REPORT OF THE
CHIEF LEGISLATIVE ANALYST

DATE: February 26, 2020

TO: Honorable Members of the City Council

FROM: Sharon M. Tso
Chief Legislative Analyst

Council File No. 15-1207-S1
Assignment No. 20-01-0102

SUBJECT: Los Angeles Convention Center Expansion Project

SUMMARY

On November 23, 2016, Motion (Price-Wesson) was approved to authorize the Chief Legislative Analyst (CLA) to evaluate a public-private partnership development (P3) proposed by Anschultz Entertainment Group (AEG) to expand the Los Angeles Convention Center (LACC), as well as a complementary private proposal by AEG to expand the existing JW Marriott Hotel at LA Live (JW Marriott Expansion). On December 12, 2018, the City Council approved CLA recommendations to, among other actions, authorize the Mayor to execute an Exclusive Negotiating Agreement (ENA) between the City of Los Angeles and AEG providing terms for agreements necessary for the expansion of the Los Angeles Convention Center (LACC Expansion Project or Project).

AEG would serve in the role as Developer, with Plenary Group as a partner, under a P3 design-build-finance-operate-maintain (DBFOM) development agreement, whereby for a term of 30 years after completion of construction, they would receive annual payments from the City to recoup its investment in the LACC Expansion Project. Payments are subject to deduction if the agreed-upon performance standards set by the City in the development agreement are not met. AEG and Plenary have since formed a partnership, the AEG Plenary Conventions Los Angeles, LLC (APCLA), which was named as a Contracting Party to the ENA by Council's action of July 2, 2019. Populous, the architecture firm previously selected by the City to design the LACC expansion as a City-directed project, has been retained by APCLA to remain as architect for this iteration of the LACC Expansion Project.

Subsequent to execution of the ENA, the City and APCLA have engaged in negotiations to expand and modernize the LACC, and provide operations and maintenance services on the LACC campus. Depending upon options chosen by Council, the LACC Expansion Project would provide up to 190,000 square feet of additional contiguous exhibit hall space; up to 55,000 square feet of additional meeting room space; and up to 95,000 square feet of multi-purpose space. The Project would also include a redesign of the adjacent Gil Lindsay Plaza to provide improved public amenities at the site. As proposed, APCLA notes that the LACC Expansion Project would be the second-largest social infrastructure P3 project in North America.

In order to evaluate the feasibility of the LACC Expansion Project, the City undertook studies to determine Potential Project Funding Availability and a total Target Budget for the construction of the expanded facilities, as well as the Operations and Maintenance (O&M) of the existing and

expanded facilities over a 30-year period. Financing is being considered on an Availability Payment structure, which will result in a fixed annual funding amount to be financed by the City. The City team has identified approximately $102 million per year of annual available City funding for the Project. But the City estimates the Project as originally envisioned would cost approximately $111 million per year for 30 years, a portion of which would be escalated annually. This would leave a potential $9 million annual funding gap in the Project.

The City could choose to reduce portions of the scope of the LACC Expansion Project to reduce the annual Availability Payment. Populous has suggested moving the Western exterior wall of the new Exhibit Hall further inward, reducing the square footage of the site to a total of 145,000 square feet of new exhibit hall space (a loss of 45,000 square feet), and reducing the new multi-purpose room space by 13,000 square feet. If the City elects to proceed with the value-engineering option to reduce the square footage of the new exhibit hall and multi-purpose space, the potential funding gap would be $5 million.

The determination of the Target Budget with a potential funding gap of either $9 million or $5 million, depending on Council action, relies upon entering into an Early Works Agreement (EWA), which would accelerate the overall design and construction schedule of the Project by having the APCLA team continue design development and preconstruction services between June and December 2020. This performance period is prior to the final execution of all project financing agreements, or Financial Close. Execution of the EWA would reduce escalation costs borne by the extended term of the construction period; APCLA has estimated that an EWA would save $70 million in total costs over the life of the Project and accelerate the Project schedule by approximately eight months. The EWA, however, includes a risk that the City would be obligated to pay $12.8 million in the event of a termination of the Project.

The funding gap will require an incremental increase to annual General Fund appropriation. City negotiations will continue to explore mitigating options to further reduce this gap, with the goal of producing a Project that has a net-neutral General Fund impact.

To reach as small of a funding gap as possible, the City and APCLA expended significant time and resources finding avenues to reduce costs across the Project. This effort would not have been possible without the diligent efforts of the City Administrative Officer, Bureau of Engineering, Convention and Tourism Department, Tourism and Convention Board, Office of the City Attorney, and City consultants.

It should be noted that APCLA will next enter into a costing exercise that will result in a Firm Fixed Price by the end of September 2020. At that time, Council will be asked to approve all final deal documents. It is anticipated, however, that if the Firm Fixed Price exceeds the current Target Budget, the Project may be in jeopardy.

Additionally, Council's actions on December 12, 2018 authorized up to $5 million in City funding to retain outside counsel, financial advisors, construction review support, and other specialists in P3 developments who would support the City team in negotiations. Since that time, the need for additional services by these advisors has been identified, which will require additional funding to complete. This report therefore recommends that $10 million in additional funding be approved for use by the City to retain advisors relative to the LACC Expansion Project.

Finally, please note that the ENA between the City of Los Angeles and AEG, and subsequently APCLA, was extended on January 9, 2020 by mutual agreement of the Parties under the terms of the ENA for an additional 180 days, ending on July 12, 2020. The ENA can be extended beyond July 12, 2020 by mutual agreement for an additional two 90-day periods under the terms of the ENA, to January 9, 2021 if required.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor, relative to the Los Angeles Convention Center Expansion Project:

1. Authorize the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) to negotiate the Early Works Agreement with AEG Plenary Conventions Los Angeles, LLC, in accordance with the business principles set forth in the Early Works Term Sheet (Attachment A).

2. Request the CLA to report back to Council for approval of the Early Works Agreement.

3. Authorize the CAO, CLA, the City Attorney, and the Bureau of Engineering, subject to CAO review, to procure, negotiate, and execute contracts and contract amendments for financial advisory, legal, construction management and review, and other consulting services as necessary for an additional $10 million, up to an aggregate amount of $15 million, paid from the Municipal Improvement Corporation of Los Angeles (MICLA) Commercial Paper Program (Los Angeles Convention Center).

4. Recommend that City Council authorize the Information Technology Agency and the Bureau of Contract Administration to take any action necessary or desirable to facilitate and oversee APCLA's and its subconsultants/subcontractors' Business Inclusion Program efforts, including granting access to them to post opportunities on the Los Angeles Business Assistance Virtual Network.

BACKGROUND

The Los Angeles Convention Center's (LACC) original West Hall was opened to the public in 1971, and has been in continual use for nearly 50 years. The LACC's initial expansion, which added the South Hall along Pico Boulevard, the Concourse Hall, and other improvements, was opened in 1993. A major renovation or expansion has not been performed since. The LACC's initial construction and expansion projects were financed through traditional governmental funding tools and constructed with City oversight.

The Los Angeles Tourism and Convention Bureau (LATCB) represents the City in attracting convention business to the LACC. In the December 2019 LATCB report titled "Citywide

Conventions Sales Lost Business Five Year Report," the LATCB reports that, over the five-year period from 2015-2019, the current condition of the LACC has resulted in the loss of 171 conventions that would have otherwise used the LACC. This has resulted in the loss of an estimated $2.8 billion in economic impact within the City. Additionally, the uncertainty surrounding the LACC Expansion Project has caused potential convention customers to eschew the LACC for their shows, resulting in additional, ongoing lost economic impact.

LATCB has indicated that Council's authorization for a modernized and expanded LACC would attract larger and more lucrative convention customers to the City, and not lose shows that would otherwise abandon the LACC without an expanded and modernized facility.

The City Council has approved actions to expand and modernize the LACC on several occasions since 2010. The Convention and Event Center project included the replacement of the West Hall at the LACC with an event center that intended to host a National Football League team, with replacement exhibit and meeting hall space to modernize and expand the LACC designed by Populous. When it was determined that the Event Center would not be built, on July 2, 2015 (CF 14-1383) Council approved recommendations to initiate a design competition for the LACC, and on December 7, 2015 authorized a $470 million budget for such a project (2015 Report). The City subsequently selected Populous to design the LACC expansion as a City-directed project.

