



Legislation Text

File #: 20-0388, **Version:** 1

Recommendation to authorize City Manager, or designee, to execute all documents necessary to evidence (i) a loan by the City of Long Beach to the Aquarium of the Pacific Corporation of up to \$2,154,000, from the Tidelands Operating Fund Group, (ii) the acceptance of the prepayment of an existing 2017 loan by the City to the Aquarium, and (iii) the prefunding of the Challenge Grant by the City to the Aquarium; and, approving related documents. (District 2)

On March 4, 2020, California Governor Newsom declared a State of Emergency in response to the spread of the novel coronavirus (COVID-19). Shortly thereafter, the City of Long Beach (City) also issued a Proclamation of Local Emergency, beginning a series of measures to protect Long Beach residents. As a result of the State's and City's health orders, the Aquarium of the Pacific Corporation (Corporation) suspended public visitation to the Aquarium of the Pacific (Aquarium). Revenues have been severely impacted and will continue to be impacted until the Aquarium can reopen and have a significant attendance. The Corporation intends to open as soon as allowed with appropriate safeguards complying with any revised health order. If the opening is soon enough and the attendance is adequate, the Corporation's revenue stream could be sufficient to allow the Corporation to meet its October 2020 rent obligations to the City. The rent is deposited and used by the City's Tidelands Operating Fund Group to pay debt service on the 2012 Aquarium refunding bonds. However, there is no assurance that the Aquarium will be able to make the full rent payment.

The Corporation has requested two actions to assist them through this pandemic. The actions are intended to minimize impact on the City while still providing support for this important City landmark and attraction. The proposed actions are as follows:

1. The Corporation has requested a loan, if needed, to pay up to the full amount of the annual \$2,154,000 rent payment due to the City on October 15, 2020. The loan is a term loan due in 2032 (the year after the rent payments end), but can be prepaid in whole or in part. The Corporation has indicated a desire to pay off the loan as soon as practical, potentially by the end of 2024, if, in the Corporation's view, that early payoff is consistent with the Corporation maintaining a sound financial condition. The loan will be evidenced by a loan agreement and a promissory note, drafts of both of which are attached.
2. A combined transaction in which the 2017 loan by the City to the Corporation (related to Pacific Visions) is prepaid in its entirety by the Corporation and the balance of the City's conditional Challenge Grant to the Aquarium (also related to Pacific Visions) is also prefunded and paid to the Aquarium with a net result of a cash payment to the City

by the Aquarium of \$4,863,918. This transaction provides the City with more flexibility to manage the financial implications of the COVID-19 pandemic on its own. This combined transaction will be evidenced by the First Amendment to the Amended and Restated Implementation Agreement, a draft of which is attached.

The key terms of the Rent Loan are as follows:

- The principal amount will be up to \$2,154,000.
- The term will be 12 years, maturing in 2032.
- Interest only payments will be made annually in arrears, each October, through 2032.
- The principal will be due in October 2032.
- The Corporation may partially, or fully, repay the loan on any interest payment date without penalty.
- The loan interest rate will be reset each October 1st at the City's annual purchase yield investment pool rate at each September 30th fiscal year end plus 25 basis points (0.25 percent).
- Any payment is first applied against interest due, then against principal.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and by Finance Director John Gross on April 23, 2020.

City Council action is requested on May 5, 2020, to assist the Corporation in its mission to maintain the Aquarium as a major City landmark and attraction, and to support public education.

If the City lends money to the Corporation (up to \$2,154,000) before October 15, 2020, this will reduce Tidelands Operating Fund Group cash and increase expenditures by \$2,154,000. If this occurs, an appropriation increase may be needed, and a request would be brought to the City Council at the appropriate time. However, if the Corporation could not make the rent payment, the City would still have an obligation to pay the debt service on the bonds that the rent is intended to cover, which would have the same net impact on the Tidelands Operating Fund Group as the issuance of the loan. Either way, the impact is the same on the City, but in the case of the loan, the Corporation does not go into default as a result of the COVID-19 pandemic, something both the City and the Corporation have an interest to avoid. The loan is unsecured, but the relationship with the City is such that the Corporation is extremely likely to make the payments.

The combined transaction, where the Corporation prepays the 2017 loan from the City and

the City prefunds its Challenge Grant, has several practical financial impacts.

- It provides the City with \$4,863,918 in cash.
- It relieves the Corporation and the City of future obligations with regard to the 2017 loan and the Challenge Grant.
- It provides the Corporation with increased financial flexibility to address the pandemic.
- The City will need to fund the remaining \$11,063,918 of debt service on the 2017 Aquarium (Pacific Visions) Bond issue. That debt service is equal, in total, to the amount of the \$4,863,918 that the City will receive in cash from the Aquarium plus what would have been the City obligation for the remaining years of the Challenge Grant. Overall, if the City does not otherwise spend the \$4,863,918 in cash from the Corporation, there is no net financial impact to the City, although the timing and amount in each year will differ.

In any event, either with or without these transactions, the Tidelands Operating Fund Group in the Citywide Activities Department has been, and will continue to be, responsible for both the debt service on the 2012 Aquarium Refunding Bonds and the 2017 Aquarium (Pacific Visions) Bonds. These transactions do not change that ultimate obligation, but rather make it less likely of a technical Corporation default to the City, and give the Corporation additional financial flexibility to weather the pandemic. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.
Approve recommendation.

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JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
ACTING CITY MANAGER