

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Council File No. 14-1383

Council District: 9

To: The City Council
The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: C.F. 14-1383

Subject: **LOS ANGELES CONVENTION CENTER DUAL PATH REPORT**

INTRODUCTION

At its meeting held on March 2, 2016, the City Council approved an Economic Development Committee (EDC) report (C.F. 14-1383) with recommendations for a Dual Path approach related to the Los Angeles Convention Center (LACC) Expansion and Modernization project (Project). Pursuant to the Council-adopted instructions in the report, the City commenced the environmental clearance process governed by the California Environmental Quality Act (CEQA) and continued to evaluate in detail two alternative approaches towards delivering the Project, approaches which impact the expansion, operation, and long-term maintenance of the LACC.

The analysis of both project alternatives was informed by a City Working Group comprising staff from the Chief Legislative Analyst (CLA), the City Administrative Officer (CAO), Bureau of Engineering (BOE), Department of Convention and Tourism Development (CTD), the Department of City Planning (DCP), City Attorney, and the Department of Building and Safety (DBS).

One project alternative assumes that the City manages the design and construction, issues bonds to finance the expansion, and is responsible for the operation and maintenance of the LACC for the useful life of the investment (the "Traditional Approach"). The analysis of the Traditional Approach is led by the BOE, with assistance from the CTD. The CAO has also assisted in the review of financing options through municipal debt financing alternatives. Architecture and engineering design services have been provided by Populous Inc. (Populous), which won a City-sponsored design competition. The proposed design accommodates the space and operational requirements for an expanded LACC and identifies a site for a hotel on the campus.

A second approach involves the competitive selection of a third-party development partner to Design, Build, Finance, Operate, and Maintain the LACC over the useful life of the investment (the "DBFOM Approach"). Under this approach, a private development consortium would privately finance the expansion and assume the responsibility to design, build, operate, and maintain the LACC pursuant to a long-term agreement. The analysis is led by the CAO with assistance from the CAO's project advisor, Arup Advisory Inc. (Arup), Arup's sub-consultant/architect HOK, BOE, and CTD. This alternative option involves three illustrative development schemes with property use types that include an expansion of the convention center that meets the space and

operational requirements of the City, potential sites for a hotel, and a sizable private mixed-use real estate development on the LACC campus. The design schemes considered are not intended to be prescriptive nor limiting the design solutions that could be developed by actual bidding teams through a competitive procurement process. The schemes demonstrate the Project's ability to combine the proposed property uses on the LACC campus and illustrate a few examples of what bidders might ultimately propose as part of a developer solicitation.

The construction management and cost estimation firm MGAC, Inc. (MGAC) was hired to provide independent opinions of the full cost of ownership for the two alternative approaches. MGAC was instructed to take a "cost of ownership" approach by providing an opinion of the costs for the construction of the expansion, operations, and long-term facility maintenance (i.e. lifecycle) of the LACC. MGAC's cost estimates are based on the LACC Facility Program documents provided by the City for the Traditional Approach and the DBFOM Approach. In both cases, the LACC Facility Program plan is guided by the goal for a "top-tier facility." Deviations from this facility program guide have not been considered in the cost-estimates and would require further analysis.

This Report summarizes the findings from the various investigations and analyses related to the two proposed approaches.

SUMMARY

A convention center is a unique public asset. They are extremely large and complex public assembly facilities that drive economic activity by attracting tourists as well as regional and local patrons who shop, dine, and vacation in the hotels, restaurants, and stores in the City. A convention center can be thought of as a hybrid hospitality-entertainment destination, where the quality of the facility matters greatly. In order to attract and sustain visitor demand, they must be up-to-date at all times in terms of audio/visual and information technology, bright and expansive spaces, attractive building elements and fixtures, and an active and alluring streetscape.

Many cities understand the benefits that convention centers bring, and the convention center industry is extremely competitive. All of the LACC's premium west coast competitors are undertaking expansion and modernization projects of their own, and according to the Los Angeles Convention and Tourism Board (LATCB), 33% of the LACC's lost business is due to insufficient or inadequate convention center space and hotel inventory (rather than seasonality or geographic variation in event demand which is outside of the City's influence). With its global appeal, the City will compete with any tourist destination, and now is a particularly unique opportunity to invest in the LACC in synergy with the thriving economic development occurring in South Park and downtown Los Angeles.

The common goal guiding this analysis is to deliver a thriving convention destination that is fitting of the nation's second largest City. This goal can be defined by the following objectives, listed in priority order as:

- I. Provide a competitive, state-of-the art convention center facility
- II. Expand the nearby hotel room inventory
- III. Activate the LACC via good urban planning – e.g. connectivity to the neighborhood, new amenities such as public space, retail, etc.

- IV. Control costs, timeliness, and overall delivery of the Project
- V. Create jobs
- VI. Generate net new City revenues
- VII. Preserve fiscal flexibility to meet other City-wide objectives and priorities

This in-depth review of the Project under two potential delivery methods has been an important exercise for the City because it addresses our primary challenge: how does the City best achieve the outcomes it seeks? Evaluating the two approaches should focus on how the above objectives are met.

