REVISED WITH NEW INFORMATION AND RECOMMENDATION March 15, 2013

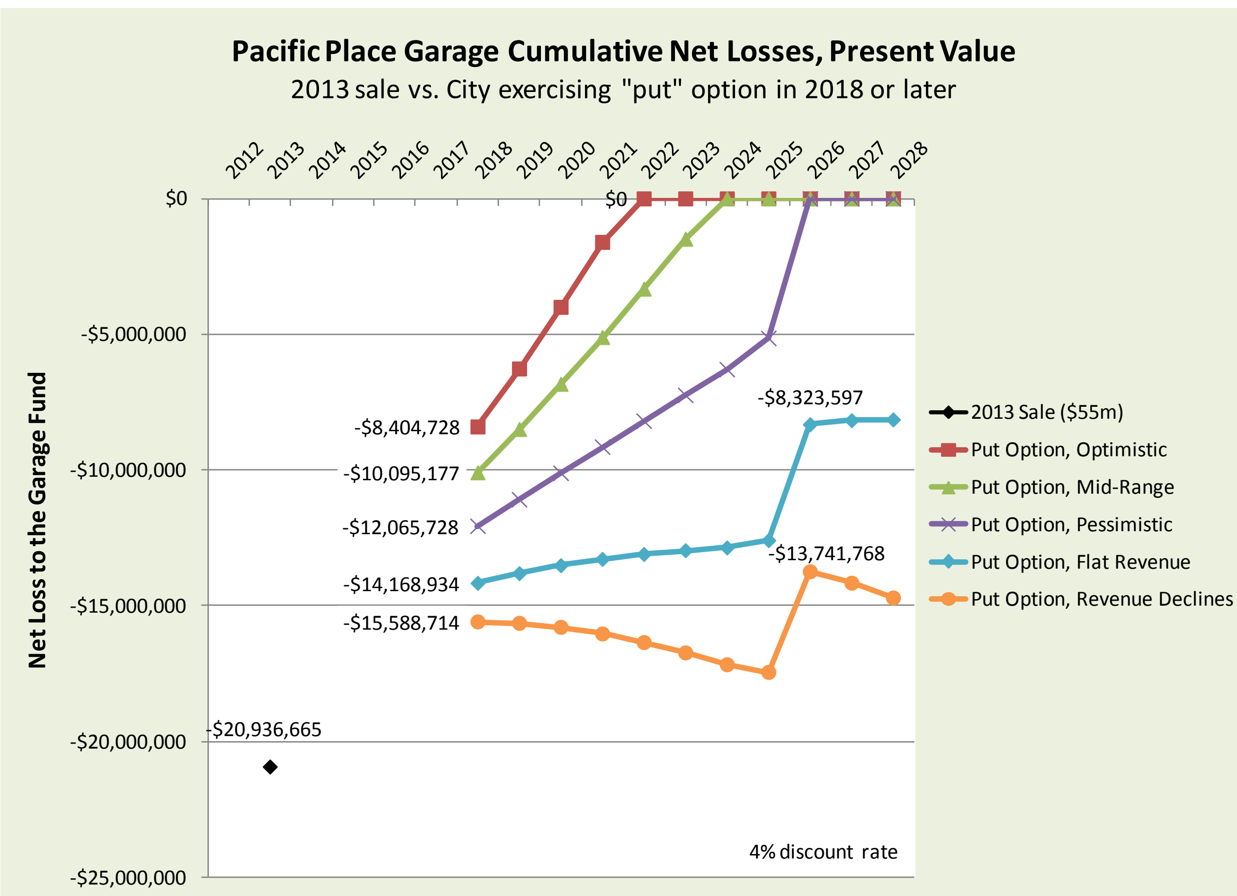
To: Government Performance & Finance Committee
Tim Burgess, Chair
Nick Licata, Vice Chair
Sally J. Clark, Member
Mike O'Brien, Alternate

From: John McCoy
Council Central Staff

Re: REVISED Options Analysis for Pacific Place Garage Sale Proposal (CB 117719)

The Mayor and the Department of Finance & Administrative Services (FAS) have offered CB 117719, which proposes that the City sell the 1200-space garage under the Pacific Place mall for $55 million to the mall's owner, Pine Street Group, LLC. The sale proceeds would be used to defease some of the $59.6 million in outstanding City debt on the facility. The result would be a net loss to the City, as the debt exceeds the sale amount, and the City has an additional accumulated deficit in the Garage Fund.

Since the Government Performance & Finance Committee's March 6 meeting, the Executive has also forwarded a bond defeasance ordinance with a complete schedule of interest payments on the remaining garage debt. This memo updates the prior analysis to explicitly include those interest costs and render all amounts into present value terms for comparison.



Please see March 6, 2013 memo for a full discussion of projection methods and contract alternatives.

Recommendation: While the $55 million offer appears fair on its face, Central Staff cannot recommend a sale at this time for this price due to the City's high cost of defeasing the bonds. Defeasance inserts a substantial wedge into the deal, and the City has several alternatives under its contract with the Pine Street Group that will likely reduce the public's losses. Council should consider holding and continuing to operate the garage until at least October 2017, when the bonds can be called and paid off directly. Even with continuing operating losses in the Garage Fund, this approach is projected to improve the City's position on the facility by $5 million to $13 million in present value terms, compared with the proposed sale. These savings represent avoided costs to the General Subfund.

The likelihood of a multi-million-dollar improvement to the City's position justifies a continued level of effort by FAS to improve the garage's profitability, either by hiring the garage manager FTE provided in the 2013 Adopted Budget or by pursuing an asset management arrangement with an external real estate firm.

Comparison of Proposed Sale to the Contract "Put" Alternative, Exercised in 2018

Costs with Proposed $55m Sale in 2013	Nominal $	Present Value*
Bonds partially defeased with sale proceeds.		
Remaining Debt Service (2013-2028)	$ (20,233,375)	$ (16,429,160)
Other Defeasance Costs (2013)	$ (20,000)	$ (20,000)
Deferred Maintenance Credit (2013)	$ (700,000)	$ (700,000)
Garage Fund Accumulated Deficit	$ (3,973,060)	$ (3,787,505)
Total Net Loss, General Subfund	$ (24,926,435)	$ (20,936,665)

Near-Term "Put" Strategy, $50m sale in 2018

Bonds called with sale proceeds and remainder applied to Garage Fund deficit.

		Nominal $	Present Value*
Net Loss	Optimistic Scenario	$ (10,225,636)	$ (8,404,728)
	Improvement Over 2013 Sale	$ 14,700,799	$ 12,531,937
	Mid-Range Scenario	$ (12,282,326)	$ (10,095,177)
	Improvement	$ 12,644,109	$ 10,841,488
	Pessimistic Scenario	$ (14,679,803)	$ (12,065,728)
	Improvement	$ 10,246,632	$ 8,870,936
	Flat Revenue Scenario	$ (17,238,675)	$ (14,168,934)
	Improvement	$ 7,687,760	$ 6,767,730
	Falling Revenue Scenario	$ (18,966,054)	$ (15,588,714)
	Improvement	$ 5,960,381	$ 5,347,950

**4% discount rate assumed. Analysis is largely unaffected by the choice of discount rate.*