

MEMORANDUM

To: Adam Meyer, Department Manager, Real Estate
Port of San Diego

From: KEYSER MARSTON ASSOCIATES, INC.

Date: June 16, 2017

Subject: Proposed Letter of Intent (LOI) with RIDA Chula Vista, LLC
Chula Vista Bayfront Phase 1 Development

I. INTRODUCTION

A. Objective

In accordance with your request, Keyser Marston Associates, Inc. (KMA) has undertaken a review of the economic feasibility of the proposed Resort Hotel and Convention Center (RHCC) proposed by RIDA Chula Vista, LLC (RIDA). RIDA intends to develop a 1,450-room resort hotel and approximately 275,000 net square feet (SF) of convention and meeting space on a 36-acre site (Site) within the Chula Vista Bayfront (CVB). The RHCC will be served by 1,500 parking spaces, proposed to be developed and owned by the San Diego Unified Port District (District). The Site is currently owned by the District.

As background, in May 2012 the District and the City of Chula Vista (City) entered into a Financing Agreement for the Chula Vista Bayfront Master Plan (CVBMP) which outlined the financial relationship between the District and the City. The Chula Vista City Council subsequently adopted an Amended and Restated Financing Agreement (Financing Agreement) in November 2016. The Financing Agreement identifies specific revenue sources that each entity agrees to contribute toward public infrastructure and other facilities required for initial phases of development on the Bayfront subject to a Plan of Finance. The Financing Agreement will be presented to the Board of Port Commissioners for consideration on June 20, 2017.

Additionally, the District, City, and RIDA propose to enter into a Letter of Intent (LOI) to identify the key economic terms to be included in a Disposition and Development Agreement (Definitive Agreement). The proposed LOI subject to the Financing Agreement, outlines the terms of the proposed ground lease between the District and RIDA, and further identifies additional contributions from the District and City (Public Entities) in order to make the RHCC project feasible.

In response to your request, KMA has prepared an economic analysis of the District and City financial contributions identified in the proposed LOI. This KMA report provides: (1) a comprehensive financing gap analysis of the proposed District and City contributions toward construction of infrastructure, parking, and the convention center portion of the RHCC; (2) a feasibility analysis of the proposed method of financing for the RHCC; and (3) estimates of the economic benefits to the City and region as a result of development of the RHCC and build-out of the balance of the CVB.

B. Methodology

In completing this economic analysis, KMA performed the following key work tasks:

- Reviewed background documentation and historical data relevant to the CVB.
- Reviewed development cost estimates and cash flow projections provided by RIDA.
- Participated in meetings and teleconferences with the District, City, and RIDA to understand project parameters, anticipated market performance, and other financial factors.
- Prepared financial models to estimate developer returns from development of the RHCC.
- Prepared an analysis of the potential economic impact caused by development of the CVB.

C. Report Organization

This economic analysis has been organized as follows:

- Following this introduction, Section II presents an overview of the RHCC project and future phases of development within the CVB.
- Section III outlines the key business and economic deal terms contained in the proposed LOI.

- Section IV presents the KMA financing gap analysis of the RHCC.
- Section V presents the KMA economic impact assessment for development of the RHCC and the balance of the CVB.
- Limiting conditions pertaining to this economic analysis are presented in Section VI.

II. PROJECT OVERVIEW

A. Chula Vista Bayfront

Development of the CVB is guided by the CVBMP. The CVBMP calls for the development of 556 acres of the CVB over the next 20 years to include parks, open space areas, a resort hotel, convention center, other hotels, mixed-use office/commercial, industrial business park, and public facilities, in three separate planning districts.

Table II-1 presents a summary of the projected development planned within the CVB by anticipated Phase and Sub-Area:

Phase / Subarea	District	Parcel	Land Use	Description
Phase 1	Harbor	Parcel H-3	Resort Hotel	1,450 Rooms
	Harbor	Parcel H-3	Convention Center	275,000 SF ⁽¹⁾
	Harbor	Parcel H-3	Structured Parking	1,500 Spaces
Phase 2	Harbor	Parcel H-23	Limited Service Hotel	200 Rooms
	Harbor	Parcel H-9/H-21	Retail	225,000 SF
Phase 3	Harbor	Parcel H-3	RIDA Hotel Expansion	150 Rooms
Sub-Area A	Harbor	Parcel H-9/H-21	Retail	200,000 SF
	Harbor	H-18	Mixed-Use Commercial	100,000 SF
	Harbor	H-23	Cultural/Retail	200,000 SF

