RESOLUTION NUMBER R-284593

ADOPTED ON SEPTEMBER 12, 1994

WHEREAS, the Reuben H. Fleet Space Theater and Science Center (Science Center) has prepared proposed plans for expansion of their facilities in Balboa Park; and

WHEREAS, the City Council in April 1994 approved "in concept" the plan for expansion and financing assumptions as described in Attachment 1 hereto; and

WHEREAS, in April 1994 the City Council directed the City Manager to proceed with a comprehensive review of the financial feasibility of issuing $8.5 million in debt on behalf of the Science Center to partially fund the expansion; and

WHEREAS, the City Manager has reviewed the plan for expansion and the financial feasibility issues and various financing alternatives and has recommended that the Science Center pursue financing through the California Statewide Communities Development Authority; NOW, THEREFORE,

BE IT RESOLVED, by the Council of The City of San Diego, that in accordance with the City Manager's Report, attached hereto as Attachment 2, the City Council hereby approves the City Manager's recommendations as contained in said Report.

BE IT FURTHER RESOLVED, that the Science Center is hereby encouraged to work with the California Statewide Communities Development Authority to secure long term financing for its expansion.

BE IT FURTHER RESOLVED, that the City Manager is hereby authorized to negotiate a new agreement with the Science Center pursuant to which the Science Center would obtain long term leasehold rights in the Balboa Park property as necessary to obtain financing, and pursuant to which the City would waive the present provision which requires eight percent of gross revenues from operations to be paid to the City, and pursuant to which the Science Center would agree to complete payment on the outstanding bond indebtedness in fiscal years 1995, 1996 and 1997.

BE IT FURTHER RESOLVED, that the Council accepts the Manager's recommendation that the Science Center continue to apply on an annual basis for Transient Occupancy Tax allocations through the Commission for Arts and Culture.

BE IT FURTHER RESOLVED, that the City Attorney is hereby directed to draft the extension of the lease, and the City Manager is directed to return to Council on October 3, 1994, with financing options and the draft lease extension agreement.

APPROVED: JOHN W. WITT, City Attorney

By
Harold O. Valderhaug
Chief Deputy City Attorney

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MANAGER'S REPORT

DATE ISSUED: April 13, 1994 **REPORT NO:** 94-98

ATTENTION: Honorable Mayor & City Council, Agenda of April 18, 1994

SUBJECT: Reuben H. Fleet Space Theater and Science Center Business Plan for Expansion

SUMMARY

Issues:

(1) Should the City Council approve, in concept, the Reuben H. Fleet Space Theater and Science Center Business Plan for Expansion and its financing assumptions, which expects that the City will:

(a) Amend the current operating agreement with the San Diego Space and Science Foundation to discontinue payment to the City of 8% of gross revenue excluding sales tax, beginning in Fiscal Year 1995, but continue to annually allocate $240,000 for Fiscal Years 1995 and 1996, and $125,000 for Fiscal Year 1997 from the City's Transient Occupancy Tax (T.O.T.) revenues to continue to make debt service payments on the outstanding debt issued through the San Diego Planetarium Authority?

(b) Extend the Joint Powers Agreement with the County of San Diego, currently in effect until 2011, which establishes the San Diego Planetarium Authority, for purposes of issuing long term debt?

(c) Annually allocate $240,000, beginning in Fiscal Year 1997 for a period of thirty years, from Transient Occupancy Tax (T.O.T.) revenues to the San Diego Planetarium Authority for a contribution to the payment of debt service on behalf of the Reuben H. Fleet Space Theater and Science Center?

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funding for debt service be the first obligation of the Reuben H. Fleet Space Theater and Science Center operating revenues.

(2) Direct the City Manager to proceed with a comprehensive review of the Reuben H. Fleet Space Theater and Science Center Business Plan for Expansion in order to fully evaluate the financial feasibility of issuing $8.5 million in debt on behalf of the Reuben H. Fleet Space Theater and Science Center to partially fund the expansion.

