



CITY OF LONG BEACH

OFFICE OF THE CITY MANAGER

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December 20, 2016

HONORABLE MAYOR AND CITY COUNCIL
 City of Long Beach
 California

RECOMMENDATION:

Approve payments to the Aquarium of the Pacific for the \$10.7 million balance of a \$15 million Aquarium Challenge Grant, to be paid from Tidelands operating funds, as part of the funding for the Pacific Visions Project, subject to conditions, and authorize the City Manager to execute the necessary documents in connection therewith.

DISCUSSION

The City has long recognized the value of the Aquarium of the Pacific facility (Aquarium) and its management by the Aquarium of the Pacific Corporation (Corporation). The City also recognizes the benefits that will be provided to the City and its residents and businesses by the proposed Pacific Visions expansion. In support of the Aquarium, the City has issued over \$100 million in bonds (through the Long Beach Bond Finance Authority), supports the Aquarium with \$6 million per year in funding for debt service on those bonds, and has provided other funding and support, including the Aquarium Challenge Grant (Grant), as described below.

The Grant was awarded by the City Council in 2013, as a non-binding program to grant City Tidelands funds to the Corporation to encourage donations to a major addition to the Aquarium – the Pacific Visions Project. The Grant was intended to be up to \$1.5 million a year for ten years, for a total of \$15 million, subject to an annual appropriation, if funding is available. To date, the City has paid \$4.3 million to the Corporation. Since the creation of the Grant, there has been a precipitous decline in Tidelands oil revenue. As a result, recent actual payments have been less than originally contemplated. Payments to date are shown below:

City Grant Payments Made to the Corporation

City Fiscal Year	Amount (\$ in M)	Payment Date
2013	\$1.5	10/11/13
2014	\$1.5	10/27/14
2015	\$1.3	2/25/16
2016	-	Tidelands projects all under review
Total	\$4.3	Does not include 2017 budget of \$1.5 M

Much of the private contributions for the Pacific Visions Project have been received or pledged. As a result, the Corporation has proposed a specific schedule for the balance of the Grant, paid from Tidelands operating funds and subject to the conditions outlined in this letter. According

to the Corporation, the commitment of the City to this payment schedule will allow construction of the Pacific Visions Project to proceed in early 2017. The proposed payment schedule is as follows:

Grant Payment Schedule

City Fiscal Year	Amount (\$ in m)	Source
2017	1.5	Budgeted in Tidelands for FY 17
2018	1.0	½ from refunding savings, ½ from operations
2019	1.0	½ from refunding savings, ½ from operations
2020	1.0	½ from refunding savings, ½ from operations
2021	1.0	½ from refunding savings, ½ from operations
2022	1.0	½ from refunding savings, ½ from operations
2023	1.0	½ from refunding savings, ½ from operations
2024	1.5	Savings from end of debt service re Rainbow Harbor
2025	1.7	Savings from end of debt service re Rainbow Harbor
Total	\$10.7	

The source of payments for the middle six years of the Grant (other than the first year and last two years) includes \$500,000 per year from savings in debt service due to a recent refunding of outstanding Rainbow Harbor bonds, and a separate \$500,000 from Tidelands operating funds. It is intended that the annual \$500,000 from operations will come from oil revenue above current operating needs, although that is not certain; if new revenue is not available, budget adjustments may be necessary. Similarly, the last two years (2024 and 2025) will be funded entirely by savings that result from the termination of debt service payments for the Rainbow Harbor bonds. The Rainbow Harbor bonds will be paid off in 2023 and the bonds' \$3 million per year in debt service payments will end at that time. The Corporation is planning to borrow money to construct the Pacific Visions Project. To satisfy the needs of the lending institution that provides a loan, the City's Grant payments to the Corporation will need to have priority over all Tidelands operating needs, except for debt service payments on existing Tidelands bonds (the Aquarium and Rainbow Harbor) and any Tidelands bonds expected to be issued in the future.

Terms and Conditions of the Grant

The terms and conditions applicable to the Grant are as follows.

1. Bond debt service payments paid from the Tidelands fund will have priority over the Grant payments since the Grant payments cannot legally be in conflict with any Tidelands bond indenture requirements (e.g., Aquarium and Rainbow Harbor debt).
2. Unless the time period is extended by the City, the Grant payments paid under this proposal will be returned to the City if the Pacific Visions Project construction is not under material and continuing construction within five years of this approval.

