



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Proposed MOU with the Plaza de Panama Committee

OVERVIEW

The City Council is being asked to approve a resolution authorizing the execution of a Memorandum of Understanding (MOU) between the City and the Plaza de Panama Committee (Committee) regarding improvements in Balboa Park that currently include removing existing parking and traffic from the Plaza de Panama, constructing a bypass bridge to reroute traffic, constructing a parking garage with a rooftop park behind the Organ Pavilion, and other pedestrian and circulation improvements (Project).

The Project and the proposed MOU was presented to the Rules Committee on June 8, 2011. Following public comment and Committee discussion, the Committee forwarded this item to the City Council without recommendation. As part of their action to forward this item to the City Council, the Committee requested the IBA provide additional analysis and input to ensure that the taxpayers are adequately protected under the provisions of the MOU.

The proposed Project contemplates the City providing staff support for the Project and facilitating the issuance of tax-exempt bonds to fully or partially fund a yet to be designed parking garage. In keeping with the direction to evaluate the MOU to ensure taxpayers are adequately protected, this report focuses on possible impacts of the Project, as preliminarily envisioned, to the City's General Fund. Our comments are based on discussions with staff of the Mayor, the City Attorney's Office and project consultants hired by the Committee.

FISCAL/POLICY DISCUSSION

The Proposed Memorandum of Understanding

The staff report indicates the MOU enables the City to state its commitment to continue to work with the Committee through the planning and permit process to further explore and analyze the proposed Project. While there is not a binding legal purpose for the MOU, it may serve as an expression of further interest by the City that will support private fund-raising efforts.

Following conversations with the Office of the City Attorney, we would note the following key provisions of the MOU:

Section 1.1 (Understanding of the Parties): *"The City and the Committee commit to work together to explore, analyze and develop the Proposed Project as expeditiously as possible ...".*

Section 1.2 (City Council Discretion): *"The City and the Committee understand and agree that final decision-making authority for approval of the Proposed Project, including consideration of all and any environmental analyses and reports, findings and discretionary permits, rests with the City Council. Nothing in this Memorandum of Understanding is intended to affect, replace, or circumvent that authority. This Memorandum of Understanding is a commitment to cooperate through that process and is not an approval of the Proposed Project. City, therefore, reserves the right to impose feasible mitigation measures and alternatives, including but not limited to the alternative of not proceeding with the Proposed Project."*

Section 6.4 (Non-liability for Breach): *"This MOU is a preliminary expression of mutual cooperation and intent. It is not intended to be a binding contract and is not enforceable against either party, nor against any elective or appointive board, commission, member, officer, employee, or other agent of the City."*

With respect to proposed Project Funding, we would highlight the following language:

Section 5.1 (Committee's Funds): *"Except as provided in Section 5.2 below, the Committee shall raise all of the funds necessary to accomplish and complete the Proposed Project (including cost overruns) through various efforts and methods, including donor contributions, fundraising projects and related capital campaigns (collectively, Fundraising). The Committee is authorized to make all necessary decisions and take all appropriate and necessary actions with respect to Fundraising, including, without limitation, using certain pledges received as collateral to obtain third-party loans but without recourse to any City assets."*

Section 5.2 (Parking Structure [excluding rooftop park] and Tram System):

*"... to ensure funding for the Parking Structure and Tram System, and provided that the necessary approvals for the Proposed Project have been obtained, the City shall diligently pursue the issuance of tax-exempt bonds or other financing vehicle (Bonds) **in an amount intended to be supported solely from revenues generated by the operation of the Parking Structure**. The proceeds of the issuance of the Bonds shall be primarily applied towards construction of the Parking Structure. The City will own and operate the Parking Structure and Tram System. The City and the Committee acknowledge that it will be necessary to charge for*

parking in the Parking Structure, which revenues will be used to satisfy the annual debt service on the Bonds. As a result, all revenue collected by the City from parking fees will be used to satisfy the debt service obligations incurred to construct the Parking Structure, to pay for its operation and maintenance, to fund the Tram System and to cover other necessary costs and expenses related to the Proposed Project."

It is important to note that Section 5.2 limits the amount of bonds the City would issue to an amount that can be entirely supported by net parking revenues from the envisioned parking structure. The resulting amount of bonds may fully, or partially, cover the actual costs associated with the yet to be designed parking structure. It is our understanding that actual parking garage costs, if any, above the available bond proceeds will be covered by Committee fundraising. Additionally, the bonds are not intended to fund development costs of the rooftop park as that expense would also be the responsibility of the Committee.

The IBA has been informed that bond proceeds would be used to cover all of the City's eligible discretionary projects costs (as noted in the first paragraph on page 14 of the staff report these costs include: Development Services, engineering, permitting review, processing, and Public Works Department costs for monitoring and planning the proposed Project). Using bonds to recover these costs reduces bond proceeds available to construct the parking garage. The aforementioned costs differ from other General Fund staff resources that have been and will continue to be used to advance the Project, and will not be reimbursed with bond proceeds. General Fund staff resources are typically used to evaluate and further public CIP projects.

