Options Analysis for Pacific Place Garage

FAS Analysis and Comparison to Central Staff Analysis

FAS and Council Central Staff independently analyzed the potential sale of the Pacific Place Garage. The analysis includes comparing a $55 million sale in 2013 to a future sale under the "put" option, which allows the City to sell the garage to Pine Street for $50 million during a 10 year period beginning in 2018.

For the analysis both FAS and Council Staff created future operating projections for the garage. This memo compares the operating assumptions and results for of each analysis.

Sale in 2013

The City is considering a $55 million sale of the garage to Pine Street. If the City agrees to this sale, the outstanding garage bonds will need to be defeased. However, the proceeds will not be sufficient to defease all the bonds. Consequently there will be residual debt service until 2028.

The following table compares the FAS and Council Staff projected costs to the garage fund assuming a 2013 sale for $55 million.

	FAS	Council Staff
Nominal	$ (25,984,818)	$ (24,926,435)
Present Value in 2018 (4%)	$ (21,034,445)	$ (21,383,496)

The difference between the two is largely due to different assumptions related to repaying the interfund loan to the garage. FAS assumes repayment over the life of the outstanding bonds (2028) while Council Staff repays the loan in the first four years of the defeasance period.

Put Option Scenarios

Beginning in 2018 and extending for a 10 year period the City has the option to sell the garage to Pine Street for $50 million. FAS and Council Staff each projected future garage operations to predict the impact to the garage fund of selling the garage in the future. FAS and Council Staff then compared the present value of their predicted costs of the put option to the costs of the sale in 2013.

The following two pages outline the FAS and Council Staff scenarios, show the nominal and present value cost of each scenario to the garage fund and its improvement or loss as compared to the 2013 sale, and then graph the predicted garage performance under each scenario from 2013 to 2028. **Note:** Present values calculated using a 4% discount rate.

Major differences in assumptions between the analyses include the following:

1. FAS differentiates revenue growth to model changes in both parking price and garage utilization. Council staff forecasts future revenue as a percent of 2012 revenue

2. FAS separates expenses into operating expenses and capital costs to model the impact of large capital expenses. Council staff includes capital expenses in overall operating expenses and adjusts them as a percent of 2012 expenses at a nominal rate which does not include anticipated capital costs in the next five years.

3. FAS includes increased staffing in future operating expenses (approved in 2013 Adopted Budget) to reflect the expected increased management expense of operating the garage. Council staff does not provide for additional staffing expenses.