The parameters for the proposed project at the time included at least 190,000 square feet of additional contiguous exhibit hall space; 55,000 square feet of additional meeting room space; and at least 95,000 square feet of multi-purpose space. The proposed project would have also resulted in the renovation of Gilbert Lindsay Plaza as a pedestrian-friendly open space that would support LACC events as well as the general public.

AEG 2016 Proposal

AEG, as long-term operators of the LACC, approached the City in November 2016 with a proposal to modernize and expand the LACC, as well as perform the JW Marriott Expansion (AEG 2016 Proposal). City staff, including the Chief Legislative Analyst (CLA), City Administrative Officer (CAO), Convention and Tourism Department (CTD), Planning Department, and City Attorney, met with AEG subsequently to review the AEG 2016 Proposal and identified a project that would result in the expansion of the LACC.

The AEG 2016 Proposal included plans for the JW Marriott Expansion project, which would add a new tower with 850 rooms on the corner of Georgia Street and Chick Hearn Court. The JW Marriott Expansion would happen concurrently with the LACC expansion. The hotel is proposed to be a full service facility and will include additional ballroom and meeting space. The concurrent development of the expanded JW Marriott Hotel addresses the City's previously stated goal of 8,000 hotel rooms within walking distance of the LACC.

AEG reported at the time that they had a gap in project financing and requested a hotel development incentive to support development of the property. A review conducted by the City's independent consultant, Keyser Marston Associates, determined that the project had a finance gap of $119.4 million, and that the project would generate $195.5 million net present value (NPV) in net new revenues to the City. Consistent with City policy, the Developer was determined to be eligible to receive up to $97.7 million NPV in financial assistance (which is 50 percent of net new revenues NPV generated by the project). The City was estimated to also receive $97.7 million NPV in new General Fund revenues. Execution of a hotel development incentive agreement with AEG would occur concurrently with Financial Close of the LACC Expansion Project.

On December 12, 2018, the City Council authorized the Mayor to execute an Exclusive Negotiating Agreement (ENA) between the City of Los Angeles and AEG providing terms for agreements necessary for the expansion of the LACC. The ENA was entered into by the parties on January 15, 2019. Subsequently, AEG formed a partnership with Plenary, a specialist in public-private partnership (P3) development deals, to help advance this project. The development team is known as AEG Plenary Conventions Los Angeles, LLC partnership (APCLA). APCLA was named as a Contracting Party to the ENA by Council's action of July 2, 2019.

Pursuant to the ENA, the City would be required to reimburse AEG up to $4 million for actual costs incurred in connection with the preparation of the schematic design in the event that both parties do not enter into a mutually agreed-upon Implementation Agreement for the LACC Expansion Project.

Negotiations with APCLA

The City and APCLA have been negotiating a potential agreement regarding development of the LACC since execution of the ENA. During negotiations, the parties have worked to finalize a development plan, complete schematic designs and additional design development documents, develop a finance plan, and determine an operations and maintenance (O&M) program.

During negotiations, APCLA conducted a competitive bidding process to procure a general contractor for potential construction of the LACC Expansion Project. In August 2019, APCLA selected a joint venture between PCL Builders Inc. and Webcor Construction LP (PWJV) to provide construction services. PWJV has provided input on the project design and construction plans during negotiations, and has committed to providing a Firm Fixed Price for construction services prior to Financial Close of the Project.

Populous, the architecture firm previously selected by the City to design the LACC expansion as a City-directed project, has been retained by APCLA to remain as architect for this iteration of the LACC Expansion Project. Populous has continued design development during the negotiation process.

Populous SD+ Design

Populous has continued design development of the LACC Expansion Project and has completed a Schematic Design Plus (Populous SD+ Design). Architectural renderings from the Populous SD+ Design are attached to this Report (Attachment B).

The Populous SD+ Design was developed based on the parameters set forth in the ENA: at least 190,000 square feet of additional contiguous exhibit hall space; 55,000 square feet of additional meeting room space; and at least 95,000 square feet of multi-purpose space. The Populous SD+ Design also includes a redesign of the adjacent Gil Lindsay Plaza to provide improved public amenities at the site. The Populous SD+ Design is estimated to have a total cost of $1.14 billion according to City consultants.

The cost of Populous SD+ Design is significantly higher than Council's contemplated 2015 Report budget of $470 million. Since 2015, the construction market in Los Angeles has steadily accelerated, decreasing the availability of potential contractors to perform the construction work and increasing their costs. Additionally, price escalation has occurred in the previous five years due to economic inflation, increases in the price of various materials, and tariffs.

One of Council's directives in the 2015 Report was to connect the existing West and South Halls to create one contiguous hall. This is seen as necessary to compete with other premier convention centers in the country. In order to achieve a fully contiguous hall, Populous designed a new hall that connects the South and West Halls by spanning over Pico Boulevard. Spanning over a pre-existing thoroughfare has driven additional structural costs that would not otherwise exist in a more traditional construction project. Significant steel infrastructure is needed to support the spans over Pico Boulevard, as support pylons must be strategically placed to avoid traffic lanes.

Finally, construction of a large multi-purpose space is required in order to maintain functionality and attractiveness in a crowded convention center market. This space will be divisible into multiple meeting rooms of varying sizes, or could be used a ballroom. However, the only location acceptable for such a multi-purpose space is directly above the New Hall. Building to this higher elevation necessitates using "high-rise" construction practices with additional requirements and restrictions and additional steel infrastructure. Most importantly, the LACC will need to provide proper and safe circulation to and from the multi-purpose space, including emergency egress for this elevated space. Construction of this multi-purpose space as proposed drives additional costs into the Project that were not contemplated in the 2015 Report.

Target Budget Process

In order to evaluate the feasibility of the LACC Expansion Project, the City undertook studies to determine Potential Project Funding Availability and a total Target Budget for the construction of the expanded facilities, as well as the O&M of the existing and expanded facilities over a 30-year period. The following provides analysis of costs to deliver the LACC Expansion Project, including value engineering and an Early Works Agreement designed to reduce costs. The analysis also includes an evaluation of revenues anticipated to be generated by the newly expanded Project. This analysis of costs and revenues was developed in a collaborative process with APCLA supported by the City's independent consultant, Ernst and Young.

Estimated Project Costs

APCLA is currently budgeting for a $957 million estimated construction price, based on initial market pricing received from PWJV during a competitive selection process in Summer 2019. The estimate was produced on the basis of APCLA's schematic design for the Project, and subsequently augmented by additional scope items for modernization work, value-engineering proposals, and other required scope items to ensure a high-performing Project. The estimate is subject to ongoing refinement as the City's required technical criteria and contract risk allocation are refined over the next phase of project development, and remains subject to ongoing validation and review by the City as design is progressed, key subcontractor packages are procured, and construction pricing efficiencies are investigated and resolved to the City's satisfaction. Ultimately, PWJV and APCLA will develop a design-build Firm Fixed Price on an open-book basis in late September or early October of 2020 that will be incorporated into the Project's final financial analysis for review and consideration by the City. An open-book process would allow APCLA and the City to review all underlying assumptions and data associated with pricing and scheduling of the work anticipated to be required under the Design-Build Agreement.

At this time, based on current Project assumptions pertaining to design, construction, operations, maintenance, lifecycle, schedule, and other critical elements, the City estimates the Project to cost approximately $111 million per year for 30 years, a portion of which would be escalated annually as described below. This estimate does not include design and construction-related City soft costs such as internal resources, consultants, and contingency, and is not yet a Firm Fixed Price but is instead based on high-level estimates that have been developed for assessing Project affordability at this interim point in these negotiations. Cost estimates will be fully developed into a Firm Fixed Price with the benefit of design progress and scope refinement, at which point the City team will report back with the final set of contract documents and financial analysis. Please note that this price incorporates savings from an Early Works Agreement, as discussed below.

Potential Project Funding Availability
In assessing the City's ability to afford the Project, the City developed a framework centered around a goal of maintaining a net neutral impact to the General Fund on an ongoing basis. To meet that objective, the City team has identified approximately $102 million per year of annual available City funding for the Project. This amount is comprised of:

1. General Fund resources equivalent to existing LACC debt payments; and

2. Revenues derived from the ongoing and expanded operations of an expanded and modernized LACC.

These available City resources currently represent a rough order of magnitude estimate given the ongoing analysis and progression of the business negotiations and commercial structure of the Project. The City has retained Ernst and Young and Convention, Sports and Leisure International to evaluate potential revenue streams over a 30-year period. The revenue projections are based on initial estimates that have been produced for the purposes of assessing project affordability at this interim point in negotiations between the City and the Developer, and will be refined as negotiations progress.