(3) Direct the City Manager to negotiate a mutually acceptable agreement with the Reuben H. Fleet Space Theater and Science Center to accomplish the objectives of the Business Plan for Expansion.

Other Recommendations: The Reuben H. Fleet Space Theater and Science Center expansion was adopted by the City Council on October 20, 1992, as part of the Precise Plan for the Central Mesa of Balboa Park.

Fiscal Impact:

(1) (a) The Business Plan's financing assumptions include discontinuing the payment of 8% of gross revenue excluding sales tax generated by the Reuben H. Fleet Space Theater and Science Center which would result in a loss of $250,000 in annual revenue, while continuing the allocation from the Transient Occupancy Tax (T.O.T.) to the San Diego Planetarium Authority, which would result in an expense of $240,000 annually for Fiscal Years 1995 and 1996, and $125,000 for Fiscal Year 1997 for debt service payments on the outstanding debt issue. This would result in a total expense of $605,000 over the three year period, with no corresponding receipt of payment from the Reuben H. Fleet Space Theater and Science Center. The outstanding debt issue is to be retired in Fiscal Year 1997, and the final payment will be reduced by the balance of the debt service reserve fund.

The Manager's Recommendation suggests that the allocation of $240,000 of T.O.T. funding for Fiscal Year 1995 come from the funds requested by the Reuben H. Fleet Space Theater and Science Center in their application for T.O.T. funding currently before the Commission of Arts and Culture, which would result in no increase in expense to the City, but could likely result in a loss, or reallocation, of funding from other organizations with applications before the Commission.

(b) The extension of the Joint Powers Agreement with the County of San Diego for the San Diego Planetarium Authority has no fiscal impact.

(c) The Business Plan's financing assumptions rely on the annual allocation of $240,000, beginning in Fiscal Year 1997 for a period of thirty years,

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A major new attraction, The Simulation Technology Center, is planned for the new structure. It will be anchored by a revolutionary new motion-base simulator that will take 30 people every ten minutes on science "tours" and "missions." The Science Center will be expanded from 9,200 square feet to 16,000 square feet and will be equipped with $1,625,000 worth of new exhibits. Construction is currently anticipated to start in late September, 1994, with a twelve month construction period expected. This expansion is part of the Precise Plan for the Central Mesa of Balboa Park, adopted by the City Council on October 20, 1992.

The San Diego Space and Science Foundation (Foundation), operator of the Fleet Center, is raising $5,500,000 in its Space for Science capital campaign, of which $4,400,000 has already been raised in cash and pledges. Of these pledges, the Weingart Foundation has agreed to grant $500,000, pending the acquisition of additional commitments sufficient to cover the total funding requirements by April 30, 1994. The Reuben H. Fleet Space Theater and Science Center is requesting a commitment from the City of San Diego, prior to this deadline, to issue debt on its behalf in order to secure this grant and funding for the expansion.

The funds from the capital campaign will be used to purchase all the equipment and software for the expanded facility. The Business Plan proposes that construction will be financed by a debt issuance of the San Diego Planetarium Authority in the amount of $8,500,000. This debt will be retired, in part, from revenues to be generated by the new facility, and a proposed contribution from Transient Occupancy Tax (T.O.T.) revenues from the City.

The San Diego Planetarium Authority, created under a Joint Powers Agreement between the City of San Diego and the County of San Diego as of April 10, 1971, is a public agency under the laws of the State of California. It was formed to finance the construction and development of a planetarium and scientific exhibition hall to be used by residents of the city and the county, as well as visitors to the area, for public recreational and educational purposes. The Joint Powers Agreement will remain in force until 2011 and can be extended by actions of the City Council and the County Board of Supervisors to facilitate the proposed debt issuance, if needed.

