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Chula Vista's Bayfront--A Risky Proposition

A Fiscal Analysis of the Chula Vista's Bayfront Plan & Gaylord Project

November 28, 2007

By

TaxpayersAdvocate.org

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...revenues will not be sufficient to offset costs early in the plan development period.

Port of San Diego/ERA Bayfront Study, May 2005

The City of Chula Vista is facing a serious, self-created financial crisis.

TaxpayersAdvocate.org report, City of Chula Vista Finances, October 24, 2006

What we're dealing with today is nothing less than the fundamental solvency of the organization that is the City of Chula Vista.

Chula Vista City Manager, to the Voice of San Diego, November 5, 2007

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Key Findings

The Chula Vista Bayfront Master Plan (CVBMP) is fatally flawed. Insufficient revenues are available to fund required up front infrastructure, critical to private development and the success of the plan.

- The Port of San Diego has insufficient resources to fund all of the needed infrastructure
- The City of Chula Vista's Redevelopment agency has no ability to assist in infrastructure financing
- "Lag time" for new revenues from development adds to financing challenges
- The Gaylord Convention Center adds to the financial burden and risk of the Bayfront Plan

The Gaylord Entertainment Complex will have a negative fiscal impact on the San Diego Convention Center & the City of San Diego. The Gaylord Center could:

- Compete with 21-27 conventions annually" representing 35 - 47 percent of the total number of conventions held at the SDCC
- Cost SDCC six to 11 smaller events annually
- Reduce room tax revenue to the city of San Diego by as much as \$2.3 million annually

The City of Chula Vista, facing fiscal meltdown, cannot prudently assist in infrastructure financing

These contributing factors include:

- City has structural deficit
- City's debt burden growing--\$143 million increase in past five years
- Major housing downturn reduces revenues for paying off existing debt
- Recent credit downgrading by Standard and Poors
- Pension debt tripled over two years

Forward

This report is a follow up the October 24, 2006 study by TaxpayersAdvocate.org, *Chula Vista—The Looming Fiscal Crisis* which laid out serious, self-inflicted fiscal problems facing the City of Chula Vista. That study included only a cursory review of the City's redevelopment agency and bayfront plan. This report focuses on the viability of Chula Vista Bayfront Master Plan (CVBMP) including a discussion the proposed Gaylord Entertainment Center project.

Executive Summary

Chula Vista's bayfront is full of promise. The promise of an energetic bayfront with residential, office, visitor and maritime uses, generating millions of dollars of new revenues for the Port of San Diego, the City of Chula Vista and Chula Vista's redevelopment agency. It also includes approximately \$500 million of public infrastructure improvements including parks and recreational uses, of which almost \$300 million must be constructed up front in order to prepare the bayfront for private development.

But while the bayfront is seen as an economic engine for the Chula Vista, the City of Chula Vista (the vehicle for the fiscal engine) has such serious financial problems that will likely preclude it from participating in up-front infrastructure financing. Any attempt to do so could have drastic and fatal consequences for the City if Chula Vista.

The City and citizens of Chula Vista should face the hard reality that the City's fiscal meltdown-combined with worsening conditions of the housing market and related economic and fiscal problems makes the viability of the entire bayfront plan, as its currently conceived, open to question.

In addition, the newest element to the plan, the proposed Gaylord Entertainment Complex, while exciting in its long-term potential, actually increases the short term risk by adding an expensive new public obligation (the \$130 million convention center) which adds to the already crushing public infrastructure requirements of the plan.

A critical and possibly decisive factor is that there will be significant "lag time" between the approval of the private developments and the generation of new revenues. Condos have to be constructed and sold before new property tax increment can be collected. Hotels must be built and have successful occupancy prior to hotel taxes being collected.

In short, The Chula Vista Bayfront Master Plan is a Risky Proposition.

The Setting -- Chula Vista Bayfront Master Plan

Chula Vista Redevelopment

The City of Chula Vista's redevelopment project areas includes close to 3,000 acres designated under state law as redevelopment project areas, and approximately 800 acres proposed for inclusion. The Chula Vista Redevelopment agency oversees Chula Vista's redevelopment activities.