In 2015, the City refinanced and consolidated all outstanding debt related to the LACC into a single issuance: the Municipal Improvement Corporation of Los Angeles (MICLA) Taxable Lease Revenue Refunding Bonds, Series 2015-A (the Bonds) (CF 15-1206). LACC debt service payments are, and have historically been, a General Fund obligation. The City currently pays approximately $50 million per year for the debt service associated with the Bonds. Once the Bonds fully mature in Fiscal Year 2022-23, this obligation will expire and $50 million in annual General Fund resources will become available. Under this LACC Expansion Project pricing framework, the $50 million in current LACC debt service is assumed to be re-dedicated to the Project once the Bonds are paid off.

Additionally, revenues generated by LACC operations, including rent, parking, food and beverage sales, digital signage, and naming rights would also be used to fund the Project. Based on current analysis, the LACC is projected to generate approximately $55 million in net annual stabilized revenue after expansion. The impact of LACC modernization and expansion on increased volume of LACC events and related revenues is expected to ramp-up in the years following project completion. Stabilized revenue estimates are assumed to be reached after four years, and are based on 2.5% annual inflation thereafter. It should be noted that a signage program consistent with the surrounding area is a significant source of new revenue to support the Project.

Currently, the CTD budget of approximately $3 million per year is predominately funded by LACC revenues. Because all revenues derived from the LACC would be committed to the Project after expansion, the ongoing CTD budget is assumed to be a future General Fund obligation. Applying the impact of CTD costs to the rededicated $50 million commitment yields a General Fund project affordability constraint of approximately $47 million per year. Combining this affordability constraint with the $55 million in projected LACC net revenues results in $102 million of annual City funding available for the Project.

Availability Payments in a P3 Project

The development, design, construction, operations and maintenance and lifecycle costs associated with the Project will be paid by the City to the Developer in the form of construction Progress Payments as well as annual Availability Payments (AP) contingent upon meeting operational and performance standards. Of the $111 million annual cost, approximately $23 million is associated with Progress Payments and other City capital costs, and $88 million is associated with the AP.

Progress Payments are periodic payments by the City to the Developer for a portion of the design and construction (D&C) costs throughout the construction phase. These Progress Payments (approximately $373 million), along with approximately $30 million in additional City capital costs related to digital signage displays, would be financed through taxable MICLA debt to reduce the overall D&C cost by infusing lower-cost financing into the Project. The debt service associated with such MICLA debt would be a General Fund obligation, estimated to be approximately $23 million annually, paid over 30 years. The City will continue to analyze the financial benefits of using Progress Payments as well as their amount as the overall project financial plan is solidified.

APs are periodic payments to the Developer throughout the operating phase of the Project (currently assumed to be 30 years). Payment of the AP will start upon commencement of operations and consist of two components:

1. A Capital Availability Payment (APC) to reimburse the Developer for the Project's amortized capital costs that are not funded by Progress Payments; and,

2. An Operating Availability Payment (APO) to the Developer for the annual costs of operating the facility, including the costs of operations, maintenance, and lifecycle components.

The APC repays the Developer for front-funded D&C costs and is projected to be approximately $44 million in 2023, the first full operating year of the Project. The Developer will provide financing for D&C costs through a mixture of private debt and equity. The debt is expected to be privately placed through a transparent, competitive process to institutional investors and pension funds. The Developer will invest equity in the Project, which will be the basis for their return. The APC will escalate annually by 1% to allow for a lower initial City payment and for the repayment of an increasing share of capital costs over time as LACC revenues grow.

The APO is currently projected to be approximately $44 million in 2023. This amount is a high-level budget estimate produced by APCLA for the current affordability assessment, and is subject to further negotiations. It represents APCLA's forecasted annual costs of operating the facility, including operations, maintenance, and lifecycle. These projected costs will ultimately be converted into a detailed bottom-up pricing subject to City approval, based on agreed O&M and Lifecycle plans, final contract scopes, and agreed risk allocation. The APO is subject to annual escalation (currently based on the Consumer Price Index) to compensate for general cost increases year-to-year to operate and maintain the facility.

The AP will be paid to the Developer periodically during the operating phase of the Project. For any new and modernized facilities the Developer will be held to performance standards that will be quantifiable and objectively measured. These performance standards will be specified and developed by the City and priced by the Developer as part of the APO costs, and the Developer is then "at-risk" of meeting those standards. Because the AP amount is agreed upon and fixed at financial close, the Developer is responsible for the risk of any cost overruns on the new and modernized facilities. Failure to perform, or causing the facilities to become unavailable for use, will result in a deduction to the AP, which incentivizes the Developer to meet performance standards. While existing facilities will also be maintained and operated by the Developer, the City will continue to retain capital asset performance risk, as is the case under the current AEG LACC Management Agreement. The APO includes a $4 million annual baseline amount for lifecycle costs associated with existing facilities. The City will be responsible for any costs beyond this budgeted amount and would benefit from any reduction or deferral of expenditures, and may elect at its discretion to appropriate a modified funding amount for any desired capital reinvestment projects.

Gap in Financing

Given the previously discussed $102 million in annual available funds and the $111 million in annual Project costs, the current funding gap is approximately $9 million per year with an Early Works Agreement as discussed below. The $9 million annual gap can be reduced by $4 million with additional value engineering, as discussed in the next section.

LACC Value Engineering

In order to bring project costs down to align with the City's projected net revenues, the Parties and their consultants engaged in value engineering activities. Several components of the Project, such as a bridge spanning Chick Hearn Court, were removed to reduce costs and incorporated into the cost estimate that results in the $111 million annual payment previously referred.

One additional, significant revision would reduce costs, as well as project scope. Populous has suggested moving the Western exterior wall further inward, reducing the square footage of the site to a total of 145,000 square feet of new exhibit hall space (a loss of 45,000 square feet) and reduce the multi-purpose space to 82,000 square feet (a loss 13,000 square feet).

The proposed reduced scope remains competitive with, and still exceeds, the square footage of similar convention centers in our competitive set. Therefore, City consultants and CTD concur that the reduced scope of this design will not have an adverse effect on convention center business or revenues. However, it is unlikely that the loss in scope for the new Exhibit Hall will ever be recovered. Architectural renderings of the proposed reduction in scope to the Project are attached to this report (Attachment C).

Another potential cost saving would be to increase the number of columns in the new hall. This would reduce sight lines in the building, potentially affecting the attractiveness of LACC on the market. The addition of these columns would save an estimated $4 million in total construction and O&M costs in the Project. Our consultants have determined, however, that while the added columns would not result in a substandard space, the estimated capital cost savings may be too limited to justify implementation of this value engineering concept.

If the City elects to proceed with the value-engineering options to reduce the square footage and add columns to the new exhibit hall, the Project would be reduced by an estimated $41 million in total construction costs in the Project, with minor impacts on the O&M and lifecycle costs. This would result in the funding gap being reduced by $4 million, from $9 million to $5 million. In either scenario, this gap would require an incremental increase to annual General Fund appropriation beyond the $47 million affordability constraint. The City will continue to explore mitigating options to further reduce this gap as negotiations progress, with the goal of producing a Project that has a net-neutral General Fund impact..

Table 1 comparing the expanded square footage figures and projected funding gaps between the 2019 LACC Design Proposal (Original) and the 2019 LACC Design Proposal (Reduced) is below.

Green New Deal

The Mayor introduced the City's Green New Deal in April 2019, which requires all new municipally owned buildings and major renovations be all-electric. To fulfill the directives of the Mayor's Green New Deal, the LACC Expansion Project would be required to convert existing gas equipment in the building to electric, including kitchen and HVAC equipment. CTD has reported that these revisions to the scope of the LACC Expansion Project would cost an estimated $5 million over the life of the Project, and increase the annual Availability Payment, and therefore the City's financing gap. These costs have been factored into the construction costs of the Project as listed in this Report.

