

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: February 4, 2016

CAO File No. 0670-00008-0000  
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: **SUPPLEMENTAL REPORT: PUBLIC-PRIVATE FINANCING OPTIONS FOR THE LOS ANGELES CONVENTION CENTER EXPANSION PROJECT**

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### SUMMARY

On December 23, 2015, the City Administrative Officer (CAO) released a report (C.F. 14-1383) entitled *Public-Private Financing Options for the Los Angeles Convention Center Expansion Project*, which recommended an alternative delivery and financing strategy (i.e. a public-private partnership or P3) for the expansion and modernization of the Los Angeles Convention Center (LACC). After a month of feedback and meetings with City stakeholders involved in the LACC Expansion and Modernization Project (Project), this Office is releasing this Supplemental Report to amend and restate the next steps and recommendations of the original report. This Supplemental Report (Report) also integrates and proposes amendments to the recommendations adopted by the City Council on December 15, 2015 (Attachment 1), with the intent of presenting a consolidated set of recommendations that will move the Project forward.

The consolidated recommendations presented herein have been developed in consultation with the Chief Legislative Analyst (CLA) and the Bureau of Engineering (BOE) and endorse a dual path approach to the Project. Via this dual path, the City will initiate work on both a traditional and an alternative project delivery and financing option as detailed in prior reports issued by our Offices. The most important work to be initiated on this dual path is the California Environmental Quality Act (CEQA) compliance process.

With the presentation of this dual path, the Council and Mayor now have three pathways to choose from in moving forward:

1. **Traditional Approach** – where the City acts as project developer, issues \$470 million of municipal bonds to finance the Project, and assumes maintenance responsibility for the 35- to 40-year useful life of the investment. Should the Council and Mayor move forward with this approach, it would proceed with the December 15, 2015 actions without modification, and begin by committing to a \$33.5 million contract for architectural services with Populous/HMC, authorizing the Board of Public Works to enter into a construction management/general contractor (CM/GC) contract with a guaranteed maximum price for the Project, and appropriating \$1.5 million to initiate the CEQA compliance process.

In order to proceed with the traditional approach, including the execution of a contract with Populous/HMC and a CM/GC contract, the Council and Mayor will have to authorize the use of Municipal Improvement Corporation of Los Angeles (MICLA) funding in an amount up to \$470 million. Furthermore, the CAO should be directed to report back with a recommendation on a detailed debt financing plan for the Project from the options previously presented in the CAO's December 7, 2015 report.

2. **P3 Approach** – where the City undertakes a competitive Request for Qualifications and Request for Proposals (RFQ/RFP) process to select a turnkey development partner to finance, deliver, operate, and maintain the Project per the CAO's December 23, 2015 recommendation. This decision would commit the City to \$3.4 million for architectural, engineering, and P3 consultant services for the remainder of the fiscal year including initiating the CEQA compliance process. Of this amount, \$1.5 million would be MICLA financed for the CEQA related work. The remaining \$1.9 million from the Capital Finance Administration Fund requires authorization for use on this Project.

To proceed with the P3 approach, the Council and Mayor should rescind most of the actions previously adopted by the City Council on December 15, 2015 with the exception of those initiating the CEQA compliance process. Furthermore, the CAO should be directed report back with the P3 business case and a detailed project timeline.

3. **Dual Path Approach** – where the City initiates the CEQA compliance process immediately and in parallel further develops both the traditional and P3 approaches with a detailed comparative analysis of public investment value, cost, risk, and schedule, with a final selection of one path by June 2016. This decision would commit the City to \$5.2 million for architectural, engineering services for both the traditional and P3 approaches, P3 consultant services for the remainder of the fiscal year, and the initiation of the CEQA compliance process. Of this amount, \$1.5 million and \$1.7 would be MICLA financed for the CEQA related work and conceptual design refinement, respectively. An additional \$100,000 would be used for an independent cost-estimator to review and validate the construction costs for both approaches. The remaining \$1.9 million from the Capital Finance Administration Fund requires authorization for use on this Project.

To proceed with dual path approach, the Council and Mayor should adopt the recommendations presented herein which include an instruction that the CAO report back on the business case for a P3 before the end of the fiscal.

