The Truth about the Fairgrounds

The fairgrounds project, officially known as Solano360, is about to enter its sixth year. Yet it's hardly talked about anymore. Given that the County Board of Supervisors has spent about $5 million on the project, the public deserves to know what's going on.

For a brief time, before last November’s election, the fairgrounds was back in the news. Unfortunately it was used for pro- and anti-development arguments. That was a mistake. There is no one, as far as I can tell, who is against putting the fairgrounds to better use. The real issue, or what should be discussed, is financial responsibility and good governance. Here’s why.

After City and County officials approved the redevelopment project, evidence came to light that the underlying Fiscal Analysis was “tweaked” by the County’s Consultant. This adversely affects Vallejo to the tune of $17 million. The loss is potentially so great that it leads to an awkward question: are we possibly better off with a stalled project?

I’ll explain below how the Analysis got tweaked—and how we know—but let me begin with the implications for Vallejo.

Numbers Game

On the revenue side, it’s clear the City was way too generous when it agreed to reimburse the County nearly $40 million. Some people argue this reimbursement only matters if the project makes money, but that’s faulty. Vallejo has limited revenue-generating capacity, and it’s heart-breaking to think that we gave away perhaps a third too much on a prime development project.

The real harm, though, is on the cost side. Vallejoans will feel that pain no matter how successful the project. The reason is that the cost of public safety is largely fixed, even if revenue falls short. Our police and fire departments can attest to the high cost of servicing a transit center and park, which are proposed, in addition to taking over sheriff’s duties for county-owned land. It is likely that public safety is badly underfunded because of a change made to the Fiscal Analysis.

What is that change? Surprisingly, it’s a single number, but hugely important. Goodwin Consulting Group (GCG), which did the Analysis, deviated from its own standard practice and changed a multiplier, basically the cost of an employee, from 50% to 30%. That one change was enough to diminish costs by $17 million and inflate Vallejo’s perceived gain by $12 million!

I discovered the change a few days before City Council’s go-ahead vote on the project, and I wrote a letter to City and County officials explaining the importance of it. My letter was met with a strenuous rebuttal by GCG’s Dave Freudenberger. His main point was that, yes, GCG deviated from standard practice, but it was to make the Analysis more conservative. I was certain his statement was wrong because costs were almost entirely based on employees, not residents. Sadly, there was no time to argue the math and our City Council’s vote followed the assurances of Mr. Freudenberger.

An Independent Review

Mr. Freudenberger did not, however, have the final word. Some Vallejo residents, including myself, who felt the City Council’s vote ignored critical information, pooled our resources and hired an economic firm to compare Freudenberger’s letter to the Fiscal Analysis. We hired one of the top firms in the state, David Taussig & Associates (DTA), because we wanted to be absolutely sure our math was right.

DTA’s response is sobering. A link is below. The firm agreed that Freudenberger got it backwards: the change made the study far less conservative.

Moreover DTA concluded, after revenue sharing, “the City will not break even until 2046” and will “run an annual net loss well into the Project’s third decade. Ultimately, the fiscal impacts, financial implications, and net present values of this Project are, as currently represented, in need of an extensive re-evaluation.”

Please don’t miss the important point. DTA did not do a new fiscal analysis, and there was nothing speculative about its work. We hired the firm only to check the math. DTA took GCG’s spreadsheets, left alone all of the baseline figures and formulas, replaced 30% with 50%, and recorded the results. This is known as a sensitivity test, and it’s rather difficult to make a mistake, because the multiplier shows up only twice in the Fiscal Analysis.
Also, this issue is not about the merits of the project; it is about Vallejo’s interests. DTA looked only at Freudenberger’s public statement that a key multiplier was changed to make the study more conservative. DTA found the truth is completely the opposite. By changing the multiplier, GCG produced a study with much lower costs and greatly inflated value. It’s no wonder Vallejo officials were willing to give up so much future revenue, up to 97%.

If you have any doubt about who’s right, here is more background. As mentioned before, DTA is a highly-respected firm, known for getting the economics of a project right. And GCG? Its record is less stellar. There are examples right here in Vallejo: Hiddenbrooke and Mare Island. GCG did the financial projections for both, and we know they were far too rosy. The tax districts are notoriously underfunded and there are indications business is being hurt. (Warning: GCG has proposed a similar tax district for the Fairgrounds.)

Another historical fact looms large. While trying to understand the employee multiplier, I looked at all of GCG’s other fiscal impact analyses: 13 different studies done over a decade. The pattern was clear. In 12 of those studies, GCG used a multiplier of 50%. In only one did it use 30%: for Vallejo. The logical problem that results is impossible to explain away. If the 30% is truly more conservative, then 12 other municipalities would be most unhappy to hear that GCG used a more aggressive number for them.

**How to Right this Wrong**

So the question before Vallejo is not whether someone is pro- or anti-development, but instead, how to right this wrong. It is totally within the power of City Staff and Council to revisit the revenue-sharing agreement. That agreement was based on information provided by the County which was both misleading and costly. For fiscal hawks, the dollar amounts are right up there with employee contracts—and just as relevant to municipal services. I wonder if new council members, some of whom were supported by County Supervisors, have the strength to fight for our city.

Speaking of County Supervisors, the questions for them are more serious. First, how can a $100 million project proceed from a flawed study? The County has spent lavishly on consultants. Taxpayers deserve accurate information. So does the master developer and any future bond underwriter or investor. The situation that now exists poses market and entitlement risks, in part because the Fiscal Analysis was tightly coupled with CEQA. (Liabilities could spill over to the City if services end up being underfunded. At the very least, Vallejo faces opportunity costs and some amount of embarrassment, as City officials signed on to a 50-year deal with no independent review.)

**Who Changed the Multiplier**

Then there’s the elephant-in-the-room question: are we talking about a math mistake or something more nefarious? GCG surely started with a 50% multiplier, based on its other work; and Freundenberger implied as much in his letter to City Council. When did the multiplier change, and who reviewed the before- and after-spreadsheets? Did Supervisor Spering, who heads the Solano360 Committee, or Project Manager Tom Sinclair, instruct GCG to change the multiplier to “make the study more conservative”, or did GCG do that on its own?

I don’t pretend to know what happened behind the scenes, but there are troubling signs. One is above, that GCG never used the 30% multiplier in another fiscal impact analysis. Also, GCG’s use of that number doesn’t match its own explanation, which is convoluted and actually yields a number a little over 31%. (See supporting documents.) That difference may seem trite, but the rounding down cost Vallejo about $1 million.

There’s an easy way to answer the above questions: look at the drafts that came before GCG’s final Fiscal Impact Analysis. Either the math mistake will show up or the numbers won’t match Freundenberger’s letter. The County or it Consultants may argue that earlier drafts don’t exist, that they’re confidential and protected, or the numbers match up just fine. But I’m not sure they’re in a position to say, “take our word for it”.

**Vallejo Deserves Better**

Responsible governance demands that a bright light be shone on the fairgrounds, that earlier versions of the Fiscal Impact Analysis be made public, and that City Council take appropriate action. Here “pro” and “anti” labels apply only to accountability and the truth. Vallejo’s reputation, finances, and capacity for economic development depend on it.