

A Viable Reduced Size Alternative Plan for the Village at Squaw Valley

The CEQA Alternatives Economic Analysis of July 29, 2016 should be rejected

Presentation to the Placer County Board of Supervisors

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Prepared by Olympic Valley Residents:

David Stepner
Michael Carabetta
Bob Barnett
Fred Ilfeld
Jon Shanser

For additional Information please contact dstepner@gmail.com

Executive Summary

The Village of Squaw Valley CEQA Alternative Economic Analysis (“CAEA”) report of July 29, 2016 analyzed the financial viability of the Reduced Density Alternative (RDA) of the Village at Squaw Valley included in the draft Environmental Impact Report (dEIR).

It concluded that the achieved Internal Rate of Return (IRR) was insufficient for economic viability, and that the reduced number of bedrooms/units caused the RDA to be at a competitive disadvantage vis a vis other resorts in its “peer group”.

We contend the following:

- 1) The RDA was not configured with consideration for infrastructure costs, resulting in an undue burden on the reduced number of bedrooms/units and thereby depressing the calculated IRR.
- 2) There were flaws in several of the key assumptions in the CAEA report that further depressed the calculated IRR.

There is a village configuration (herein called the Reduced **Size** Alternative) with a reduced number of bedrooms/units which could achieve all the critical criteria below that were spelled out in the CAEA document:

- 1) The desired CAEA IRR threshold of 12-15%.
- 2) The targeted ratio of .33 units per skiable acre
- 3) Considerable financial benefit to Placer County and local agencies.

Furthermore, as stated in the dEIR, because environmental impacts are directly proportional to the number of bedrooms/units, a smaller village would result in fewer environmental impacts.

We therefore recommend this revised Reduced Size Alternative (**RSA**) as a viable alternative to the KSL/SVRE Proposed Project plan, and that it should be approved per the CEQA guideline below.

§ 21002. APPROVAL OF PROJECTS; FEASIBLE ALTERNATIVE OR MITIGATION MEASURES

The Legislature finds and declares that it is the policy of the state that public agencies should not approve projects as proposed if there are feasible alternatives or feasible mitigation measures available which would substantially lessen the significant environmental effects of such projects...

Flaws in CEQA Economic Analysis of the Reduced Density Alternative

By way of background, the Reduced Density Alternative (RDA) called for a 50% smaller sized project than the Proposed Project included in the Specific Plan. In the draft EIR, page 17-25, this RDA was rejected for the following reasons:

This alternative would further some of the project objectives, but not to the extent that the proposed project would. This alternative would not meet the project objectives related to providing a specific plan that has sufficient flexibility to be responsive to future market conditions (#12) with sufficient size and services to be on par with peer world class North American ski designations and that is economically sustainable (#13).

The Village of Squaw Valley CEQA Alternative Economic Analysis (“CAEA”) dated July 29, 2016 quantified this point by:

- Calculating that the Internal Rate of Return for the RDA would be an inadequate 7.4%.
- Claiming that with so few units Squaw/Alpine could not compete with a set of “peer group” competitors on a “units per ski acre” metric.

So, what is it that causes the RDA to not be economically viable? We contend that it results from a series of factors and assumptions that are either unnecessary in configuring a smaller village or are questionable in nature. These include:

- The RDA included in the EIR does not maximize land use and simply eliminates about every other building from the Proposed Project, thus requiring more infrastructure than if a more condensed layout were used.
- Because of this more open layout, the RDA layout requires multi-level parking structures at a costly \$94M in order to accommodate the day skier parking requirement.
- The RDA includes more day skiers parking spaces than included in the dEIR (3100) or Specific Plan (3297), which adds additional infrastructure costs
- The build-out time of the RDA is 75% of Proposed Project despite the fact that it only has 50% of the number of bedrooms, thus prolonging the cash flow and negatively impacting the IRR. (The further into the future earnings from an investment are received; the less valuable they become, and the lower the IRR).
- Because the RDA assumes a smaller Mountain Adventure Center (MAC), the CAEA document assumes that the condo/hotel units in its immediate vicinity sell for less than if the MAC were the size in the Proposed Project.

Conclusion: The additional development costs, the lowering of sale values, and the proportionally lengthened build out time negatively impact the IRR of the RDA. The CAEA report is flawed and should be rejected.

Flaws in CEQA “Units per Acre Metric” Calculation

What is it that causes the RDA to be non-competitive with regard to size and services with peer North American ski resorts? The CAEA document establishes a “unit per skiable acre” metric and compares the current Squaw Valley plus Alpine Meadows ratio to a group of “peer resorts”. The desired CAEA metric is .33 units per skiable acre. The RDA ratio is only .26 units per skiable acre, which was deemed too low to be competitive. This information was included in Table 3 from the CAEA document.

Table 3
VSVSP CEQA Alternatives Economic Analysis
Units and Skiable Acreage Comparison: Squaw Valley Peer Group [1]

Destination	Units	Acres	Units/Skiable Acres
Steamboat	1,898	2,965	0.64
Breckenridge	1,728	2,908	0.59
Whistler/Blackcomb	4,344	8,171	0.53
Vail	2,779	5,289	0.53
Aspen/Snowmass	2,711	5,517	0.49
Park City/Canyons	2,969	7,300	0.41
Peer Group Average	2,738	5,358	0.53 ∩
Squaw Valley	1,138	6,000	0.19
with Proposed Project	1,988	6,000	0.33
with Proposed Project-No Hotel	1,923	6,000	0.32
with Reduced Density Alternative	1,548	6,000	0.26

As in the case of the economic analysis, this comparison suffers from serious errors and omissions. First, the peer group study “selectively” ignores at least three destination ski resorts that are ranked higher than Squaw Valley yet have lower bedroom/unit counts than the Proposed Project:

- Sun Valley (#10) has 87 base units and 2054 skiable acres = .04 ratio
- Alta (#23) has ~380 base units and 2200 skiable acres = .17 ratio
- Snowbird (#20) has ~ base 550 units and 2500 acres = .22 ratio

And, at least one is incorrectly included:

- Aspen / Snowmass is actually not one resort because the two ski areas are physically 10 miles apart

Further, in calculating units per skiable acre metric, the analysis includes all of Alpine Meadows ski area even though there is no base area lodging at Alpine Meadows and all local lodging is in Squaw Valley.

Most importantly, while the unit count includes the complete 25 year build-out of the proposed Village at Squaw Valley, it fails to include other local projects that are either approved for expansion or are currently in the EIR process, all of which would be built-out in the same 25 year period.

If we include just The Resort at Squaw Creek Phase II at 212 units and the renovated PlumpJack at 34 units, the 25 year total becomes 1384 without any new Village construction. So to reach the .33 ratio, just 550 units need be built in a new Village project, with the count then totaling 1934 units.

It should also be noted that “units” is not a good measure, since both the Proposed Project and the Resort at Squaw Creek will have lock-offs that increase the rental units beyond the “units” number.

Conclusion: Using their own metric, Squaw does not need to build the number of units that are included in the Specific Plan to be competitive. To achieve the desired .33 ratio, only 550 new Village units are required, compared to the Specific Plan total of 850.

A Reduced Size Alternative

Consider what would happen to the financial analysis if one designs a Village with 548 units, and corrects all the other issues in the RDA.

The following configuration, which we have labelled the Reduced **Size** Alternative (**RSA**) to avoid confusion, contains the following elements, shown in the image below:

1. *Include the entire Village Core – Commercial (VC-C) area, including the full-sized MAC, all condo/hotels, the hotel, and all retail space).*
2. *Include all the fractional cabins envisioned in the KSL proposal*
3. *Replace the two parking structures on Lots 11 and 12 with upgraded, beautified, surface parking (this area is surface parking today)*
4. *Replace all buildings on lots 13,14,15 with upgraded, beautified, surface parking (this area is principally surface parking today)*
5. *Leave East Parcel as proposed (for employee housing, parking, etc).*



The condo/hotels and hotel in VC-C plus the fractional cabins create a total of 976 bedrooms (65% of the Proposed Project) or 548 units.

The surface parking on Lots 11, 12, 13, 14, and 15 replaces the 2067 parking spaces in the parking structures of Lots 11 and 12 with approximately 2190 parking spaces. All other parking in the Specific Plan remains the same giving 3420 parking spaces , a slightly larger number than given in the Specific Plan.

The IRR of Reduced Size Alternative equals or exceeds CEQA threshold

We believe that this new proposed Reduced Size Alternative (**RSA**) produces an Internal Rate of Return that equals or exceeds the CAEA threshold of 12-15%. The following factors were used in making this determination:

- Replacing the parking structures with surface parking provides a reduction in the development costs from \$100M to \$28.7M. This cost reduction has been confirmed by several expert resources.
- The costs of the VC-C, fractional cabins, and East Parcel elements are the same as Proposed Project
- The costs of the VC-N buildings are eliminated.
- Total Real Estate Sales are a function of number of units with the selling prices of all VC-C units and fractional cabins the same as in the Proposed Project. (The MAC remains full size)
- Total Village Revenue is function of number of bedrooms and outside visitors; RSA has 65% of the number of bedrooms
- Land costs remain the same
- Other infrastructure costs (e.g. residential parking, etc.) are proportional to number of units built

The following table summarizes the results of the re-calculation of the various financial model elements for the new Reduced **Size** Alternative (**RSA**) versus the Proposed Project.

	Proposed Project	Reduced Size Alternative	
Total Bedrooms	1493	976	65%
Total Master Development Cost Burden	\$115.7 K	\$103.9 K	
Total Development Costs	\$1,146.7 M	\$786.7 M	68.6%
Total Real Estate Unit/Home Sales	\$1350.6 M	\$1036.3 M	76.7%
Annual Village Revenue (at buildout)	\$144.9 M	\$100.6 M	69.0%

Ideally, we would prefer to run this configuration through the SVRE cash flow model and determine the IRR, but their model is proprietary and not publicly available (*Note: a Request for Public Records was submitted to County to obtain the data used in IRR calculation but County Counsel rejected our request*).

However, we were able to model several simple scenarios in order to analyze the sensitivity of an IRR calculation to changes in model configuration:

In the first scenario, we assumed the buildout of Proposed Project and Reduced Size Alternative were both 20 years (with 5 additional years of stable operation), and that the initial costs and annual cash flow of the RSA was 69% of the Proposed Project (from the above table). This is a worst case assumption for the RSA. The result of the scenario was that both IRRs were exactly the same.

In the second scenario, we assumed the build out of the RSA was 13 years (65% of 20 years) versus 20 years for the Proposed Project, and analyzed both for 25 years. This is a best case assumption for the RSA. The result of the scenario was that the IRR of the RSA was better than for the Proposed Project.

Impact on County Tax Receipts

The County might have concerns with the impact on County Tax Receipts from a Reduced Size Alternative.

Because we do not have the actual cash flow model with which to exactly determine impact, we made the assumption that the Proposed Project and the RSA have the same linear construction buildout, with the VC-C and the fractional cabins being built first. This results in the revenue from the two being the same over that period. From then on, the RSA tax revenue stays the same, while the Proposed Project tax revenue continues to increase with additional construction.

If one analyzes the 20 year period, the tax revenue of the RSA would be 88% of that of the Proposed Project, a minimal and acceptable reduction given the uncertainty that the complete buildout of the Proposed Project would ever be accomplished.

Summary

We have shown that there are serious issues in the CAEA financial document with respect to its analysis of the dEIR Reduced Density Alternative.

Using the applicant’s own criteria for “competitive positioning”, we have shown that only 550 of the proposed 850 units need to be built in order to achieve the same competitive position.

We have proposed a Reduced Size Alternative with 548 units and 976 bedrooms. Our cash flow models for this configuration show that its IRR is equal to or better than the Proposed Project.

The following chart summarizes the various alternatives:

Feature	EIR Proposed Plan	EIR Reduced Density Alternative	Reduced Size Alternative
Build Out Capacity	100%	50%	65%
Number of Bedrooms	1493	747	976
Number of Units	850	425	548
Employee Housing	300	177	300
Fractional Cabins	100%	50%	100%
Peer Unit Review %	.33	.26	.33
MAC Size	90,000 sq ft	50,000 sq ft	90,000 sq ft
Hotel & Retail	100%	No	100%
Day Parking	Structures	Structures	Surface
Day Parking Capacity	3297	> 3297	3420
Cost of Day Parking	\$100M	\$94M	\$28.7M
Build-out Timeframe	20 years	15 years	13 years
IRR	12-15%	7.4%	12-15%
Reduce EIR Environment Impacts	No	Yes	Yes

In addition, this RSA would provide similar tax revenue to the County over the first 20 years, it would lessen the environmental impacts described in detail in the Final EIR, and it would increase the percentage of employees housed within Squaw Valley because it retains all the employee housing units.

Conclusion

We have shown that a Reduced Size Alternative can be financially viable, satisfy the business requirements of the developer, reduce environmental impacts, and increase the percentage of on-site employee housing. The specific RSA that we have presented proves these goals can be accomplished. We strongly recommend that the County pursue a more thorough analysis of a smaller project before approving the current proposed project.