The feedback received by this Office has centered on the importance of making forward, consistent progress with the Project. Initiating the CEQA compliance process is that critical first step that sits atop the initial design and permitting process overall and should be pursued immediately. LACC stakeholders, and in particular members of the Board of Los Angeles Convention and Tourism Development, have also been supportive of (1) further defining the P3 option and (2) clarifying aspects of the traditional proposal so that the Council and Mayor can make their most informed decision on a project delivery strategy that would prove most advantageous given the City's goals and constraints. This dual approach would be subject to a focused, time-limited process, culminating in a final selection of one path by Council by June 2016. This short-term dual approach serves two purposes: (1) it provides a definitive public development option that satisfies the space and operational requirements of the LACC that (2)

provides a well-defined basis of comparison in a P3 value-for-money analysis, which is used as a decision-support tool for public agencies to evaluate the most appropriate investment approach for a public asset. Therefore, the recommendations contained in this Report are consistent with the dual path approach further described below.

## **DUAL PATH**

Should the Council and Mayor select the dual path, a working group comprising of the CAO, CLA, Convention and Tourism Development (CTD), and BOE with assistance from the City Planning Department and the Office of the City Attorney will initiate the activities described below. Each activity will be led by one of the working group member departments with input and assistance provided by the others. The first activity identified to begin is the CEQA process. While the final Environmental Impact Report (EIR) is not anticipated to be completed until late 2017, the development and final approval of the EIR represents the critical time sensitive component for any of the approaches identified.

Assuming Council authorization in mid-February 2016, the remaining activities are targeted for completion by mid- to late-May 2016 and will be calendared and presented to Council for a decision on a final path to take before the end of the Fiscal Year 2015-16.

### **1. CEQA Compliance / EIR – Led by BOE with input from City Planning**

Under any of the three approaches, the \$1.5 million of funding for the CEQA related activities and the BOE staffing previously approved by the Council and Mayor would continue, with BOE's first task being the procurement and execution of a contract with an EIR consultant. However, as part of a dual path approach, the CEQA framework will be designed to address multiple project options to accommodate, at least initially, both traditional and P3 development strategies simultaneously until the Council and Mayor decides upon a final delivery approach at the end of the fiscal year.

It should be noted that the funding identified for this activity does not reflect the maximum amount required for full completion and final approval of an EIR under any approach. Furthermore, it is anticipated that additional BOE staffing may be required beyond the four Full-Time Equivalent positions contemplated in the prior P3 report or the 10 new positions authorized in earlier actions. The number and type of classifications required by BOE will depend on the final path selected. This information will be incorporated into the business case review which will be part of a report back to Council before the end of the fiscal year.

### **2. Design Services**

#### **a. Traditional Approach – Led by BOE with assistance from CTD**

BOE will procure architecture and engineering design services from Populous Inc., which won the Design Competition issued by BOE, for conceptual design refinements to their original 2015 LACC Design Competition Scheme. This refinement stage will be completed in a manner that satisfies the City's stated commitment to expand the LACC without exceeding \$350 million of construction costs and \$470 million of total development costs.

**b. P3 Approach – Led by CAO with assistance from BOE and CTD**

The CAO will work with its P3 financial advisor, Arup Advisory Inc., on developing an architectural and engineering framework tailored to meet the needs of the P3 procurement model. This entails developing alternative architectural plan layouts and 3D massing layouts to serve as a foundation of the Project design while leaving enough flexibility in the design and site plan to allow P3 proposers to creatively achieve an economically viable project. The CAO will incorporate input from the working group to ensure that the P3-related architectural layouts and guidelines for the LACC campus satisfy the space program, architectural design criteria, operational requirements, urban design requirements, and technical performance standards for the Project.

**3. Cost/Constructability Validation – Led by BOE with assistance from CAO**

In order for the Council and Mayor to make their most informed decision on a project delivery approach, an independent construction cost estimator will be hired by BOE to review and validate the construction costs, risks contingencies, and schedule presented by the traditional and P3 designs described above.

**4. Business Case – P3 Approach – Led by CAO**

The CAO will work with its P3 financial advisor on completing a detailed business case for the P3 approach to further define the transaction structure and key business terms that satisfy the City's requirements, policies, and project affordability limit. This business case will also provide the foundation for the RFQ/RFP documents and the framework for the P3 procurement process. This business case would include (1) stakeholder outreach; (2) a Request for Information (RFI) with relevant convention operations, P3/infrastructure, real estate industry participants; (3) a comparison of the independent cost/construction reviews to validate the costs (construction, operations, and lifecycle maintenance costs), risks contingencies, and schedule presented for both the design competition scheme and P3-compatible architectural schemes; and (4) legal and process analysis of a P3 procurement (to be led by the City Attorney) and development of the RFQ framework by the P3 financial advisor.