Table 1: Comparison of Design Proposals: Added Square Footage, and Project Costs

	2019 LACC Design Proposal (Original)	**2019 LACC Design Proposal (Reduced)**
Exhibit Hall	190,000 sf	145,000 sf
(Reduction from 2015 Scope)	0	(45,000)
Meeting Rooms	55,000 sf	55,000 sf
(Reduction from 2015 Scope)	0	0
Multi-Purpose Space	95,000 sf	82,000 sf
(Reduction from 2015 Scope)	0	(13,000)
Construction Cost	$957M	$916M
Progress Payments	$373M	$357M
Annual P3 Availability Payment	$88M	$85M
Annual MICLA Debt Service	$23M	$22M
Total Annual City Payments	**$111M**	**$107M**
Existing LACC MICLA Debt Service	$50M	$50M
Stabilized LACC Revenues	$55M	$55M
CTD Budget	($3M)	($3M)
Projected Annual Funding Available	**$102M**	**$102M**
Projected Annual Funding Gap	**($9M)**	**($5M)**

Early Works Agreement

As noted previously, achieving a Project cost to align with the funding gap as described above relies upon entering into an Early Works Agreement (EWA), which would accelerate the overall design and construction schedule of the Project. This approach was developed with a goal of significantly decreasing City costs of the LACC Expansion Project by accelerating the overall design and reducing the construction period. Under the terms of an EWA, the APCLA team would continue design development and preconstruction services between June and December 2020 while the City and APCLA continue to develop the Firm Fixed Price and final, definitive deal documents. This performance period is prior to the final execution of all project financing agreements, or Financial Close.

Without an EWA, APCLA would pause the design effort between June and December 2020 to avoid incurring further design costs prior to City's final approval of the Project. Such pause would add construction cost inflation due to additional time in the project schedule. Additionally, CTD has indicated that an accelerated schedule would have a positive affect on convention business at the LACC.

Execution of the EWA would reduce escalation costs borne by the extended term of the construction period; APCLA has estimated that an EWA would save $70 million in total costs over the life of the Project, and accelerate the project schedule by approximately eight months. This translates to a reduction of the Availability Payment by $4 to $5 million annually. As noted, this savings is already incorporated into the gap analysis presented earlier in this report.

The EWA scope would include development of design documents to 100%, advancement of construction documents, preconstruction services, preparation of all enabling works packages, and general permitting and plan check requirements, all with a view to allowing APCLA's design-builder to commence construction promptly upon achievement of Financial Close.

Since the EWA performance period would take place prior to Financial Close, the EWA would provide for a sharing of financial risk between APCLA and the City for specified design and preconstruction costs, should the parties be unable to reach a final project agreement under the ENA or if the City elects to terminate the EWA at any time. The City would not bear any cost to execute the EWA, but would begin to be at risk for design costs incurred by APCLA and the PWJV. At the end of the first phase of the Early Works Agreement, the City would be at risk for paying $12.8 million in the event of termination of the Project.

Pursuant to the ENA, the City would be required to reimburse AEG up to $4 million for actual costs incurred in connection with the preparation of the schematic design in the event that both parties do not enter into a mutually agreed-upon Implementation Agreement. If the City were to enter into an EWA, it would increase the City's investment in the Project's design development to $16.8 million. Again, this is in the case of project termination.

In addition, if the City were to use the design drawings developed by the PWJV team to develop a substantially similar expansion of the LACC within 3.5 years of termination, the City would be required to pay an additional amount determined by the date of termination of the EWA, with $5.7 million being committed at the time the City receives the Firm Fixed Price and $11.5 million being committed by the time of Financial Close. It is contemplated that the City would consider termination when it receives the Firm Fixed Price if that price is too expensive; therefore, it is unlikely the City would be obligated to pay more than $5.7 million to pursue a substantially similar expansion project of the LACC within 3.5 years of termination.

The benefit of the EWA is to generate significant cost and time savings in the Project. However, execution of the EWA would put the City at greater financial risk if the Project is terminated because the Firm Fixed Price will not be known until after the City has committed to up to $16.8 million in reimbursable costs. If the Firm Fixed Price is too expensive, the City might terminate the Project but would still be required to reimburse at least $12.8 million, plus the $4 million previously obligated through the ENA, for a total of $16.8 million or up to $28.3 million if the City proceeds with a substantially similar expansion project within 3.5 years of EWA termination.

The City is assuming additional risk in order to advance design of the Project and potentially reduce overall costs. It should be noted that APCLA is also taking on significant risk in the terms of the EWA, up to $23.4 million (not including internal expenses), to advance the design in aid of the Project. If the Project were to be approved by Council and reach Financial Close, the EWA would lower the City's annual AP payment significantly over 30 years.

If the City does not enter into the EWA, the funding gap would increase from $9 million to between $13 and $14 million without the proposed scope reduction, or between $9 and $10 million with the proposed scope reduction. An Early Works Agreement Term Sheet detailing the scope and terms of an Early Works Agreement is attached to this report (Attachment A). If City Council's prerogative is to continue pursuing the EWA as constituted, we recommend Council instruct City staff to negotiate the EWA with APCLA. City staff anticipates bringing a proposed final version of the contract to City Council for its review and approval in May 2020.

Comparison with a Traditional Delivery

As an alternative to continuing with the P3, if the City were to change course and instead choose to expeditiously develop the Project using a traditional method, the CAO has estimated that it could potentially reduce the overall projected cost of delivery, operations, maintenance and ownership of the Project by approximately 10%. However, this would expose the City to cost risks across project phases that could outweigh any potential savings of a traditional approach, and possibly result in a more expensive project. As well, the project completion date would likely be delayed for another year at a minimum and, as a result, the City would also be exposed to construction inflation cost increases. For example, the City would not benefit from the certainty of a fixed-price design-build contract contained in the P3. Over the long term, City would also retain responsibility for operating and capital renewal cost overruns and risks related to deferred maintenance on the new, modernized, and un-modernized existing facilities.

If Council wishes, City staff could further explore a Traditional Delivery option, but it would come associated with the significant risks and delays noted above. Whether the City pursues a Traditional or P3 model, the expansion of the LACC is seen by City staff as an necessary project to uphold Los Angeles as a prominent market for convention business and thereby maintain considerable City revenues.

Consultant Fees

Council's actions on December 12, 2018 authorized up to $5 million in funding from the MICLA Commercial Paper Program (Los Angeles Convention Center) to retain various consultants to support the City team in negotiations. Nossaman LLP was retained to provide legal services in support of the Project; Gruen Advisors was retained to provide design and document review services; and Ernst and Young Infrastructure Advisors was retained to provide financial advisory services with various subcontractors who specialize in commercial elements relevant to the Project.

Since that time, the need for additional services by these advisors has been identified, which will require additional funding to complete. This report therefore recommends that $10 million in additional funding be approved for use by the City to retain advisors relative to the LACC Expansion Project.

ENA Extension Notification
The ENA between the City of Los Angeles and AEG, and subsequently APCLA, was extended on January 9, 2020 by mutual agreement of the Parties under the terms of the ENA for an additional 180 days, ending on July 12, 2020. The ENA can be extended by mutual agreement for an additional two 90-day periods under the terms of the ENA.

PWJV Access to BAVN
In January 2011, the City established the Business Inclusion Program (BIP) to ensure that all businesses have an equal opportunity to do business with the City. The BIP is administered through the Los Angeles Business Assistance Virtual Network (BAVN), an online resource providing up-to-date contract and procurement information on City contracts. Council action is required to authorize access to BAVN by non-City entities.

During negotiations, it was determined that, in order to accomplish the goals of the BIP, Council would need to authorize APCLA to access BAVN. Therefore, this report requests the Council authorize Information Technology Agency and the Bureau of Contract Administration to take any action necessary or desirable to facilitate and oversee the BIP efforts of APCLA and its subconsultants and subcontractors, including granting access to these groups to post opportunities on BAVN.

Next Steps
Council has a number of options to decide regarding the future of the Project:

1. Council can decide to end negotiations with APCLA regarding the Project, and end all City discussions regarding an Expanded LACC. As a condition of the ENA, the City would reimburse APCLA $4 million for their direct costs, and the City would receive the Populous SD+ design package; or,

2. Council can decide to end negotiations with APCLA regarding the Project, but continue to pursue an Expanded LACC using a traditional, non-P3 delivery method. As a condition of the ENA, the City would reimburse APCLA $4 million for their direct costs, and the City would receive the Populous SD+ design package; or,

3. Council can decide to continue negotiations with APCLA, and not pursue an Early Works Agreement. This would continue development on the Project, but extend construction by eight months compared to a Project including an EWA and potentially increase the Availability Payment by between $4 and $5 million annually; or,

4. Council can decide to continue negotiations with APCLA, and authorize the CLA and CAO to negotiate the Early Works Agreement with APCLA. City staff would present a proposed final version of the contract to City Council for its review and approval in May 2020. The City would be committing up to an additional $12.8 million for APCLA reimbursement in the case of project termination, bringing the

total to $16.8 million. In the event of a termination of the ENA, the City would receive the Design Documents.