Following receipt of the Fleet Center Business Plan, City staff began a preliminary review. Due to the specialized nature of the Fleet Center and the proposed expansion, staff recommended that financial advisors with industry expertise be retained to assist the City in its analysis. Because of recent applicable experience with similar facilities, Public Financial Management, Inc. (PFM) was selected from the City's as-needed list of financial advisors to perform this review. A phased approach to this review has been implemented, beginning with a cursory review of the Business Plan and related information provided by the Fleet Center and City staff, at an estimated cost of $6,000. Following a favorable first phase review and direction by City Council, a more comprehensive study would follow, at an estimated cost of $12,000, resulting in a recommendation as to the feasibility of proceeding with a debt issuance. This report describes the outcome of PFM's first phase of the review.

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position.

- Provide or develop additional information that clearly outlines the methodology and supporting data utilized as a basis for attendance projections.

- Provide additional information regarding ticket structure to ensure that all potential competitors are being considered; analysis should include comparable facilities to assist in assessing perceived value of a Science Center ticket.

- Develop a preliminary marketing plan to identify and budget resources in advance of the expansion and to begin to integrate expansion specific marketing plans in current marketing activities.

- Examine the financial implications of a variety of construction scenarios, a range of levels of City support, and alternate inflation assumptions.

- Consider a larger increase in the marketing budget.

- Consider adjusting the fundraising goal to account for an estimated rate of non-collection on pledges and the possibility of financing some uncollected pledges to complete construction in a timely manner.

These additional analyses are important to completing the financing feasibility review.

While PFM has identified many areas of further review, the Business Plan is recognized to be a substantial first step in the process of undertaking a proposed expansion.

It is recommended that the City Council provide policy direction regarding the following assumptions based on the financial implications to the City before undertaking this or any other Plan.

(1) Elimination of the payment to the City of 8% of gross revenue excluding sales tax will result in an annual loss of $250,000, while the City will continue to make debt service payments on the outstanding issue. Currently, the City receives the $250,000 annually, and in turn, utilizes these funds to make the debt service payment of approximately the same amount, through the San Diego Planetarium Authority. Discontinuing this payment to the City would ultimately result in a reduction in T.O.T. revenues to go to the General Fund, or to the funding available for allocation to the other areas of the Special Promotional Programs budget, as the City will continue to make the debt service payments.

It is recommended that an allocation of T.O.T. funding for existing debt service for Fiscal Year 1995 come from the allocations made by the Commission of Arts and Culture, as part of the Fleet Center's pending request. Additionally, it is

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scheduled for Phase IB of the Balboa Park CIP could be reprioritized to allow inclusion of the Fleet Center. It is possible that some projects which may not be ready to proceed may be candidates for rescheduling. Funding from these projects could be utilized as a contribution to the Fleet Center expansion. The Fleet Center received $1.0 million in HVAC improvements as part of the Phase IA improvements. No additional improvements to the Fleet Center are currently scheduled within the Balboa Park CIP.

CONCLUSION

Following Phase I of the review, PFM has concluded that further evaluation of the Business Plan is warranted. The first phase of this review was limited, and relied solely on the assumptions provided in the Business Plan. Phase II would allow the City, with PFM's assistance, to further critically evaluate those assumptions presented, explore other comparable facilities and their respective funding sources, analyze the Fleet Center's competition and market standing, prepare sensitivity analyses identifying potential risks in the Plan and recommend ways to reduce those risks. PFM would also be available to assist the Fleet Center in defining their needs to supplement the Business Plan with further studies and evaluations. Phase II of this review is estimated to cost $12,000.

ALTERNATIVES

Request that the Fleet Center prepare financing alternatives without a Planetarium Authority debt issuance, and/or without contributions from the City's T.O.T. revenues.