Table II-1: Chula Vista Bayfront Projected Development by Phase and Sub-Area				
Phase / Subarea	District	Parcel	Land Use	Description
Sub-Area B	Harbor	H-13/H-14	Residential	1,500 Units
	Harbor	H-13/H-14	Retail	15,000 SF
	Harbor	H-15	Limited Service Hotel	250 Rooms
	Harbor	H-15	Office	420,000 SF
Sub-Area C	Harbor	H-3/H-23	Limited Service Hotel	525 Rooms
	Harbor	H-3/H-23	Full Service Hotel	525 Rooms
Sub-Area D	Sweetwater	S-3	Mixed-Use Commercial	60,000 SF
	Sweetwater	S-4	Office	60,000 SF
	Otay	O-1/O-4	Industrial Business Park	274,500 SF
Sub-Area E	Sweetwater	S-3	Mixed-Use Commercial	60,000 SF
	Sweetwater	S-4	Office	60,000 SF
	Otay	O-1/O-4	Industrial Business Park	274,500 SF
(1) Reflect net usable area.				

B. Proposed Development

The proposed RHCC is planned for development on Chula Vista Master Plan Parcel H-3. Parcel H-3 consists of 36 acres and is currently partially occupied by an existing recreational vehicle (RV) park.

The RHCC will serve as the anchor project for the CVB consisting of a 20-story, 1,450-room resort hotel, branded by Gaylord Hotels; 275,000 SF of net usable convention and meeting space; associated retail and related development; and resort level amenities. The RHCC will be served by 1,500 parking spaces, proposed to be developed and owned by the District, adjacent to the RHCC.

III. PROPOSED BUSINESS TERMS

The following summarizes the salient aspects of the proposed LOI. The LOI will set forth the basic economic terms and conditions upon which the District, City, and RIDA will enter into a Definitive Agreement for the ground lease, use, occupancy, development, operation, and financing of the RHCC and public improvements located on the CVB. The following provides a summary of the key responsibilities of RIDA, the District, and City:

A. Developer Responsibilities

- RIDA will enter into a ground lease agreement with the District and City for the Site for a period of 66 years.
- RIDA will construct a 1,450-room resort hotel branded as a Gaylord Hotels and 275,000 net useable SF of convention and meeting space.
- RIDA'S contribution toward the development is currently estimated at \$688 million.
- RIDA will be responsible for all operating and maintenance costs incurred with respect to the RHCC and associated retail and related development on the Site. Operating costs will include industry standard operator and franchise fees; replacement reserves; insurance; property taxes; ground rent actually paid by RIDA; and fees to include (i) asset management fees (not to exceed 1% of gross revenues), (ii) gross tax receipts; and (iii) incentive management fees (limited to 20% of the portion of NOI that exceeds \$75.68 million).

B. District and City Responsibilities

- The Public Entities will contribute \$56.3 million toward infrastructure costs including streets, parks, building pads, and utilities.
- The Public Entities will be responsible for all operating and maintenance costs incurred with respect to off-site infrastructure.
- The Public Entities will contribute \$225 million toward development of the convention center improvements, anticipated to be funded through a bond issue.
- The District will provide an annual contribution toward bond debt service to support its portion of the Convention Center Contribution. As presented in Table III-1, the District contribution will not exceed the following schedule of amounts during Lease Years 4 through 37.

Table III-1: District Annual Contribution to Debt Service	
Lease Year	Annual Bond Debt Service Contribution
Years 1-3	\$0
Years 4-13	\$5.0 M
Years 14-18	\$6.0 M
Years 19-23	\$3.0 M
Years 24-37	\$3.5 M

- The District will provide 1,500 parking spaces on Parcel H-3. The District will be responsible for all parking operating and maintenance costs.
- The City will provide for the construction of the required sewer and fire services to enable development of the RHCC.
- The Definitive Agreement will have a term of up to four (4) years with up to three (3) one year extensions.
- The District will provide, on a temporary basis, up to 15 acres of land on Parcel H-23 to house construction trailers, construction materials, equipment staging, and parking during construction of the RHCC.
- When the Definitive Agreement is executed, the District will exclusively negotiate with RIDA for one (1) year a definitive agreement to lease of up to 10 acres of Parcel H-23 (closest to Parcel H-3) for the development of up to 550 hotel rooms.

C. Proposed Ground Lease

- The District and RIDA will enter into a 66-year ground lease agreement.
- RIDA will pay ground lease payments to the District during Lease Years 1-37 as shown in Table III-2:

Table III-2: RIDA Annual Ground Lease Payments – Years 1-37	
Lease Year	Annual Ground Lease Payment
Years 1-18	\$0
Years 19-23	\$3.0 M
Years 24-37	\$3.5 M

Beginning in Year 38, the proposed rent structure for the project will be in line with the District’s standard Port percentage rent categories, as shown in Table III-3 below:

Table III-3: RIDA Annual Ground Lease Payments – Years 38-66				
Years 38-66 Percentage Rent Rates	Room Revenue	Banquet Revenue	Food Revenue	Beverage Revenue
Years 38-47	8%	6%	4%	6%
Years 48-66	9%	7%	5%	7%

- Percentage rent rates for the remaining categories of revenue will be determined during the negotiation of the Definitive Agreements.
- Annual Net Operating Income (NOI) in excess of 11.0% of the RIDA Contribution (\$75.68 million) will be split between RIDA and the Public Entities as follows:

Table III-4: Allocation of NOI after RIDA Target Return of 11.0%	
Lease Year	
Years 1-37	80% to RIDA / 20% to Public Entities
Years 38-66	100% to RIDA

RIDA will pay the District 10% of all parking revenue from the RHCC throughout the term of the ground lease. In the event of a sale of the RHCC resulting in a cumulative change of ownership of 51% or greater, the District’s share of parking revenue will increase to 15%.

