



# New York State Office of the State Comptroller

Office of Budget and Policy Analysis

Alan G. Hevesi  
New York State Comptroller

Kim Fine  
Deputy Comptroller

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## Belleayre Resort Development Review

### Introduction

A proposal has been made to build a major resort complex in the heart of New York State's Catskill Park. The development, called the Belleayre Resort, would total 1,960 acres at two sites located to the east and west of the State-owned Belleayre Mountain Ski Center. The larger building site, to the east, called "Big Indian," would include a five-star hotel and spa with 150 rooms, an 18-hole country club golf course and 183 detached lodging units that would be marketed as timeshares or short-term condos. There would also be 5,500 square feet of meeting space. The site to the west, called "Wildacres," would include a 250-room, four-star hotel and spa, a second 18-hole golf course, 168 detached lodging units and a 21-lot mansion subdivision. This center would have 24,000 square feet of meeting space. A variety of retail food outlets would be located at each site. A total of 573 acres would be developed, leaving 1,387 acres undisturbed, according to the proposal.

The developer, Dean Gitter, is a long-time resident of the Catskills. He began assembling property for this venture in 1998 and claims that both sites must be developed in order to make an acceptable profit. Recently, however, he has indicated that he may be willing to discuss a smaller development option. Opponents believe the entire project represents a danger to Catskill Park and to the constitutionally protected Catskill Forest Preserve, but they have offered to compromise if the developer is willing to adhere to a more environmentally sensitive plan using only the Wildacres site.

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This region of the Catskills is also the center of the New York City watershed and the City has a special need to protect the area's environmental quality. Large-scale development, such as the Belleayre Resort, has not been permitted in the past, and many believe this project has the potential to cause major environmental damage to the Catskills. Induced growth, that is, growth stimulated

by the project that is not part of the developer's original plan, is likely to be extensive. If these unintended consequences occur, they would result in substantial service and environmental remediation costs to the State, to the City of New York and to taxpayers living in the Catskills.

## Current Status

On September 7, 2005, the Department of Environmental Conservation administrative law judge identified a number of deficiencies in the developer's Draft Environmental Impact Statement (DEIS) and permit application materials, and the judge set 12 issues for further adversarial proceedings. Although most of these issues deal with environmental questions, a number also address economic concerns, as is required by the State Environmental Quality Review Act (SEQRA). The judge found that:

- The DEIS lacked sufficient economic detail to permit adequate analysis of development alternatives. The developer did not adequately consider lower build alternatives, nor did he consider alternatives for lower impact recreational uses, such as hiking, horse and bike riding, and yoga centers, all of which have flourished in other environmentally sensitive areas.
- There are "substantive and significant issues with respect to secondary and induced growth impacts," including commercial development along the major public access road, Route 28, a large increase in the permanent population of the area with the accompanying burdens on public services, and perhaps most crucially, the potential threat to water quality from pesticides, fertilizer, storm and wastewater flow, and water usage.
- The proposed Belleayre Resort needs to be further analyzed to determine how such development might impact the expansion of the State-owned Belleayre Mountain Ski Center.

The judge has also suggested that the Big Indian and Wildacres projects be considered separately. Mr. Gitter has appealed these rulings to the Commissioner of Environmental Conservation. In the meantime, Congressman Maurice Hinchey has advanced a proposal to limit Belleayre development to a lower build option at the Wildacres site, while leaving Big Indian permanently undeveloped. The Catskill Preservation Coalition—an umbrella group comprised of 11 organizations that oppose the Belleayre project—has said it supports the Hinchey proposal. Mr. Gitter has recently said he would like to discuss alternatives.

## Investment Proposal

This analysis focuses on two aspects of the Belleayre proposal's business case: its investment return calculations and its regional economic development claims. In light of the Comptroller's responsibility to oversee the fiscal health of New York's municipalities, the proposal's impact on local government finances, especially the potential financial impact of the Belleayre development on the New York City watershed, is also considered.