As the City prepares to make a significant capital investment in the LACC, this major undertaking should also adhere to key best practices in public policy:

- A Commitment to Capital Maintenance. Regardless of the project alternative chosen, the City should commit to maintaining the LACC according to the capital investment requirements of a hospitality-based facility, where regular ongoing maintenance and modernization is essential. This level of commitment should not only include financing a one-time construction project and budgeting for debt service, but also creating a dedicated capital fund and/or payment obligation to cover required maintenance and/or major renovation. This is in keeping with best practices from the Government Finance Officers Association (GFOA), which states that governments should “[allocate] sufficient funds in [a] multi-year capital plan and annual operations budget for condition assessment, preventative maintenance, repair, and replacement of capital assets...” GFOA further states that, “deferring essential maintenance or asset replacement could reduce the organizations ability to provide services and could threaten public health, safety, and overall quality of life. In addition, as the physical condition of the asset declines, deferring maintenance and/or replacement could increase long-term costs and liabilities.”¹
- Fiscal Responsibility/Flexibility. The City’s Financial Policies promote prudent fiscal stewardship to preserve the City’s strong fiscal position as demonstrated by its high credit ratings, debt capacity, and budget flexibility. The LACC represents one of the City’s most significant investments and incurring large amounts of new indebtedness for one project of this magnitude raises concerns with respect to the budget and our debt capacity. It is recommended that the City consider its investment in the LACC within the larger context of other City-wide infrastructure needs such as roads, existing City facilities, and other capital projects in the planning or conceptual stage.

Under this review, the City has gained greater clarity on the total cost of the Project over its useful life. As presented herein and in Arup’s report, MGAC has independently calculated the cost for the Project under each scenario to be much higher than the City previously anticipated. Both the Traditional and DBFOM approaches made initial cost estimates of their respective design solutions, and when verified by MGAC, each project saw hard construction costs rise between \$126 to \$171 million (\$142 to \$250 million in total development costs) above their initial estimates, demonstrating the complex and risky nature of this project regardless of the project delivery method.

¹ Government Finance Officers Association Best Practice, Asset Maintenance and Replacement, March 2010.

Estimates (\$2016)	TRADITIONAL			DBFOM B (High Scenario)		
	Initial	MGAC	Diff.	Initial	MGAC	Diff.
Construction	\$344 M	\$515 M	\$171 M	\$764 M	\$890 M	\$126 M
Soft Costs	\$87 M	\$133 M	\$46 M	\$101 M	\$155 M	\$54 M
Risk Contingency	\$38 M	\$72 M	\$34 M	\$119 M	\$81 M	\$-38 M
Total	\$469 M	\$720 M	\$251 M	\$984 M	\$1,126 M	\$142 M

These costs do not include the amount needed to operate, maintain, or renovate the existing buildings of the LACC over the life of the asset. These “lifecycle costs” range from \$490 million to \$780 million for the DBFOM and Traditional projects, respectively. Differences between lifecycle costs depend largely on the overall asset condition and scope of construction/renovation, where legacy facilities and systems cost more to maintain and renovate than newer, more modern facilities and systems (e.g. the Traditional and DBFOM A scheme keep West Hall; DBFOM B scheme demolishes the West Hall and replaces it within the new construction surrounding the South Hall – See Appendix A in Attachment 1). In aggregate, each project’s “total life costs” are shown below:

Estimates (\$2016)	TRADITIONAL	DBFOM A	DBFOM B
Construction	\$720 M	\$911 M	\$1,128 M
Lifecycle	\$780 M	\$506 M	\$490 M
Total	\$1,500 M	\$1,417 M	\$1,618 M

Given the anticipated level of required investment in the LACC, it is recommended that the City carefully evaluate the variety of benefits and the associated costs for each project alternative. Key questions to consider include:

- 1) What is the total fiscal/budget impact of the Project based on each approach and can the City afford this cost?
- 2) What are the economic impacts of the Project and how do these impacts differ based on the delivery method selected?
- 3) How do the Project scopes differ for each delivery method and which Project scope is best aligned with the City’s long-term objectives for the Convention Center?
- 4) What are the risks associated with each Project approach and who is responsible for managing the risks?

Because this is a complex and very expensive Project with significant risks, another critical issue to consider is whether the City should share the risk with a private partner. Arup’s report discusses a variety of benefits associated with transferring certain risks to the private sector, including shielding the City from the financial repercussions of cost overruns and schedule delays associated with unforeseen circumstances for any capital project of this scale. Another benefit is that a privately financed project helps the City preserve its fiscal flexibility. Arup also raises the point that while the upfront costs associated with the DBFOM Approach are higher, lower lifecycle costs and greater revenues from the real estate component provide greater relative value and benefits of the Project under a DBFOM, which ultimately reduce the City’s overall general fund exposure. Arup’s financial analysis is summarized in the following table.

	TRADITIONAL	DBFOM A	DBFOM B
Private Revenue	Total		
Signage and naming rights	\$207 M	\$207 M	\$207 M
Real estate revenue	---	\$127 M	\$175 M
Total private revenue	\$207 M	\$334 M	\$382 M
Tax Revenue	Annual in Millions		
Convention center net fiscal impact	\$9.8-13.1	\$9.8-13.1	\$9.8-13.1
Real estate net fiscal impact ⁽¹⁾	---	\$4.4	\$6.4
Total tax revenue	\$9.8-13.1	\$14 –17.5	\$16–19.5
Cost of Ownership (Capital Costs)	Total		
Development costs	\$720 M	\$911 M	\$1,128 M
Lifecycle costs	\$780 M	\$506 M	\$490 M
Total Cost of ownership	\$1,500 M	\$1,417 M	\$1,618 M
Total Net Cost to City	Total Net Present Value		
NPV of Net Cost to General Fund	\$845 M	\$734 M	\$824 M
Delivery Schedule			
Total Duration	52 months	Not estimated	60 months
Economic Impact (net increase w expansion)	Total		
Total spending	\$171 M	Not estimated	\$177 M
Total employment (jobs)	3,000	Not estimated	7,546
Total Earnings	\$113 M	Not estimated	\$360 M
Fiscal Impact (net increase w expansion)	Annual in Millions		
Property tax / Possessory interest tax	---	Not estimated	\$3.8
Motor vehicle licensing fee (in lieu)	---	Not estimated	\$0.5
Gross Receipts	---	Not estimated	\$1.3
LA Sales Tax	\$0.6 - \$0.8	Not estimated	\$1.1 - \$1.3
Transient Occupancy Tax (TOT)	\$8.8 - \$11.7	Not estimated	\$10.8 - \$13.7
Sales tax – indirect spending	\$0.2 - \$0.3	Not estimated	\$0.2 - \$0.3
LA Business Tax	\$0.01 - \$0.01	Not estimated	\$0.01 - \$0.01
LA Parking User Tax	\$0.2 - \$0.3	Not estimated	\$0.7 - \$0.8
Total	\$9.8 - \$13.1	Not estimated	\$18.4 - \$21.7
Note(s):			
(1) It was outside the scope of this study to estimate fiscal impacts of a possible convention center hotel and hotel incentives.			
(2) A contractual service fee equivalent to debt service and lifecycle maintenance combined.			

