



## THE CITY OF SAN DIEGO

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### OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**IBA Report Number:** 26-07

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# Analysis of Second Amendment Lease Agreement with San Diego Zoo

## OVERVIEW

The Zoological Society of San Diego (Zoo) has existed in Balboa Park since 1916 after the 1915 Panama–California Exposition. In 1934, voters in the City approved a charter amendment to levy a tax of \$0.02 per \$100.00 of assessed property value to support the zoological exhibits, which today is \$0.005 per \$100.00 of assessed property value after changes to State tax law in 1981. In July 1979 the City entered into a formal leasehold interest agreement with the Zoo for a 55-year term, expiring in 2034.

The City Council is now being asked to consider a second amendment to the Zoo's lease which would extend that lease by 44 years, through 2078, in exchange for a share of revenue from the Zoo's paid parking program that started concurrently with the City's Balboa Park paid parking program.

This report provides an overview of key terms of the proposed lease amendment, as well as estimated revenue the lease could generate. ***Conservatively, we estimate the lease could generate \$347.6 million in Nominal Value (NV) which, using a 4.5% discount rate, is equivalent to \$98.5 million in Net Present Value (NPV), for the entire length of the lease.*** We also note six additional areas Council may wish to consider when discussing the proposed lease amendment.

# FISCAL AND POLICY DISCUSSION

The [FY 2026 Adopted Budget](#) included an assumption the City would receive \$3.0 million in revenue from the implementation of paid parking at the Zoo. Revenue from Zoo parking was part of a larger budget mitigation package associated with paid parking in Balboa Park, which our Office analyzed in [IBA Report 25-30](#). After adoption of the FY 2026 Adopted Budget, City staff entered into negotiations with the Zoo to develop a revenue sharing agreement that would allow for those revenues to actually be generated and received, and that revenue sharing agreement has been incorporated into the proposed lease amendment.

While the bulk of this report focuses on lease terms that have potential fiscal impacts to the City, it should be acknowledged that the proposed lease amendment also provides for compliance with the City's Zero Emissions Municipal Buildings & Operations Policy (ZEMBOP), Prevailing Wage requirements on future capital projects, ten reserved spaces for City operations near the War Memorial Building, and free daily admission tickets for nonprofits, schools, and children worth \$250,000 a year.

## **Fiscal Impacts of Proposed Second Amendment Lease**

The second amendment's lease conditions that have a fiscal impact on the City include:

1. *Lease Term*: Extending the lease term expiration date from 2034 to 2078, an additional 44 years beyond the current term (52 years from the current year). The total lease term would be 99 years, the maximum allowable under [State law](#).
2. *Revenue*: A \$3.0 million minimum annual payment, and a 50-50 split of gross parking-related gross revenue above that minimum. The \$3.0 million minimum payment increases by 3.0% annually beginning in 2030.<sup>1</sup>
3. *Expenses*: For the purposes of determining the Zoo's gross parking revenue above the \$3.0 million, there is a 50-50 split of parking lot operation and administration expenses up to \$700,000 for the City's costs. The \$700,000 expense ceiling will not increase over time. The City is not responsible for capital expenses.
4. *Min. Payment Adjustments*: If the City reduces the number of paid parking days in Balboa Park by five or more days in a year, excluding holidays, the City's \$3.0 million payment will be reduced proportionally to the number of days. For example, if the City decides to not charge for parking every Sunday of the year, approximately 52 days, then the minimum payment would be reduced by 14.2% (52 days ÷ 365 days), or \$427,000. If the 50-50 split of gross parking-related revenues after expenses still exceeds what would have otherwise been the annual minimum payment without a negative adjuster, then the negative adjustment is moot.

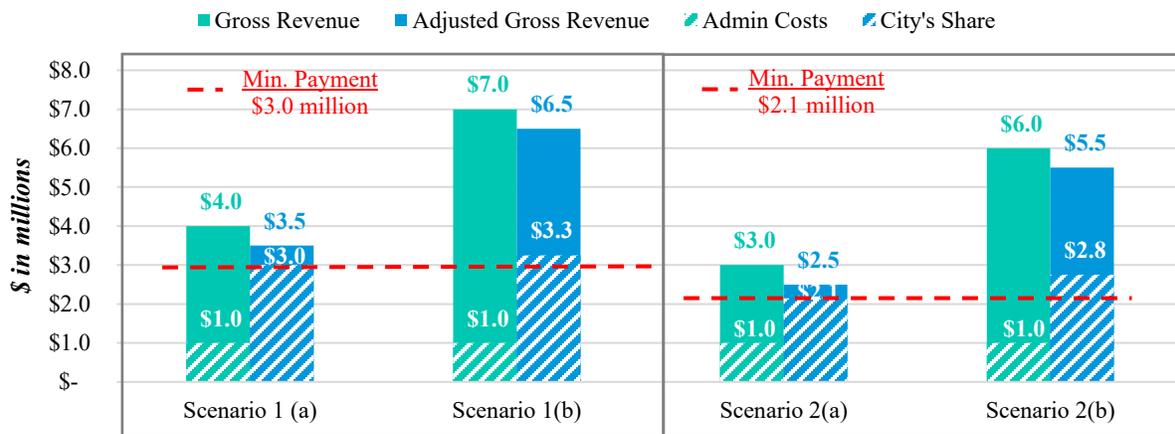
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<sup>1</sup> All revenue collected from the lease will be deposited into the Balboa Park Paid Parking Program Fund (200827) to support City operations inside Balboa Park.

