Dear Solano County Supervisor or Vallejo City Council Member:

I am writing to you as a local resident and business owner. In the last few days, while reviewing documents related to the Solano360 Fairgrounds project, I discovered a problem with the Fiscal Impact Analysis (FIA) which I would like to bring to your attention.

The problem calls into question the validity of the FIA and may warrant a formal, perhaps legal, investigation. For that reason, I have copied the County District Attorney’s office. Please understand that I am not making any accusations in this letter, as I am neither qualified to do so nor able to judge anyone’s motivations. But the information I am relaying, and the dollar amounts at stake, lead me to conclude that this matter should be reviewed by all parties.

BACKGROUND

The FIA, dated November 9, 2012, was prepared by Goodwin Consulting Group Inc. (GCG) under contract with the County. GCG was tasked with doing both the FIA and the related Public Facilities Finance Plan (PFFP). Both documents were accepted by the County Board of Supervisors as part of the EIR certification process. The documents are currently being reviewed by Vallejo City Council Members. I believe City Council will be voting on the Solano360 Specific Plan at a meeting on May 14th. Thus, there is some urgency in dealing with the information in this letter.

While the FIA has been available to the public for several months, a document of equal importance to Vallejo residents was made available just a few weeks ago: the City-County Revenue Sharing Agreement. While it may seem as though I’m late in writing this letter, I should point out that it was not possible to do a thorough review of the fiscal impacts without knowing what Vallejo was being asked to give up. The revenue sharing is complicated: for Vallejo, there are 12 separate revenue streams, of which six will be shared at four different rates during a 50-year project plan.

A concern of many Vallejo residents is that our city is being asked to contribute so much to the project (up to 97%) that it will be unable to provide the necessary municipal services, or that doing so will hurt our finances. Because of these concerns, and because Vallejo...
City Staff does not have adequate resources to do a peer review study, I took it upon myself, as a layperson, to analyze the FIA and revenue-sharing. I put GCG’s numbers into a spreadsheet, added the revenue-sharing percentages, and tried to test the underlying assumptions.

In the process, I came across a number that did not seem consistent with fiscal analyses that I obtained for other development projects in California. That number is the ratio between the cost of an employee in a new development compared to the cost of a resident. Apparently the number most often used is 50%. It means, in terms of municipal services, that an employee costs about half of a resident.

GCG did not use that number. Instead, it used the number 30%, which I had not seen anywhere else. I’ll have more to say about the consultant’s choice below.

**KEY ASSUMPTION**

As it turns out, the ratio between employee and resident costs is one of the key assumptions in the FIA. This is not obvious apart from the proposed Revenue Sharing Agreement, and it may seem counter-intuitive. Basically, the ratio is a multiplier. It is used for retail/commercial developments so that the cost of additional services can be related to known costs, which are the services a city provides to its residents. In the case of the fairgrounds, GCG takes the idea slightly further. Since the cost of visitors is even harder to determine, the employee number, which is better understood, serves as a proxy. So GCG actually makes use of two ratios: the number of visitors compared to employees, and the cost of employees compared to residents.

The counter-intuitive part is this: in the FIA, the employee multiplier is used for an equal number of revenue and expense rows for the City, and roughly an equal number for the County. With that information, one might conclude that the particular ratio is not too important, because any error would cancel out when looking at net impact. But the error doesn’t cancel out, at least not for the City, and here’s why: in the FIA, the employee multiplier is used for the *least* significant revenue streams and the *most* significant expenses, such as police, fire, public works and city administration. Therefore, a little “tweaking” of the employee multiplier has a small affect on revenue but a large effect on costs.

(The City and County are disproportionately affected by a change in the employee multiplier. This is because the County does not have to provide any expensive services. For example, the Vallejo Police Department, not the County Sheriff, will do law enforcement at the fairgrounds.)