NEXT STEPS

The in-depth review of the Project under two potential delivery methods has been an important exercise for the City; providing the City Council and Mayor with critical information required for the selection of the path that will best meet the City’s objectives. If the City intends on moving forward with the Project with the goal of construction completion by fiscal year 2020-21, this

Office recommends the City select an approach and adopt the recommendations required to implement the selected approach as presented below.

RECOMMENDATIONS

Should the Council and Mayor decide to move forward with the **Traditional Approach** where the City acts as project developer, issues municipal bonds to finance the Project, and assumes maintenance responsibility for the useful life of the investment, the following actions are recommended.

That the City Council, subject to the approval of the Mayor:

1. ADOPT the core objectives for the Los Angeles Convention Center Expansion and Modernization Project as follows:
 - a. Provide a competitive, state-of-the art convention center facility
 - b. Expand the nearby hotel room inventory
 - c. Activate the LACC via good urban planning – e.g. connectivity to the neighborhood, new amenities such as public space, retail, etc.
 - d. Control costs, timeliness, and overall delivery of the Project
 - e. Create jobs
 - f. Generate net new City revenues
 - g. Preserve fiscal flexibility to meet other City-wide objectives and priorities
2. INSTRUCT BOE to report back to Council on the Project scope and costs under the Populous design and detail any scope variations from the LACC Facilities Program plan and cost associated with those variations.
3. INSTRUCT BOE with the assistance of CTD to complete a detailed asset condition report of the West Hall that provides a thorough review of the facility to inform the City on the long-term cost and useful life implications associated with maintaining, renovating, and/or replacing the structure.
4. INSTRUCT BOE with the assistance of CTD and the CAO to develop a long-term asset management plan that incorporates lifecycle maintenance costs of the facility as designed by Populous, with a funding plan for ongoing and long-term maintenance.
5. INSTRUCT BOE with the assistance of CTD, CAO, and CLA to report back on the funding required for ongoing architectural services with Populous, the completion of the all CEQA related activities, all related staffing costs associated with a construction management/general contractor (CM/GC) approach, and with a revised project timeline and steps required to implement this approach.
6. INSTRUCT the CAO to report back with a recommendation on a detailed debt financing plan for the Project based on Council-confirmed Project scope and costs.

ALTERNATE RECOMMENDATIONS

Should the Council and Mayor decide to move forward with the **DBFOM Approach** the following actions are recommended:

That the City Council, subject to the approval of the Mayor:

1. ADOPT the core objectives for the Los Angeles Convention Center Expansion and Modernization Project as follows:
 - a. Provide a competitive, state-of-the art convention center facility
 - b. Expand the nearby hotel room inventory
 - c. Activate the LACC via good urban planning – e.g. connectivity to the neighborhood, new amenities such as public space, retail, etc.
 - d. Control costs, timeliness, and overall delivery of the Project
 - e. Create jobs
 - f. Generate net new City revenues
 - g. Preserve fiscal flexibility to meet other City-wide objectives and prior

2. INSTRUCT the CAO assistance of the CLA and BOE to report back on the funding required for ongoing consulting services needed to complete a DBFOM procurement process, the completion of the all CEQA related activities, all related staffing costs associated with the DBFOM approach, and with a revised project timeline and steps required to implement this approach including the development of Request for Qualifications (RFQ) and Request for Proposals (RFP).

DEBT IMPACT STATEMENT

There is no debt impact associated with the recommendations in this report. However, should the City pursue the Project under the Traditional Approach, the issuance of commercial paper notes and/or long-term debt will be required. The future issuance of any debt will impact the City's debt levels and will be a General Fund obligation.

FISCAL IMPACT STATEMENT

The recommendations in this report do not have a direct impact on the General Fund. However, it is anticipated that the report backs requested under both approaches will identify funding requirements that may necessitate budget appropriations in the current fiscal year. The long-term General Fund impacts are subject to the approach taken as detailed in this report.

BACKGROUND

The City Council instructed the City Working Group to study the advantages of financing and delivering the Project under the proposed Traditional and DBFOM approaches and to present feasible development plans that meet the City's goals for an expanded and modernized top-tier convention center in a financially prudent manner.