Respectfully submitted,

JACK MCGRORY
City Manager

Respectfully submitted,

Patricia T. Frazier

PATRICIA T. FRAZIER
Financial Management Director

FRAZIER/MV/EMD

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DATE ISSUED: **REPORT NO:**

ATTENTION: Honorable Mayor and City Council, Agenda of

SUBJECT: Reuben H. Fleet Space Theater and Science Center Business Plan for Expansion

REFERENCE: City Manager's Report 94-98, dated April 13, 1994

SUMMARY

Issues:

(1) Should the City Council reaffirm its earlier action to:

(a) Refer the Reuben H. Fleet Space Theater and Science Center (Fleet Center) to the annual allocation process of the Commission for Arts and Culture for Transient Occupancy Tax (T.O.T.) contributions; and,

(b) Avoid pledging the City's General Fund revenues as security for any bonds issued and to meet the operating and maintenance expenses of the Fleet Center, and ensure that funding for debt service be the first obligation of the Fleet Center's revenues?

(2) Should the City Council authorize the issuance of debt by the City on behalf of the Fleet Center?

(3) Should the City Council direct the City Manager to execute a revised operating agreement to facilitate the issuance of debt for the Fleet Center, and to specifically:

(a) Discontinue the payment of 8% of gross revenues to the City?

(b) Require the payment of an amount equivalent to the existing outstanding

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Other Recommendations: None.

Fiscal Impact:

(1) Referring the Fleet Center to the CSCDA would result in no fiscal impact to the City. If debt were issued through the CSCDA, interest costs for the Fleet Center would be higher than if debt were issued through the City. However, these higher costs would be significantly lower than rates on a bank loan. If the City were to issue debt on behalf of the Fleet Center, the City would be required to extend its credit and pledge the General Fund as security for annual debt service requirements and to fund operating and maintenance expenses of the Fleet Center, if necessary.

(2) There is no fiscal impact as a result of executing a revised operating agreement with the Fleet Center.

(3) Adhering to the current recommendation for Fiscal Year 1995 results in no fiscal impact. Increasing the allocation from the Commission for Arts and Culture to the Fleet Center would require the reallocation and reduction of funding to other organizations.

BACKGROUND

In May 1979, the City turned the operations of the Reuben H. Fleet Space Theater and Science Center (Fleet Center) over to the San Diego Space and Science Foundation and entered into an operating agreement requiring the remittance of 8% of the Fleet Center's gross revenues to the City. This funding is allocated to the Planetarium Authority to service the debt on the outstanding 1971 Planetarium Authority Revenue Bonds, which were issued to fund construction of the Fleet Center facility.

In November 1993, the City of San Diego received the Reuben H. Fleet Space Theater and Science Center Business Plan for Expansion (Business Plan). This Business Plan outlines the $14 million expansion and renovation that the Fleet Center expects to undergo during 1994 and 1995. Construction is currently anticipated to start in late September, 1994, with a twelve month construction period expected. This expansion is part of the Precise Plan for the Central Mesa of Balboa Park, adopted by the City Council on October 20, 1992.

The Business Plan proposed that construction would be financed by a debt issuance of the San Diego Planetarium Authority in the amount of $8,500,000. This debt would be retired, in part, from revenues to be generated by the new facility, and a proposed contribution from Transient Occupancy Tax (T.O.T.) revenues from the City. Remaining funds are expected to be raised through the Fleet Center's capital campaign. Improvements to the Fleet Center facility would become City property.

Park/Mission Bay Park Capital Improvement Program, Phase IA improvements. This program is funded through a one cent allocation of the Transient Occupancy Tax revenues. No additional improvements to the Fleet Center are currently scheduled within the Balboa Park CIP. The Balboa Park/Mission Bay Park CIP was initially designed to fund the renovation of existing facilities, not major enhancements or new facilities. Although the City will utilize Balboa Park/Mission Bay Park CIP monies to fund the reconstruction of the historically significant House of Charm and House of Hospitality facilities, the City has not pledged the General Fund to fund operating and maintenance expenses, as was pledged in the original 1971 Planetarium Authority debt issue. The current request of the Fleet Center assumes a similar pledge. Other institutions have made improvements to City facilities utilizing private funds and donations.

DISCUSSION

PROJECT FEASIBILITY

During the second phase of the financial review, the Fleet Center provided the City with additional information and commissioned a third party construction cost estimate, and a marketing study, prepared by White Oak Associates. The Fleet Center also brought the California Statewide Communities Development Authority (CSCDA) to the City's attention, as an alternative source of financing.