The table below shows the difference between a 30% and 50% employee multiplier for Vallejo’s net impact. I’m giving only the totals for the 50-year project. Next I’ll show what happens to Vallejo on an annual basis. Please note that my calculations are based solely on numbers provided in the FIA, according to the same rules put down by the consultant. I just restored the 30% multiplier to the standard 50%.
Vallejo's cumulative impacts for the fairgrounds project

<table>
<thead>
<tr>
<th>employee-resident cost ratio</th>
<th>30%</th>
<th>50%</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td>projected revenue (times $1 mil.)</td>
<td>103.4</td>
<td>109.0</td>
<td>5.6</td>
</tr>
<tr>
<td>expenses</td>
<td>-38.4</td>
<td>-59.7</td>
<td>-20.7</td>
</tr>
<tr>
<td>net impact (50 years)</td>
<td>64.4</td>
<td>49.3</td>
<td>-15.1</td>
</tr>
</tbody>
</table>

As you can see, the net impact looks much better with the 30% multiplier, not because the revenues are so much better, but because the City’s costs are lower. And therein lies one problem. If the ratio is wrong, there’s not much chance of it being wrong in resident’s favor, not if you live in Vallejo. In fact, if we take the standard 50% multiplier and add in the proposed Revenue Sharing Agreement, the effect is particularly nasty to Vallejo residents. We would face continued losses for 30 years and not break even even for 36. This is shown in detail in the first attachment (look for the four charts).

GCG’s CHOICE OF A MULTIPLIER

As you can see from the four charts, the choice of a 30% or 50% multiplier greatly affects the costs, benefits and risks of the project. This is especially important for Vallejo, because we’re on the “information-receiving end” of the deal. Vallejo needs a complete and accurate picture of what’s going on before it can decide if the revenue-sharing deal is any good.

So which multiplier is “correct”? GCG was certainly not tasked with figuring that out, as it would have involved a lot of costly research. The alternative is to use a conventional number. But GCG didn’t do that either. As best as I can tell, its decision to use 30% for the employee multiplier was contrary to its own standard practices.

I spent some time pulling down fiscal impact studies off the web. Nearly all of them use the 50% number and refer to it as a standard. So does GCG. I was able to locate a total of ten fiscal impact studies by GCG. (If there are more, I could not find them on any public website and I apologize for missing them.) The studies cover a 10-year period and a wide variety of projects in Northern California, from mixed-use/housing in Walnut Creek to a $6.5 billion development in Stanislaus County. **GCG used the 50% multiplier in nine of those ten studies. In only one study did it use 30%. That was for Solano360.**

Please read GCG’s explanation of the 30% multiplier and compare it to the consultant’s other work (the relevant pages are attached). Here, for example, is what GCG wrote for the large Stanislaus County development (italics added): “Although the exact relationship of service demands and revenue potential between residents and employees is difficult to measure, a service population comprised of 100% of residents and 50% of employees is **standard fiscal practice.**” That’s a very straightforward explanation and typical of what the consultant wrote in other fiscal impact studies.
WHY 30% RAISES DOUBTS

Let's do a little parsing of what GCG wrote for Solano360. GCG begins with the statement, “a resident generally has approximately three times the impact of an employee”. By itself, that statement would lead to a multiplier of one-third, or 33.3%. I did find that number used in other studies, though almost always for business parks or ordinary commercial developments. In those studies, the authors would state simply that employees work 8 hours of a 24-hour day, then leave the property. That seems reasonable for such developments. But Solano360 is different, as it includes a “fairgrounds of the future”, restaurants, retail and commercial entertainment, all of which is designed to pull in visitors, all day, evenings and weekends.

Keep in mind that, in the Solano360 study, employees are a proxy for all of those visitors. The employees are not office workers. Furthermore most are serving hundreds, if not thousands, of visitors each day, including food servers, ride operators, parking lot attendants, ticket-takers, etc. That multiplies out to many more people who need the same level of services as local residents. Perhaps more; we really don’t know. But we do know that the services they need are expensive, and probably more expensive than for office workers or employees at a standard retail/commercial development. That's police services, fire and rescue, public utilities, administration, etc.