The contemplated tax-exempt bonds would be backed by the City's General Fund. If there is insufficient net parking revenue to pay annual debt service on the bonds, the General Fund must cover the shortfall. Given this financing requirement, it will be critical for the City to conservatively estimate net revenues from the parking structure **before** determining the amount of bonds that can be issued.

Financing the Parking Garage

The type of financing envisioned for the parking garage are General Fund-backed lease revenue bonds. This type of financing involves the City utilizing its joint powers authority (the Public Facilities Financing Authority of the City of San Diego or "Authority") to be the issuer of the bonds. The Authority was established in 1991 between the City and the City's Redevelopment Agency. The Authority is needed to facilitate the issuance of lease revenue bonds. Lease revenue bonds are commonly used in California because the debt instrument is structured as a lease and not classified as debt for purposes of a jurisdiction's debt limit. The bonds would not require voter approval.

In simple terms, the bonds would involve creating a lease between the City and the Authority. The City would construct the parking garage and lease it to the Authority for a nominal rent. The Authority would then lease the parking garage back to the City at a rate sufficient to cover the debt service on the bonds. Net parking revenues are intended to cover annual debt service (lease payments) on the bonds; however, in the event of a parking revenue shortfall, the City will be required to appropriate the difference from any general funds legally available to it. The

requirement to make lease payments is not one for which the City is obligated to levy or pledge any form of taxation.

For purposes of preliminarily evaluating possible City financing for the Project parking garage, the Committee hired a parking consultant to develop a revenue and expense proforma for a 785 parking space structure. The parking consultant estimated net annual parking revenue (after all operating, maintenance and tram costs are paid) ranging from \$1.2 million to \$1.4 million for the first ten years. The Debt Management Department was then asked to estimate the amount of bonds that could be supported by net annual parking revenue of approximately \$1.2 million over 30 years. Using current bond market conditions, the Debt Management Department estimated that approximately \$14 million of net bond proceeds could be supported by projected revenue from the parking structure. Estimated annual debt service would be approximately \$1.2 million over the 30 years.

If net parking revenue is received as projected, there would be no fiscal impact to the General Fund associated with the issuance of bonds. Alternatively, if net parking revenue is less than projected and thus less than annual debt service (lease payments) on the bonds, the General Fund would be obligated to cover the difference. For example, the IBA has calculated that a 10% reduction in the consultant's assumed parking occupancy results in an approximate reduction of \$240,000 in projected parking revenue. If this reduction were to occur, the General Fund would be obligated to appropriate \$240,000 for annual debt service expense on the bonds.

The IBA understands the design of the parking structure has yet to be determined and parking revenue estimates are therefore preliminary; however, we also understand that preliminary expectations are being formed with regard to the amount of City bond financing that may be available for the parking garage portion of the Project. Given the nexus between estimated net parking revenue and the amount of bonds that may be issued, the IBA has reviewed the assumptions and data provided by the Committee's parking consultant. We present considerations related to this data below.

Proposed Parking Structure Revenue Projections

According to the 2004 Balboa Park Land Use, Circulation and Parking Study, Balboa Park has approximately 6,500 available parking spaces, including parking lot and street parking that are free for public use. In general, employees and park volunteers utilize approximately 30% of the available parking in Balboa Park, with visitors and valet comprising approximately 70% of the usage.

The proposed parking structure will introduce a paid 785 space parking structure in the core of park. The structure would replace 521 current parking spaces in the park from the Organ Pavilion Lot (367 spaces), Plaza De Panama Lot (54 spaces), and Alcazar Garden Lot (100 spaces), for a net gain of 264 spaces in the park.

The projected revenue in the Committee's parking consultant's proforma is based on Balboa Park circulation data, including projected attendance figures and traffic flow. The proforma assumes an average 88% annual occupancy for the proposed parking garage. This assumed occupancy is projected to be comprised of 50% visitors, 25% monthly parking (from park

employees and volunteers), and 13% valet parking. Consideration is also given for special event parking, assuming 3 events per month at an average of 25% occupancy on those days.

Current Plaza de Panama, Alcazar Garden, Organ Pavilion, and Palisades Lot usage data was analyzed by the Committee's parking consultant in projecting revenue to be generated for the new proposed parking structure. The analysis assumes the visitors/employees/valet patrons served by these lots would be users of the new paid parking structure. The analysis also assumes that the proximity of the structure to the core of the park will create additional demand for parking. Consideration is also given to the understanding that available free parking close to the park core will fill up with employees before visitors come to the park, thus creating a demand for paid parking close to the core¹.