IV. FINANCING GAP

A. Financing Gap Analysis

KMA prepared a financing gap analysis for the proposed RHCC to determine the economic return to RIDA subject to the business terms in the proposed LOI. Specifically, KMA estimated the project’s

financing gap and RIDA's return. The KMA analysis also considered the revenue analysis report prepared by CBRE Hotel (formerly PKF) and the development cost review prepared by Jones Lang LaSalle (JLL).

KMA has analyzed RIDA's return both in terms of stabilized Return on Investment (ROI) and Leveraged Internal Rate of Return (IRR). This section discusses RIDA's return in terms of ROI outcomes. Section IV-C presents a detailed evaluation of RIDA's Leveraged IRR based on a 66-year cash flow projection.

Total project costs, including both public infrastructure and private development, are estimated to be \$969.3 million. Of this total, RIDA will be responsible for a minimum investment, including private debt and equity, of \$688.0 million. The Public Entities will be responsible for a contribution of up to \$225.0 million toward the convention center portion of the RHCC and an estimated \$56.3 million for public infrastructure. Costs for the 1,500 parking spaces provided by the District are to be determined. These cost estimates, and respective responsibilities, are summarized in Table IV-1 below.

	RIDA	Public Entities	Total
A. Hotel/Convention Center	\$688.0 M	\$225.0 M	\$913.0 M
B. Infrastructure	----	\$56.3 M	\$56.3 M
C. Parking	----	TBD	TBD
D. Total	\$688.0 M	\$281.3 M	\$969.3 M

Table IV-2 presents illustrative figures for the stabilized year (Lease Year 7, or operating year 4). As shown, the project is projected to generate \$267.0 million in Effective Gross Income (EGI) in Lease Year 7. This EGI estimate includes both room revenues and other income including food and beverage revenues, banquet sales, gift shop and spa revenues, and parking.

A. Number of Hotel Rooms	1,450 Rooms
B. Average Daily Rate (ADR)	\$275
C. Occupancy	77%
D. Total Room Revenue	\$112.0 M
E. Total Other Income	\$155.0 M
F. Total Effective Gross Income	\$267.0 M

As presented in Table IV-3, the project's Effective Gross Income, less operating expenses and other fees, is projected to generate Net Operating Income (NOI) of \$69.0 million during Lease Year 7. Other fees include asset management fees, incentive management fees, and State of California gross receipts tax.

Table IV-3: Net Operating Income (Lease Year 7)	
A. Total Effective Gross Income	\$267.0 M
B. (Less) Operating Expenses	<u>(\$195.0) M</u>
C. Net Operating Income (NOI)	\$72.0 M
D. (Less) Fees (1)	<u>(\$3.0) M</u>
E. Net Operating Income after Fees	\$69.0 M
(1) Includes asset management fees, incentive management fees, and gross receipts tax.	

RIDA's ROI is estimated as stabilized year NOI (\$69.0 million) divided by RIDA's total capital investment. Absent the proposed Convention Center Contribution from the Public Entities, RIDA would be responsible for the total development costs of the RHCC, i.e., a total capital investment of \$913.0 million. As shown in Table IV-4, this No Public Investment scenario is estimated to generate a ROI to RIDA of 7.6%.

Table IV-4: Developer Return on Investment – No Public Investment in RHCC	
A. Total Development Costs – RHCC	\$913.0 M
B. Net Operating Income after Fees	\$69.0 M
C. Developer Return on Investment (ROI)	7.6%

The proposed LOI identifies the Public Entities contribution toward the convention center portion of the RHCC in the amount of \$225.0 million. As shown in Table IV-5, the proposed Convention Center Contribution results in a reduced capital investment from RIDA of \$688.0 million. At this level of capital investment, RIDA is projected to achieve a stabilized year ROI of 10.0%.