Dual Path Methodology

Through this effort, a variety of studies and analyses are combined into a detailed Business Case, which evaluates the two alternatives in terms of their respective architectural design solutions, procurement and development schedule, cost of ownership (construction, operations, and long-term facility maintenance costs), economic and urban impacts, and financial affordability i.e. impact on the City's General Fund and Debt Capacity. The Business Case consolidates the following studies:

1. Architectural Design Alternatives

For the Traditional Approach, the Populous team refined the architectural concepts that resulted from the 2015 Design Competition and developed two new alternative designs which were presented to LACC stakeholders (show managers and owners, hotel developers, and community members), the CTD Commission, and the City Working Group. Input from these presentations led to the selection of a single preferred design which is evaluated in this analysis.

For the DBFOM Approach, Arup hired as sub-consultant the architecture and engineering firm HOK to produce design schemes that demonstrate the architectural viability of providing an expanded convention center facility that meets the City's space and operational needs while making available 7- to 14-acres of developable land for private mixed-use development (including hotel site options) on the LACC campus. These schemes were also presented to LACC stakeholders (show managers and owners, hotel developers, and community members), the CTD Commission, and the City Working Group. Ultimately, the illustrative design schemes will not be prescriptive to nor limit the design solutions that might be proposed by the bidding teams in a competitive procurement process.

The architectural design exercises for the Traditional and DBFOM approaches were key inputs toward evaluating the master plan concept, costs, and ultimately the financial and economic impacts that drive a plan of finance for each project alternative.

2. Independent Cost and Schedule Estimator (ICSE)

The construction management and cost estimation firm MGAC, Inc. was hired to assess the "total life costs" associated with the alternative project proposals for the LACC. According to MGAC's report (Attachment 2), total life costs are "derived from assessing the condition of an asset to determine its needs over the near, intermediate, and long term. Total life costs, also referred to as the costs of ownership, include the capital cost (i.e. hard and soft costs of construction) of a chosen capital improvement plan as well as the asset's 'lifecycle costs', which are estimated future capital investment requirements to refurbish, refresh, and/or replace an asset's building elements and components as they reach the end of their design or useful life".

3. Development Feasibility Analysis of Project Alternatives

The assessment of development feasibility for each project alternative includes the following elements:

- LACC Campus Master Plan: this includes a qualitative assessment of the architectural design solution, hotel site and other private development, business continuity during construction, urban impacts, among other factors related to utilization of the LACC Campus.
- Schedule: estimates of the development schedule for the Traditional and DBFOM projects were developed by analyzing separately the environmental clearance process pursuant to the California Environmental Quality Act (CEQA), project procurement and design timelines, and verified construction schedules.
- Financial and Economic Analysis: this component includes a financial analysis for each project alternative relative to their respective costs of ownership (construction, operations, and long-term maintenance needs), revenues, and fiscal impact. The analysis includes estimates of project revenues derived principally from convention center operating projections as well as analysis of the real estate market, lifecycle cost estimates, financing assumptions, and quantifying risks attributable to the City and/or a private development partner (in the case of the DBFOM Approach). The financial analysis is informed by (1) market feedback in the form of a Request for Information (RFI) for infrastructure and real estate investors/developers, (2) a real estate revenue analysis, as appropriate for each project alternative, and (3) fiscal impact analysis.

CONVENTION CENTER EXPANSION AND MODERNIZATION

With the goal of becoming a top-tier convention center worthy of the nation’s second largest city, it has been determined that the space offering needed to be more competitive with the LACC’s west coast competitors in San Diego, Anaheim, and San Francisco are as follows:

	Existing Facility	Additional	Total After Expansion
Exhibit Space	720,000 SF	220,000 SF	940,000 SF
Ballroom	0 SF	70,000 SF	70,000 SF
Meeting Room	102,000 SF	78,000 SF	180,000 SF
Total	870,000 SF	368,000 SF	1,190,000 SF

Economic Impact of Expanded and Modernized LACC

The economic and fiscal impact of the above facility expansion has been thoroughly studied in an August 2015 study by Convention, Sports and Leisure International (CSL) and more recently in April 2016 Johnson Consulting was hired to update CSL’s economic impact study. Johnson Consulting based its analysis on the expansion program shown above. All of the post expansion figures are estimated for the sixth year after expansion, which is assumed to represent a typical stabilized business year. Johnson Consulting references 2015 as the baseline year, while CSL references a “no expansion” option as a baseline, where it is assumed that the LACC activity will experience a 14% erosion of business from its five-year historical average.

According to Johnson Consulting, in 2015, LACC hosted 317 events attracting 2.1 million outside visitors. According to their estimates, the LACC expansion should boost bookings and attendance to 347 events and 2.5 million guests. As a result, the LACC expansion project would secure 30 additional events (including 13 additional citywide events from 27 to 40 events), and attract approximately an additional 432,000 convention guests and show managers every year. In 2015, the LACC generated an estimated 465,000 room nights, which would expand to 656,000 with an expansion.

The LACC’s increased attendance and room nights will generate three types of economic impact: spending, jobs, and earnings.

Estimates – all events	2015	Stabilized Year (6th Year)		Increase
		No Expansion*	Expansion	
Total spending (\$, million)	\$410	\$352	\$581	\$171 - \$228
Total employment (jobs)	7,200	6,192	10,200	3,000 – 4,008
Total Earnings (\$, million)	\$272	\$234	\$385	\$113 - \$151

* Using CSL’s estimate of a 14% loss in room nights from its 5-year historical average.

CSL and Johnson Consulting also conducted a fiscal impact analysis to estimate the additional tax revenue the City would receive by pursuing the LACC expansion project. Fiscal revenue is calculated on the basis of direct and total spending; figures shown below are based on total spending.