**5. Headquarters Hotel RFI – Led by Economic and Workforce Development Department with assistance from CTD, CAO, and CLA**

Regardless of the scheme selected and the procurement model to be implemented, the Headquarters Hotel RFI process will continue in parallel with the above tasks. Industry feedback from this RFI, which will reflect the market's assessment of the overall urban context for hotel developments on the LACC campus, will be informative for the Design Services and Business Case described above.

Whereas ultimately the Headquarters Hotel will likely follow an independent procurement path from the Project, regardless of procurement model selected, an important aspect to achieve the City's strategic goals is close coordination of the site selection and CEQA compliance for the Headquarters Hotel in the LACC's campus. The Design Services and Business Case will carefully consider this critical aspect to ensure an appropriate site is identified.

The recommendations contained herein are in compliance with the City's Financial Policies.

## RECOMMENDATIONS

These recommendations represent a consolidated set of recommendations to move this Project forward. This Report amends and restates the recommendations of the original report released by the CAO on December 23, 2015 and also integrates and proposes amendments to the recommendations adopted by the City Council on December 15, 2015 (Attachment 1).

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

1. AMEND AND REPLACE all of the previously adopted actions on the Economic Development Committee Report (C.F. 14-1383) adopted by the City Council on December 15, 2015 with the recommendations presented herein.
2. NOTE AND FILE the recommendations from the December 23, 2015 CAO report (C.F. 14-1383) entitled *Public-Private Financing Options for the Los Angeles Convention Center Expansion Project*.
3. INSTRUCT the City Administrative Officer (CAO), Bureau of Engineering (BOE), Department of Convention and Tourism Development (CTD), and Chief Legislative Analyst (CLA) to proceed with a dual path approach for the Los Angeles Convention Center Expansion and Modernization Project (Project) where the City initiates the California Environmental Quality Act compliance process while simultaneously developing elements of the traditional and P3 approaches with a final selection of one path by June 2016;
4. DESIGNATE a total project budget, if municipally financed, for the Project of not to exceed \$350 million of direct construction costs and \$470 million of total development costs (including direct, soft/indirect, and financing costs);
5. DESIGNATE the City Engineer as the Program Manager for the Project with oversight by the CLA and CAO in accordance with recommendation 3 above, and then, beginning in June 2016, from the Municipal Facilities Committee and assistance from the CTD, City Attorney, and Department of City Planning;
6. AUTHORIZE and APPROVE BOE to use \$3.3 million of MICLA funding from the MICLA Commercial Paper Program (Los Angeles Convention Center) for the following purposes:
  - a. Delegate the authority to the Board of Public Works to execute a sole source contract with Populous Inc., for architectural and engineering design services for seven years with authority to issue a Notice to Proceed and complete Concept Design Refinement in an amount not-to-exceed \$1.7 million.
  - b. Procure a Project Management consultant to assist BOE with design support and construction cost estimation services in an amount not-to-exceed \$100,000.
  - c. Initiate the CEQA related activities including procurement of an EIR consultant in an amount not-to-exceed \$1 million.

d. BOE staffing costs directly associated with EIR and design project components in an amount not-to-exceed \$500,000;

7. AUTHORIZE resolution authority for ten new positions in the Department of Public Works, subject to allocation by the Civil Service Commission and paygrade review by the Employee Relations Division, for the period March 1, 2016 through June 30, 2016, as follows:

<u>Public Works Bureau</u>	<u>Code</u>	<u>Classification</u>	<u>Quantity</u>
Bureau of Engineering	9489	Principal Civil Engineer	1
Bureau of Engineering	9485	Senior Civil Engineer	1
Bureau of Engineering	7925	Architect	1
Bureau of Engineering	7561-2	Building Mechanical Engineer II	1
Bureau of Engineering	7246-4	Civil Engineering Associate IV	1
Bureau of Engineering	7246-3	Civil engineering Associate III	1
Bureau of Engineering	9171	Senior Management Analyst I	1
Bureau of Engineering	1116	Secretary	1
Bureau of Engineering	1368	Senior Clerk Typist	1
Board of Public Works	1523-2	Senior Accountant II	1

8. DIRECT the Personnel Department to expedite the allocation of these positions for Civil Service Commission consideration.