Table IV-5: Developer Return on Investment – With Public Investment in RHCC		
A.	Total Development Costs – RHCC	\$913.0 M
	(Less) Convention Center Contribution	<u>(\$225.0) M</u>
	RIDA Total Capital Investment	\$688.0 M
B.	Net Operating Income after Fees	\$69.0 M
C.	Developer Return on Investment (ROI)	10.0%

Industry standard ROI targets for developers of large-scale, new resort hotel/convention centers are estimated to range between 10.0% and 11.0% (unleveraged Return on Investment in stabilized year of operations). Given the level of risk associated with undertaking such a major new investment on the relatively undeveloped Chula Vista Bayfront in a single phase, KMA finds that the upper end of this range is warranted for the proposed RHCC. The proposed Public Entities financial contributions to the RHCC project are intended to support a ROI to RIDA of 11% in the stabilized year or soon thereafter. The KMA financial analysis projects that RIDA will achieve a ROI in the “With Public Investment” scenario of just 10.0% in Lease Year 7, lower than the target return threshold. Even with the proposed public investment, RIDA is not projected to achieve a 11.0% ROI until Lease Year 12.

To that end, the RIDA projected return after the Public investment and rent structure is not excessive. This finding indicates that the Public Entities contribution is warranted and needed in order for the RHCC to move forward and to be developed. Ultimately RIDA will need to control development costs and/or improve operating performance in order to achieve a satisfactory long-term return.

B. Proposed Method of Financing

Required Public Investment – Infrastructure and Convention Center Contribution

As indicated above, the Public Entities will contribute \$56.3 million toward infrastructure and \$225.0 million toward the Convention Center. The Public Entities anticipate using one or more bond financings to fund these contributions concurrently or immediately prior to the close of escrow of the ground lease for the Site. Bond debt service will be paid through a combination of existing and projected revenue streams from the Bayfront.

The District will contribute: (1) existing lease revenues from the Chula Vista Bayfront, including the Chula Vista RV Park ground rent and (2) ground rent from the RHCC and new RV Park. Additionally, the District will make one-time contributions toward the infrastructure costs using the previously received SDG&E Relocation Fee of \$1.7 million and the Pacifica Land Exchange Payment of \$3.0

million. The District will also be responsible for an annual contribution toward bond debt service to support the Convention Center Contribution not to exceed the schedule of amounts during Lease Years 4 through 37 as presented in Section III, Table III-1.

The City will contribute: (1) existing Transient Occupancy Tax (TOT) revenues from the Chula Vista RV Park; (2) existing Municipal Services Agreement (MSA) reimbursements that it receives from the District; and (3) RHCC-generated revenues, to include: (a) TOT; (b) Additional Occupancy Based Revenues generated from a proposed TOT Augment; (c) property tax increment; and (d) sales tax revenues. In effect, most of the Public Entities financial contributions will be funded through project-generated revenues.

Furthermore, in addition to the contributions shown above, the District is providing the land with a “soft” ground rent structure that allows RIDA to begin making rent payments, at a reduced level, in Lease Year 19. This ground rent structure is an essential part of the financial package, combined with the District and City contributions, that are necessary to make the RHCC project feasible.

Table IV-6 on the following page, summarizes the District and City annual revenue contributions toward the proposed bonds to finance the Convention Center Contribution and infrastructure. As an illustrative example, the figures shown in the table reflect Lease Year 7, i.e., the projected stabilized year of RHCC operations.

Table IV-6: District and City Annual Contribution at Stabilization (Lease Year 7)			
San Diego Unified Port District		City of Chula Vista	
A. Existing Revenues		A. Existing Revenues	
Existing Lease Revenues (1)	\$2.7 M	RV Park TOT	\$0.8 M
		MSA Reimbursements	<u>\$1.2 M</u>
		Subtotal Existing Revenues	\$2.0 M
B. Project-Generated Revenues		B. Project-Generated Revenues	
Project Lease Revenues	\$0.0 M	Project TOT Revenues	\$10.7 M
		Additional Occupancy Based Revenues	\$5.4 M
		Project Tax Increment (2)	\$3.7 M
		Project Sales Tax Revenues	<u>\$1.1 M</u>
		Subtotal Project Generated Revenues	\$20.9 M
C. Annual Contribution		C. Annual Contribution	
Annual Contribution	\$5.0 M	Annual Contribution	\$0.0 M
D. Total District Annual Contributions	\$7.7 M	D. Total City Annual Contributions	\$22.9 M
<p>(1) Includes projected increase from development of new RV park.</p> <p>(2) Includes both City's and County's share of Project-generated tax increment and incremental property tax in lieu of Vehicle License Fee (VLF).</p>			

The City engaged JP Morgan Securities, LLC (JP Morgan) to provide investment banking and bond underwriting services. JP Morgan prepared estimates of achievable bond financing based on the revenue streams to be pledged by the Public Entities. The JP Morgan projections were based on currently available bond underwriting terms, the relative creditworthiness of the pledged revenue streams, and JP Morgan's professional judgement regarding debt service coverage, interest rate, and costs of issuance and capitalized interest during construction. The JP Morgan bond runs assume a 37-year term, inclusive of the construction period, and effective interest rates of 5.48% for taxable bonds and 4.41% for tax-exempt bonds. Notably, the KMA financial analysis uses the 1.75 debt service coverage ratio recommended by JP Morgan. JP Morgan assumed ascending debt service schedules, i.e., annual debt service rises over the term, subject to the 1.75 debt service coverage limit. In effect, the bond sizing is based on \$1.00 of debt service for every \$1.75 of projected revenue. While this is a conservatively high debt service coverage assumption, i.e., it reduces the achievable bond financing amounts, it also results in significant projected surplus cash flow after debt service. KMA estimates total bond debt service paid by the Public Entities during the 37-year bond term to total \$861.4 million (nominal dollars).