Estimates (\$, million)	2015	Stabilized Year (6th Year)		Increase
		No Expansion*	Expansion	
LA Sales Tax	\$1.6	\$1.4	\$2.20	\$0.6 - \$0.8
Transient Occupancy Tax (TOT)	\$20.7	\$17.8	\$29.5	\$8.8 - \$11.7
Sales tax – indirect spending	\$0.5	\$0.43	\$0.7	\$0.2 - \$0.3
LA Business Tax	\$0.02	\$0.02	\$0.03	\$0.01 - \$0.01
LA Parking User Tax	\$0.5	\$0.43	\$0.7	\$0.2 - \$0.3
Total	\$23.4	\$20.1	\$33.2	\$9.8 - \$13.1

* Using CSL’s estimate of a 14% loss in room nights from its 5-year historical average.

According to Johnson Consulting, in 2015, LACC generated \$23.4 million of tax revenue for the City. It is estimated that the total spending associated with the LACC expansion project would lead to a net increase of between \$9.8 million and \$13.1 million annually in key tax revenue to the City in a typical business year.

DEBT CAPACITY AND AFFORDABILITY

The City of Los Angeles is not only the nation’s second largest city in terms of population. With 469 square miles, it ranks third by land area (behind Houston and Phoenix) among the 10 most populated cities in the United States. A city of this scale has enormous ongoing investment needs, and \$1 billion of capital equipment and over \$2 billion of real property and infrastructure needs (excluding the needs of proprietary agencies) were readily identifiable as part of the Fiscal Year (FY) 2016-17 budget process.

As part of the Dual Path analysis, Council instructed the CAO to report back with an update on the City’s debt capacity as it relates to the LACC and other capital projects under consideration. With the adopted FY 2016-17 budget now in place, this section provides an update on the CAO’s November 13, 2015 report², which provided an overview of the City’s real property, infrastructure, and capital equipment replacement needs within the context of its non-voted direct debt capacity through the Municipal Improvement Corporation of Los Angeles (MICLA). At issue is how to prudently address the City’s backlog of underfunded capital equipment and mounting infrastructure needs when the City’s debt financing capacity is limited.

Historically, the City has issued municipal debt to finance both capital equipment such as fire trucks and information technology systems and capital projects such as libraries, fire stations, and other public buildings. In the long-term, the City desires to move towards a budgeted pay-as-you-go approach to meet its capital equipment needs. However the financial crisis caused the City to dramatically underfund its equipment purchases and it now relies more heavily on debt financing over the short-term to “catch up” on its significant backlog. This limits the City’s ability to debt finance both construction projects for new facilities and capital improvements of existing facilities.

Updated Debt Affordability Analysis

The FY 2016-17 direct debt ratio for non-voted approved debt is 4.12 percent. The debt ratio includes judgment obligation bonds and lease obligations issued through MICLA. This updated debt affordability analysis assumes the backlog of capital equipment is addressed over a five year period and maintains the City’s status quo approach of fully debt financing its capital equipment replacement needs and its major capital projects through MICLA. The first chart below assumes a 2.9% annual revenue growth rate while the other assumes a more aggressive annual revenue growth rate of 3.4% over the next five years. Both charts assume no economic downturn occurs and no new bond issuances to finance potential judgments from litigation within the next five years, both of which are aggressive assumptions.

Charts 1 and 2 below illustrate the impact on the City’s debt ratio for non-voted approved direct debt assuming a new debt issuance schedule to cover \$1 billion of capital equipment and \$2.1 billion of capital projects/infrastructure. The breakdown of known capital projects/infrastructure needs as of FY 2016-17 is as follows:

Known Capital Projects and Infrastructure (as of FY 2016-17)

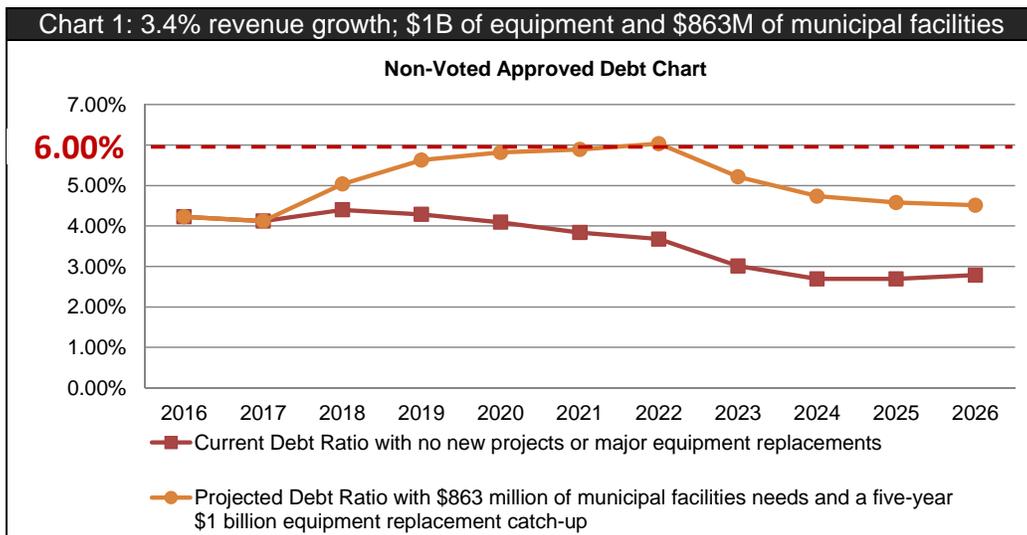
Capital Projects/Infrastructure	Amount
Municipal Facilities (In progress)	\$433,159,710
Municipal Facilities (Known needs)	\$701,000,000
P3 Candidate Projects *	\$1,035,000,000
Total	\$2,169,159,710
* Includes unverified historical cost estimates for LACC (\$470m), Civic Center (\$465m), and Streetcar funding gap (\$100m)	

