



KEYSER MARSTON ASSOCIATES  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

## MEMORANDUM

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REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

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**To:** Teresa Gallavan, Economic Development Director  
City of Lompoc

**From:** Kathleen Head

**Date:** January 30, 2013

**Subject:** California Space Education Center: Financial Analysis

At your request, Keyser Marston Associates, Inc. (KMA) prepared a conceptual financial analysis of the multi-phased California Space Education Center (Project) being proposed by the Environmental Education Group (EEG). The purpose of the KMA analysis is to assist the City of Lompoc in evaluating the financial feasibility of the proposed Project.

It is important to understand that the Project is in the preliminary planning stages. As such, the following financial analysis should only be used to provide order-of-magnitude estimates of the Project's development costs, net operating income, and supportable debt financing. As the Project moves forward in the development process, it will be necessary to re-evaluate the assumptions applied in this analysis. However, at this stage of the planning process it is only possible to analyze the Project at a conceptual level.

### SUMMARY OF CONCEPTUAL ANALYSIS FINDINGS AND RECOMMENDATIONS

#### Proposed Scope of Development

The Project is proposed to be developed in four phases. The scope development is comprised of the following general mix of uses:

1. Cultural facilities include a visitors center, an exhibition center, an exploration center, a planetarium, a cultural center, a launch viewing facility, and an amphitheater.
2. Traditional commercial uses include a hotel, food service facilities, and an IMAX theater.

3. Educational and business features include space education facilities, conference facilities, and a mission support complex.

### **Conceptual Financial Analysis**

Using EEG's assumptions, KMA created a pro forma analysis for the four-phased Project upon full build-out and stabilized occupancy. The results of the financial analysis are presented in constant 2012 dollars, and can be summarized as follows:

1. The costs for the four-phased Project are estimated at approximately \$220 million.
2. The stabilized net operating income for the Project is estimated at \$7.9 million.
3. If it is assumed that a conventional loan can be obtained at a 6% interest rate and a 30-year amortization period, the Project can support a loan of approximately \$84 million.
4. The difference between the estimated development costs of \$220 million, and the supportable debt financing of \$84 million, results in the need for \$136 million in equity and grant contributions.
5. If it is assumed that investors will require a threshold stabilized return in the range of 12%, the cash flow available after the payment of debt service can support an equity contribution of approximately \$15 million. This leaves a requirement for the Project to obtain approximately \$121 million in grant funds.

### **Conclusions and Recommendations**

It is KMA's opinion that the EEG pro forma analysis is premised on aggressive development cost and net operating income assumptions. Even when these aggressive assumptions are applied, the Project demonstrates the need for the development site to be conveyed to the Project at no cost.

Recognizing the pioneering nature of the proposed Project, KMA offers the following recommendations:

1. EEG should be required to enter into an agreement with a developer to undertake the Project as a joint-venture partnership. The developer should have demonstrated experience in planning, financing, and developing multi-phased commercial and public-serving projects with costs in the range of \$200 million.

2. EEG should be required to provide the City with evidence of committed equity and grant funding for the Proposed Project in the amount of at least \$68 million.
3. The City should create a phased conveyance plan for the City-owned property. The land conveyances should be tied to the actual commencement of development for each development phase.

## **CONCEPTUAL ANALYSIS ASSUMPTIONS**

The pro forma analysis is organized as follows:

Table 1: Estimated Development Costs

Table 2: Stabilized Net Operating Income

Table 3: Estimated Equity and Grant Contributions Requirement

### **Estimated Development Costs (Table 1)**

The major assumptions applied in the development cost estimates are summarized as follows:

#### ***Site Acquisition Costs***

It is assumed that the property will be donated to the Project at no cost. It is possible that the conveyance may ultimately be structured as a ground lease.

#### ***Direct Construction Costs***

EEG provided the direct construction cost estimates that are applied in this analysis. It is important to note that it is possible that the Project will be subject to the prevailing wage requirements imposed by the State of California on developments that receive public financial assistance. The direct construction costs are estimated as follows:

1. The site work costs are estimated at \$14.3 million, or approximately \$30 per square foot of gross building area (GBA).
2. The building costs are estimated at \$134 million, or \$287 per square foot of GBA.
3. A \$30 million allowance is provided for tenant improvement and furniture, fixtures and equipment allowances. This equates to \$63 per square foot of GBA.

***Indirect Construction Costs***

EEG estimated the indirect construction costs at approximately \$42 million. This equates to approximately 23% of the estimated direct construction costs.

***Financing and Closing Costs***

The EEG financial analysis does not include any construction period interest costs. Once the Project's financing plan is created, it will be necessary to add these costs into the development cost budget.

**Total Development Costs**

Based on the preceding assumptions, the total development costs are estimated at approximately \$220 million.

**Stabilized Net Operating Income (Table 2)**

The stabilized net operating income estimates are based on the following assumptions.

***Revenue***

The analysis is based on the income that can potentially be generated once the Project is fully built out, and has reached stabilized occupancy. Based on the EEG phasing plan, this is projected to occur at the end of a 10-year period. When EEG's projection of the Year 10 rent income is discounted back to constant 2012 dollars, the total gross annual income is estimated at approximately \$16.1 million.

***Operating Expenses***

Using the EEG assumptions, KMA translated the Year 10 operating expenses into 2012 dollars. The resulting operating expenses are estimated at \$8.2 million per year.

***Stabilized Net Operating Income***

When the \$8.2 million in estimated operating expenses are deducted from the \$16.1 million in estimated gross income, the resulting net annual operating income equals \$7.9 million.

### **Estimated Equity and Grant Contributions Requirement (Table 3)**

#### ***Supportable Debt Financing***

The amount of debt financing that can be supported by the Project is based on the Project's stabilized net operating income and the underwriting requirements imposed by the lending community. For the purposes of this conceptual analysis, KMA applied the following underwriting criteria:

1. The stabilized net operating income is estimated at \$7.9 million;
2. The debt service coverage ratio is set at 130%;
3. The mortgage interest rate is set at 6%; and
4. The amortization period is set at 30 years.

Based on the preceding assumptions, the supportable debt is estimated at \$84 million.

#### ***Required Equity and Grant Contributions***

The Project costs are estimated at \$220 million and the supportable debt financing is estimated at \$84 million. The resulting equity and grant contribution requirement totals \$136 million.

Based on a threshold investor return of 12%, the available cash flow supports an approximately \$15 million equity investment. Thus, the Project would need to obtain upwards of \$121 million in grant funds to achieve financial feasibility.

TABLE 1

**ESTIMATED DEVELOPMENT COSTS  
DEVELOPER ASSUMPTIONS  
PROJECT AT FULL BUILDOUT  
CALIFORNIA SPACE EDUCATION CENTER  
LOMPOC, CALIFORNIA**

<b>I. Land Acquisition</b>					<b>\$0</b>
<b>II. <u>Direct Costs</u></b>					
<b>Site Development</b>	468,063	Sf of GBA	\$30.60 /Sf	\$14,344,000	
<b>Building Costs</b>					
Back of House	14,800	Sf of GBA	\$189.80 /Sf	\$2,809,000	
Mission Support	257,000	Sf of GBA	\$271.00 /Sf	69,642,000	
Visitor Center	84,158	Sf of GBA	\$306.80 /Sf	25,820,000	
Cultural Centers	7,405	Sf of GBA	\$306.80 /Sf	2,272,000	
Youth Education	45,700	Sf of GBA	\$307.50 /Sf	14,053,000	
Adult Ed/Conference Center	59,000	Sf of GBA	\$333.40 /Sf	19,672,000	
<b>Total Building Costs</b>	468,063	Sf of GBA	\$286.90 /Sf	134,268,000	
<b>Tenant Improvement Costs</b>	468,063	Sf of GBA	\$63.40 /Sf	\$29,658,000	
<b>Total Direct Costs</b>					<b>\$178,270,000</b>
<b>III. Indirect Costs</b>		23.4% Direct Costs			<b>\$41,665,000</b>
<b>IV. <u>Financing Costs</u></b>					
Interest During Construction				\$0	
Loan Origination fees				0	
<b>Total Financing Costs</b>					<b>\$0</b>
<b>V. <u>Total Development Costs</u></b>					<b>\$219,935,000</b>

TABLE 2

STABILIZED NET OPERATING INCOME  
DEVELOPER ASSUMPTIONS  
PROJECT AT FULL BUILDOUT  
CALIFORNIA SPACE EDUCATION CENTER  
LOMPOC, CALIFORNIA

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<b>I. <u>Rental Income</u></b>			
Visitor Center		\$10,332,000	
Mission Support		4,760,000	
Educational Facilities		971,000	
Conference Center		88,000	
			<hr/>
<b>Gross Rental Income</b>			<b>\$16,151,000</b>
(Less): Vacancy & Collection Allowance	0.00% Rental Income		<hr/>
			<b>\$0</b>
<b>Effective Gross Income</b>			<b>\$16,151,000</b>
<b>II. <u>Operating Expenses</u></b>			
Visitor Center	73.9% Share of Departmental Revenue	\$7,635,000	
Mission Support	10.0% Share of Departmental Revenue	476,000	
Educational Facilities	10.0% Share of Departmental Revenue	97,000	
Conference Center	10.2% Share of Departmental Revenue	9,000	
			<hr/>
<b>Total Operating Expenses</b>			<b>(\$8,217,000)</b>
<b>III. <u>Total Net Operating Income</u></b>			<b>\$7,934,000</b>

TABLE 3

**ESTIMATED EQUITY & GRANT CONTRIBUTIONS REQUIREMENT  
PROJECT AT FULL BUILDOUT  
CALIFORNIA SPACE EDUCATION CENTER  
LOMPOC, CALIFORNIA**

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<b>I. <u>Supportable Debt Financing</u></b>				
Total Net Operating Income	\$7,934,000			
Estimated Debt Service Coverage Ratio	<u>130.00%</u>			
Income Available for Debt Service		\$6,103,000		
<b>Total Supportable Debt Financing</b>	6.00% Interest Rate	30 Year Term		<b>\$84,007,000</b>
<b>II. Total Development Costs</b>	See TABLE 1			<b><u>(\$219,935,000)</u></b>
<b>III. <u>Equity &amp; Grant Contributions Required to Fund Balance of Costs</u></b>				<b><u>(\$135,928,000)</u></b>