9. AUTHORIZE the CAO, with the assistance of its P3 financial advisor, Arup Advisory Inc., to proceed with the detailed development of a Business Case for a Design-Build-Finance-Operate-Maintain (DBFOM) procurement integrated with a real estate development component for the Project, inclusive of architectural and engineering services in support of the business case, with consulting services of up to \$1.9 million to be paid from the Capital Finance Administration Fund;

10. AUTHORIZE the Controller to transfer \$1.9 million from Fund No. 100/53, Account No. 000316 to Fund No. 100/53, Account No. 000170;

11. INSTRUCT the BOE and CAO to complete the Design Services and P3 Business Case in 90 days from the date of Council approval of these recommendations, and to calendar and present the work to Council within 30 days thereafter;

12. INSTRUCT the Economic and Workforce Development Department (EWDD) to compile results from the Headquarters Hotel RFI and present to Council at the same time as the comparison of the P3 Business Case;

13. INSTRUCT the CAO, BOE, CTD, CLA, and EWDD to provide an update on all facets of the Project including the Headquarters Hotel to the Economic Development Committee and the Board of Los Angeles Convention and Tourism Development within 30 days from the date of Council approval of these recommendations and every 30 days thereafter;
14. AUTHORIZE the CAO to make any technical adjustments and corrections as necessary to transactions included in the report to implement the intentions of the Mayor and City Council.

### **DEBT IMPACT STATEMENT**

The issuance of commercial paper notes will not cause the City's debt service payments to exceed six percent of the General Fund revenues for non-voted approved debt as these are short-term notes. However, upon completion of the Project, any outstanding commercial paper notes will be refinanced to long-term debt and will impact the City's debt capacity. The future repayment of the debt issued will be a General Fund obligation.

### **FISCAL IMPACT STATEMENT**

There is no impact to the General Fund associated with the recommendations in this report as sufficient funds are currently budgeted in the General Fund, Capital Finance Administration Fund for the development of a business case of a P3 approach. This report is solely related to funding pre-construction costs and the evaluation of alternative funding options.

## BACKGROUND

Through a variety of recent actions (see C.F. 14-1383 and 13-0762), the City Council instructed the CAO and CLA to report back on project implementation and financing options for the expansion and modernization of the LACC. The Council also approved a series of recommendations related to the results of the LACC "Plan B" design competition, instructing BOE to negotiate a contract with Populous/HMC for their winning design concept.

On June 30, 2015, the City Council approved a variety of recommendations (C.F. 14-1383) related to the expansion and modernization of the LACC. Council instructed the CAO to report back on financing options, including a public-private partnership scenario, for the Project. Council also instructed the CLA and CAO to report on additional implementation steps to advance the Project.

In compliance with these instructions, on December 7, 2015, this Office released a report entitled *Financing Options for the Los Angeles Convention Center Expansion Project*, which described, but did not recommend, a few conventional municipal financing options for the estimated \$470 million project with a design concept developed by the competition's winning team (Populous/HMC Architects). Also on December 7, 2015, the CLA released a report entitled *Los Angeles Convention Center Expansion and Modernization*, which contained a set of recommendations to move the Project forward.

On December 15, 2015, the City Council adopted recommendations consistent with a traditional approach to financing this Project. Under this approach, the City would issue approximately \$470 million of bonds to finance the Project. A project of this size will cause the City's non-voted approved debt ratio to increase. As such, along with these recommendations, this Office was instructed to report back on alternative funding options and in particular on Public-Private-Partnerships (P3).

Most recently, on December 23, 2015, the CAO released a report entitled *Public-Private Financing Options for the Los Angeles Convention Center Expansion Project*, which recommended an alternative delivery and financing strategy for the expansion and modernization of the LACC. After a month of feedback and meetings with City stakeholders involved in the Project, this Office is releasing this Supplemental Report to amend and restate the next steps and recommendations of the original report released on December 23, 2015. This Supplemental Report also integrates and proposes amendments to the recommendations adopted by the City Council on December 15, 2015 (Attachment 1), with the intent of a consolidated set of recommendations for the Project.

Attachment

ECONOMIC DEVELOPMENT COMMITTEE REPORT relative to the proposed Los Angeles Convention Center (LACC) Expansion and Modernization project.