Chula Vista's Redevelopment – Revenues & Expenditures

Annual Revenues **\$10.5 million in property tax increment revenues**

Annual Allocations/Expenditures

- *\$ 2.3 million is passed through to other local agencies*
- *\$2 million for affordable housing*
- *\$3.9 million for existing debt service*
- *\$2.5 million for administrative costs*

City of Chula Vista Redevelopment Project Areas & Revenues

Chula Vista	Base Year	FY '05-'06 Revenues	Total Revenues
Bayfront	1973-74	2,103,970	65,881,837
Town Center	1975-76	1,998,403	25,948,122
Otay Valley	1983-84	1,633,689	16,815,643
Town Center Amended #1	1978-79	882,287	12,377,860
Town Center Amended #2	1987-88	301,165	4,011,769
Southwest	1990-91	2,741,757	14,851,328
Southwest Amended	1990-91	70,192	633,236
Bayfront Amended	1997-98	184,305	938,378
Merge Chula Vista	2003-04	489,114	489,114
Total		10,404,882	141,947,287

Source County of San Diego

Bayfront Redevelopment Area

Established in 1974, Chula Vista's Bayfront Redevelopment Area was initially established in 1974. Goodrich, the Southbay Power Plant, a marina, several restaurants, and the National Wildlife Refuge and Nature Interpretive Center are currently located on the bayfront.

Chula Vista Bayfront Master Plan Project Area

The approximately 560 acres of Chula Vista's Bayfront Master Plan (CVBMP) project area includes around 430 acres overseen by The Port of San Diego, including about 200 acres of parks and public open spaces. The boundaries of the Chula Vista Bayfront Master Plan are the Sweetwater Marsh National Wildlife Refuge to the north, Palomar Street to the south, San Diego Bay to the west, and Bay Boulevard to the east.

Its objectives are to:

- Create an active commercial harbor with public space at the water's edge
- Redevelop underutilized and vacant areas in the city of Chula Vista and on Port tidelands with a variety of uses
- Extend Chula Vista's traditional grid of streets to the bay to ensure pedestrian, vehicle, bicycle, and transit links
- Provide a continuous shoreline pedestrian walkway, fully accessible to the public that connects the new Sweetwater, Harbor, and Otay Districts
- Establish ecological buffers to protect adjacent environmentally sensitive resources

Chula Vista's Bayfront Master Plan Financial Elements

According to the ERA study conducted for the Port of San Diego in May 2005, The CVBMP will require a public investment of approximately \$500 million over 25 years. As much as \$280 million would need to be invested up front to prepare the area for private development.

However, approximately \$300 million in new funds should be generated in the form of lease revenues to the Port of San Diego. From \$45 to \$100 million in hotel and sales tax revenues will accrue to the City of Chula Vista. Property tax increment revenues of \$165 to \$195 million will be generated for the Chula Vista's redevelopment agency.

Costs

Total Estimated Public Investment: Approximately \$480 million

Including

Upfront Infrastructure	\$280 million
Site Development Costs	\$160 million
Soft Costs	\$20 - \$25 million
Operating Costs	\$20 - \$25 million

Revenues (over 25 years)

Port of San Diego

Infrastructure Reimbursements	\$40 - \$50 million
Lease Revenues	\$280 - \$300 million
Parking Revenues	\$200 - \$220 million

City Of Chula Vista

\$45 - \$100 million

(Net revenues after costs

Including: Sales and prop tax,
Hotel taxes and one time fees)

Chula Vista Redevelopment

\$165 - \$190 million

Note: The above does not include potential additional public convention center cost or anticipated revenues from Gaylord Entertainment Complex

Early Public Investment vs. Long Term fiscal Gain.

While the CVBMP will in all likelihood generate significant return to private developers, and be a boon to Chula Vista's local economy, as well as generating hundreds of millions of dollars in revenues, the critical factor is that neither the Port or the City of Chula Vista/Redevelopment agency has the wherewithal to finance the up-front infrastructure required to jump start the bayfront development.

Even prior to the recent economic downturn and the recent (belated) acknowledgment by the City of Chula Vista of severe fiscal challenges, ERA stated that:

Ways will also have to be explored to raise the necessary public sector capital to pay for up-front capital investment since revenues will not be sufficient to offset costs early in the plan development period.

Because of the City's fiscal crisis, the situation is more untenable since ERA conducted its study in the Spring of 2005.

“Lag time” for new revenues

Also a critical and possibly decisive factor is that there will be significant “lag time” between the approval of the private developments and the generation of new revenues. Condos have to be constructed and sold before new property tax increment can be collected. Hotels must be built and have successful occupancy prior to hotel taxes being collected. Contributing factors adding to this are:

- City has structural deficit
- City's debt burden growing--\$143 million increase in past five years

- Major housing downturn reduces revenues for paying off existing debt
- Recent credit downgrading by Standard and Poors

The Gaylord Factor

Chula Vista Bayfront Gaylord Hotel & Conference Center

In June 2005 Gaylord Entertainment proposed a 33 acre site facility which would include:

- \$600 million resort conference center facility on the bay.
- 1,500-2,000 hotel rooms,
- 400,000 square feet of conference space
- 60,000 feet of retail and restaurant space

On July 25, 2006 a letter of intent was signed by the San Diego Unified Port District, the City of Chula Vista/Redevelopment agency, and Gaylord Entertainment. (It was extended in May of 2007.)