The proposal's investment and marketing calculations cannot be replicated because the information provided in the DEIS is not complete. (The Department of Environmental Conservation administrative law judge came to a similar conclusion in his findings.) Much of the investment information has been redacted on the assertion that it contained proprietary information of no consequence in an environmental review. Obviously, such information has a great deal of relevance to a business case analysis. This review finds the proposal is deficient because it lacks adequate information regarding three key issues:

- **Franchising** - What specific arrangements would a brand name resort company demand regarding franchise and management fees and resort facilities? Have any resort companies expressed interest in Belleayre or is the developer simply assuming that there will be such interest? Is this a case of build it and they will franchise?
- **Borrowing Costs** - What is the estimated cost of the investment capital required? What financing arrangements would be made and under what terms?
- **Catskill Regional Development** - What are the business model assumptions about the Catskills resort market? How have conditions changed since the project was first proposed in 1999? What would be the impact on the project if the developer is not able to attract resort brand names? What is the current market for timeshares in a geographically isolated area?

## Issues of Concern

The information that is available suffers from having been collected several years ago, in some cases before the 2001 recession and the September 11<sup>th</sup> terrorist attacks. Despite the lack of specific and timely data, analysis by the Office of the State Comptroller identifies a number of particular concerns and questionable assumptions:

**1. The developer's investment profitability measures do not seem to be appropriate or accurate.**

The developer's consultant identified six core components to the Belleayre proposal: Big Indian hotel and spa, Big Indian country club, Big Indian detached lodging units, Wildacres hotel and spa, Wildacres golf club and Wildacres lodging units.

The consultant then modeled income streams under a variety of combinations of components and compared these with construction cost estimates in order to estimate possible internal rate of return (IRR). In late 2001, the estimated cost of the entire project was \$248.6 million. Without the detached lodging units, the total would be approximately \$150 million.

The consultant's analysis concluded that the entire project would be economically infeasible if any of the hotels or golf components were dropped. According to the analysis, if all four components are built, the project would see a 14.7 percent IRR. If only the two Wildacres components are built, the IRR would be only 10.7 percent; if only the Big Indian components are built, the IRR would be 8.4 percent. Building both hotels but with only one golf course would have the lowest IRR, only 8.3 percent. This analysis assumes that the detached lodging units would not be built unless both hotels and golf courses are built. However, if such units are built at Big Indian, the IRR would jump to 41.6 percent, while detached unit construction at Wildacres would bring an IRR of 33.5 percent.

It is important to note that these calculations compare the total construction cost to income flow in order to estimate the IRR. A more conventional analysis would have used the amount of equity invested, not the total construction cost. The consultant assumes that borrowed funds should be treated like equity when calculating the IRR; however, this is not normally the way such calculations are made because it overstates the amount of income a project needs in order to have an acceptable IRR. In this case, an analysis that overstates required income artificially supports a larger scale project.

Testimony presented by expert witnesses for the City of New York and the Catskill Preservation Coalition/Natural Resources Defense Council (CPC/NRDC) criticized the consultant's IRR calculations. Both witnesses stated that equity alone, rather than equity plus debt, should be used to determine return on investment. If the calculation includes substantial debt, it increases the amount of income required to achieve an acceptable return on that investment. It also inflates the apparent risk the developer accepts on the project. The Office of the State Comptroller investment staff agrees with the New York City and CPC/NRDC witnesses on this point, but also notes

that the issue is moot until the assumptions of the business case analysis are confirmed.

The City's consultants recalculated the mix used for estimating profitability and concluded that when detached lodging units are included, Wildacres alone would have an IRR of 19 percent, well in excess of the 12 to 14 percent return that is considered adequate for such an investment. If so, it should not be necessary to build a second resort complex at Big Indian in order to justify the owner's investment.

