URBAN
FUTURES
INCORPORATED

Finance · Redevelopment · Implementation · Planning

MEMORANDUM

TO: Randy Anstine, City Manager
City of Greenfield

FROM: Urban Futures, Inc.
City Advisors

DATE: September 7, 2001

SUBJECT: Yanks Air Museum Project Proposal--
Review of Financial Assumptions

I. BACKGROUND

The Yanks Air Museum, Inc., (the "Developer") has presented a proposal (the "Proposal") to the City of Greenfield (the "City") for the annexation of the William Hansen Ranch (the "Annexation"). Out of the total acreage, 320 acres are to continue to be utilized for the production of row crops while an approximate 117 acres are to be utilized for the development of an: (1) aircraft museum, theater, cafeteria and work shop; (2) winery; (3) gasoline service stations; (4) general retail commercial space; (5) restaurants; (6) aircraft storage hangers and runway; and (7) a recreational vehicle park. The City has already entered into an agreement with the Developer which highlights, among other things, how the Developer is to contribute to various development impact fees.

The Proposal contains various financial and economic assumptions pertaining to the Annexation and its effects on the City. You have asked Urban Futures, Inc. (UFI) to review the Proposal's financial assumptions and make comment back to the City. UFI was not directed to analyze the Proposal from a land-use standpoint nor conduct a full fiscal impact analysis. UFI has been directed to make preliminary comment as to the financial data provided by the Developer.

II. INITIAL REVIEW

UFI has received and reviewed the Project Summary and Business Plan regarding the Proposal. Although much of the information provided forms a portion of the information normally required of a fiscal impact review, the Proposal lacks adequate detail to fully project the potential financial, positive or negative, impact on the City. By example, the Proposal makes references to some specific details regarding: (1) building square footages; (2) potential sales and property tax revenues; (3) development and construction

C1

costs; and (4) projected employment projections, yet it does not address the marketability nor the potential absorption rates of the proposed facilities within the greater Greenfield trade area. Marketability and the phasing of the specific uses are key to a comprehensive fiscal impact review of any project. Such an analysis primarily becomes a cash-flow projection determining when revenues are received versus when municipal service expenditures are needed to be made. The phasing plan included in the Proposal does not provide clear estimated time tables in-order to project not only the amount of potential municipal revenue to be received but when the revenues will actually be realized. A comprehensive fiscal impact analysis would normally include the development of a discounted cash-flow of revenues, less municipal recurring operating expenses, to determine the net financial effect of a particular development project. The Proposal also makes specific assumptions regarding revenue projections that require clarification and comment. UFI's specific comments regarding the Proposal's individual categories are addressed below:

A. Project Description

UFI's comments regarding the components of the Project primarily are focused on marketability. The issues pertaining to general plan land use designations, zoning, environmental considerations as well as specific development standards are not a part of this analysis. In general, UFI would suggest that the City request the Developer to provide the City a market study that not only substantiates the marketability of the suggested uses, but also addresses the size and scope of each of the proposed land uses. The main components that need to be analyzed are:

1. AIRCRAFT MUSEUM AND WINERY

It is difficult to determined the commercial success of such speciality uses as the aircraft museum and winery. UFI would not presume to make comment as to the potential success of either of these proposed uses. However, given that the apparent focal point of the entire proposal appears to center around these uses, the City needs to be concerned as to their respective marketability and profitability. The ancillary hospitality, speciality retail commercial, restaurant and recreational vehicle park would seem to be, largely in part, dependent upon the demand for, and the success of, the museum and the winery.

2. HOTEL/MOTEL FACILITY

The Proposal includes a 150 room hospitality facility including a 6,000 square foot conference center and restaurant. Even with the lack of hospitality space throughout the Greenfield trade area, the number of rooms projected may be optimistic given the substantially smaller size of individual motel facilities located in the City and in King City. Again, a market demand study would be appropriate in-order to ascertain not only the demand for new hospitality space, but the number of rooms and the applicable sustainable room rates to be charged. The recently completed

C2

"City of Greenfield Retail Opportunity Profile" (the "Profile") suggests that there is existing and potential demand for new hospitality space. The Profile does not specifically reference the demand in terms of the number of rooms even though it does reference the potential for new development opportunities within the Annexation area. There are also competing sites, in particular the Arroyo Seco Center Site, that may become available prior to the development of the Annexation property. A hospitality market analysis needs to address as to whether the recreation component contained within the Annexation area is sufficient unto itself to support new hospitality development should new hotel/motel space also be constructed at the Arroyo Seco Center site.

3. SPECIALITY RETAIL COMMERCIAL AND RESTAURANTS

The Profile suggests demand for various retail commercial uses such as eating and drinking establishments, food stores, building materials and auto sales and supplies. In contrast, the Proposal is looking to construct speciality retail commercial uses that "are visitor oriented speciality shops and convenience services". As such, the existing information pertaining to the demand for additional retail commercial space does not address the potential demand for the types of retail space envisioned by the Proposal. Again, given the uniqueness of the retail space that is in part dependent upon the consumer traffic generated by the museum and winery, there should be evidence provided to the City as to the marketability of such retail space within the Greenfield trade area.