The Los Angeles Convention Center is a major facet of the economic landscape of the City, generating tourism, transient occupancy tax, sales tax, and other direct and indirect revenues. However, this major infrastructure asset of the City's real estate portfolio has not seen a major investment in nearly 30 years. As noted previously, the LATCB has reported that the current condition of the LACC has resulted in the loss of 171 conventions that would have otherwise used the LACC. This has resulted in the loss of an estimated $2.8 billion in economic impact within the City. Additionally, the uncertainty surrounding the LACC Expansion Project has caused potential convention customers to eschew the LACC for their shows, resulting in additional, ongoing lost economic impact. Expansion of the LACC is critical step in maintaining Los Angeles as a hub for convention business, and maintaining the City's robust economic position.

While the City will take significant risk in reimbursable expenses, the cost savings and schedule acceleration that results from the EWA will provide the City with benefits to tourism revenues, convention business, and tax revenues, and maintain Los Angeles as a premier destination for groups seeking to hold major conventions. The EWA will also provide the opportunity for Project to result in the lowest potential cost and least impact to the General Fund. Therefore, this Office recommends that the Council move forward with Option 4, and authorize the CLA and CAO to negotiate the Early Works Agreement with APCLA.

Alex Whitehead
Analyst

Attachment A: Early Works Agreement Term Sheet
Attachment B: Architectural Renderings (Populous SD+ Design)
Attachment C: Architectural Renderings (Proposed Reduction in Scope)

ATTACHMENT A

2/25/20

Los Angeles Convention Center Expansion and Modernization Project

Early Works Principles

- Early Works Agreement (**EWA**) to be executed after negotiation of all final terms, and after a future City Council approval[1]. Term of EWA to continue until either (1) execution of the Project Agreement, or (2) any earlier termination of the EWA. The EWA will terminate automatically upon termination or expiry of the Exclusive Negotiating Agreement (**ENA**).

- Purpose of EWA is to allow for continuous design development by Populous and the design team, together with preconstruction services to be provided by PCL/Webcor Joint Venture (**PWJV**), with a goal of securing $70 million of cost savings and 8 months of schedule acceleration to the benefit of the City.

- The scope of the EWA comprises (1) design services to be provided by Populous/design team (matching scope/price within the Design Services Agreement), and (2) preconstruction services to be provided by PWJV, including subcontractor design work, permitting and plan check (matching scope/price with the Preferred Proposer Agreement)
    — As the City would pay for some or all of the cost of the various services in the event of termination of the EWA, the City will be entitled to open-book transparency of all design and preconstruction efforts and costs. Open-book transparency will be defined in the full EWA, and will include City review of invoicing, hours billed and progress against the design development schedule to be fleshed out in the EWA, including over-the-shoulder review and any specific design review points to be identified.

- The City's termination payment obligations under the EWA will be capped both on a monthly basis and in an aggregate amount:

    — In a termination scenario during Phase 3A, City would:

        — make a termination payment equal to the lesser of (1) all design costs incurred from March 2020 to the date of termination, and (2) the cumulative capped amount shown in the attached Appendix, pro-rated for any partial month ($12.8M at end of September)

        — City obtains full ownership of the work product developed subsequent to the SD+ drawing set up to the date of termination (**Post-SD+ Work Product**) (e.g. up to 100% DD set and any further CD development as at the end of September) in exchange for only the termination payment.

        — Work product payment only becomes payable if the City executes a construction contract for an LACC expansion and modernization project of substantially similar

[1] Final, executable form of EWA would need to be ready and complete by 5/4/2020. Latest development schedule targets final report to City clerk on 5/7/2020.

scope and design (**LACC Expansion**) using the Post-SD+ Work Product within 3.5 years following the termination.

- Work product payment would include the full reimbursement of all PWJV costs and fees incurred in developing the work product subject to the cumulative capped amounts shown in the attached Appendix, pro-rated for any partial month ($5.7M at the end of September).

— In a termination scenario during Phase 3B:

  - APCLA will go on-risk for all Phase 3B costs. The City's termination payment will not increase beyond the total at the end of Phase 3A.
  - If the City terminates in Phase 3B and executes a construction contract for the LACC Expansion using the Post-SD+ Work Product within 3.5 years, then the work product payment would include any unreimbursed design costs incurred by APCLA in Phase 3B in addition to PWJV costs and fees based on the cumulative capped amount for Phase 3B shown in the attached Appendix, pro-rated for any partial month.

- The EWA will include a detailed design development schedule by discipline, reflecting the level of design development expected by the City at the scheduled date for each of the Fixed DB price, the Fixed O&M/Lifecycle price, and the scheduled date for the Fixed APCLA price.
- Design Services Agreement, Preferred Proposer Agreement, and EWA to include right for City, upon any termination of the ENA, to assume a direct contractual relationship with Populous and design team, at no cost/liability other than payment by the City of its termination payment obligation under the EWA, with no restriction on Populous or design team to work directly with the City on the Project.
- APCLA will finance City's portion of costs under the EWA until either (1) Financial Close, or (2) City's termination payment under the EWA. No financing cost to be charged to City or the project.
- City's standard provisions to be included, as appropriate, in the EWA.
- In the event of a termination and an assignment of the Post-SD+ Work Product to the City, neither APCLA nor PWJV will retain any liability with respect to the Post-SD+ Work Product, provided that Populous and other design subs shall not be relieved of any such liability.