These projects represent known funding needs and do not account for unforeseen debt issuance needs for settlements that may arise due to litigation or other infrastructure matters that raise

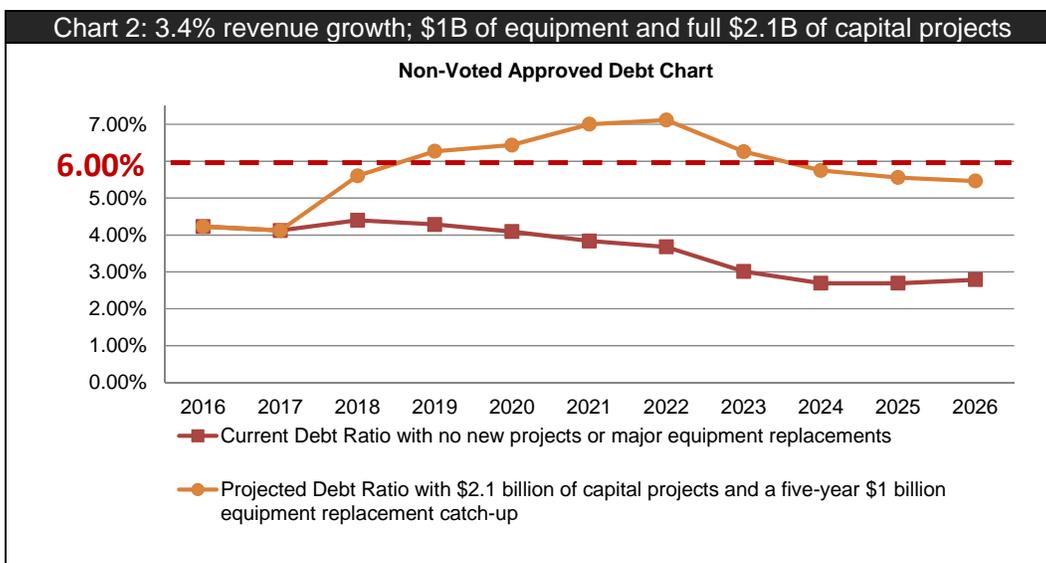
² See the CAO report entitled *Overview of the City’s Debt Capacity and Consideration of Various Financing Options for the City’s Capital Equipment Replacement Program and Various Capital Projects* (Ref. FY 2015-16 Adopted Budget and C.F. 14-1383); http://clkrep.lacity.org/online/docs/2015/15-1345_rpt_CAO_11-13-2015.pdf

concerns (e.g. exorbitant fines associated with non-compliance of more stringent pollutant discharge requirements in the storm water system which cannot be addressed by storm system rates). The following is an illustrative new debt issuance schedule used for this updated debt affordability analysis:

As illustrated below, in Chart 1 the City’s debt ratio for non-voted approved direct debt is shown to approach its six percent ceiling (5.81% and 5.89%) in Fiscal Years 2019-20 and 2020-21 and exceed it in Fiscal Year 2021-22 after debt has been issued for approximately \$1 billion of capital equipment and \$863 million of capital projects (i.e. municipal facilities in progress and known) between FY 17-21 and \$271 million of capital projects between FY 22-26, not including any of the P3 Candidate Projects.



In Chart 2 the City’s debt ratio for non-voted approved direct debt is shown to exceed its six percent ceiling beginning in Fiscal Year 2018-19, when debt has been issued for \$1 billion of capital equipment and \$2.1 billion of infrastructure, including P3 Candidate Projects, and remains above the ceiling until Fiscal Year 2023-24.



Although the City is safely within its debt limit at this time, this analysis illustrates the challenge that the City faces to meet its needs for capital projects and equipment. The debt affordability analysis and debt ceiling metric are part of a larger issue concerning the City's financial management practices, where prudent fiscal stewardship is essential in preserving the City's credit strength, high credit ratings, and budget flexibility by controlling debt among other financial management activities. One of the main objectives of the City's debt management policy and practices is to help maintain the City's high credit ratings so that access to borrowed funds is provided at the lowest possible interest rates, and noncompliance with the City's own debt management policy will negatively portray the City as a greater credit risk.

The rating agencies consider the City's moderate debt levels a plus in the context of its other fiscal and budgetary challenges. Therefore, CAO believes that if the City exceeded its debt ceiling by aggressively incurring large amounts of new indebtedness, the City's financial management position will be weakened at a time when most agree that we are at the peak of the current economic cycle.

Following this analysis, projects that the CAO has recommended for alternative financing and delivery mechanisms (e.g. LACC, Civic Center, and Streetcar) were selected in part for concerns raised about the City's ability to finance these projects given the City's other infrastructure needs, debt capability limits, and funding gaps or limited new revenues associated with a particular project.

LACC CAMPUS: MASTER PLAN ALTERNATIVES

In developing architectural design concepts, both Populous and HOK were instructed to address how the expanded LACC would function within a broader master plan for the LACC campus. This section describes the convention center space program and the associated master plan characteristics of each design, including private development components (hotel, retail, etc.), urban design and connectivity within the sports and entertainment district (e.g. LA Live and Staples Center), community linkages, and options for future convention center expansion in a 20-plus year time horizon. Renderings of the Populous preferred design have been submitted to C.F. 14-1383 and can be found online³. Renderings of the HOK schemes can be found in Appendix A of the attached Arup report.