Table IV-7 summarizes the currently anticipated underwriting terms for the Public Entities bond financing for the Convention Center Contribution and infrastructure. It is important to note that these preliminary bond underwriting terms are based on current market and financial data. These terms are considered reasonable for planning purposes, but actual results may vary depending on bond conditions, underwriting factors and future decisions regarding timing and structure for the issuance of debt by the Public Entities. Using the currently anticipated underwriting terms, the pledged revenues are projected to be sufficient to support the net bond proceeds required to fund the Public Entities obligations under the LOI. Of course, the bonds will be issued at a future date to be determined, at which time economic conditions may vary from the figures used in this preliminary feasibility analysis. RIDA and the Public Entities will need to continually monitor real estate market factors and bond financing parameters to determine if any changes to these projections are warranted.

Table IV-7: Preliminary Underwriting Terms for Proposed Bond Financing	
A. Revenues Pledged, Lease Year 7 Estimates	
District	\$7.7 M
City	<u>\$22.9</u> M
Total Revenues	\$30.6 M
B. Debt Service Coverage (DSC) Factor	1.75 DSC
C. Interest Rate	5.48% taxable 4.41% tax-exempt
D. Bond Term	37 years Including construction period
E. Total Debt Service	\$861.4 M Years 1-37 (nominal dollars)
F. Approximate Net Bond Proceeds	\$225 M Convention Center Contribution \$56 M infrastructure

Required Public Investment - Parking

The District will also be responsible for financing, constructing, owning, and operating at least 1,500 parking spaces to serve the RHCC project. District staff is evaluating the potential to construct 1,500 parking spaces on Parcel H-3. The District will assume all operating and maintenance expenses for the spaces for the duration of the RIDA ground lease. Parking gross revenues from the RHCC will be allocated 90% to RIDA and 10% to the District. The District's share will increase to 15% of gross revenue if RIDA sells, on a cumulative basis, 51% or more of the RHCC project.

Required Private Investment

As noted above, RIDA will be responsible for a minimum private investment in the RHCC project of \$688 million. This investment is expected to take the form of a combination of debt (third party loans) and equity. The KMA analysis assumes a maximum Loan-to-Value (LTV) of 65%, resulting in a maximum loan of \$447.0 million. The balance of the investment, a minimum of \$241.0 million, will comprise equity investment by RIDA. Table IV-8 summarizes the private investment in the RHCC project.

Table IV-8: Required Private Investment		
	Factor (Loan to Value)	Amount
A. Maximum Debt	65% LTV	\$447.0 M
B. Minimum Equity	35% LTV	\$241.0 M
C. Total Private Investment		\$688.0 M

Under the terms of the LOI, RIDA will pay a fixed ground rent schedule for the project during the bond financing term, estimated to coincide with Lease Years 1-37. The fixed ground rent schedule for this period is itemized in Section III, Table III-2. The District will contribute these ground lease revenues toward the bond debt service.

District/City Participation in NOI

In addition to ground rent paid to the District, RIDA will pay the Public Entities an annual participation payment based on surplus Net Operating Income (NOI) from the RHCC project. Specifically, the Public Entities will receive 20% of surplus NOI above an 11% ROI threshold for RIDA during Lease Years 4-37. KMA has prepared a preliminary projection of this potential future revenue stream, which is summarized in Table IV-9.

Table IV-9: Projected Annual NOI Participation Payments to Public Entities	
Lease Year	Estimated Annual NOI Participation Payment to Public Entities
Years 1-3 - Construction	N/A
Years 4-11	\$0
Year 12	\$0.025 M

Table IV-9: Projected Annual NOI Participation Payments to Public Entities	
Lease Year	Estimated Annual NOI Participation Payment to Public Entities
Year 20	\$2.7 M
Year 30	\$7.8 M
Year 37	\$12.6 M

C. Leveraged IRR to RIDA with Public Investment

KMA prepared projections of NOI and cash flow for the RHCC project for the duration of the proposed 66-year ground lease. The KMA projections are summarized in Table IV-10 on the following page. As shown, the KMA projections estimate that RIDA will achieve a Leveraged IRR of approximately 13.5%. A Leveraged IRR is used as a metric to determine the annualized effective compounded return rate to RIDA, after taking into consideration all of RIDA's financial obligations including debt service. KMA finds that the appropriate industry standard target for Leveraged IRR for a resort hotel convention center of this type is in the range of 16% to 17%. In other words, under current projections, inclusive of the Public Entities financial contribution, RIDA does not achieve an industry standard return on a long-term basis. This finding indicates that the Public Entities contributions and rent structure are warranted, that the RIDA return is not excessive, and ultimately that RIDA will need to control development costs and/or improve operating performance in order to achieve a satisfactory long-term return. At the same time, the proposed participation in NOI provides for the Public Entities to participate in the success of the RHCC project as well.