What’s more, the fairgrounds project has a huge amount of acreage that isn’t figured into the employee multiplier at all: a transit center, water feature, and other public “hangout areas”. Those, of course, produce high demand for municipal services and drive up the costs of the project even further. And a discussion of them is nowhere to be found in the Solano360 Fiscal Impact Analysis. Therefore, logic tells us, if we're going to deviate from standard fiscal practice for the fairgrounds—standard practice being GCG’s term for the 50% multiplier—then up is the direction to go.

Yet GCG strains to go down. Consider:

* In the FIA, the stated calculation does not actually lead to a one-third multiplier, or even a 30% multiplier, which the consultant uses. The calculation leads to a 31.25% multiplier. That small difference, while it may seem trite, increases net impacts by over $1 million (for Vallejo). There was no reason at all for the consultant to round off such a critical number.

* The statement about residents spending 8 hours a day at home on weekends is unsupported and just plain silly. It's practically the reverse of saying residents leave their homes for 8 hours each weekday to go to work. The explanation as a whole reads like a math exercise, as if GCG were given the numbers 2, 5, 7, 8 and 52 and told to produce something close to 0.3—and round down, not up.

To be completely fair to GCG, I did find six studies that it did for tax increment financing, for things like firehouses and county jails, and these studies used a different number. In all of them, perhaps because their purpose was to apportion taxes, the employee multiplier was 0.24. My conclusion is that GCG knows what ratios to apply in different situations, retail/commercial developments and special tax districts. And it has done so very consistently, except in the case of Solano360.
CONFLICT OF INTEREST

I mentioned at the outset that I would not make any accusations. I hope to have avoided doing so while still raising serious concerns about the FIA and its underlying assumptions. Still, I feel it necessary to raise one point that is quasi-legal, and that is about conflict of interest. As you are probably aware, the appearance of a conflict is what matters, not whether the conflict really exists.

Because GCG did both the Fiscal Analysis (FIA) and Financing Plan (PFFP), a potential conflict of interest arose. The reason is that GCG has another line of business. It administers Mello-Roos Community Facilities Districts (CFDs) and does the tax increment financing that is often necessary for large-scale developments. Indeed, that was GCG’s principal connection to Vallejo and Solano County before being hired for the fairgrounds project. (GCG set up and administers the tax districts for Mare Island and Hiddenbrooke.)

Here is what GCG wrote in its proposal for the PFFP, before being hired by the County (italics are in the original): “Unlike other firms who specialize in the planning stages of a project, GCG has expertise in the implementation and ongoing administration of financing strategies. This difference is critical to ensuring that a PFFP will be feasible from the early development stages through buildout of project. ...GCG specializes in designing funding programs that can accommodate a variety of land uses and ensure that each type of land use remains marketable and feasible to develop.” (The complete proposal is attached.)

As you can see, GCG positions itself as a one-stop shop for feasibility, financing and tax administration services. Thus it has a clear interest in any project continuing right through the public finance stages. It goes so far as to recommend itself for that later work—decades of work, in fact, doing tax apportionment studies and administering a CFD, which not coincidently ended up being part of the Solano360 Specific Plan. Like many members of the public, I sometimes wonder if consultants don’t simply tell their employers what they want to hear. In this particular case, that’s probably not the public’s biggest or only concern. The real question—which explains why it’s necessary to avoid even the appearance of a conflict—is whether GCG produced a fiscal analysis that justified a financing plan that pushed forward a project that put GCG’s own interests above the public’s.

