

**CITY OF LONG BEACH**

DEPARTMENT OF FINANCIAL MANAGEMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

August 1, 1995

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Resolution Authorizing the Issuance of Bonds, and a
Ground Lease City Pledge Agreement for the Aquarium of
the Pacific

It is recommended that the City Council adopt a resolution authorizing a bond issue not to exceed \$130 million, authorize a Ground Lease and a City Pledge Agreement, all in connection with the proposed Aquarium of the Pacific.

BACKGROUND

Construction of the proposed aquarium will be on a site within the Tidelands area of the City and financed by revenue bonds to be issued by the Aquarium Foundation. Previously, it was anticipated that a bond issue of \$110 million would be required for the project. Staff is currently evaluating the costs and benefits of constructing a parking structure for the aquarium rather than a surface parking lot. The bond authorization has been increased to provide for the structure should it be economically feasible.

The bond issue is currently scheduled to take place in September of this year. The successful sale of bonds will depend on several critical factors including projected attendance, admission charges, market rates at the time of the bond sale and the ability to secure an investment grade credit rating. A financial feasibility report being prepared by Coopers and Lybrand addresses the first two issues. Although not complete, all indications are that revenues from operations will be sufficient to pay operating costs, annual debt service on the bonds and contributions towards a Capital Reserve Fund. It is anticipated, however, that investors will require that annual revenues provide for a debt service coverage ratio of one and one-half times the annual debt service. The higher the debt service coverage ratio the more attractive the bonds will be to these investors, and the more likely an investment grade rating will be obtained.

Although bonds are solely an obligation of the Foundation, to assist the aquarium with the required debt service coverage ratio, the Redevelopment Agency has committed to provide a backup pledge

HONORABLE MAYOR AND CITY COUNCIL

August 1, 1995

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of the Agency's portion of the Transient Occupancy Tax (TOT) generated within the Downtown Project Area. To achieve this, the Board of Harbor Commissioners has agreed to subordinate their claim against the TOT as called for in the Cooperation Agreement between the Redevelopment Agency and the Board.

Given the importance of the project to the City, the importance of timely payment of the bonds to the City's general credit rating and to further enhance the marketability and credit of the bonds, the City Council is being asked to provide an additional backup pledge of the Tidelands Operating Fund (TOF). To strengthen the City's pledge, the City Council is being asked to take into consideration the obligations of the TOF when determining its annual budget. This would include consideration of requesting a transfer of net income of the Harbor Revenue Fund under Section (1209(c)(4) of the City Charter. The Board of Harbor Commissioners has agreed to also consider these same actions.

The site of the proposed aquarium is within the Tidelands area of the City and the City Council is being asked to authorize the City Manager to execute a Ground Lease with the Aquarium Foundation. This matter has been discussed and reviewed by Heather Mahood of the City Attorney's Office.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Adopt a resolution approving the issuance by Long Beach Aquarium of the Pacific of not to exceed \$130,000,000 of its Revenue Bonds (Aquarium of the Pacific Project) 1995 Series A and authorizing the execution and delivery of a Ground Lease and a City Pledge Agreement between the City of Long Beach and Long Beach Aquarium of the Pacific, making certain findings and establishing certain policies with respect to the City's Tidelands Operating Fund, authorizing the filing of a Validation Action and authorizing related actions.

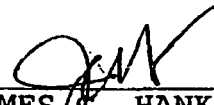
Respectfully submitted,



ROBERT S. TORREZ
Director of Financial Management

APPROVED:

RST:RGH:pb



JAMES C. HANKLA
CITY MANAGER

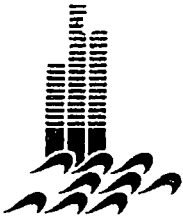


EXHIBIT "B"

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

~~1007~~
REG. C-27820

April 3, 2001

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Resolution Approving the Execution and Delivery of an Amended and Restated Pledge Agreement and Other Bond Related Matters for the Long Beach Bond Finance Authority 2001 Series A&B Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) (District 2)

DISCUSSION

With assistance from the City, the Aquarium Corporation (Corporation) issued \$117.5 million in revenue bonds in 1995 to finance the construction of the Aquarium of the Pacific (Aquarium). As part of the financing plan, the City agreed to support the payment of debt service by pledging two City revenue sources. The first revenue source was the Transient Occupancy Tax (TOT) collected by the Redevelopment Agency within the Downtown Project Area and the second was all revenues generated within the Tidelands Operating Fund (TOF), excluding existing obligations. The TOT and TOF pledges would be used only in the event of a deficiency in amounts available for the Aquarium bond payment. In addition, the City agreed to transfer the first \$1.5 million of net profit from the City Aquarium garage to the Aquarium each year.