Table IV-10: RIDA Leveraged Internal Rate of Return – Lease Years 1-66 (\$ Millions)							
Lease Year	Developer Equity	Net Operating Income	Ground Lease Payment	(Less) Public Entities Participation	NOI Before Debt Service	(Less) Debt Service	Annual Cash Flow
1	(\$189.0)	\$0	\$0	\$0	\$0	\$0	(\$189.0)
2	(\$51.8)	\$0	\$0	\$0	\$0	\$0	(\$51.8)
3	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	\$0	\$42.0	\$0	\$0	\$42.0	(\$35.7)	\$6.3
5	\$0	\$54.9	\$0	\$0	\$54.9	(\$35.7)	\$19.2
6	\$0	\$65.2	\$0	\$0	\$65.2	(\$35.7)	\$29.5
7	\$0	\$71.7	\$0	\$0	\$71.7	(\$35.7)	\$36.0
8	\$0	\$76.3	\$0	\$0	\$76.3	(\$35.7)	\$40.6
9	\$0	\$74.8	\$0	\$0	\$74.8	(\$35.7)	\$39.1
10	\$0	\$76.5	\$0	\$0	\$76.5	(\$35.7)	\$40.8
11	\$0	\$78.2	\$0	\$0	\$78.2	(\$35.7)	\$42.5
12	\$0	\$79.8	\$0	\$0	\$79.8	(\$35.7)	\$44.1
13	\$0	\$81.5	\$0	(\$0.3)	\$81.2	(\$35.7)	\$45.5
14	\$0	\$83.9	\$0	(\$0.7)	\$83.3	(\$35.7)	\$47.6
15	\$0	\$86.4	\$0	(\$1.0)	\$85.4	(\$35.7)	\$49.7
16	\$0	\$89.0	\$0	(\$1.4)	\$87.6	(\$35.7)	\$51.9
17	\$0	\$91.7	\$0	(\$1.8)	\$89.9	(\$35.7)	\$54.2
18	\$0	\$94.5	\$0	(\$2.3)	\$92.2	(\$35.7)	\$56.5
19	\$0	\$97.3	(\$3)	(\$2.2)	\$92.1	(\$35.7)	\$56.4
20	\$0	\$100.2	(\$3)	(\$2.7)	\$94.6	(\$35.7)	\$58.9
21	\$0	\$103.2	(\$3)	(\$3.1)	\$97.1	(\$35.7)	\$61.4
22	\$0	\$106.3	(\$3)	(\$3.6)	\$99.7	(\$35.7)	\$64.0
23	\$0	\$109.5	(\$3)	(\$4.1)	\$102.5	(\$35.7)	\$66.7
24	\$0	\$112.8	(\$3.5)	(\$4.5)	\$104.8	(\$35.7)	\$69.1
25	\$0	\$116.2	(\$3.5)	(\$5.0)	\$107.7	(\$35.7)	\$72.0
26	\$0	\$119.7	(\$3.5)	(\$5.5)	\$110.6	(\$35.7)	\$74.9
27	\$0	\$123.3	(\$3.5)	(\$6.1)	\$113.7	(\$35.7)	\$78.0
28	\$0	\$127.0	(\$3.5)	(\$6.7)	\$116.8	(\$35.7)	\$81.1
29	\$0	\$130.8	(\$3.5)	(\$7.2)	\$120.1	(\$35.7)	\$84.3
30	\$0	\$134.7	(\$3.5)	(\$7.8)	\$123.4	(\$35.7)	\$87.7
31	\$0	\$138.8	(\$3.5)	(\$8.4)	\$126.8	(\$35.7)	\$91.1
32	\$0	\$142.9	(\$3.5)	(\$9.1)	\$130.4	(\$35.7)	\$94.7