The plan also assumes that "in all likelihood, the franchisor of the subject properties will also serve as the hotel operator," but notes that "calculations for incentive management fees are highly variable, and are often subordinate to debt service." The plan does not analyze the situations in which this fee is higher than budgeted or no national brand name management group is interested in the Belleayre Resort.

## **2. The "comparable" resorts used in the developer's business model are not appropriate.**

The developer proposes creating facilities that would be attractive to national brand name resort companies, but all the comparable case business statistics are taken from regional single-site resorts. In fact, the information provided in the DEIS, though incomplete, would tend to support the argument that a smaller, regionally focused resort may be more practical than a larger, nationally marketed site or a world class destination resort.

**Golf Resorts** - Data from several well-known regional resorts was used to estimate customer demand for hotels with golf courses. Yet none have 36 holes of golf. The resorts identified are the Sagamore at Bolton Landing, New York, with 100 rooms plus various lodge units; the Equinox with 183 rooms in Manchester, Vermont; and the Woodstock Inn with 142 rooms in Woodstock, Vermont. All offer one, 18-hole course. These facilities offer proof that a resort does not have to be huge to be a success.<sup>i</sup>

**Combined Golf and Ski Resorts** - The Belleayre resorts would be located on either side of the State-owned Belleayre Ski Area, and the developer admits that the State's recent capital improvements to the ski center are one of the project's major selling points. The developer's vision of a combined ski/golf resort is similar to resorts that currently exist in Vermont; yet once again, comparable resorts rarely offer more than 18 holes of golf. For example, Killington, Okemo and Mt. Snow have one, 18-hole course each and all have

several hundred hotel rooms, as well as on-site lodges and condominiums. Stratton Mountain has 27 holes of golf, arranged in three 9-hole courses, two hotels on the mountain with 196 rooms, and a number of lodges and condo units at lower levels.

Information from such resorts was not used in the developer's analysis, even though this development model may offer the closest comparison to the Belleayre project. The developer's reluctance to use such comparable cases may be due to the fact that the ski/golf resorts located in Vermont, New Hampshire and other northeastern states have spawned extensive development and induced growth in the surrounding communities, including outlet shopping villages, large numbers of independent motels and guest houses, and other such tourist facilities. Such widespread development does not fit well with the claim that the proposal would have a minimal local impact.

Analysis of the impact to the surrounding area should occur prior to any large-scale development project. How will development impact the limited transportation and communication infrastructure of the region? Will local governments be required to make additional concessions to provide these services? Will increased tax revenue be sufficient to cover increased local service expense and school costs? Will the developer seek tax incentives that will shift the tax burden to local taxpayers?

**National Destination Resorts** - The Marriott and Starwood resort chains are identified as possible franchise labels for the Belleayre project. The developer does not indicate whether these firms have expressed an interest in locating two of their resort complexes at the same location. However, such national chains tend to locate in clusters with other chain resorts in locations with good transportation facilities—such as at Hilton Head, South Carolina and Williamsburg, Virginia on the east coast or Aspen, Colorado; Steamboat Springs, Colorado; and Lake Tahoe, California in the west—and not in areas that are difficult to reach—such as the middle of the Catskill Park. The lack of a major airport nearby makes it questionable whether a national chain would be willing to locate in the Catskills.

### **3. The developer is not clear regarding the scope of his Catskill development plans.**

Although the Belleayre investment analysis notes the project would be profitable if it is limited to hotels and golf courses, the developer has every incentive to build the detached lodging units, as well. This is because the most profitable projects for the developer come from the residential “products,” namely, timeshares, fractional interests, condominiums and home site sales.