The Aquarium's much-anticipated debut in June 1998 brought large crowds and long lines to the new facility. In its first 12 months of operation, the Aquarium saw attendance figures of 1.8 million visitors. Although attendance levels were impressive, they fell short of the 2.1 million visitors estimated by Coopers and Lybrand in their 1995 report. Similar to the experience of all major aquariums, attendance has steadily dropped since the first year of operation. The Aquarium had 1.5 million visitors in FY 99 and 1.1 million visitors in FY 00. Recent studies concluded that the Aquarium's capacity is 1.1 to 1.4 million visitors per year. The reduction in attendance led to a corresponding reduction in Aquarium revenues.

In addition, the Aquarium's debt service comprises approximately 37 percent of total expenditures. This factor, in combination with declining revenues, led to a budgetary deficit of \$4.7 million at the end of FY 00. Despite the Aquarium's ongoing financial difficulties, all debt service payments have been made to the bond holders.

HONORABLE MAYOR AND CITY COUNCIL

April 3, 2001

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The current average annual bond payments of \$9.4 million are split into two semi-annual payments. The next bond payment of \$5.9 million must be deposited with the bond Trustee by June 15, 2001. The current Aquarium cash flows project a deficit of approximately \$2.0 million for the June payment, requiring that the City pledges be drawn upon to backfill the deficit so that the debt service payment is made on time and in full. Since the pledged TOT and TOF revenues are fully budgeted to finance Tidelands operations and capital programs, any call on these City pledges would have an impact on the City's ability to maintain the viability of TOF programs.

With assistance from the City, the Aquarium has analyzed both short- and long-term alternatives to this situation. The primary short-term options have already been implemented, including a \$1.8 million reduction of operating costs to a level that will not jeopardize animal health or the quality of Aquarium programming. Longer term options include improving attendance and membership revenues, improving revenue from donations, fundraising and sponsorships, and restructuring the existing debt to reduce the Aquarium's single largest expenditure. The Aquarium has already put in place plans and strategies to address the first two long-term options, and they have requested that the City assist with the third option.

The primary objective of the proposed debt restructuring (bond refunding) is to reduce annual debt service payments. The proposed structure will extend the term of the bonds by seven years, with a new final maturity in 2030, and will also defer all or a portion of principal payments for the first five years, thereby significantly reducing annual bond payments during that period (approximately \$5.4 million versus \$9.4 million current payment). After five years the annual debt service for the new issue will increase (\$8.3 to \$8.8 million) but still be less than the annual debt service for the 1995 Aquarium bonds (Exhibit A).

Current tax law does not permit the Aquarium to advance refund or "call" the bonds until after 2005. However, the City may, through its Long Beach Bond Finance Authority, issue refunding bonds in advance of the 2005 call date. Under the proposed legal structure the Aquarium retains its 501(c)(3) status, but is now treated as an instrumentality of the City (a governmental entity). Further, all assets of the Corporation must be turned over to the City.

As a result, the City will own the Aquarium and will also have more input and control into its operations. The City must consent to the appointment of Board members and must approve the Corporation's annual budget and any material alterations to the budget. The Corporation must also provide periodic and annual audited reports to the City so that potential problems can be identified and addressed early on.

HONORABLE MAYOR AND CITY COUNCIL

April 3, 2001

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This structure is designed to simplify the legal issues associated with the issuance of the refunding bonds, and provide the City with greater latitude in refunding and restructuring the Aquarium debt. The Corporation will continue to operate the Aquarium under a lease agreement with the City/Long Beach Bond Finance Authority. Overall, the structure of the financing remains very similar to the original transaction. The Aquarium lease payment will consist of 100 percent of gross revenue, but may exclude restricted fund raising and restricted sponsorship revenues. The lease payment will provide for ongoing operations, maintenance, bond payment and reserve costs and requirements. As the operator of the Aquarium, the Corporation is the party primarily liable for personal injury claims and similar concerns relating to the Aquarium's operation.