ATTACHMENT A

2/25/20

APPENDIX TO EARLY WORKS PRINCIPLES

		TR workshops		*Firm Fixed Price Set*			*Early Works/Continued Design*							
		Phase 1		Phase 2			Phase 3a				Phase 3b			
	Pre-Jan-20	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec 1 - 7 (Pre-FC)	Total
City At-Risk Costs														
SD+ Design	$4,000,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,000,000
DD	$ -	$ -	$ -	$1,000,000	$1,100,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,300,000	$ 1,409,400	$ -	$ -	$ -	$ 8,409,400
CD	$ -	$ -	$ -	$ -	$ -	$ -	$ 400,000	$ 600,000	$ 900,000	$ 900,000	$ -	$ -	$ -	$ 2,800,000
Permit Expediting	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Subcontractor Design Work	$ -	$ -	$ -	$ 19,500	$ 19,500	$ 19,500	$ 373,285	$ 373,285	$ 373,285	$ 373,285	$ -	$ -	$ -	$ 1,551,640
Plan Check	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Preconstruction Services (at-cost)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Insurance Costs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total City At-Risk (Monthly)	**$4,000,000**	**$ -**	**$ -**	**$1,019,500**	**$1,119,500**	**$ 1,219,500**	**$ 1,973,285**	**$ 2,173,285**	**$ 2,573,285**	**$ 2,682,685**	**$ -**	**$ -**	**$ -**	**$16,761,040**
ENA + Early Works Termination Payment	**$4,000,000**	**$4,000,000**	**$4,000,000**	**$5,019,500**	**$6,139,000**	**$ 7,358,500**	**$ 9,331,785**	**$11,505,070**	**$14,078,355**	**$16,761,040**	**$16,761,040**	**$16,761,040**	**$16,761,040**	**$ -**
Payment for use of Work Product (Optional)	**$ -**	**$ -**	**$ -**	**$ 846,376**	**$1,418,347**	**$ 1,990,319**	**$ 2,909,124**	**$ 3,827,929**	**$ 4,746,733**	**$ 5,665,538**	**$ 8,355,758**	**$11,145,979**	**$11,429,827**	**$ -**
City Termination Payment + use of Work Product Payment	**$4,000,000**	**$4,000,000**	**$4,000,000**	**$5,865,876**	**$7,557,347**	**$ 9,348,819**	**$12,240,909**	**$15,332,999**	**$18,825,088**	**$22,426,578**	**$25,116,798**	**$27,907,019**	**$28,190,867**	**$ -**
APCLA Team At-Risk Costs														
SD+ Design Work	$4,500,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,500,000
Other Design Costs	$ -	$ 350,000	$ 50,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 400,000
DD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,400,000	$ 1,500,000	$ -	$ 2,900,000
Survey	$ -	$ -	$ -	$ -	$ 75,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 75,000
APCLA External Costs	$ 929,700	$ -	$ -	$ 860,967	$ 860,967	$ 860,967	$ 308,238	$ 308,238	$ 308,238	$ 308,238	$ 555,383	$ 555,383	$ 122,184	$ 5,978,500
Preconstruction Services (at-cost)	$ 257,656	$ -	$ -	$ 453,479	$ 453,479	$ 453,479	$ 692,640	$ 692,640	$ 692,640	$ 692,640	$ 663,767	$ 663,767	$ 146,029	$ 5,862,214
Insurance Costs	$ -	$ -	$ -	$ 13,732	$ 13,732	$ 13,732	$ 26,210	$ 26,210	$ 26,210	$ 26,210	$ 24,430	$ 24,430	$ 5,375	$ 200,267
Plan Check	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,000,000	$ -	$ -	$ 1,000,000
Permit Expediter	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 27,000	$ -	$ 15,000	$ -	$ 42,000
PWJV Fees	$ 16,748	$ -	$ -	$ 104,761	$ 104,761	$ 104,761	$ 199,955	$ 199,955	$ 199,955	$ 199,955	$ 186,378	$ 186,378	$ 41,003	$ 1,544,612
Subcontractor Design Work	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 415,646	$ 415,646	$ 91,442	$ 922,734
Total APCLA At-Risk (Monthly)	**$5,704,104**	**$ 350,000**	**$ 50,000**	**$1,432,938**	**$1,507,938**	**$ 1,432,938**	**$ 1,227,042**	**$ 1,227,042**	**$ 1,227,042**	**$ 1,254,042**	**$ 4,245,603**	**$ 3,360,603**	**$ 406,033**	**$23,425,327**
Total APCLA At-Risk (Cumulative)	**$5,704,104**	**$6,054,104**	**$6,104,104**	**$7,537,042**	**$9,044,981**	**$10,477,919**	**$11,704,961**	**$12,932,004**	**$14,159,046**	**$15,413,088**	**$19,658,691**	**$23,019,294**	**$23,425,327**	**$ -**
Total PWJV Costs At-Risk (Monthly)	**$ 274,404**	**$ -**	**$ -**	**$ 571,972**	**$ 571,972**	**$ 571,972**	**$ 918,805**	**$ 918,805**	**$ 918,805**	**$ 918,805**	**$ 874,574**	**$ 874,574**	**$ 192,406**	**$ -**
Total PWJV Costs At-Risk (Cumulative)	**$ 274,404**	**$ 274,404**	**$ 274,404**	**$ 846,376**	**$1,418,347**	**$ 1,990,319**	**$ 2,909,124**	**$ 3,827,929**	**$ 4,746,733**	**$ 5,665,538**	**$ 6,540,112**	**$ 7,414,687**	**$ 7,607,093**	**$ -**
Total Phase 3B Design Costs At-Risk (Monthly)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,815,646**	**$ 1,915,646**	**$ 91,442**	**$ -**
Total Phase 3B Design Costs At-Risk (Cumulatively)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,815,646**	**$ 3,731,292**	**$ 3,822,734**	**$ -**