The availability of free parking in other areas of the park poses a challenge for occupancy assumptions for the paid parking garage on typical non-event days at the park. As noted above, there are currently approximately 6,500 available free parking spaces in the Central Mesa and Inspiration Point areas of the Park. Free parking exists at 15 lots including the Zoo, Inspiration Point and the Federal/Aerospace Lot. Free parking also exists along Park Boulevard and in surrounding neighborhoods.

In reviewing parking supply and demand statistics provided by the Committee's parking consultant, the IBA acknowledges that during non-event peak visitor times at the park, such as free Tuesdays at the park, parking close to park exhibits and destinations can experience high levels of occupancy. Even so, during those times of peak visitation at the park, parking is still available at Inspiration Point and Federal/Aerospace Lots further away, which are underutilized at approximately 50% capacity². The Inspiration Point and Federal/Aerospace Lots offer 1,264, and 509 spaces, respectively.

Limited parking supply becomes an issue on special event days at the park that can bring over 2,000 visitors. Special event days at the park are considered in the consultant proforma occupancy assumptions, but only comprise 3% of the projected revenue, given that they are averaged to occur only 3 times per month.

There is uncertainty regarding how the availability of free parking will impact the usage of the paid parking structure. There will be visitors willing to pay for the parking in a convenient location serviced by a tram, while others may choose to utilize parking lots further away from the core of the park. These visitors don't mind walking further or the extra time necessary to take a tram to the core of the park from Inspiration Point. A hypothetical 10% reduction in the projected occupancy of the parking structure due to competing free parking would lead to an approximate reduction of \$240,000 in projected revenue. Any possible reduction in actual revenues would have to be covered by the General Fund.

¹ Typically employees and volunteers come to the park before destinations open in the park between 8:30 and 9:30 am, limiting the availability of the parking at the core of the park for visitors that come later after 10:00 am when the institutions at the park open.

² The parking lot utilization data is based on a field analysis performed by the consultant in March 2011. The analysis represents a conservative measure of park occupancy relative to park attendance during summer months, but serves as an annual average.

Security Expenses

Currently the proforma does not include expenses for security patrol at the parking garage. Typically security is desired at a public parking garage within an urban center to insure for the safety of overall users and control for loitering. The Park & Recreation Department and the Committee's parking consultant has communicated that existing park security and parking structure staff would address security needs at the structure. The construction budget for the parking garage also includes an allocation for a "Code Blue/911" security phone system for emergencies and after-hours incidents. If deemed necessary, additional 24/7 security services for the structure would total approximately \$175,000 annually, assuming costs of up to \$20/hour for contracted services. This potential additional cost would impact current net income projections for the parking structure.

Ongoing General Fund Operational Costs

The proposed Project would reclaim and develop 6.3 acres of park land. This additional park space will require additional operating and maintenance costs. The Park and Recreation Department estimates that the 2.1 acre park atop the proposed parking structure will cost approximately \$45,000 annually for maintenance and operation. At this time, the Department does not have estimates for the ongoing operation and maintenance of the remaining 4.2 acres of reclaimed pedestrian space. The impact of ongoing operation and maintenance costs on the General Fund should also be considered in evaluating costs associated with the proposed Project.

CONCLUSION

In response to direction from the Rules Committee on June 8, 2011, the IBA has reviewed the proposed Project for its potential fiscal impact to the General Fund. As the proposed Project is currently envisioned, the relevant fiscal considerations relate to annual debt service on the tax-exempt bonds, General Fund staff resources advanced to further the project and other ongoing General Fund expenses associated with the completed project.

The contemplated tax-exempt bonds would be backed by the City's General Fund. If there is insufficient net parking revenue to pay annual debt service on the bonds, the General Fund must cover the shortfall. Given this financing requirement, it will be imperative that the City conservatively estimate net parking revenue from the parking structure **before** determining the amount of bonds that can be issued.

The IBA understands final design of the parking structure has yet to be determined and parking revenue estimates are therefore preliminary; however, we also understand that preliminary expectations are being formed with regard to the amount of City bond financing that may be available for the parking garage portion of the proposed Project. Given the importance of projected net parking revenues to the amount of tax-exempt bonds that can be issued, the IBA has reviewed and provided information to be considered in evaluating the reasonability of parking revenue projections. The IBA recommends that projected parking revenues and all parking structure costs (including possible costs for a security service) be carefully reevaluated before bonds are sized in order to minimize fiscal exposure for the General Fund.

With respect to General Fund staff resources advanced to further the project, the IBA has been informed that management intends to recover all of the eligible Project development related costs from bond proceeds. Other General Fund staff resources incurred in support of the proposed Project would continue to be absorbed within existing departmental budgets.

The proposed Project would add approximately 6.3 acres of pedestrian friendly park space. There will be operation and maintenance expenses associated with this space. The IBA recommends that ongoing General Fund operation and maintenance costs be considered once final plans have been developed and before a final decision is made on the Project.



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