HONORABLE MAYOR AND CITY COUNCIL

December 20, 2016

Page 3 of 4

3. The Pacific Vision Project construction contracts will require the payment of Prevailing Wages.
4. Any loan or line of credit transaction that the Corporation enters into will comply with the terms of the Aquarium bond covenants and will not be adverse to the City. This includes not using the Aquarium facility, the land associated with the Aquarium facility, or the Pacific Visions Project as loan collateral. The loan will not have terms and conditions that rely on funding or resources from the City other than the City's Grant payments that are consistent with the terms and conditions described in this letter.
5. The Corporation and the City will ensure compliance with Aquarium bond covenants.
6. The Corporation will use its best efforts to require construction contractors and vendors to file the appropriate use tax forms to ensure Long Beach receives 100 percent of the construction use tax for the Pacific Visions Project.
7. The Corporation will comply with the Implementation Agreement (as amended) requiring that pledges/contributions (not necessarily in cash) or other permanent funding for the Pacific Visions Project must be at least 75 percent of the total project cost, inclusive of construction, architecture and engineering, equipment, financing costs, contingency, etc. In addition, the Corporation must have an executed loan or line of credit or equivalent that provides cash for any construction costs not available from cash/pledges or contributions.
8. The FY 17 Grant payment will be paid in December 2016; other payments will be made in December of each relevant subsequent year, assuming all conditions and terms described in this letter have been met.
9. Any Aquarium operations funds that flow through the Aquarium's bond covenant cash flow "waterfall" and reach the "City Fund," will first be used to reimburse the City for up to \$500,000 in annual Grant Challenge payments between 2018 and 2023.
10. The City and the Corporation will jointly develop an agreement specifying the benefits the City will receive as a donor to the Pacific Visions Project.

The Corporation Board and its staff have worked for years on the Pacific Visions Project - they have shown great dedication and have had extraordinary accomplishments for the Aquarium facility as a whole, including the design and funding for the Pacific Visions Project.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on December 12, 2016 and by Director of Financial Management John Gross on December 6, 2016.

TIMING CONSIDERATIONS

City Council action is requested on December 20, 2016, so that the Corporation may begin construction of the Pacific Visions Project as soon as possible.

FISCAL IMPACT

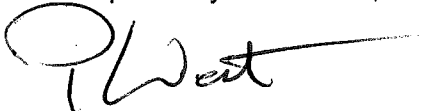
Grant funding will use Tidelands Funds: The FY 17 payment of \$1.5 million is already budgeted in the Tidelands and funds have been set aside. Savings from the Rainbow Harbor bond refunding will partially fund the Grant payments from 2018 through 2023 at \$500,000 per year. However, that is not adequate to pay for the entire mid-term Grant payments of \$1 million annually. The balance will come from Tidelands operations funds, hopefully (and reasonably likely) from new oil funds above operating needs, but potentially from reducing other operating costs. The Corporation has stated the balance could come from annual Corporation surplus, to the extent there are Corporation surpluses related to Aquarium operations. The Financial Management Department (FM) recommends that it should be assumed the entire \$1 million in annual payments in mid-term of the Grant will come from normal Tidelands Fund sources. The last two Grant payments of \$1.5 million and \$1.7 million in 2024 and 2025, respectively, will be made after the \$3 million per year debt service for Rainbow Harbor terminates, so there will be more than enough debt service savings to make the last two payments without impacting Tidelands operations. Use of some of the new Rainbow Harbor debt service savings for the Grant will make those savings unavailable to be used for other purposes.

There may be some financial risk: The Pacific Visions Project is an impressive addition to the Aquarium, but it also may present a higher than minimal risk to the Tidelands funds as there may be costs beyond the Challenge Grant. The risk areas include construction costs and contingency, financing costs, operating income, and potential long-term renovation and rehabilitation costs. City staff is not able to determine the specific level of the risk. The risk assessment takes into account the backing of the Aquarium bonds by the Tidelands Fund and the important nature of the Aquarium as a City asset.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



PATRICK H. WEST
CITY MANAGER