The actual bond structure will be determined by market conditions at time of sale. Municipal bond rates, at this time, are currently at near historical lows. Therefore, it is contemplated that fixed rate bonds will be issued in an amount of approximately \$129 million. In addition, the attached bond documents allow the City to take advantage of other structuring opportunities that may be available after the bonds are issued that could reduce bond payments further. A portion of the fixed rate bonds will be temporarily converted to a lower variable rate through a swap hedge transaction. A swap transaction is a commonly used tool to manage cash outflows related to bond payments.

The proposed bond amount includes amounts sufficient to pay off the outstanding balance of the 1995 bonds and the premium required for early payoff of the 1995 bonds, bond insurance fees on the new bonds, to provide for required reserves, and to pay legal, underwriter and financial consultant fees. Since the 1995 bonds may not be redeemed or called until 2005, sufficient new bond proceeds must be placed into escrow so that, together with interest earnings, all bond obligations of the 1995 bonds will be paid through 2005, including payoff of the outstanding debt balance on the call date. Authorization is requested to issue up to \$134 million as a contingency in case market conditions change before the bonds are sold.

The success or failure of the Aquarium will reflect equally upon the City and the Aquarium. The proposed restructuring gives the Aquarium the opportunity to promote the facility so that it achieves the targeted levels of attendance and private funding necessary to keep it financially and operationally sound. In addition, the current cash flow position makes the City's pledges vulnerable. A call on either the TOT or TOF revenues will impact the City's ability to continue beach maintenance, provide lifeguard coverage, fund operations and infrastructure expenses and pay for Convention Center operations. The proposed bond restructuring will reduce the risk of future calls on the City's TOT and TOF pledges.

HONORABLE MAYOR AND CITY COUNCIL

April 3, 2001

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Budget Manager Annette Hough and Assistant City Attorney Heather Mahood reviewed this item on March 12, 2001.

TIMING CONSIDERATIONS

The Aquarium must make its next bond payment of \$5.9 million by June 15, 2001. The current Aquarium cash flows project a deficit of approximately \$2.0 million for that payment. Once approved by the City Council, the financing schedule requires approximately 60 days to finalize legal documents, market the bonds and close the transaction. To prevent a draw on the City pledges, the requested approval for the bond issuance must be given on April 3, 2001.

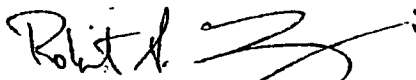
FISCAL IMPACT

Preliminary estimates project a \$2.7 million to \$4.0 million annual cash flow savings to the Aquarium in the first five years of the new bond issue. The Aquarium is projected to save an estimated \$1.1 million annually from years 6 to 11, \$0.6 million annual savings from years 12 to 23, and will incur an \$8.8 million annual cost in years 24 to 30 due to the seven-year extension of the amortization schedule. Because the Aquarium's fundraising has not yet matured, it is possible that calls on the City's pledges are likely in each of the next five or more years. The requirement to use TOT or TOF revenue to fund a shortfall in the City's Aquarium bonds could require budget reductions in the aforementioned Tidelands programs and/or a subsidy to the Tidelands from another funding source, such as the General Purpose Fund. The costs of the financing will be paid from bond proceeds.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Adopt the Resolution approving the execution and delivery of an amended and restated Pledge Agreement and other bond related matters for the Long Beach Bond Finance Authority 2001 Series A&B Lease Revenue Refunding Bonds (Aquarium of the Pacific Project).

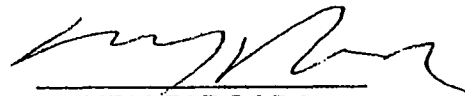
Respectfully submitted,



ROBERT S. TORREZ
DIRECTOR OF FINANCIAL MANAGEMENT

RST:JDS:kc
Attachments

APPROVED:



HENRY TABOADA
CITY MANAGER

Exhibit A

The following table compares the existing 1995 Aquarium Bond debt service to the debt service of the proposed Aquarium refunding bond.

