing of development impact the results?
Page 3 (Figure 1). Map and legend presented on this page are not legible.	No change.	Please provide legible map and legend.	No change.	Please provide legible map and legend.
Page 4. The last two sentences of the final paragraph read:  <i>"It is important to note that the analysis does not consider excess capacity that may exist for particular city services or the possibility that the proposed development might fall at a service threshold level, requiring major new capital construction to accommodate increased growth. Rather, it applies current fiscal conditions and municipal service levels to anticipate future costs upon completion and operation."</i>  In conducting the fiscal and economic impact analysis, the Project applicant and Willdan should coordinate with the City or other entities regarding the Project's effects on City services and capital facilities. Specifically, the Report relies on budget data from FY 2012-13 to derive estimated fiscal impacts. Relying on the FY 2012-13 budget and associated municipal service levels artificially depresses estimated Project-related General Fund expenses because this budget required overcoming a substantial General Fund deficit and reflects an unsustainably low number of City personnel. Coordinating with City staff will allow development of appropriate assumptions to generate future service cost projections.	Report updated to include FY 2014-15 budget information, case studies for police and fire, and some edits to percent variability on General Fund departmental revenues and expenditures.	City should review these changes to ensure that they comport with direction provided to the applicant. Specifically, consultant, project applicant, and City should review percent variability factors for General Fund revenues and expenditures.		

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Page 7. Key data from Redfin and LoopNet, related to determining residential and nonresidential assessed values, should be made available for review, with relevant summary tables and discussion included in the body of the report.	No change.	This comment is partially addressed by the inclusion of a sensitivity analysis on property tax revenues, but to the extent that market data is available, that material should be provided or otherwise referenced.	Language incorporated citing Willdan's confidence that values reflect current market conditions.	Findings would be strengthened by the inclusion of supporting market data.
Page 8. Property transfer tax calculations assume a 15 percent turnover rate for courtyard and single-family homes. This is more aggressive than the often-used 10 percent assumption in the industry. Additional evidence or analysis should be provided supporting the use of this factor.	Table revised to reference 10 percent turnover rate for residential uses. Text still references 15 percent turnover.	Edit text to reflect change.	Revised.	
Page 9 (Table 5). Willdan research results informing estimated unit sizes, price points, and values should be included in appendix and referenced in text. Any supporting market research documentation should be included in the Report. In addition, Table 5 references a Footnote 3, but the associated text is not included.	No additional data provided. Footnote reference corrected.	This comment is partially addressed by the inclusion of a sensitivity analysis on property tax revenues, but to the extent that market data is available, that material should be provided or otherwise referenced.		Findings would be strengthened by the inclusion of supporting market data.
Page 11 (Table 7). For a major project such as this, it is customary and normal for the City departments to provide insight and feedback regarding key fiscal assumptions, such as the fixed versus variable nature of key revenues expected to be affected by a project. The Project applicant, Willdan, and the City should coordinate regarding key assumptions.	Some changes to percent variability factors made.			Comments Addressed.
Pages 13-16 (Sales Tax). The Report is based on the assumption 100 percent of retail sales are taxable, which EPS views as an unrealistic assumption, requiring adjustment or additional supporting evidence and analysis. EPS is unable to evaluate the reasonableness of equestrian venue and sports arena concessions (including attendance projections) because of an absence of supporting information and discussion. Finally, sales tax estimates should consider the potential shift in sales from existing retailers in the City to the proposed Project, or otherwise document this amount of net new retail is supportable.	Taxable retail sales adjusted to 95 percent. Equestrian and sports venue concessions are appropriately excluded. Other comments not addressed.	Supporting market data would strengthen findings, if available.		Project provides roughly 19 square feet of retail per capita. In EPS's experience, this is an appropriate, possibly slightly high, ratio of neighborhood serving retail space to population. Additional comparative information (i.e. current City of Seaside retail space per capita, other comparable jurisdictions) would bolster findings. Report should discuss relationship between residential and retail uses - i.e., if residential development proceeds more slowly than currently anticipated, how would retail development be impacted
Page 17 (Table 11). Additional information related to market indicators for hotel products should be provided to support occupancy rate and average daily rate assumptions shown in Table 11.	Factors used appear reasonable, but no additional data provided.	Supporting market data would strengthen findings, if available.	Some additional language included.	Supporting market data would strengthen findings, if available.

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<b>Economic Impacts</b>				
Page 21. The economic impact analysis includes impacts associated with the equestrian facilities and indoor arena, which largely were excluded from the fiscal impact portion of the analysis (consistent with statements on page 1 of the Report). The fiscal and economic impact analyses should consider the same universe of Project land uses and activities.	Not addressed.	The fiscal and economic impact analysis should consider the same universe of Project land uses and activities.	Equestrian workers included in service population for purposes of computing General Fund expenditures.	Sports Arena/Training Facility and Horse Park should be comprehensively evaluated as part of the Fiscal and Economic Impact Analysis.
Page 21 (Table 15). Because the concept for the equestrian facilities and the indoor arena is not fully understood, EPS cannot independently verify the visitor assumptions set forth in Table 15. Additional detail, data, and analysis related to anticipated visitation levels and trip characteristics are requested. In addition, the Table 15 label is shown twice.	No changes made or additional detail provided.		Minimal changes incorporated, citing Applicant as source of visitation estimates.	Visitation levels should be substantiated. Visitation derived by assumptions regarding number of events hosted in a year. Number of events seems very high - in excess of 1 horse show per week (350 days total) and 80 concerts and other events per year. Metrics for other similar facilities should be discussed at length and included.
Page 21 and 22 (Table 16). The Report states: <i>"...Willdan has included only expenditures originating outside Monterey County. Expenditures of funds originating within Monterey County do not yield an economic impact, as they are simply diverted from use that would generate economic benefits elsewhere."</i> Footnote 3 then states: <i>"For example, for construction costs Willdan has assumed that soft costs (such as engineering, planning, finance, etc.), are largely outside Monterey County."</i> Based on the factors applied in Table 16, however, it appears only expenditures in Monterey County were included for economic impact analysis purposes. Clarification regarding how these factors were determined and applied is necessary.	Remains unclear.	Please clarify.		
Page 23 (Table 17). IMPLAN reports employment in terms of total jobs, not full-time employee equivalents (FTEs). Willdan and the Project applicant should clarify if this table reflects FTEs and, if so, on what basis the IMPLAN results were converted to FTEs.	No change. [CORRECTION: Label changed to Jobs as opposed to FTEs]	Please clarify.	Table now references jobs, not FTEs. (Change incorporated in Nov. 2014 version).	May be appropriate to incorporate footnote or other explanation of how IMPLAN measures jobs.
Page 23 (Table 17). Total direct operating expenditures do not match the estimated Monterey County expenditures shown in Table 16. Elaboration regarding the economic impact methodology applied is needed—for example, does this discrepancy reflect the application of retail margins on the miscellaneous visitor expenditures estimates?	Inconsistency eliminated, but no additional explanation of the components of operating expenditures provided.	What are miscellaneous visitor expenditures? If retail expenditures, model should apply retail margins to reflect the marginal economic impact of increased retail sales activity.	Visitor expenditures not included in IMPLAN analysis of multiplier impacts.	

Source: EPS

matrix