OTHER ISSUES

I don’t want to detract from the main issue raised in this letter, which has to do with the “unusual” employee-to-resident ratio. But I need to point out that it’s not the only thing wrong with the FIA. There are three other issues which I decided to present briefly in an addendum to this letter. They concern:

* Net gain in revenue

* Incorrect calculation of business tax revenue (licenses)

* Revenue projections for the new exposition hall

All three of the issues are important on their own, and together they show a pattern of exaggerated revenue and downplaying of costs. They are important for another reason. Whereas the employee-to-resident ratio mostly concerns the City of Vallejo, the three issues in the addendum affect nearly all calculations of net impact. Thus the deficiencies in the FIA matter to Vallejoans and all Solano County residents.
CONCLUSIONS AND RECOMMENDATIONS

As I conclude this letter, let me make it clear: I don’t know whether 30% or 50% is the correct employee-to-resident ratio, though I suspect both numbers are too low. The point I’d like to emphasize is that GCG also doesn’t know, and for that reason, it should have stuck with its standard practice and used 50%. The only valid alternative would have been to do a thorough analysis of the ratio for this particular project. That would mean studying visitor traffic, including fiscal impacts for the transit center, water feature and other public areas, and connecting all these numbers to the specific phases of the project.

Another conclusion, or really more of a question: Why didn’t County and City governments have the GCG study peer-reviewed? For a project of this magnitude, spanning 50 years and involving about $100 million in public funds, it seems incredibly irresponsible to base all decisions on one study whose assumptions are not only unchecked but, in some cases, contrary to two earlier studies for Solano360 (see addendum).

For the County Board of Supervisors, I ask the following:

1. Please do not begin the financing stage of the fairgrounds project until you have reliable numbers to go by. The FIA is deficient and possibly misleading. If this project truly requires $90 million+ of public financing, then it should go without saying that the underlying assumptions must be thoroughly vetted.

2. Review the County’s hiring policies for independent consultants so as to avoid any appearance of a conflict of interest. Do not allow the same consultant to do a fiscal analysis and a financing plan, as it allows too many assumptions to go untested.

3. Review GCG’s contract and make sure that the work product you received meets your standards for independent consultants and is consistent with GCG’s fiduciary responsibilities to its clients. Frankly, the fact that GCG would use a non-standard number by its own reckoning, and not explain why it’s different, calls into question the validity of FIA.

For the Vallejo City Council, I do more than ask, I beg:

1. Please do not enter a revenue-sharing agreement until you know much more about fiscal impacts. As the attached charts show, a seemingly innocuous number in the FIA can result in a $20 million increase in costs. It can turn what looks like a good deal into—there’s no mincing words here—a 30-year money-losing proposition.

2. In the future, when contemplating a deal, do not rely on the opposing party for all of your information. Solano County and the City of Vallejo may be self-proclaimed partners on this project, but there is no reason to think financial interests fully align. The County has an interest in attracting lots of visitors, and those visitors have a real cost. Since the City will provide services—expensive services like police and fire—the costs must be very well understood.

3. Don’t let anyone proffer the statement that Solano360 is “risk-free”. If there’s no revenue then of course there’s nothing to share. But municipal services must be provided regardless of how successful is the project. In fact, an unsuccessful project could result in greater costs. After all, the fairgrounds project includes many public spaces. These have to be cared for, and emergency calls have to be answered, no matter what else happens there.
Thank you for considering this information. Please feel free to contact me with any questions.

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ADDENDUM

This addendum briefly describes some other problems that I found with the Fiscal Impact Analysis.

1. Net Gain

No retail/commercial development ever provides 100% new revenue. Some revenue will always be pulled from nearby businesses. The percent of revenue that is actually new greatly affects the net impacts of the project.

In a prior financial study for the fairgrounds, done by Economic Research Associates, the net gain was predicted to be 80% for the City and and 50% for the County. Without providing any explanation, GCG raised the numbers to 90% and 75%, respectively. This effectively raised the projected revenue for the project by $3 million.

The higher numbers are not plausible for 200,000 square feet of retail/restaurants, which is planned for the fairgrounds. Those land uses will pull businesses and customers from other parts of the city, if not the county. They must do so to be successful. A good estimate of net gain for this sort of project is 75%, according to www.californiacityfinance.com (see attached).