BOND SCHEDULE			
Fiscal Year ⁽¹⁾	Existing Bond Payments	Proposed Bond Payments ⁽²⁾	Benefit / Cost
2001	\$5,878,518	\$3,147,621	\$2,730,898
2002	\$9,375,436	\$5,395,921	\$3,979,515
2003	\$9,377,286	\$5,395,921	\$3,981,365
2004	\$9,381,099	\$5,395,921	\$3,985,178
2005	\$9,379,924	\$5,395,921	\$3,984,003
2006	\$9,379,261	\$8,270,921	\$1,108,340
2007	\$9,383,536	\$8,283,830	\$1,099,706
2008	\$9,379,916	\$8,295,040	\$1,084,876
2009	\$9,383,791	\$8,304,152	\$1,079,640
2010	\$9,383,941	\$8,319,140	\$1,064,801
2011	\$9,379,756	\$8,330,742	\$1,049,014
2012	\$9,379,544	\$8,753,896	\$625,647
2013	\$9,383,100	\$8,753,516	\$629,584
2014	\$9,379,200	\$8,752,291	\$626,909
2015	\$9,382,231	\$8,754,441	\$627,790
2016	\$9,380,663	\$8,753,921	\$626,741
2017	\$9,383,575	\$8,754,881	\$628,694
2018	\$9,379,438	\$8,751,196	\$628,241
2019	\$9,382,331	\$8,751,946	\$630,385
2020	\$9,380,419	\$8,753,184	\$627,235
2021	\$9,382,475	\$8,755,208	\$627,267
2022	\$9,381,663	\$8,753,014	\$628,648
2023	\$9,381,450	\$8,751,086	\$630,364
2024		\$8,753,648	(\$8,753,648)
2025		\$8,754,666	(\$8,754,666)
2026		\$8,753,365	(\$8,753,365)
2027		\$8,755,396	(\$8,755,396)
2028		\$8,752,852	(\$8,752,852)
2029		\$8,754,950	(\$8,754,950)
2030		(\$461,898)	\$461,898
Totals:	\$212,258,553	\$231,636,693	(\$19,378,139)

⁽¹⁾ The Aquarium Corporation's fiscal year is from January 1 to December 30.

⁽²⁾ The proposed bond structure would represent 100% fixed rate tax-exempt debt issued through 2030. The City intends to secure a fixed to variable rate swap agreement at some future date when the swap market is advantageous to the City. It is anticipated that such a swap agreement could reduce the projected annual debt service. The numbers above reflect the net result of the anticipated swap transaction. The proposed bond structure would require semi-annual debt service payments on May 1 and November 1.

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EXHIBIT "C"

CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

01 MAY 24 AM 11:34
CITY CLERK
LONG BEACH, CALIF.

May 29, 2001

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Agreement Between the City of Long Beach and the Aquarium of the Pacific to Jointly Share Duties and Responsibilities as Co-applicants for a Grant From the U.S. Department of Commerce, Economic Development Administration (District 2)

DISCUSSION

On March 6, 2001, the City Council authorized a partnership between the City and the Aquarium of the Pacific as co-applicants for a grant from the Economic Development Administration to accomplish a feasibility analysis and conceptual plan for the future of the Aquarium of the Pacific. A copy of the March 6, 2001 City Council letter is attached as Exhibit "A." The study and plan will enable the Aquarium to better accomplish its fund development and, ultimately, support its goals for financial stability.

The grant application requires a formal written agreement between co-applicants describing the respective duties and responsibilities for project completion. Both the City and the Aquarium are required to contribute cash and in-kind services as the local share match for the grant. The City will have primary responsibility for application matters and project management.

The initial project concept has been refined to accomplish desired goals and objectives within a total budget of \$500,000. The required 50% match will consist of \$125,000 cash and \$125,000 in-kind, with the City contributing \$50,000 cash and \$25,000 in-kind, and the Aquarium contributing \$75,000 cash and \$100,000 in-kind. The City's cash match will be used to procure consultant services in grant writing and project management assistance. The recommended agreement between the parties will delineate the terms of cooperation, as well as fiscal and related grant responsibilities.

This City Council letter was reviewed by Principal Deputy City Attorney Mike Mais on May 18, 2001 and by Budget Bureau Manager Annette Hough on May 17, 2001.