4. RECREATIONAL VEHICLE PARK

The Proposal states that the recreational vehicle (RV) park will "only be used for the purpose of accommodating short-term visitors to the Air Museum". As such, the marketability and success of this component is completely dependent upon the marketability and success of the museum. UFI would suggest that the Developer utilize the California Travel Parks Association as a resource in establishing the viability of an RV park that is dependent upon an adjoined entertainment/recreational facility. As part of the analysis, it needs to be determined as to if the RV park can be sustained in the event the museum does not succeed.

The balance of the suggested land uses such as gas stations and fast food restaurants can more than likely be sustained within the annexation area. Given the population growth highlighted by the Profile, such uses should be able to be built and sustained regardless of the development of the Annexation area.

B. **Construction Phasing**

The Proposal refers to the "County approved General Development Plan" as the governing document for the Annexation area. The Proposal further states that "The Yanks Air Museum and Recreational Area will be developed in at least six (6)

C3

phases over a five (5) year time period. The Proposal states the estimated time to complete each phase but it does not provide a total chronological time frame showing when each phase commences and ends. UFI is assuming that the phases actually overlap in that the cumulative time frames provided run from 65 months to 78 months or 5.25 years to 6.50 years in duration. The Proposal states that the total development will be completed over five (5) years. The Developer should clarify the timing of the Proposal from the projected start of construction date of somewhere in the first quarter of 2004. From the date of this memo, the Proposal could take between eight (8) and ten (10) years to complete.

The first two phases includes the development of the RV park, winery and the museum. The gasoline stations are to be constructed during the third phase while the initial speciality retail and the hotel/motel complex are scheduled to commence in the fourth phase. Phase five includes the development of a restaurant and additional retail space while phase six includes the construction of the balance of the proposed retail space and the development of the aircraft hangers. Provided the existence of adequate market demand, the phasing of the Proposal appears to be appropriate.

Phasing plans are critical in ascertaining the fiscal and economic impacts of a particular project. When revenue generating facilities are actually built, such as retail and hotel space, is essential to know in-order to project future cash-flow assumptions. It should be noted that once revenue producing facilities are actually constructed it takes a period of time for the development to reach a "stabilized" cash-flow, i.e., when revenues and expenses are maximized. This period can range anywhere from six (6) to eighteen (18) months from the time a facility actual obtains occupancy from the City. As such, the initial period of occupancy normally produces less revenue until a particular development reaches a stabilized revenue stream. Given the above referenced time frames, the Proposal may not commence generating net revenues, and the resulting sales and transient occupancy taxes, until 2006 with full stabilization of the total project not being attained until 2010. The City's pro-rata share of property taxes should be realized between six (6) and eighteen (18) months following the completion of each phase.

C. Financial Assumptions

1. ESTIMATED SITE CONSTRUCTION COSTS

The Proposal does not contain line item detail regarding specific construction costs. The Proposal includes, on average, general per square foot costs pertaining to building construction and on-site improvements. Without the line item background detail it is difficult to ascertain the accuracy of the construction estimates. However, the general per square foot assumptions appear to be reasonable and within the normal scope of general commercial construction parameters. The site development costs appear appropriate at $4.00 per square foot yet may not be applicable to the entire 111 acre site. The off-site costs of $700,000, which would normally be associated with water, sanitary sewer, drainage, regional road

C4

improvements and traffic signals does not equal the supporting documentation supplied by the Developer.[1] This line item does not differentiate between the types of off-site improvements nor does it address the payment of development impact fees versus actual public improvement expenses. The $700,000 amount for off-sites may depict the Developer's pro-rata share of the total improvement costs that are referenced as regional improvements serving areas currently within the municipal boundaries of the City. This issue needs to be clarified between the Developer and the City.

2. JOB CREATION AND PAYROLL PROJECTIONS

The employment information provided does not differentiate between full or part time equivalent jobs. The Proposal depicts employment projections of between 213 and 272 new permanent positions.[2] The Environmental Narrative of the Proposal utilizes different employment projections of 230 to 290 while the payroll projection portion of the Proposal utilizes 231 and 294. The numbers need to be consistent. In addition, the Developer needs to provide the City the specifics regarding the employment data as to the breakdown between full and part time positions. Hospitality, retail, restaurants and gas stations primarily utilize part-time workers. This information would more clearly depict the future payroll projections and the secondary economic effects of new buying power in the City and the surrounding trade area. The assumptions pertaining to hourly full time rates of $8.00 and $12.00 may also not be reflective of the wages for retail and hospitality workers in the greater Greenfield trade area. As such, the annual payroll projections of $3.8 million to $7.3 million appear optimistic. It should also be noted that these figures represent employment at full build out of the proposed development. As proposed, build out will not occur until sometime during or after 2009.