A financial model was created to ascertain the feasibility of the expansion plan, and to substantiate the Fleet Center's ability to take on the proposed added debt to fund construction. Under most scenarios considered with the model, the Fleet Center exhibited a fairly strong financial position, demonstrating the ability to successfully undertake the proposed expansion, debt issuance and repayment.

The model produced scenarios reflecting the ticket prices recommended in the study prepared by White Oak Associates, as well as the ticket structure preferred by the Fleet Center. Fleet Center representatives have indicated their reluctance to adopt the higher price levels recommended in the White Oak study. Lower ticket prices are preferred by the Fleet Center because the ability to increase ticket prices allows for additional revenues to be generated, in the event attendance does not grow as expected.

The Fleet Center's plan encompasses increases to ticket prices every three years, as is the current practice. The White Oak study recommended initial prices following the completion of the expansion at a higher level than the prices reflected in the Fleet Center's plan. Scenarios utilizing the Fleet Center's preferred, lower prices result in successful outcomes and positive net operating revenues for the Fleet Center. However, it should be noted that the Fleet Center is projected to experience a $100,000 shortfall in Fiscal Year 1995.

The City Manager met with Fleet Center representatives on several occasions to discuss the outcome of the feasibility review and options for financing the expansion. The Fleet Center has (see Attachment B.) Because of this, it is becoming increasing important to carefully select capital projects to be financed with the credit of the City's General Fund. In addition, other cultural institutions within the city are planning significant expansions and undertaking capital projects, and have approached the City for assistance in obtaining long term financial support.

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

An alternative financing structure utilizing the California Statewide Communities Development Authority (CSCDA) as a conduit borrower was identified by the Fleet Center. The CSCDA was formed by the League of California Cites and the California State Association of Counties to jointly pursue programs that improve the quality of life and economic vitality of communities throughout the state. The CSCDA offers many programs, including Industrial Development Bonds, Collective Purchasing Programs, Equipment Lease Financing, and Nonprofit Corporation Financing, for its member municipalities. The City of Los Angeles has effectively utilized the CSCDA to refer nonprofit organizations seeking financing for capital projects.

In the case of the Fleet Center, the CSCDA could be employed to issue debt on its behalf. The City of San Diego would be required to approve the project, and adopt a resolution after the completion of a public, or TEFRA, hearing. TEFRA hearings must be held by the sponsoring government agency prior to the issuance of private activity bonds. A letter of credit would be needed to ensure that bonds issued will be rated at least "A" at the time of sale. The CSCDA process is expected to take approximately four months from the time of initiation, while a City issuance would take longer.

If the City were to issue debt on behalf of the Fleet Center, estimated debt service requirements would be $645,000 annually. Issuance of debt through the CSCDA, with a letter of credit to ensure a rating of a least "A", would result in annual debt service in the range of $716,000 to $786,000. The increased debt service is due to the required letter of credit, which raises the overall costs. Cost estimates for the letter of credit are reflected as a range because the securing of a letter of credit will be subject to negotiation. The annual premium cost is estimated to fall within the range of 0.75% - 1.5% of the total debt issuance. In contrast, securing private financing to fund the expansion would require annual debt service payments of approximately $996,000.

Financing scenarios reflecting an issuance through the CSCDA with a letter of credit, and the Fleet Center's preferred lower prices result in a positive outcome financially. The following table summarizes the financing options considered, comparing important factors.

- The Fleet Center's model does not initiate price increases in the year previously agreed upon, but instead price increases lag one year behind.

Although differences exist between the two models, the Fleet Center's model, with deferred increases to ticket prices, also reflects favorable outcomes under the financing scenarios for a City issuance and a CSCDA issuance, with a letter of credit.