HONORABLE MAYOR AND CITY COUNCIL

May 29, 2001

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TIMING CONSIDERATIONS

A formal application was submitted to the Economic Development Administration on May 18, 2001, as authorized by the City Council action of March 6, 2001. The recommended agreement, a supplement to that application, must be submitted on or before May 31, 2001.

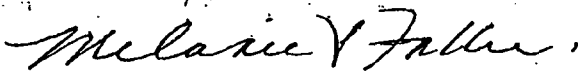
FISCAL IMPACT

There is no fiscal impact at this time. If the application is successful, the City will receive an estimated \$250,000. Another Council action will be submitted at that time requesting an appropriation increase and identifying matching funds.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

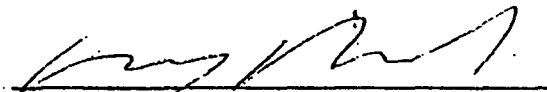
Authorize the City Manager to execute an Agreement of Cooperation between the City of Long Beach and the Aquarium of the Pacific to jointly share duties and responsibilities as co-applicants for a grant from the Economic Development Administration.

Respectfully submitted,



MELANIE S. FALLON
DIRECTOR OF COMMUNITY DEVELOPMENT

APPROVED:



HENRY TABOADA
CITY MANAGER

MSF:PEV:sh
S:BAD Council letters/Aquarium
Exhibit "A"

31



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

01 MAR - 1 PM 3:39
CITY OF LONG BEACH

March 6, 2001

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

SUBJECT: Authorization to Apply for a Grant of \$450,000 to Accomplish a Feasibility Analysis and Conceptual Plan for the Future of the Aquarium of the Pacific (District 2)

DISCUSSION

On February 13, 2001, City Staff and Aquarium officials presented pre-application materials to the U.S Department of Commerce, Economic Development Administration (EDA), for a grant to assist in the preparation of a feasibility analysis and conceptual plan for the future of the Aquarium of the Pacific. The purpose of the grant is to acquire the funding needed to support the preparation of a feasibility study and conceptual plan related to the Aquarium's facility needs. The study and conceptual plan will enable the Aquarium to better accomplish its fund development and, ultimately, support its goals for financial stability.

The project has been presented to the Comprehensive Economic Development Strategy (CEDS) Committee of South Los Angeles County. The CEDS Committee, which screens funding requests for the EDA, unanimously approved recommending the project to EDA for supplemental funding in Fiscal Year 2001. Staff has been informed that the pre-application was well received by EDA and that the City will be invited to submit a formal application for the project. The EDA submission will be a joint application of the City and the Aquarium of the Pacific. Funds requested from EDA total \$450,000, with the City and Aquarium providing the required match through a combination of cash and in-kind contributions. City and Aquarium staff are currently engaged in the process of identifying what sources may be available for the cash match and in-kind contributions. At this time it is anticipated that the City's principal participation will be in the area of in-kind contribution through project management assistance supporting the currently proposed project.

This City Council letter was reviewed by Principal Deputy City Attorney Mike Mais and by Budget Bureau Manager Annette Hough on March 1, 2001.

HONORABLE MAYOR AND CITY COUNCIL

March 6, 2001

Page 2

TIMING CONSIDERATIONS

The formal EDA application is due on March 15, 2001. Staff has substantially completed the required paperwork. As the City must serve as the grant recipient, City Council action is needed on March 6 to finalize and submit the application.

FISCAL IMPACT

If the application is approved, revenue of \$450,000 will be received to accomplish the project. At that time, the City Council will be requested to accept the funds, increase appropriations as necessary and to commit any required matching dollars or in-kind services needed to secure the grant.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to execute all necessary documents to submit a joint application of the City and the Aquarium of the Pacific for a \$450,000 grant from the Economic Development Administration (EDA) to prepare a feasibility analysis and conceptual plan for the future of the Aquarium.

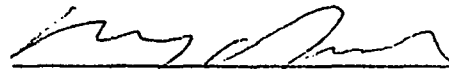
Respectfully submitted,

L. A. Montgomery, for

MELANIE S. FALLON
DIRECTOR OF COMMUNITY DEVELOPMENT

MSP:PEV:SH
02-12-2001 10:20 AM

APPROVED:



HENRY TABOADA
CITY MANAGER