FAS

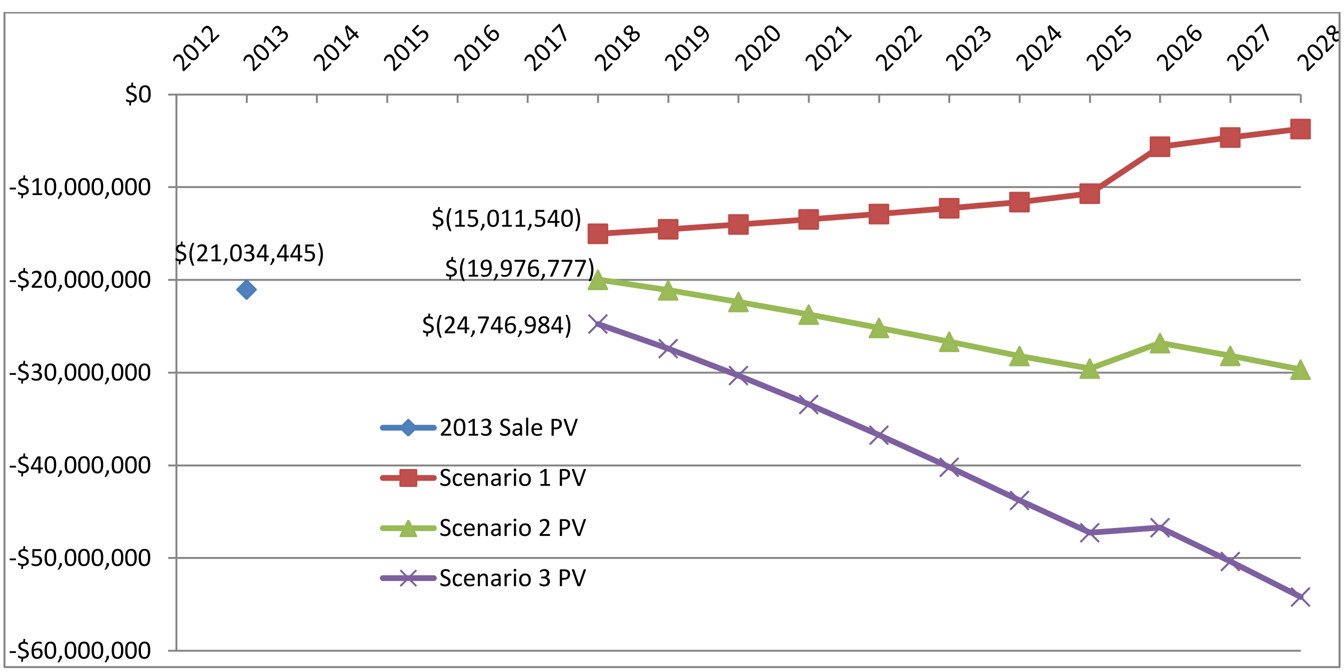
FAS divided revenue assumptions into garage utilization and parking price and operating expense assumptions into non-capital expense growth and capital expense growth. Base year for revenue growth is 2012. Non-capital operating expenses assume $3.1 million in 2014 per the endorsed budget. Capital expenses are approximately $220,000/yr and include $25,000/yr for unexpected capital expenses. This is an annualized figure for expected future capital expenses such as elevators, lobby renovations, etc.

	Revenue Growth		Operating Expense Growth	
SCENARIOS	**Utilization Growth**	**Price Growth**	**Op Exp Growth**	**Cap Ex (% of Estimate)**
Scenario 1	0.0%	0.0%	3.0%	100%
Scenario 2	-2.5%	-1.0%	6.0%	150%
Scenario 3	-5.0%	-2.0%	9.0%	200%

Notes:

1. Utilization fell 25% between 2004 and 2012.
2. Garage prices are below market and generally have not risen at the rate of inflation
3. Expenses have risen and fallen over time but are up approx. 20% the last two years.
4. Percent growth in Operating Expense begins in 2014.
5. Discount rate is 4%

SCENARIO RESULTS IN 2018	Nominal $	Present Value $
Scenario 1	$ (18,263,834)	$ (15,011,540)
Improvement/Loss over 2013 Sale	$ 7,720,984	$ 6,022,905
Scenario 2	$ (24,304,803)	$ (19,976,777)
Improvement/Loss	$ 1,680,015	$ 1,057,668
Scenario 3	$ (30,108,490)	$ (24,746,984)
Improvement/Loss	$ (4,123,672)	$ (3,712,539)



Council Staff

Council Staff scenarios are simple adjustments to revenue and expense growth based on 2012 garage performance. Capital expenses are included in the operating expense figure and do not include anticipated capital costs in the next five years.

SCENARIO	Revenue Growth	Operating Expense Growth
Optimistic	3.5%	2.75%
Mid- Range	2.7%	3.25%
Pessimistic	1.7%	3.75%
Flat	0.0%	3.25%
Negative	-1.0%	3.25%

SCENARIO RESULTS IN 2018	Nominal $	Present Value $
Optimistic	$ (10,225,636)	$ (8,404,728)
Improvement/Loss over 2013 Sale	$ 14,700,799	$ 12,531,937
Mid-Range	$(12,282,326)	$ (10,095,177)
Improvement/Loss	$ 12,644,109	$ 10,841,488
Pessimistic	$(14,679,803)	$ (12,065,728)
Improvement/Loss	$ 10,246,632	$ 8,870,936
Flat Revenue	$(17,238,675)	$ (14,168,934)
Improvement/Loss	$ 7,687,760	$ 6,767,730
Falling Revenue	$(18,966,054)	$ (15,588,714)
Improvement/Loss	$ 5,960,381	$ 5,347,950