Convention Center Space Program

The City has laid out its preferred convention center program requirements which include:

- Achieve expansion program defined by CTD and BOE, with the following priority:
 1. Create a single, contiguous exhibition space
 2. Build 78,000 SF of new meeting room space over and above existing inventory
 3. Build a new grand ballroom of 70,000 SF
 4. Add 220,000 SF of new exhibition space over and above existing inventory
- Design a world-class, top-tier, marketable, and flexible venue
- Identify a suitable site for the development of a 1,000-room hotel adjacent to the LACC facilities

³ Council File 14-1383: <https://cityclerk.lacity.org/lacityclerkconnect/index.cfm?fa=ccfi.viewrecord&cfnumber=14-1383>

- Improve connectivity within the LACC campus and to LA Live! and Downtown LA by promoting walkability

The development options prepared in response to these convention center program requirements are discussed below.

	Traditional	DBFOM	
		Scheme A	Scheme B
Premium Exhibit Hall	181,000 SF	220,000 SF	180,000 SF
Outdoor Exhibit/Event Space	40,000 SF	-----	20,000 SF
Total Exhibit Space	221,000 SF	220,000 SF	200,000 SF
Total Contiguous Exhibit Space ⁽¹⁾	739,000 SF	778,000 SF	738,000 SF
Meeting Rooms	99,000 SF	78,000 SF	78,000 SF
Ballroom	70,000 SF	70,000 SF	70,000 SF
Total New Leasable	390,000 SF	368,000 SF	368,000 SF
(1) Includes the 348,000 SF South Hall and 210,000 SF West Hall (or equivalent space amount)			

For the Traditional Path, the preferred design calls for a program of 181,000 SF of indoor exhibit space and 40,000 SF of outdoor exhibit space to meet CTD’s program requirement of 220,000 SF new exhibit hall space. It includes an additional 99,000 SF of meeting room space and a new 70,000 SF ballroom in a structure to be built on the existing Gilbert Lindsay Plaza, which is accentual to Figueroa Boulevard. It will also provide some connection to the streetscape fronting LA Live. The Traditional Path also calls for the demolition of 1,000 parking spaces offset by the provision of 500 new parking spaces. This would result in a net decrease of 500 parking spaces for an expanded convention center facility. Operational space envisioned by the Traditional Path includes 16 new loading docks and 200,000 SF of back-of-house/support space to facilitate move-in/move-out and general event function operations. This design option also provides for not only new landscaping space at the new entryways on Pico and 12th Street, but a new Gilbert Lindsay Plaza.

DBFOM Scheme A accommodates CTD’s program requirements by providing 220,000 SF of exhibition space contiguous with existing exhibition space in both the South and West Halls. New exhibition, ballroom, and meeting space would be provided by constructing a new five-level structure over Pico Blvd. between the South and West Halls. This would entail the replacement of the West Hall and concourse meeting space with net new meeting room space of 78,000 SF. Parking in this scheme represents a small departure in configuration from the existing format, the primary difference being a new entry treatment and optimized layout for area to be developed north of Pico Ave. Support and back-of-house facilities will be included in the expanded portion of the facility and provide an additional 30 new loading docks.

DBFOM Scheme B can also accommodate CTD’s program requirements by providing at least 180,000 SF of net new additional exhibition space, 20,000 square feet of outdoor event space, a 70,000 SF grand ballroom, and 78,000 SF of meeting room space. Both the grand ballroom and meeting space will be vertically organized in a six-story structure over Pico Blvd. Support and back-of-house facilities will be included in the expanded portion of the facility and provide for the reconfiguration and addition of 28 new loading docks. Scheme B retains the existing 1,120 space parking structure at Figueroa and Venice while creating new surface, ground, and mezzanine level parking spaces in the newly constructed exhibit areas. This scheme would create three

development parcels totaling approximately 12 acres while allowing for future convention facility expansion along the current site’s western edge.

Master Plan Features

<p>Private Development (incl. hotel)</p>	<p><u>Traditional</u></p> <ul style="list-style-type: none"> Private development in the traditional path includes a hotel site that will be ground leased to a development company. The site identified is located on Chick Hearn Plaza <p><u>DBFOM</u></p> <ul style="list-style-type: none"> Private development in the DBFOM path includes a several hotel site options made available in the reestablished street grid. In addition to a hotel site, this path would lead to the creation of three parcels totaling approximately 12 acres (approximately 15 acres total with hotel site) which would be ground leased to a private sector company for mixed-use development
<p>Urban Design / Experience</p>	<p><u>Traditional</u></p> <ul style="list-style-type: none"> The urban experience is centered on connection, using Staples Center as the center-point for connecting the LACC with all of the other activities in a ring surrounding Staples Center, including LA Live, Fig Center across the Street, and Metro stations for multi-modal transportation The connections between the new GLP and the expanded convention facility and LA Live across the street at Staples center will activate the area with pedestrians <p><u>DBFOM</u></p> <ul style="list-style-type: none"> Urban experience enhanced through the reestablishment of the historic street grid to foster connectivity and accessibility, particularly for pedestrian traffic, and provisions for wide sidewalks and ground floor retail to an “active promenade” on Georgia Avenue New rights of way to be used as pedestrian streets, public gathering spaces, and places for public activities during non-peak traffic periods should further activate the area with pedestrian traffic
<p>Community Linkage</p>	<p><u>Traditional</u></p> <ul style="list-style-type: none"> From a community standpoint, GLP will be revamped and relocated from its existing site to a new plaza between the Staples Center and the refurbished West Hall area Remodels the outdoor space in front of the South Hall’s tower with new pavements, islands of greenery, and integrated seating to help activate the facility’s frontage on Chick Hearn Ct. and Figueroa St. while providing a unified design <p><u>DBFOM</u></p> <ul style="list-style-type: none"> Provides for the inclusion of a “park promenade” as part of GLP to promote connectivity between the community and LACC and enhance its programmable space to support the increase of food service offerings, community events, and pop-up retail accommodated by the revamped area A new transit hub to replace operations on GLP provides for a consolidated bus pickup and drop-off from Pico Blvd. within the new convention center expansion to enhance multi-modal accessibility