The public entities agreed to fund \$178 million in public infrastructure improvements (excluding financing costs) related to the project and \$130 million for construction of the convention center portion of the project.

The 2005 Port/ERA study obviously did not include a review of the Gaylord Entertainment Complex. So it is important to note that the estimated \$130 million for the Convention Center is on top of the roughly \$500 million public infrastructure needed for the Chula Vista Bayfront Master Plan.

But once the Hotel is completed (and successful) it could generate an estimated \$10 million a year in hotel taxes to the City of Chula Vista plus additional sales tax revenues and fees. In addition the project should generate approximately \$6 million per year in property tax increment revenues (before “pass throughs” to other agencies and affordable housing set asides).

These new tax revenues are ultimately dependent on the number of hotel rooms and the rate being charged, (therefore impacting hotel taxes generated). The property tax increment generated will depend on the final private construction cost and valuation of the property. Tax increment is based only on private construction/property not publicly funded portions (infrastructure/convention center).

The ERA study aptly states in its report that the City and Redevelopment agency can utilize these revenues to “leverage public investments.” But it adds:

“...We would stress, however, that such revenues are dependent in large part on hotel, entertainment and specialty retail uses that are considered relatively risky uses from a developer’s perspective.”

ERA’s findings were made in the spring of 2005, prior to recent public acknowledgment of the City’s fiscal crisis. The addition of Gaylord, while in the long run generating significant revenues to the city, the “relatively risky” nature of this type of project, the fact that it *increases* an already crushing up-front infrastructure component coupled with Chula Vista’s revenues shortfalls add to the overall risk of the plan.

Gaylord Entertainment Center Complex:

Revenue Impact on San Diego Convention Center and City of San Diego

In January 2006, the San Diego Convention Center Corporation (SDCCC) released a study by PricewaterhouseCoopers indicating that the proposed Gaylord Entertainment Complex would “unfavorably impact” the San Diego Convention Center and that downtown (San Diego) hotels and City of San Diego TOT revenue will be affected.

Specifically it found that the Gaylord Center could:

- Compete with 21-27 conventions annually representing 35 - 47 percent of the total number of conventions held at the SDCC
- Cost SDCC six to 11 smaller events annually
- Reduce room tax revenue to the city of San Diego by as much as \$2.3 million annually

While the SDCCC study indicates Gaylord could have a negative impact on the SD Convention Center, and result in some tax revenue loss to the City of San Diego, the impact is not deemed significant.

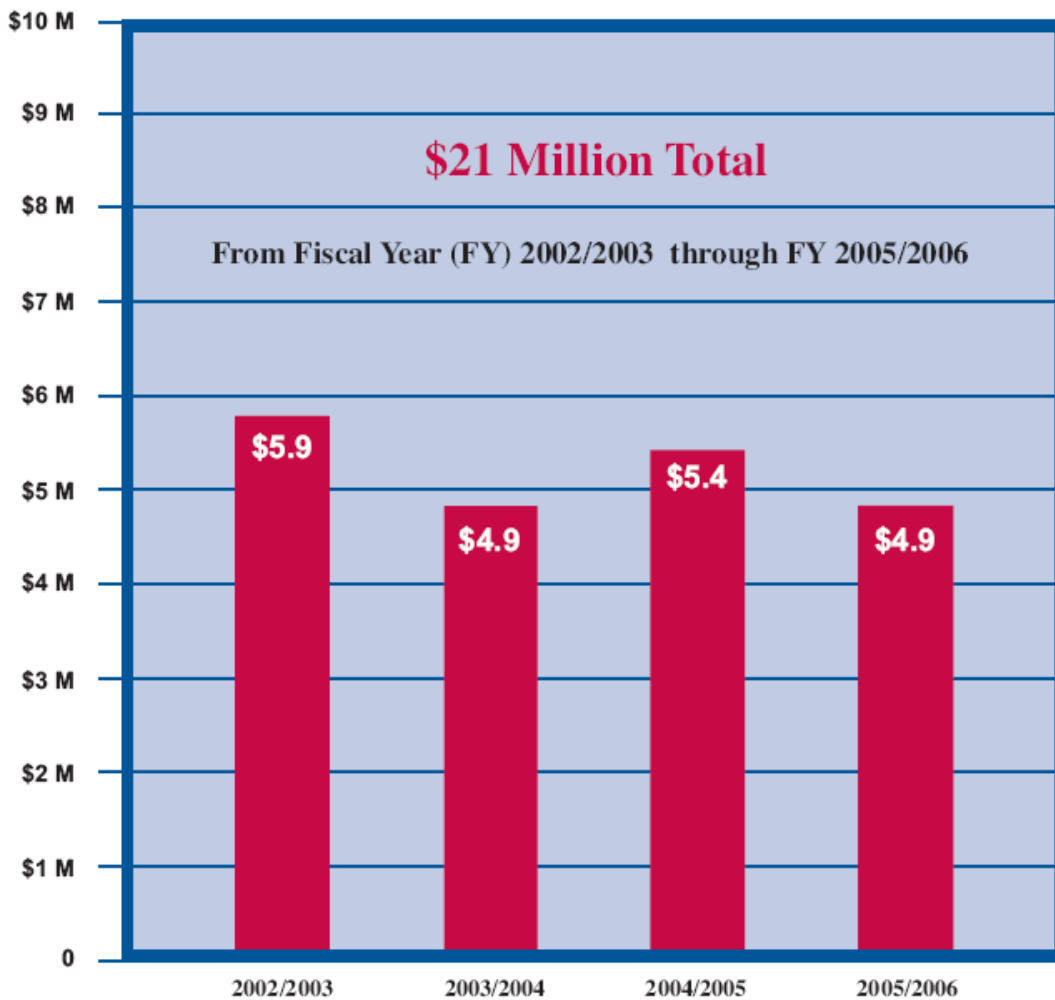
Factors Contributing to City's Poor Financial Condition