The higher numbers may be plausible for the entertainment commercial parcel and the new fairgrounds exposition hall, but then they can't be applied starting in year 1. The EC parcel opens in year 8 and the expo hall doesn't double in size or become a supra-regional draw until year 17.

GCG made another error by applying the net gain percentages only to taxable sales. The percentages should be applied to all other revenue streams that are related to sales, because they will fall, also.

Sidenote: revenue-sharing makes the net gain issue much more important, because the shifting of revenue from a location where Vallejo gets 100% to a location where it most of the revenue is shared (97% of it!) can actually produce a net loss. See the last attached page as an example.

2. Incorrect calculation of business tax revenue (licenses)

This mistake is real and puzzling, because GCG took a harder route than was necessary to calculate business tax revenue.

In Vallejo, like many other cities in California, business licenses are tied to annual sales. There is a slight drop in the percent as sales reach certain thresholds, but otherwise the fees track overall taxable sales very closely. In most fiscal impact studies, for convenience, a 0.1% percent multiplier is used (see attached summary from www.californiacityfinance.com). For Vallejo, this sort of calculation is fast to do and very closely matches real budgetary numbers.

GCG did not follow standard practice. GCG used another multiplier, based on an employee ratio. Over the life of the project, this difference allowed GCG to project an additional $1.5 million in revenue for Vallejo. Since business license fees are to be shared with the County, it is affected by this miscalculation also.
3. Revenue projections for the new exposition hall

GCG’s assumptions for the new exposition hall directly contradict the Gruen+Gruen marketing study for the fairgrounds project, which says demand for such facilities is falling at the same time competition is rising. (There’s already a glut of space.) The marketing study ends on this ominous note, with italics added:

“Review of financial statements and interviews with multiple fair managers of large exhibition and event facilities confirm that the capital costs of the proposed exhibition and event facilities will need to be subsidized and that even successful operations will probably need to be subsidized.”

GCG sidesteps that conclusion with some accounting sleight-of-hand. GCG makes a claim, without any supporting documentation, that the current expo hall has net income of $185,000, excluding depreciation. In recent years, fairgrounds losses have averaged around $400,000 (see attached county budget numbers), while use of the expo hall has fallen by about a third. These losses would be worse if not for satellite wagering (about $500,000 per year) and the golf course ($200,000 to $250,000 per year). In addition, the current fairgrounds operation is bolstered by parking revenue.

This brings up the issue, once again, of net gain. Obviously satellite wagering (off-track betting) will be unaffected by redevelopment of the fairgrounds, dirt and gravel parking lots will be replaced by asphalt, and the golf course will be gone. About the only thing that remains are the fixed and variable costs, such as administration, currently over $1.5 million per year. While the consultant says net income for the expo hall excludes golf course revenue, it seems almost impossible to claim a $185,000 profit without including satellite wagering. Why depreciation is excluded from the calculation is beyond me, as the new facility will also depreciate in value.

GCG skews things further with its revenue projections. GCG starts by saying fairgrounds profits will increase proportionately as the expo hall grows in size, from its present 20,000 square feet to 50,000 square feet. There’s no support for such a claim. (It reminds me of the old saw, “We’ll make up for losses by increasing volume.”) But apparently that’s not enough to show good results. So the revenue projection is doubled once, then doubled again, because an even larger expo hall will be even more profitable! The only problem is, the actual doubling of the expo hall to 100,000 square feet doesn’t occur until year 17.

But get this: after coming up with a ten-fold increase in revenue, GCG starts using half of it in year 4. The amount of distortion in the revenue projections over 50 years is just staggering.

I am personally a big fan of the County Fair and like the “Fair of the Future” idea. I think it deserves public support. And I think it should be supported with a real fiscal impact analysis, not phony numbers.
ATTACHMENTS

1. Combined effect of 50% multiplier and revenue-sharing
2. Pages from Goodwin Consulting Group Fiscal Impact Studies
3. GCG proposals before being hired for FIA and PFFP
5. Pages concerning fairgrounds budget and expenses
6. How revenue sharing can produce a net loss