<p>Future Expansion (Year 2035/2040)</p>	<p><u>Traditional</u></p> <ul style="list-style-type: none"> • Future expansion opportunity may lie with the Venice street garage and the area west of LA Live • Replacement of the West Hall in a multi-story vertical structure could also represent a future expansion opportunity for the Traditional Path <p><u>DBFOM</u></p> <ul style="list-style-type: none"> • Realignment of LA Live Way to the west would make 95,000 SF available for future LACC expansion along the western edge of the expanded facility envisioned by the DBFOM schemes • Expansion in the area that currently supports the Venice street garage can also support approximately 70,000 square feet • Accommodations for future expansion would be included as a design requirement in the RFP to ensure all proposals consider future LACC expansion projects
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SCHEDULE

The estimates of the development schedule for the Traditional and DBFOM projects were developed by analyzing three groups of activities that govern the overall timeline: (1) environmental clearance pursuant to the California Environmental Quality Act (CEQA); (2) project procurement and design; and (3) project construction. For the purposes of this report, it is assumed that the CEQA process commences on July 1, 2016.

The development schedules for the two alternative project delivery approaches have been reviewed by MGAC and are estimated to occur with 52 months for the Traditional Approach and 60 months for the DBFOM Approach.

Traditional Path

Project schedule for the Traditional Path

Phase	Dates	Duration
CEQA and Council Approval	07/2016 – 11/2017	18 months
Design and Approvals	09/2016 – 12/2018	16 months
Construction	07/2018 – 10/2020	28 months
Overall duration of all phases	07/2016 – 10/2020	52 months

Source: BOE

DBFOM Path

Project schedule for the DBFOM Path

Phase	Dates	Duration
CEQA / EIR	07/2016 – 11/2017	18 months
P3 Procurement	11/2016 – 01/2018	15 months
Design and Approvals	03/2017 – 10/2018	15 months
Phase 1A Construction	04/2018 – 09/2020	29 months
Demolition	09/2020 – 12/2020	3 months
Phase 1B Construction	10/2020 – 07/2021	6 months
Overall duration of all phases	07/2016 – 07/2021	60 months

Source: Arup

Environmental Clearance / CEQA

With the assistance of BOE and DCP, the City Working Group developed project-based Environmental Impact Report (EIR) approaches for both projects that are estimated to fit within an 18-20 month schedule, beginning on July 1, 2016.

For the Traditional Approach, a Project EIR will be defined by the space program (square footages, height, building locations and orientations, etc.) defined in the Populous design. The EIR will study the environmental impacts associated with this design.

For the DBFOM Approach, the environmental document that would be prepared is also a Project EIR with project description defined by a maximum space envelope (square footages of development, maximum areas and heights, etc.) for each of the different property use types, e.g. convention facilities, hotel, retail, office, etc. A project envelope approach, defining both the convention center space requirements as well as the private real estate components, can be used to assess environmental impacts and mitigation measures in parallel with a competitive procurement to select a DBFOM development partner. The specific project design chosen as part of the developer's proposal would be guided by the EIR's project description, impacts, and mitigation measures. Once a development partner is ultimately chosen, a consistency review would be made for the proposed design in order to determine whether or not it deviated from the approved maximum envelope project description.

Procurement and Design

For the Traditional Approach, a Construction Manager/General Contractor (CM/GC) delivery approach will be undertaken where the City assumes the role of project developer and long-term/permanent financier. The Populous architectural team has already gone through the City's procurement process and commenced conceptual design work. Further procurement steps would be for the City to amend the Populous contract and budget to complete construction drawings and procure the services of a CM during the pre-development and design phases to work alongside the City. The CM becomes the GC during construction.

For the DBFOM Approach, the City commences the procurement by issuing a Request for Qualifications (RFQ) to identify development consortiums sufficiently qualified to deliver on the Project goals and requirements. The outcome of the RFQ process will be a shortlist of qualified development consortia; the ideal number is three to four qualified teams. Once a shortlist of qualified bidders has been identified, the City would issue a Request for Proposals (RFP) to select the development partner. The RFP process is based on maintaining competitive tension among the bidders until final proposal submission, at which time the City would receive hard-bid proposals containing: (1) project designs and specifications paid for by the bidders; (2) full financing plans with equity/lender commitments, (3) fixed-price and date-certain construction bids; and (4) fixed-price O&M bids including lifecycle maintenance. At the end of the RFP process once a development partner is selected, financial close and construction of the convention center facilities can begin within 60 days.

The private real estate entitlement, procurement, and delivery elements of the project take place following final CEQA approval according to a schedule driven by market demand and independent of the convention center construction and delivery.

Construction

For the Traditional Approach, the construction period is estimated to be 28 months. For the DBFOM Approach, the construction period is estimated to be 29 months. Both of these estimates were deemed reasonable by MGAC.

OTHER CONSIDERATIONS

The City Attorney recently received a letter from AEG (attached) which raises concerns about certain Project elements, in particular the potential for a hotel on the LACC campus. The issues raised by AEG require further discussion which this Office recommends be done in a closed session given the potential legal matters addressed in the letter. Regardless of the path taken, clarification on the points raised is a critical first step for the success of the Project.

Attachments

MAS:BC:KC:00160003C