3. PROPERTY TAX REVENUE

The Proposal states that "Based on proposed construction costs of $42,372,925, and a tax collection rate of 1%, the marginal increase in property tax collected as a result of the project is estimated to be $423,729, exclusive of the assessed value of the land. The Proposal does not further define the incremental increase in the value of the subject property nor the actual property tax rate received by the City. Both aspects need clarification.

[1]The Proposal contains line item detail pertaining to water and sanitary sewer in the amount of $3,186,000.

[2]The Proposal contains conflicting employment creation whereby

C5

a. Assessed Value

By example, the increase value of a development project normally includes the costs associated with on-site improvements. In this instance, the Developer has referenced site development costs of $19,340,640. In addition to the actual building construction costs, this amount would normally be taken into consideration by the County Tax Assessor when establishing a revised value for the property. In addition, the underlying land value is effected by the improvements and, as such, would normally also be adjusted. Through normal county assessment practices, it would appear that the build out valuation of approximately $43 million is low. It should also be noted that considering this development will not be built out until at least 2009, the value estimates utilized today will more than likely be higher by that time.

b. Tax Rate

The Proposal utilizes the State of California's (the "State") statutory 1% property tax rate. In general terms, and not including taxes or fees imposed by taxing agencies or special districts above the basic tax rate, the 1% of property value is the total rate divided, by formula, between the various affected governmental agencies. As such, the City does not receive the full 1% of property taxes. In addition, given that the Proposal pertains to an annexation, a tax sharing agreement is normally required between the tax entities and the municipality. The actual percentage an/or amount of taxes shared between each governmental agency, through an annexation agreement, is usually subject to negotiation and may, or may not, reflect a rate or an amount equal to the existing rate or amount currently being received by the City. Even with a potentially higher valuation that is suggested above in subparagraph (a), the actual tax rate, and subsequent taxes realized by the City, are probably somewhat lower than the 1% amount of $423,729 reflected in the Proposal.

4. TAXABLE SALES REVENUE

The Proposal states that typical retail sales for commercial uses average between $110 to $300 per square foot of floor space. The Proposal further states, "Given the unique specialized retail mix for this project, a pro-rated retail floor space figure of 100,000 square feet was derived, and a square foot sales generator figure of $225 per square foot employed". This methodology doe not accurately depict the potential taxable sales for the proposed development.

UFI is assuming that the 100,000 square foot number includes the 60,000 square feet of speciality retail space, the 20,000 square feet attributed to

C6

large restaurants, and the remaining square footage being attributable to the gas stations and small restaurants. Given the differences in the types of retail sales to be created by the proposed development, it is generally true that sales, depending upon the type of retailer, average between $100 and $300 per square foot. However, given the modest levels of discretionary income in the Greenfield trade area, it seems unlikely that the per square foot sales volume would be above the mid-point of $150 per square foot. On the contrary, given the uniqueness of the types of retail operators that are likely to be adjacent to the winery and museum, per square foot sales may exceed the mid-point. As such, UFI would suggest utilizing the $150.00 per square foot mid-point as the average for projection purposes.

The hospitality components, including a hotel/motel and RV park may also derive significant revenues if the City has a Transient Occupancy Tax (TOT) in place. If the City does not have the TOT in place, then the City should consult legal counsel as to the applicability of the State voter approval statutes pertaining to the adoption and application of a new tax.

Absent an entertainment tax, it would not appear that either the winery or museum in themselves would generate significant taxable retail sales.

UFI's preliminary review of the Proposal's assertion that the proposed development will generate an approximate $22,500,000 in taxable sales appears to also be optimistic. The entire proposed development, including the hotel/motel and RV park may not reach this projection. It should also be noted, the aforementioned $22,500,000 projection by the Developer is at build out.

III. CONCLUSION

From a marketability and fiscal stand point, the Developer needs to provide the City with adequate data to ascertain the financial feasibility of the proposed development. True revenue projections cannot be ascertained without an adequate market analysis that includes a phasing plan predicated on commercial property absorption rates. In addition, the City cannot ascertain its net costs and/or revenues without reviewing the municipal service costs associated with the Annexation. The costs of additional police, street maintenance and the costs associated with the volunteer fire department need to be fully assessed. These are annual recurring expenses that cannot be totally covered through the imposition of development impact fees. The City will also need to come to an understanding with the taxing agencies as to the pro-rata tax sharing that will occur due to the annexation process. As part of the environmental review process, the City may wish to conduct a comprehensive fiscal impact study that more clearly defines both the annual and cumulative net fiscal impact created by the Annexation.

If you are in need of any additional information, please feel free to contact our offices at your convenience.

C7

Harding/Gutierrez Family

From: Harding/Gutierrez Family <snsj@pe.net>
To: <citymanager@greenfield-ca.com>
Sent: Saturday, September 15, 2001 4:35 PM
Attach: Yanks analysis.wpd
Subject: Yanks Analysis

Randy:

Here is the long awaited Yanks analysis. Sorry it took so long. Changing jobs didn't help. In any event, if you need to get a hold of me, please feel free to call at (714) 541-4585, ext. 252.

Many Thanks!!!

Steve Harding