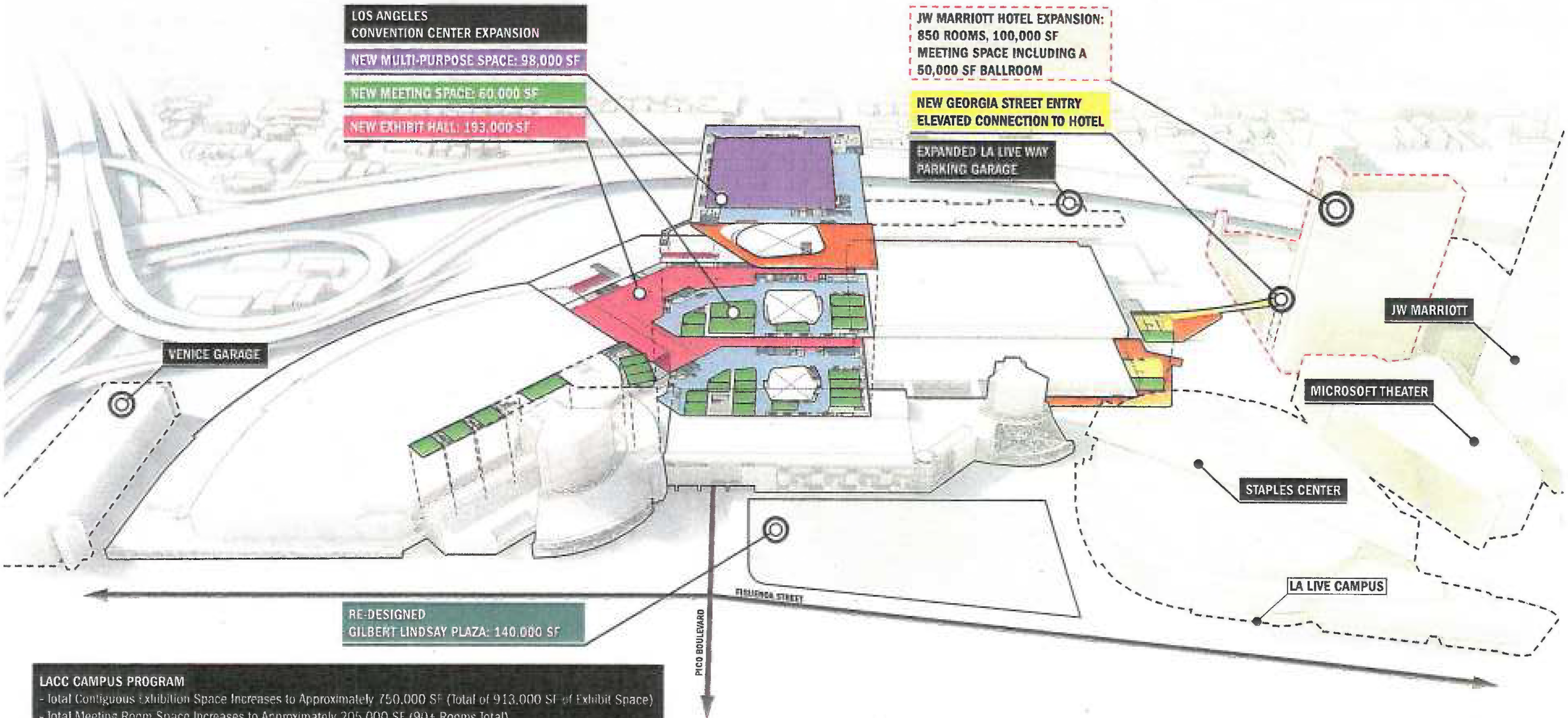
ATTACHMENT B

AFTER: AERIAL PHOTO LOOKING NORTH

ATTACHMENT B

AFTER: AERIAL PHOTO LOOKING NORTHEAST

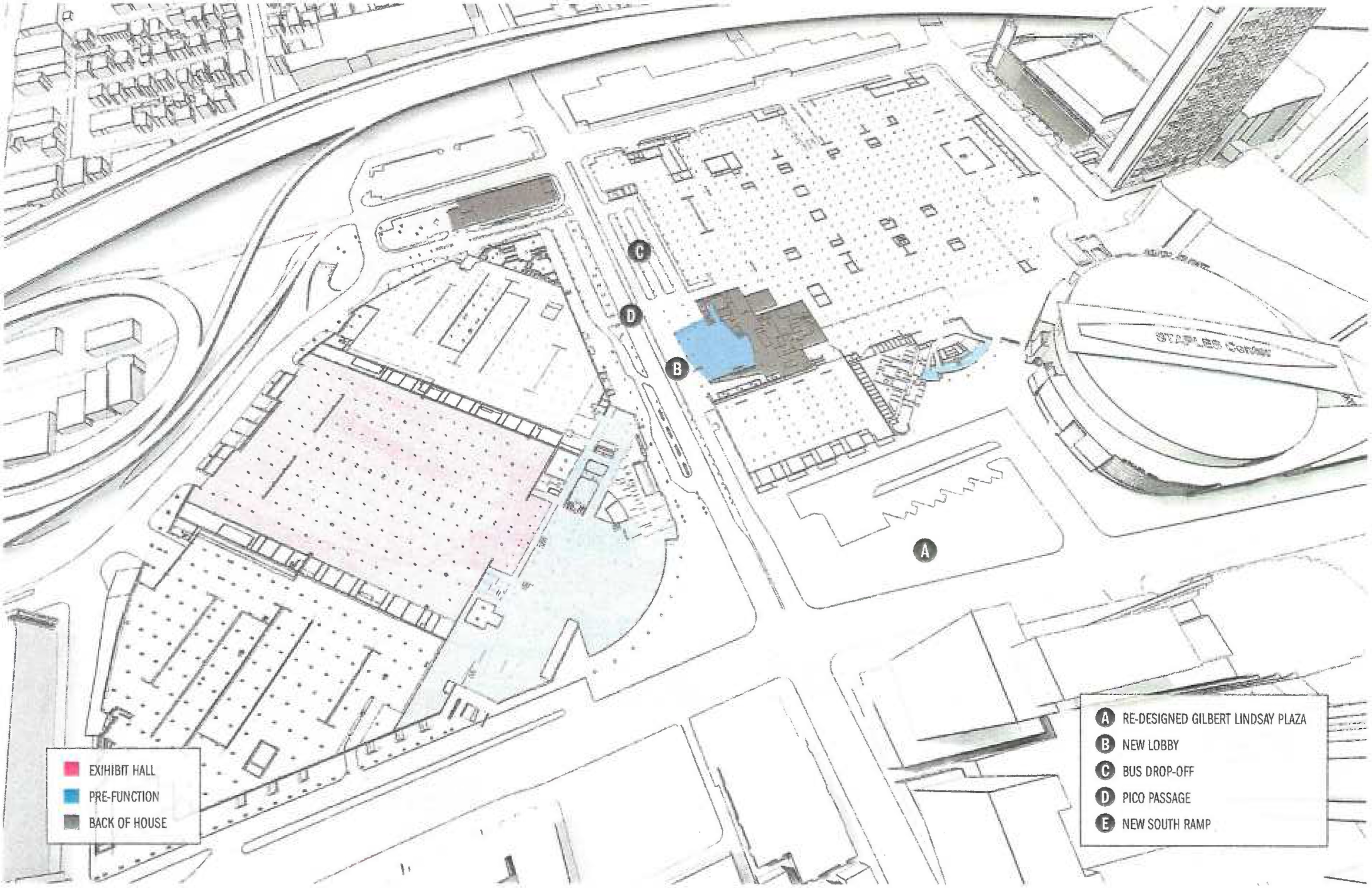
ATTACHMENT B



LACC CAMPUS PROGRAM

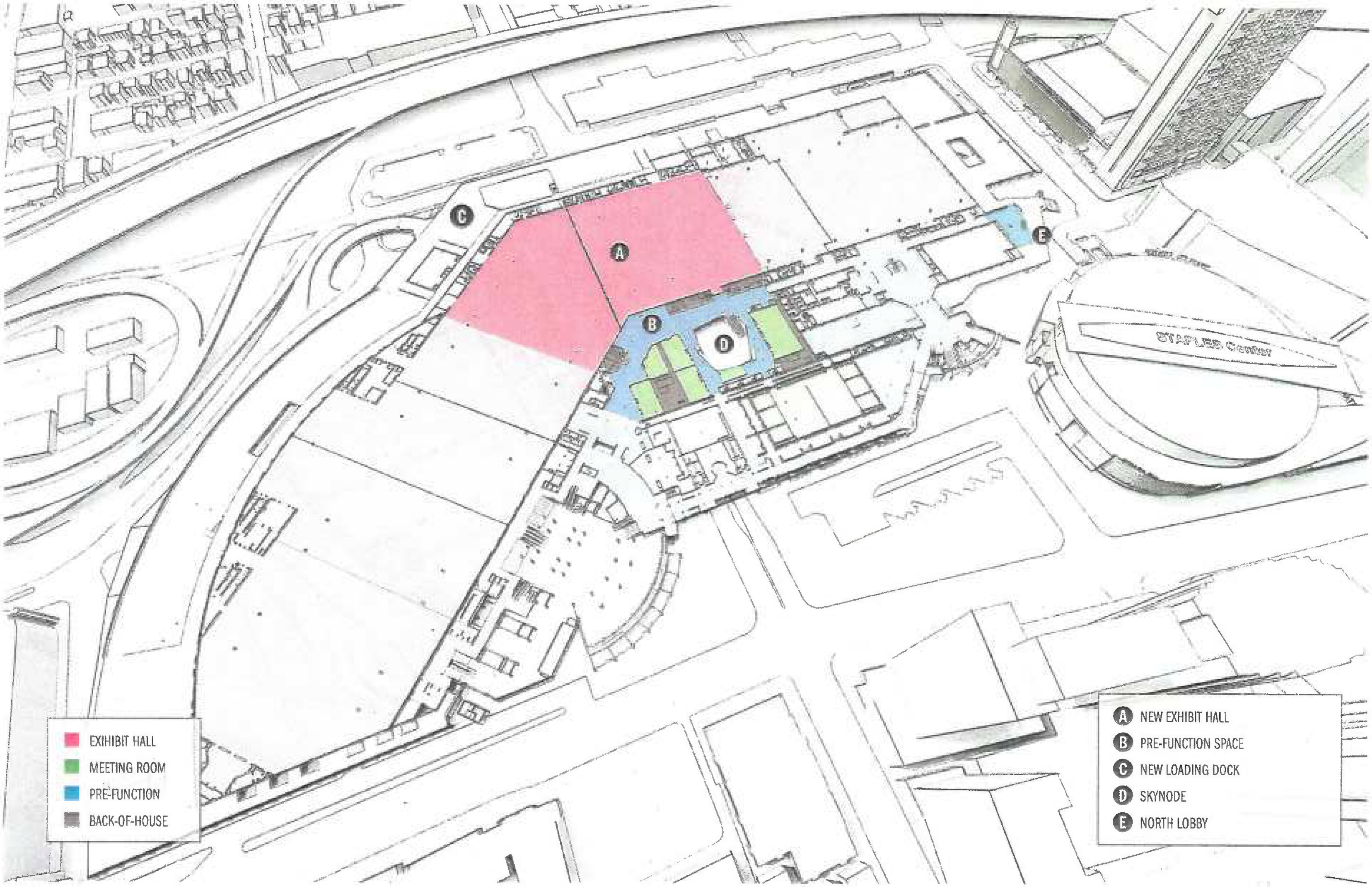
- Total Contiguous Exhibition Space Increases to Approximately 750,000 SF (Total of 913,000 SF of Exhibit Space)
- Total Meeting Room Space Increases to Approximately 205,000 SF (90+ Rooms Total)
- New Upper Multi-Purpose Hall of Approximately 95,000 SF (For Exhibits or Divisible into 33 Meeting Rooms)
- Total Useable LACC Space With Proposed Expansion: **APPROXIMATELY 1,221,000 SF**