5. *Parking Rate Adjustments*: The resident parking rate at the Zoo will be the same amount that the City charges for residential parking in Tier 1 parking lots inside Balboa Park.

The graphs below illustrate how lease terms may play out in different scenarios. In scenarios 1(a) and 1(b) it is assumed that paid parking in Balboa Park will exist for seven days a week, and therefore, the minimum payment from the Zoo is \$3.0 million. In scenarios 2(a) and 2(b) it is assumed that paid parking exists for five days a week, and therefore, the minimum payment is \$2.1 million.

### Zoo Payment Scenarios



Different Parking Revenue Scenarios

Note: Adjusted Gross Revenue is Gross Revenue minus 50% of Admin Costs or \$700,000, whichever is less. City's Share of revenue is 50% of Adjusted Gross Revenue or the Minimum Payment amounts, whichever is greater.

At no point would the City's share of revenue be below the minimum payment, but the minimum payment would decrease if the number of paid parking days decreases. Additionally, the *maximum* amount of gross revenue share that the City may receive *beyond* the minimum payment floor will be limited by the price of parking, days of paid parking and actual utilization of the lot after accounting for complimentary parking for Zoo members.

### City Revenue Estimates

The proposed lease amendment provides payment and revenue sharing terms between the City and Zoo, but as we discuss later in the [considerations section](#), these payments are not considered "rent" because [Council Policy 700-10](#) (1981), *Balboa Park Uses and Occupancy*, prohibits charging rent to nonprofit institutions in Balboa Park.

The potential revenue that could be collected from the proposed lease over a 52-year term is dependent on multiple variables including the rates charged, number of days rates are charged, and actual utilization rates for the Zoo parking lot.

We do not have data from the Zoo on parking lot utilization over time or since the implementation of paid parking, or the revenue the Zoo has collected to date. Therefore, to estimate the Nominal Value (NV) and Net Present Value (NPV) of the lease to the City,<sup>2</sup> our Office used conservative estimates that assume the City (a) only receives the minimum payment, and no additional revenue from the gross payment split beyond that minimum, (b) any reductions to Balboa Park paid parking days are made in calendar year 2027, and (c) our Office uses a 4.5% discount for the NPV analysis.

Using those assumptions, our Office estimates that the lease will generate at least \$347.6 million in NV and \$98.5 million in NPV over the 52-year period if paid parking remains in Balboa Park for seven days a week. This equates to an average annual revenue of \$6.6 million in NV and \$1.9 million in NPV.

The table below illustrates how revenue estimates for NV and NPV are adjusted if Balboa Park paid parking is eliminated on certain days, though we note this does not account for the potential for total gross revenue to require the Zoo to make higher payments than the annual \$3 million minimum payment.

Nominal Value (NV) and Net Present Value (NPV) of Lease (\$ in millions)								
Balboa Paid Parking Days		7	6	5	4	3	2	1
Nominal Value (NV)	Monthly	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.2	\$ 0.2	\$ 0.1
	Annual	\$ 6.6	\$ 5.6	\$ 4.7	\$ 3.8	\$ 2.8	\$ 1.9	\$ 1.0
	Total (52 years)	\$ 347.6	\$ 298.4	\$ 249.2	\$ 200.0	\$ 150.9	\$ 101.6	\$ 52.4
Net Present Value (NPV)	Monthly	\$ 0.2	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.0	\$ 0.0
	Annual	\$ 1.9	\$ 1.6	\$ 1.3	\$ 1.1	\$ 0.8	\$ 0.6	\$ 0.3
	Total (52 years)	\$ 98.5	\$ 84.9	\$ 71.2	\$ 57.6	\$ 43.9	\$ 30.3	\$ 16.6

As previously noted, these are conservative estimates, and the total revenue the City actually receives could be higher if utilization, parking rates, and the proportion of complimentary parking for Zoo members result in required payments that are higher than the annual minimum.

<sup>2</sup> Nominal Value (NV) is the total face value of money, and does not discount the value of future dollars. Net Present Value (NPV) discounts future cash flows back to today's dollars to account for lower buying power from inflation. The NPV amounts for the City assume a discount rate of 4.5% which is roughly tied to the City's cost of borrowing.