Table IV-10: RIDA Leveraged Internal Rate of Return – Lease Years 1-66 (\$ Millions)							
Lease Year	Developer Equity	Net Operating Income	Ground Lease Payment	(Less) Public Entities Participation	NOI Before Debt Service	(Less) Debt Service	Annual Cash Flow
33	\$0	\$147.2	(\$3.5)	(\$9.7)	\$134.0	(\$35.7)	\$98.3
34	\$0	\$151.6	(\$3.5)	(\$10.4)	\$137.7	\$0	\$137.7
35	\$0	\$156.2	(\$3.5)	(\$11.1)	\$141.6	\$0	\$141.6
36	\$0	\$160.9	(\$3.5)	(\$11.8)	\$145.6	\$0	\$145.6
37	\$0	\$165.7	(\$3.5)	(\$12.6)	\$149.7	\$0	\$149.7
38-47 (1)	\$0	\$1,957.3	(\$523.9)	\$0	\$1,433.4	\$0	\$1,433.4
48-57 (1)	\$0	\$2,631.7	(\$803.3)	\$0	\$1,828.3	\$0	\$1,828.3
58-66 (1)	\$0	\$3,135.8	(\$968.4)	\$0	\$2,167.4	\$0	\$2,167.4
Developer Leveraged Internal Rate of Return (IRR)							13.48%
(1) Reflects 10-year total for each time period.							

D. Proposed Cash Flow Distribution (“Waterfall”)

As noted above, the currently contemplated bond financing structure will result in significant surplus cash flow after debt service. Additionally, RIDA will make NOI participation payments to the Public Entities. District and City staff have discussed in detail various approaches to distribute these surplus funds. The current concept is to allocate these funds through a “waterfall”, with the priority sequence shown in Table IV-11 below. As an example, the chart presents the projected figures for Lease Years 7 (stabilized operations) and 13 (10th year of operations).

Table IV-11: Proposed Distribution of Surplus Cash Flow		
	Lease Year 7 (4 th year of operations)	Lease Year 13 (10 th year of operations)
• Surplus Cash Flow after Bond Debt Service	\$13.1 M	\$15.2 M
• <i>Priority #1</i> – Repayment to District of its Annual Contribution	(\$5.0 M)	(\$5.0 M)
• <i>Priority #2</i> – Set-aside for Additional Bond Debt Service Reserve (anticipated to be fully funded prior to Lease Year 7)	(\$0.0 M)	(\$0.0 M)

Table IV-11: Proposed Distribution of Surplus Cash Flow		
	Lease Year 7 (4th year of operations)	Lease Year 13 (10th year of operations)
<ul style="list-style-type: none"> • <i>Priority #3</i> – Reimbursement to District and City of their Bayfront Infrastructure Operating and Maintenance Expenditures 	(\$3.2 M)	(\$3.8 M)
<ul style="list-style-type: none"> • Remaining Cash Flow Available for Distribution 	\$4.9 M	\$6.4 M

As illustrated above, once the RHCC project has stabilized, the District anticipates that it will receive a reimbursement of its annual contribution toward debt service. Moreover, the cash flow projections indicate that both the District and City will be able to reimburse themselves for their respective Bayfront infrastructure operating and maintenance expenditures. Even after the priority distributions, KMA forecasts a remaining positive cash flow. District and City staff will need to negotiate how these remaining surplus funds are distributed.

V. ECONOMIC BENEFITS TO CITY AND REGION

This section provides an evaluation of the economic benefits from the build-out of the CVB to the County of San Diego and the City of Chula Vista during construction and on an annual on-going basis. KMA prepared a detailed economic impact analysis (EIA) to estimate the total economic output, payroll, and employment generated by development of the RHCC project and the balance of the CVB, during construction and on a permanent basis. The EIA estimates the portion of economic output that is paid out in wages, the average wage by type of employment, and the resulting total construction employment and permanent employment (expressed in person-years). In undertaking this analysis, KMA estimated development costs, valuation, and phasing for each Phase and Sub-Area of the CVB. The KMA EIA relied extensively on IMPLAN (IMPact analysis for PLANning) data multipliers for the County of San Diego and the City of Chula Vista to determine indirect and induced impacts. The IMPLAN model is a commercially available model developed in 1979 and refined over time to quantify the impacts of changes in a local economy.

RHCC Project (Phase 1)

- *Construction Economic Impact* - As noted in Section III, Phase 1 of the CVB will consist of development of the RHCC project and 1,500 parking spaces. The construction of the RHCC and associated indirect spending, are projected to generate a construction economic output of \$1.2 billion to the County and \$65.8 million to the City.

KMA estimates that the payroll portion of this total construction economic output comprises approximately \$428.8 million for the County and \$23.5 million for the City. Based on average wages for construction and professional services, KMA translates this total payroll expense to generate 3,140 full-time equivalent workers per year during a 30-month construction period in the County and 170 construction workers in the City.

- *Ongoing Economic Annual Impact* - Phase 1 is projected to generate an annual economic impact (inclusive of indirect and induced impact) of \$391.2 million to the County and \$268.6 million to the City. Of this total economic output, payroll income reflects \$137.0 million of the County's economic output and \$93.4 million of the City's economic output; and annual employment of 3,690 employees in the County and 2,700 employees in the City.