City Running Structural Deficits over Past Four Years

The City of Chula Vista ran a deficit of \$21 million from FY '02 through FY '06. The city is currently grappling with an estimated \$14 million shortfall in the '07/'08 budget.

City of Chula Vista

DEFICIT SPENDING



Source: City of Chula Vista

City's Huge Debt Burden

City of Chula Vista – a Role in Infrastructure Financing?

The ERA study suggested that the City of Chula Vista and/or redevelopment agency take on more of the burden of financing up-front infrastructure costs. But as cited earlier the redevelopment agency has already allocated its existing revenues, and the time lag for the generation of new property tax increment revenues make the redevelopment agency's participation infeasible, unless highly risky junk bond financing is pursued.

So how about the City of Chula Vista? Since the ultimate rewards will be reaped by the City, isn't it appropriate that the City undertake a significant portion of the bayfront infrastructure financing?

The San Diego Model

The City of San Diego followed this approach when the City's general fund took responsibility for making debt payments for the San Diego Convention Center expansion and the new Padres Ballpark. Existing General Fund revenues were allocated, with the expectation that revenues generated by the projects ancillary developments would ultimately cover the costs and ultimately generate net new revenues for the city.

But unfortunately the City of Chula Vista has increased its debt by \$143 million in the past 5 years. Total city debt is now \$190 million.

This year, Chula Vista's General Fund which operates basic city services will have estimated debts service payment of \$12 million, growing to \$14 million annually in three years. The city acknowledges that this would be approximately 7.3% of the General Fund, which is close to hitting the generally accepted maximum of 8%.

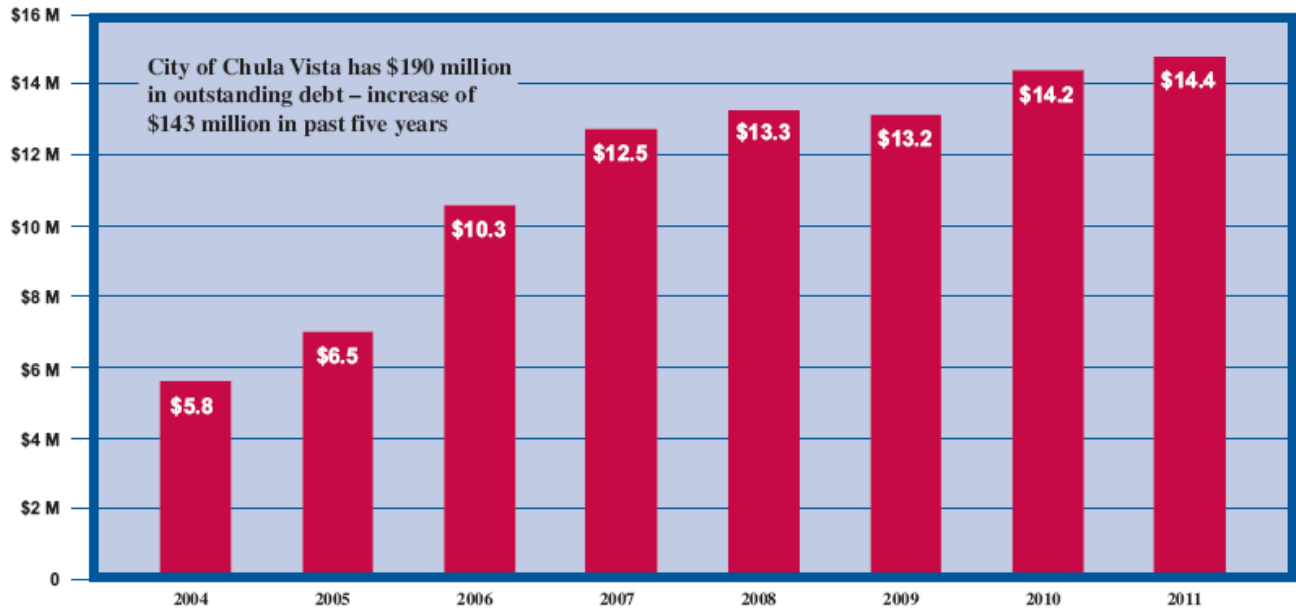
The City has stated that ½ of these payments will be paid from development fees and construction taxes. However, given the slow down of construction/building activity, relying on new construction fees to fund half the City's General Fund debt service has contributed to the city's current fiscal crisis. In FY 2005, building permits decreased 33%, and in 2006 the City was \$3 million short in anticipated revenues in its Development Services department. Sub-prime related bankruptcies have added to the slow-down in new construction.

Last year, total annual debt service was budgeted at \$24.8 million or 8% of the total \$308 million budget. Unfortunately the civic projects built with this debt financing (parking structures, police facilities and street improvements) were not targeted to give incentives to economic growth and have not assisted in generating new revenues for the City.

On top of these problems is the fact that Standard and Poors recently lowered the City's credit rating. So given the significant increase in debt and the severe fiscal crisis the city is facing, it would be extremely risky and costly for the City to underwrite bayfront infrastructure improvements.

City of Chula Vista

ANNUAL DEBT PAYMENTS FY '04 THROUGH FY '11



IN MILLIONS OF \$
Source: City of Chula Vista

Conclusion

Sadly, the exciting vision of the Chula Vista Bayfront Master Plan, with its promise of significant payoff, has likely been scuttled by a half decade of rampant overspending including the explosion of general fund debt incurred by Chula Vista. Instead of being in the position to lend a helping hand in jump starting the bayfront, the City must now face its own municipal mortality. Any attempt to utilize general fund supported debt to help fund bayfront infrastructure, could push the City of Chula Vista over the brink into financial insolvency.

TaxpayersAdvocate.org

Formed in 2003, TaxpayersAdvocate.org a private, non-partisan fiscal watchdog organization based in San Diego and Sacramento. In addition to analyzing fiscal policy, ballot measures and legislation, TaxpayersAdvocate.org endorses candidates for public office in California.

Report Author

The principal author of this report was Scott Barnett, President, TaxpayersAdvocate.org. Scott Barnett has over 25 years of experience in public policy and budgeting. Mr. Barnett served on the Del Mar City Council from 1984 to 1988, was executive director of the San Diego County Taxpayers Association from 1994 through 2001 and formed TaxpayersAdvocate.org in 2003.

Source Documents

Data derived for this study are from public documents obtained through the City of Chula Vista, the San Diego Unified Port District, The San Diego Convention Center Corporation and the County of San Diego.

These documents include:

- Port of San Diego -- ERA Chula Vista Bayfront Master Plan Financial Analysis, May 26, 2005
- Port of San Diego -- ERA Economic Impact of the Port of San Diego, May 2007
- Letter of Intent Port of San Diego, City of Chula Vista, Gaylord Entertainment July, 25, 2006 (Amended November 30, 2006 and extended 5/21/07)
- City of Chula Vista -- EPS – Independent Financial review, April 2007
- County of San Diego—Redevelopment Agencies Revenues, FY '05 – '06
- TaxpayersAdvocate.org – Chula Vista Fiscal Study, October 25, 2006
- San Diego Convention Center Corporation. Price Waterhouse -- Convention Center Strategic Analysis—Gaylord Update, January 30, 2006
- City of Chula Vista -- CAFR (Comprehensive Annual Financial Report) June 30, 2005
- City of Chula Vista -- FY 2008 Adopted Budget
- City of Chula Vista -- Five Year Revenue Forecast May 25, 2006