## **Considerations**

As Council considers this lease proposal, it may wish to weigh short-term and long-term costs and benefits. Council ultimately has three choices: (1) approving the proposed lease as negotiated at this time; (2) requesting the item be returned to staff to further negotiate terms and conditions that could be re-presented to Council at a future date; or (3) reject the proposed lease extension and request staff negotiate a new lease amendment closer to the current lease expiration date in 2034.

Councilmembers may want to consider the following items as it reviews the lease amendment proposal.

### *Council Policy 700-04, Balboa Park Uses and Occupancy*

CP 700-04 provides policy guidelines for the selection of tenants and payment of rent for nonprofit cultural and recreational institutions in Balboa Park, like the Zoo. Per CP 700-04, nonprofits in Balboa Park maintain their facilities in lieu of rental payments. Therefore, appraisals and market rent conditions are not applied to Balboa Park lessees.

### *Payment Economics*

As previously noted, the proposed parking related payments from the Zoo are not rent. Payments structured only on parking-related activity over a 52-year period will be subject to fluctuations if parking policies in Balboa Park evolve over time.

Alternatively, payments tied to a fixed percentage or dollar amount for tickets and membership, concession sales, and/or parking revenue may be more stable or generate more revenue over time. Additionally, should the lessee enter into any revenue-generating subleases, the City may wish to receive a percentage of gross rent revenue from the subleased use of City property. The proposed lease amendment does not provide for any of these alternatives.

### *Periodic Payment Review*

The proposed lease amendment provides for review of payment terms every ten years to account for current economic conditions, as required by State law. However, the lease does not specify what terms may be adjusted (e.g. minimum payments, annual percentage increases, administrative expense increases, revenue splits, etc.) or the process for mediating adjustments with an outside independent party if the City and Zoo are unable to agree on terms.

These periodic reviews may add additional uncertainty to the lessee's projected expenses and the lessors projected revenues over a long lease period, but they also allow for long-term fairness in a business relationship, ensure public accountability, and provide flexibility if uses, conditions, or markets change dramatically.

### Future Use of the Zoo Lot

The Balboa Park Master Plan and Central Mesa Precise Plan propose expanding Zoo exhibits on space currently used for the existing Zoo parking lot and undergrounding the current parking lot to allow for that expansion.

While this suggests the Zoo will continue to be a good steward of public land and invest in the Zoo property and its long-term growth, it also presents potential logistical conflicts with the intent of the second amendment lease, including:

1. How will the City and Zoo handle a reduction or increase in the number of parking spaces in the future, and any associated reduction or increase in the amount of gross parking revenue?
2. If temporary or long-term off-site parking is provided by the Zoo at some point in the future, will the terms of this lease amendment also apply to those lots, whether they are inside or outside Balboa Park?

### Timing

While the proposed lease amendment only applies to the Zoo property, the Zoological Society's current lease of the Zoo property in Balboa Park and the Safari Park property in the San Pasqual Valley have a concurrent lease term and expiration date.<sup>3</sup> Council may wish to consider the benefits and risks of negotiating these leases separately instead of concurrently as a package.

### Budget Implications

The FY 2026 budget and FY 2027 – 2031 Five Year Outlook assume \$3.0 million in revenue from Zoo parking. Returning this proposal to staff or requesting staff negotiate a new lease amendment closer to the current lease expiration date in 2034 would add to the current fiscal year's projected shortfall, potentially requiring use of the General Fund reserve, and add to the projected budget deficit in the next several future fiscal years.

## **CONCLUSION**

The City and Zoo have expressed a mutual interest in extending the Zoo's current lease to continue providing benefits to the public. The proposed terms of the lease amendment provide a net positive fiscal impact to the City over the next 52 years, which we conservatively estimate to total a nominal value of \$347.6 million, or a net-present value of \$98.5 million; those amounts could decrease if the City pares back its paid parking program at Balboa Park, though those amounts could increase if the Zoo generates additional parking revenue that would require it to make payments higher than the minimum amount called for in the lease extension. There is also significant value in an

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<sup>3</sup> While both properties are owned by the City, the Zoo is a Parks and Recreation (PAR) department asset of the General Fund while the Safari Park is a Public Utilities Department (PUD) asset of the PUD Enterprise Water Fund.

extended lease for the Zoo, which could allow the Zoo to make more significant investments in the Zoo property over time.

If Council approves the proposed lease amendment, Council may also consider requesting City staff incorporate additional assurances and clearly defined processes to address some considerations noted by our Office above. Given the long-term nature of the lease, Council may also consider if additional, more substantive changes are desired to the lease and/or CP 700-04 to potentially capture additional revenue in the long run.



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