While an issuance through the CSCDA would require an increase of between $71,000 - $141,000 to the annual debt service required of the Fleet Center, a continued practice of acting as conduit for organizations to secure long term financing could deplete the City's debt capacity and could potentially result in the downgrading of the City's bond rating. A downgraded rating would result in increased interest costs for City projects. Comparing these alternatives, the disadvantages of issuing through the CSCDA are less significant than the potential consequences of the City issuing debt on behalf of other institutions.

Fleet Center representatives have indicated their desire to utilize the least expensive financing vehicle in order to enhance the establishment of capital replacement, operation and discretionary reserves to be funded by surplus operating revenues. Currently the Fleet Center operates without formally designating a reserve, and has traditionally funded the maintenance and replacement of capital equipment on an ongoing basis through grants and operating revenues. An equipment replacement plan or schedule reflecting the needs of the Fleet Center has not yet been developed, however surplus revenues could be utilized to fund equipment replacement without the designation of a reserve. Following the expansion, it is expected that these needs would increase.

Discontinuing the payment of 8% of revenues from the Fleet Center to the City would reduce revenues to the City by approximately $240,000. This funding is utilized to make payments on the existing outstanding bonds, which are to be retired in Fiscal Year 1997. Until the existing outstanding issuance is retired, it is recommended that the City require payment for the existing debt service from the Fleet Center, in lieu of the 8% payment. Following the retirement of the outstanding bonds, no payment would be required of the Fleet Center.

The Fleet Center had requested an annual allocation of $240,000 from the City's T.O.T. revenues as a contribution towards the annual debt service requirements. This request is in addition to the Fleet Center's application for a T.O.T. allocation through the Commission for Arts and Culture. It is recommended that the Fleet Center request an increased T.O.T. allocation through the Commission's annual allocation process, and utilize that funding to supplement operations and debt service requirements.

CONCLUSION

Following a comprehensive review of the Fleet Center Business Plan, it is recommended that the City Council reaffirm its earlier action to refer the Fleet Center to the allocation process of

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(4) Contribute funding to the Fleet Center to establish a cash reserve to eliminate the need for credit enhancement. The cash reserve would need to be equivalent to the par amount of any bonds issued (at least $9.0 million.)

Respectfully submitted,

BRUCE HERRING
Deputy City Manager

Respectfully submitted,

PATRICIA T. FRAZIER
Financial Management Director

FRAZIER/MV/ED

Attachments

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IMPACT OF DOWNGRADED CITY RATING

Given the City of San Diego's current Aaa/AA+ General Obligation bond rating, lease revenue bonds or certificates of participation (COPs) would be expected to receive a rating of Aa/AA-. The table below reflects the increased costs associated with lower rating for the expansion of the Convention Center, and the Sports and Entertainment Complex.

PROJECT	Average Annual Debt Service Aa/AA- Rating (estimate)	Average Annual Debt Service A/A- Rating (estimate)	Annual Increase	Cumulative Additional Cost Over Life of Project
Convention Center Expansion ($150,000,000)	$10,865,941	$11,215,467	$349,526	$10,678,715
Sports and Entertainment Complex ($70,000,000)	$5,068,413	$5,234,257	$165,844	$5,065,529

CITY OF SAN DIEGO DEBT RATIOS

The following table summarizes the debt ratios of the City, considering proposed and potential debt issuances, as compared to the City's population and as a percent of total assessed valuation. These ratios are also contrasted with median values, as reported by Moody's Rating Agency, for cities with population greater than 500,000. These ratios are utilized by the bond rating agencies in determining the investment quality of the City's debt.

Debt Ratios	Moody's Rating Agency Median	City of San Diego Currently	With $132.2 M Convention Center Issue	AND With $70 M Sports Arena Issue	AND With $25 M Balboa Park Phase IC Issue
Net Direct Debt Per Capita	$652	$221	$340	$403	$426
Net Overall Debt Per Capita	$1,363	$864	$983	$1,046	$1,068
Net Direct Debt as % of A.V.	1.8	0.4	0.61	0.72	0.76
Net Overall Debt as % of A.V.	2.9	1.5	1.7	1.86	1.9

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