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. AUTHORIZE the total project budget for the Convention Center Expansion/Renovation Project of \$470 million.
2. DESIGNATE the City Engineer as the Program Manager for the Convention Center Expansion/Renovation Project.
3. INSTRUCT the Bureau of Engineering (BOE) to implement the project in logical phases, with issuance of the Notice to Proceed for any and all work to be issued following action by Council on the public-private partnership (P3) report.
4. DELEGATE the authority to the Board of Public Works to execute a sole source contract with Populous Inc., for architecture and engineering design services with a budget authority of \$33,537,590 for seven years.
5. AUTHORIZE the Board of Public Works to:
  - a. Enter into a construction management/general contractor contract with a guarantee maximum price for the Convention Center Expansion/Renovation Project, subject to Council approval.
  - b. Enter into a construction management/project management contract for seven years, subject to Council approval.
6. AUTHORIZE resolution authority for ten new positions in the Department of Public Works, subject to allocation by the Civil Service Commission and paygrade review by the Employee Relations Division, for the period December 1, 2015 through June 30, 2016, as follows:

<u>Public Works Bureau</u>	<u>Code</u>	<u>Classification</u>	<u>Quantity</u>
Bureau of Engineering	9489	Principal Civil Engineer	1
Bureau of Engineering	9485	Senior Civil Engineer	1
Bureau of Engineering	7925	Architect	1
Bureau of Engineering	7561-2	Building Mechanical Engineer II	1
Bureau of Engineering	7246-4	Civil Engineering Associate IV	1
Bureau of Engineering	7246-3	Civil engineering Associate III	1
Bureau of Engineering	9171	Senior Management Analyst I	1
Bureau of Engineering	1116	Secretary	1
Bureau of Engineering	1368	Senior Clerk Typist	1
Board of Public Works	1523-2	Senior Accountant II	1

7. DIRECT the Personnel Department to expedite the allocation of these positions for Civil Service Commission consideration.
8. AUTHORIZE the Controller to establish a new fund entitled Convention Center Expansion/Renovation in Department No. 50 to provide cash flow on a revolving basis and to receive and disburse funds for the project.
9. REQUEST the Controller to establish appropriation accounts within the new fund to transfer the appropriations, encumbrances, pre-encumbrances, and expenditures in the Convention Center Expansion/Renovation Project.
10. AUTHORIZE the City Administrative Officer (CAO) to make any technical corrections necessary to implement the intent of the Mayor and Council.
11. INSTRUCT the BOE and the Los Angeles Convention and Tourism Department to report on a semi-annual basis concerning status and progress of the LACC Expansion and Renovation project.
12. APPROVE the use of \$1.5 million of LACC Commercial Paper Program in a limited capacity to fund costs in Fiscal Year 2015-16 for the following:
  - a. \$1 million for BOE contractual services for California Environmental Quality Act related activities.
  - b. \$.5 million for BOE staffing (Six months for four full-time equivalent positions).

Fiscal Impact Statement: The Chief Legislative Analyst (CLA) reports that the recommendations in the CLA report have no fiscal impact. The CAO reports that its report is for informational purposes only. Should one of the options presented related to funding pre-construction costs be taken, the impact to the General Fund could potentially be \$1.5 million.

Debt Impact Statement: The CAO reports that in accordance with the City's Financial Policy, Debt Management Section, the maximum debt service payable in any given year may not exceed six percent of General Fund revenues for non-voted approved debt. As a general rule, for every 0.1 percent, approximately \$26 million in project financing may be issued. Based on this rule, the CAO estimates that it can issue approximately \$400 million of debt; however, this is an estimate and could change due to market conditions and future debt projects.

Community Impact Statement: None submitted.

**(Personnel and Animal Welfare and Budget and Finance Committees waived consideration of the above matter)**

### Summary

At the public hearing held on December 8, 2015, the Economic Development Committee considered reports from CLA and CAO relative to the proposed LACC Expansion and Modernization project. Staff from CLA and CAO gave the Committee background information on the matter. After an opportunity for public comment, the Committee recommended that Council approve the recommendations contained in the CLA report and selected Option No. 1 of the CAO report.

Personnel and Animal Welfare and Budget and Finance Committees waived consideration of the above matter. This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "L. Arrand", is written in a cursive style.

**ECONOMIC DEVELOPMENT COMMITTEE**

<b><u>MEMBER</u></b>	<b><u>VOTE</u></b>
PRICE:	YES
CEDILLO:	ABSENT
HARRIS-DAWSON:	YES
KREKORIAN:	YES
MARTINEZ:	YES

SG  
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**-NOT OFFICIAL UNTIL COUNCIL ACTS-**