## Environmental Concerns

If the Belleayre Resort were built on the scale that Mr. Gitter prefers, there is a significant possibility that this project could stimulate secondary development that would be incompatible with the Catskill Forest Preserve and with lands that serve as a water-supply watershed for nine million downstate New Yorkers. Recent developments located at North Conway, Bartlett and other villages in the heart of the White Mountains and at Smuggler's Notch in the Green Mountains are examples of projects that combine timeshare units with golf and ski facilities. Induced growth has been substantial, and the retail and tourist traffic in the nearby towns has grown significantly in the past several years. This kind of growth would be very profitable for a few, but incompatible with current resource uses in this area.<sup>ii</sup>

Currently, the Catskill Park is able to maintain a balance between vacation use and environmental protection. Yet, the developer's main premise is that the Belleayre project must be built on such a large scale that it becomes a national resort destination. If this occurs, it will likely endanger the existing balance in the Park.

The proposed resort also would be located in the middle of the New York City watershed. The developer claims that his plan includes methods to limit the development's impact on the City watershed. However, it is New York City, not the developer, which is ultimately responsible for ensuring the quality of the water drawn from the Catskill watershed.

The City of New York is currently operating under a Memorandum of Understanding with the federal Environmental Protection Agency (EPA) that requires the City to either preserve the quality of the water in its watershed or, if it cannot do so, build a filtration system estimated to cost \$6 billion (in 1999). The Belleayre project ignores this filtration avoidance determination (FAD) and threatens to expose the City to huge additional capital expenses at a time when the costs of maintaining and repairing the existing water supply system are becoming more burdensome. EPA stated, "A project of this magnitude can significantly lessen the margin of safety under which we provided New York City an FAD."

An analysis made by the New York City Department of Environmental Protection (DEP) stresses that one of the principal flaws of the Belleayre DEIS is that it fails to consider alternative developments that could reasonably be built at the Belleayre sites, as required by SEQRA. As a result, "the Applicant failed to present the decision makers with a reasonable range of alternatives that could lessen or eliminate potential impacts." DEP believes that if such alternatives were offered, a development that presents less of a threat to the City's watershed could be identified.

## Conclusion

There are too many unknowns surrounding the Belleayre project. The formal DEIS contains incomplete and contradictory information. On the one hand, the developer claims that the Belleayre Resort will not be big enough to harm the local environment and, on the other hand, that it must be big enough to become a national destination resort. The comparables for the business case analysis tend to support lower build options, while none of the evidence indicates that a nationally marketed resort complex is compatible with current protections required for the New York City watershed.

Furthermore, the proposal fails to address a number of local economic development concerns. This is crucial since the proposed resort would be located in the middle of the constitutionally protected Catskill Forest Preserve.

In summary, the Belleayre Resort project appears to be a speculative venture that may well endanger existing resource uses and end up placing unacceptable burdens on State, City and local taxpayers.

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<sup>i</sup> Statistics gathered by a consultant working for the developer indicate there are 31 golf courses located in the whole of the Catskill Mountain region, with an average of 18 holes. The region just to the south of the Catskill Park has the greatest concentration of golf courses. This area was a traditional vacation destination for downstate residents in the past, but has gone from having over 1,000 lodging facilities at its peak to fewer than a dozen today.

<sup>ii</sup> Mr. Gitter already has numerous investments in the area. He is the managing partner of the Emerson Place, a five-star resort spa located in Mt. Tremper, located about 15 miles to the east of Belleayre Mountain on Route 28. Although an inn at this site was destroyed by fire in 2005, work has begun on a new spa facility that is scheduled to open in the summer of 2006. The Emerson restaurant has been relocated to Woodstock, and Mr. Gitter has indicated that the inn will be rebuilt, possibly at some other location. He was earlier involved in the founding of the Big Indian Spring Water Company and has developed a number of restaurants in the area.



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Major contributors to this report include:

Kim Fine

Tom Marks

Steven Elliott

Jody Dixon

Kathleen Kerwin

Kathleen Kelly

Deputy Comptroller

Assistant Comptroller/Chief Economist

Assistant Director, Economic Analysis

Policy Research Specialist

Research Assistant

Secretary

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