Balance of CVB (Phases 2-3 and Subareas A-E)

- *Construction Economic Impact* - The buildout of the reminder of the CVB (Phases 2, 3, and Sub-Areas A-E) is projected to generate an economic output, including associated indirect and induced impact, of \$1.6 billion in the County and \$382.8 million to the City during construction.

KMA estimates that the payroll portion of this total construction economic output comprises approximately \$556.8 million for the County and \$133.9 million for the City. Based on average wages for construction and professional services, KMA estimates that the development of Phases 2 and 3 and Subareas A-E will result in the employment of an average of 6,610 full-time equivalent workers in the County and 1,590 full-time equivalent workers in the City per year during the construction period.

- *Ongoing Economic Annual Impact* - The remaining buildout of the CVB is projected to generate an annual economic impact (inclusive of indirect and induced impacts) of \$1.7 billion to the County and \$1.3 billion to the City; payroll income of \$855.4 million to the County and \$659.6 million to the City; and annual employment of 16,530 employees in the County and 12,460 employees in the City.

Tables V-1 and V-2 on the following page present a summary of the construction and ongoing economic benefits to the County and City.

Table V-1: Economic Benefits to County of San Diego (1)			
	Phase 1	Phases 2 and 3 and Sub-Areas A-E	Total
I. Construction Economic Impact (2)			
A. Economic Output	\$1.2 B	\$1.6 B	\$2.8 B
B. Personal Income	\$428.8 M	\$556.8 M	\$985.6 M
C. Employment (3)	3,140 Employees	6,610 Employees	9,750 Employees
II. Ongoing Economic Annual Impact (2)(4)			
A. Economic Output	\$391.2 M	\$1.7 B	\$2.1 B
B. Personal Income	\$137.0 M	\$855.4 M	\$992.4 M
C. Employment	3,690 Employees	16,530 Employees	20,220 Employees
<p>(1) All figures reflect 2017 dollars without escalation.</p> <p>(2) Reflects direct, indirect, and induced impact.</p> <p>(3) Reflects an average annual employment over a 30-month construction period for Phase 1; 18-month construction period for Phase 3 and Sub-Areas A, B, D, and E; and a 24-month construction period for Phase 2 and Sub-Area C.</p> <p>(4) Reflects recurring ongoing economic impact from annual operations.</p>			

Table V-2: Economic Benefits to City of Chula Vista (1)(2)			
	Phase 1	Phases 2 and 3 and Sub-Areas A-E	Total
I. Construction Economic Impact (3)			
A. Economic Output	\$65.8 M	\$382.8 M	\$448.6 M
B. Personal Income	\$23.5 M	\$133.9 M	\$157.4 M
C. Employment (4)	170 Employees	1,590 Employees	1,760 Employees
II. Ongoing Economic Annual Impact (3)(5)			
A. Economic Output	\$268.6 M	\$1.3 B	\$1.6 M
B. Personal Income	\$93.4 M	\$659.6 M	\$753.0 M
C. Employment	2,700 Employees	12,460 Employees	15,160 Employees
<p>(1) City figures are included within County figures.</p> <p>(2) All figures reflect 2017 dollars without escalation.</p> <p>(3) Reflects direct, indirect, and induced impact.</p> <p>(4) Reflects an average annual employment over a 30-month construction period for Phase 1; 18-month construction period for Phase 3 and Sub-Areas A, B, D, and E; and a 24-month construction period for Phase 2 and Sub-Area C.</p> <p>(5) Reflects recurring ongoing economic impact from annual operations.</p>			

VI. LIMITING CONDITIONS

1. The KMA analysis is based, in part, on data provided by secondary sources such as state and local governments, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.

2. The accompanying projections and analyses are based on estimates and assumptions which were developed using currently available economic data, project-specific data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.
3. Any estimates of revenue or cost projections are based on the best project-specific and fiscal data available at this time as well as experience with comparable projects. They are not intended to be projections of actual future performance of any specific project. Any changes to costs, development program, or project performance may render the conclusions contained herein invalid.
4. KMA assumes that all applicable laws and governmental regulations in place as of the date of this document will remain unchanged throughout the projection period of our analysis. In the event that this does not hold true, i.e., if any tax rates change, the analysis would need to be revised.
5. The KMA analysis assumes that any necessary entitlements for the proposed development can be obtained in a reasonable time frame.
6. The KMA analysis assumes that property titles are good and marketable; no title search has been made, nor has KMA attempted to determine property ownership.
7. A projection of economic impacts is inherently based on judgment. The projections contained herein are based on the best information available at the time that this document was prepared. However, the actual impacts may vary.
8. Property tax projections reflect KMA's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.
9. No assurances are provided by KMA as to the certainty of the projected tax revenues shown in this document. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes.