



## City Council Agenda Item

**City Council Meeting Date:** November 7, 2023

**TO:** Honorable Mayor and City Council Members

**FROM:** Jeff Malawy, City Attorney  
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**SUBJECT:** Receive and File Report on Financial Feasibility of Pale Blue Dot's Proposed Development of a Space Center Project on Approximately 82 Acres Including and Adjacent to Ken Adam Park (APN 095-070-008)

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### **Recommendation:**

Staff recommends the City Council receive and file this staff report on the financial feasibility analysis prepared by the City's consultant, Pro Forma Advisors LLC, regarding the proposed Pale Blue Dot Space Center Project.

### **Background:**

The City entered into a Memorandum of Understanding (MOU) with Pale Blue Dot Ventures, Inc. (Pale Blue Dot or PBD) in July 2019. The purpose of the MOU is to provide a period during which the City will negotiate exclusively with Pale Blue Dot toward a proposed eventual development of a space center project on approximately 82 acres of City-owned property including and adjacent to Ken Adam Park (Property). Until the MOU expires, the City cannot negotiate with any entity other than Pale Blue Dot regarding the Property, and cannot consider approval of any developmental use for the Property other than Pale Blue Dot's proposed project.

At its meeting on April 18, 2023, the City Council reviewed findings from Keyser Marston Associates, a City contracted consultant, on Pale Blue Dot's Concept & Feasibility Study and Experience Design Plan (CFSEDP). (Attachment 1 is the April 18 staff report.) After reviewing Keyser Marston's findings, the City Council directed staff to continue negotiating and preparing a Disposition & Development Agreement (DDA) for eventual consideration by the City Council, and directed staff to hire a consultant with revenue estimating experience for theme park attractions to review Pale Blue Dot's Concept & Feasibility Study.

After the April 18 meeting, Pale Blue Dot requested to submit an updated and revised financial feasibility analysis, and that the new City consultant should conduct a review of that updated Pale Blue Dot feasibility analysis.

Pale Blue Dot spent time updating its project plans and financial assumptions and estimates, and submitted its finalized updated financial feasibility analysis to the City on August 7, 2023.<sup>1</sup>

On August 15, 2023, the City Council extended the expiration date of the MOU from September 6, 2023, to December 31, 2023, to allow time for the City's consultant to conduct its review after receiving Pale Blue Dot's updated financials.

Separately, the City Attorney's Office and Pale Blue Dot have continued negotiating and drafting the DDA so that it can come to City Council for consideration and possible approval, which will govern the development and potential eventual sale of the property to Pale Blue Dot.

*Latest Project Description:* Attachment 2 is Pale Blue Dot's Updated October 2023 Project Summary document describing the most recent Project concept.<sup>2</sup> A brief and general summary of the space-themed educational and entertainment project described in Pale Blue Dot's concept is the following mix of uses:

- 1) A gated visitor attraction containing a collection of activities and experiences including:
  - a. Multi-axis trainers;
  - b. Personal flight simulators;
  - c. A domed theater;
  - d. Flying theater ride system;
  - e. Virtual reality microgravity tower – a 140-foot drop tower ride system;
  - f. Mars surface rover area;
  - g. Aquatic Space Lab – underwater immersive experience that uses breathing helmets;
- 2) Classroom, laboratory, meeting room, and flex space areas;
- 3) Dedicated space and accommodations for multi-day youth camps;
- 4) Launch observation plaza including a bandshell and outdoor gathering area;
- 5) Visitor center, retail space, and food and beverage uses; and
- 6) A 75-room overnight lodging facility for park guests who purchase an overnight ticket package, which integrates park educational and recreational experiences into the overnight stay.

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<sup>1</sup> Pale Blue Dot marked the financial numbers in its updated feasibility analysis as confidential proprietary information. Pursuant to Section 3.F. of the MOU, the City cannot release financial information Pale Blue Dot marked as confidential, including within the City consultant's report. That is why this staff report summarizes the findings and conclusions of the City consultant's report without including PBD's precise financial numbers and projections. The City has provided the City's consultant's full report to Pale Blue Dot.

<sup>2</sup> Although the Updated October 2023 Project Summary document is marked Confidential Information, Pale Blue Dot has agreed to make this document public.

## **Discussion**

Confirming the Project's financial feasibility at this early conceptual stage is important so that the City Council is assured the Project is realistic and the benefits of continuing to pursue the Project outweigh the opportunity cost of holding back other potential uses of the land.

The City hired Mark Dvorchak of Pro Forma Advisors, LLC to perform a review and report on Pale Blue Dot's final updated financial feasibility analysis. Mr. Dvorchak has led a variety of market analysis and feasibility projects for destination theme parks, amusement parks, water parks, and attractions around the world, including an analysis of Space Tourism potential for a NASA Spaceport master plan. (Attachment 3.)

The Pro Forma Advisors firm as a whole is a boutique consulting firm focused on market and financial feasibility assessment. They specialize in large-scale, visitor-oriented real estate projects such as integrated resorts, theme parks, casino gaming, retail/dining/entertainment (RD&E) centers, museums, and specialty/branded attractions. Pro Forma was founded in 2008 by a group of veteran consultants who had previously served as principals of the land-use economics consulting firm that advised Walt Disney on Disneyland, Disney World, and other Disney parks.

Mr. Dvorchak prepared a financial evaluation of Pale Blue Dot's conceptual space center project and an evaluation of Pale Blue Dot's financial feasibility analysis. A summary of Mr. Dvorchak's findings and conclusions is as follows:

1. While the attraction design is not finalized, it is smaller and has less for guests to do than theme parks and major comparable space attractions. Most major space attractions offer genuine NASA facility tours in addition to the visitor centers. This may limit the length of stay for guests, the distance they would travel, and the amount they would pay for the attraction. Major changes to the attraction program would need to be reflected in the cost budgets.
2. The projected admission revenue per guest is much higher than both theme park and space attraction benchmarks. If these premiums are not attained, revenue targets may not be reached.
3. The projected additional spending by guests inside the attraction is high in absolute terms compared to benchmarks. A shorter length of stay limits potential spending on Food & Beverage and Retail in the attraction.
4. A shorter length of stay limits demand at the proposed 75-room hotel onsite. Additionally, due to the federal land use restrictions on the site, hotel guests must purchase their room in combination with a park ticket and park experiences must be integrated with the hotel stay. Because the hotel cannot operate as a hotel open to the general market, demand is further limited. Pale

Blue Dot's projected occupancy rate is higher than Pro Forma would recommend.

5. Space camps are highly popular, and Southern California schools could provide strong demand. Projected space camp attendance is obtainable, but revenue per camper is higher than benchmarks. Generally, school camps are not high margin for-profit operations.
6. Pro Forma is not a cost estimation firm, but has reviewed the development cost budget. Pro Forma believes it compares to similar Entertainment Centers. The development budget per expected annual visitor falls in a reasonable ratio for attractions. However, the absolute attraction budget is small when compared to theme parks.
7. The projected Operating Margins are based on theme parks, which are higher than Entertainment Centers<sup>3</sup> or Space attractions. Total operating expense levels may be reasonable, when viewed against lower revenue levels.
8. The presented project model allocates reinvestment in attractions at a level well below theme park averages needed to drive repeat visitation. Entertainment Centers do not require theme park level reinvestment, but may need a higher allocation than Pale Blue Dot projects to refresh attractions in the future.
9. Adjustments made based on Pro Forma Advisors' comments would likely lower the presented economic returns. However, the Project is likely to generate more revenue than it costs to operate. As long as there is a surplus, the facility would continue to operate under any ownership structure. Investors and lenders, after evaluating projections and financials, ultimately take on the risk of lower returns.

As stated in the last bullet point #9, Pro Forma's ultimate conclusion is that if the Project is changed to address Pro Forma's comments, then the Project would likely operate at a profit, but at a lower profit than Pale Blue Dot's current projections. Investors and lenders, after evaluating project projections and financials, would decide whether to take the risk of such lower returns.

If the Project does not attract sufficient investment capital or commitments from lending institutions, then the Project will not be built. If the Project is built, or partially built, but is not successful and stops operating, then provisions in the Disposition and Development

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<sup>3</sup> Pro Forma Advisors generally defines a Theme Park as offering 40+ attractions, themed environment, and specialty dining and retail options, with a 5-10 hour length of stay and 1M to 20M annual guests (Disneyland, Knott's Berry Farm, Universal Studios, Six Flags). An Entertainment Center is a smaller themed venue with average of 4-10 experiences per guest, 1-2 hour length of stay, lower-capacity rides and exhibits, and more focus on the regional market with a target of 100,000 to 400,000 annual guests (DisneyQuest in Orlando, FL, Joypolis in Tokyo and Shanghai). Space Attractions are centers such as Kennedy Space Center in Florida, U.S. Space & Rocket Center in Huntsville, AL, and Space Center Houston, with a 1-3 hour length of stay and 4-6 experiences per guest.

Agreement (DDA) currently being negotiated between the City and Pale Blue Dot will be triggered as protections for the City, such as a right of the City to take back ownership and control of the property. Confirming the Project is financially feasible is important, because if the Project is constructed and then not successful, the legal procedures and complexities involved with regaining ownership and control of the property and preparing it for a new desired use can be costly, slow, and burdensome, even with the maximum possible financial protections for the City in the DDA.

**Fiscal Impact:**

The City's staff costs, legal costs, and consultant costs for reviewing Pale Blue Dot's financial feasibility analysis are covered by the deposit made by Pale Blue Dot to the City under the MOU, which covers City costs associated with negotiations of a potential disposition and development agreement for the proposed project, including fiscal analysis of the proposed project.

**Conclusion:**

The City Council may simply receive and file this report, consider any response to the Pro Forma analysis that Pale Blue Dot may submit to the City in the coming weeks, and then decide whether to continue with the Project when the Disposition & Development Agreement comes before the City Council for approval or when it is time to consider an extension to the MOU, which currently will expire on December 31, 2023.

Respectfully submitted,



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Jeff Malawy, City Attorney

- Attachments: 1) April 18, 2023 Staff Report  
2) Pale Blue Dot's Updated October 2023 Project Summary  
3) Bio – Mark Dvorchak, Pro Forma Advisors, LLC