ATTACHMENT B



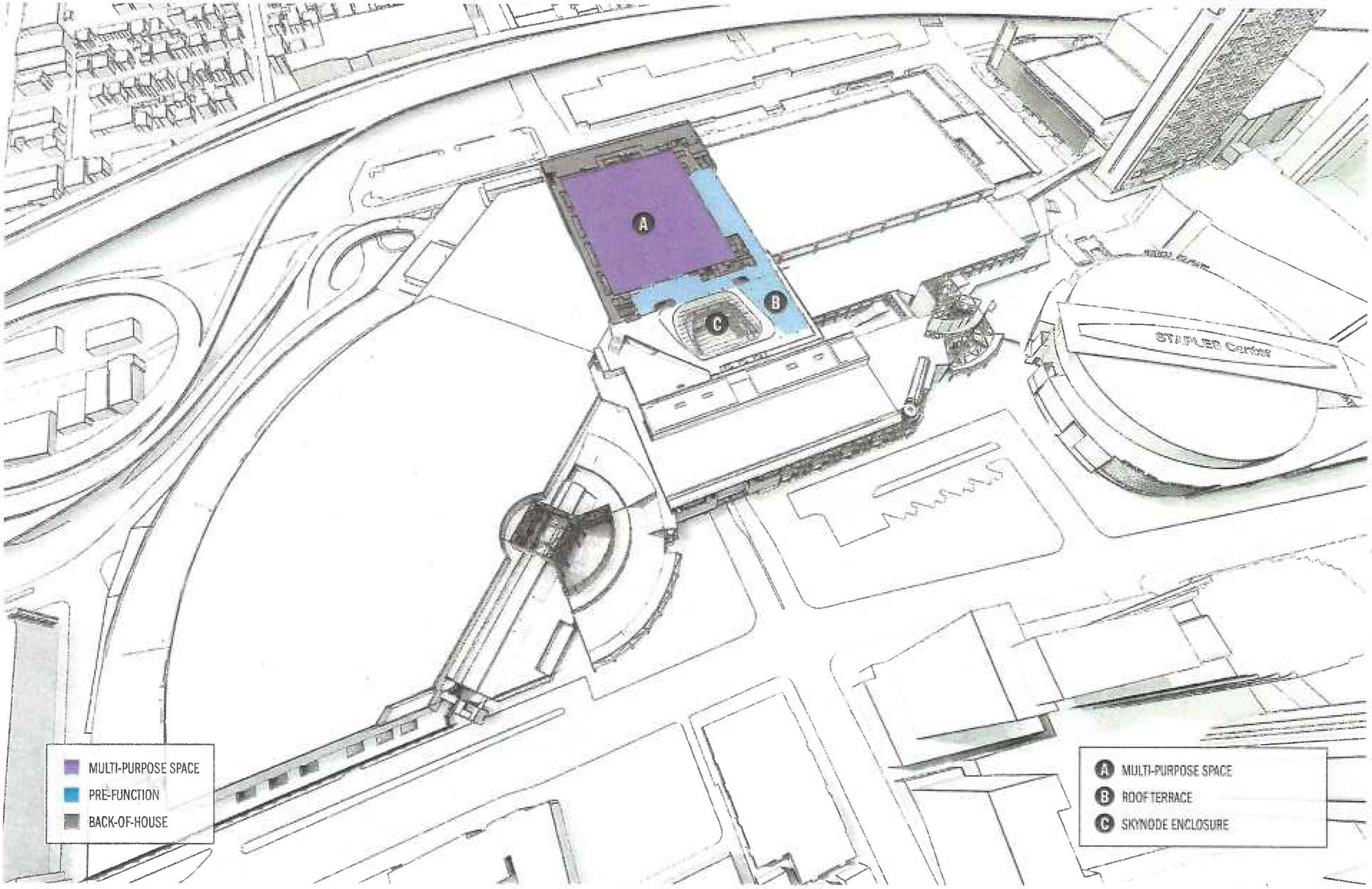
LEVEL 230: GROUND LEVEL

ATTACHMENT B



LEVEL 250: EXHIBIT HALL LEVEL

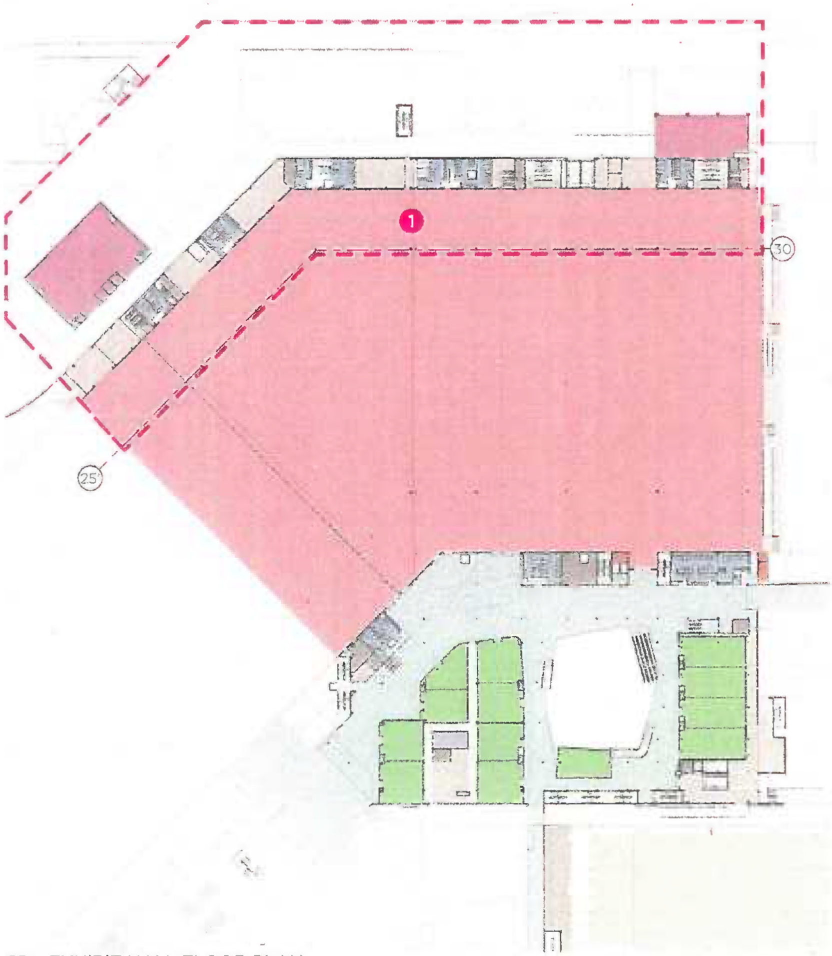
ATTACHMENT B



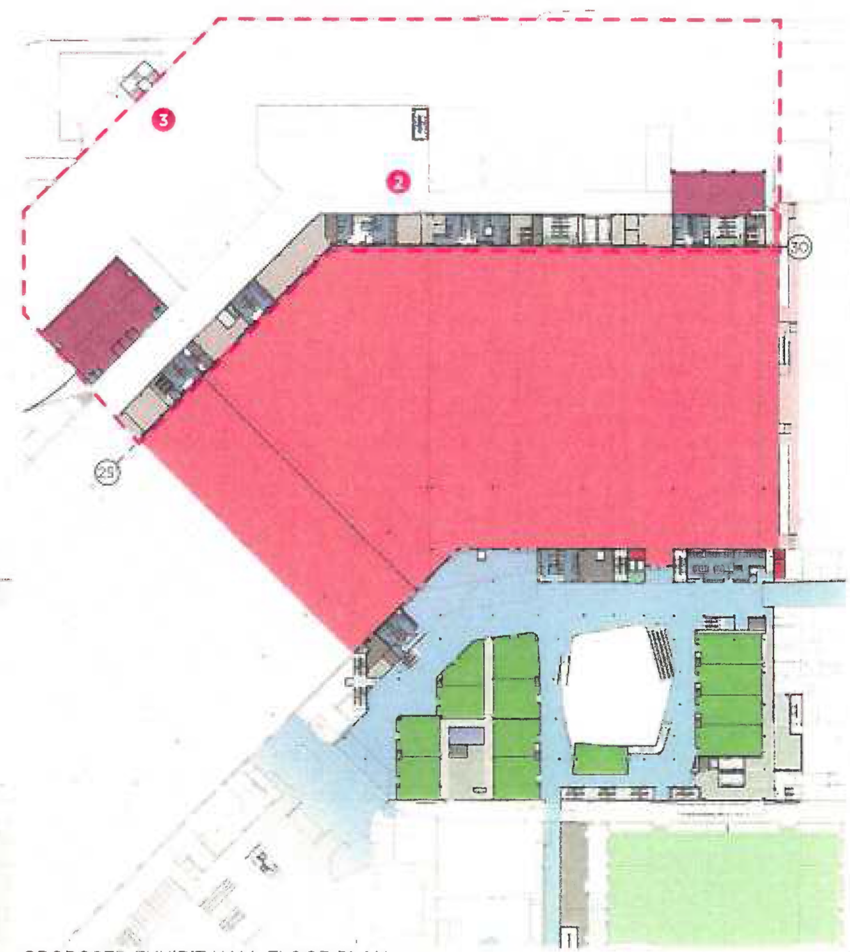
LEVEL 325: MULTI-PURPOSE LEVEL

ATTACHMENT C

Level 250' **Evaluate Exhibit Hall Area**



SD+ EXHIBIT HALL FLOOR PLAN



PROPOSED EXHIBIT HALL FLOOR PLAN

Legend

- Exhibit Hall
- Pre-Function
- Meeting Room
- Multi-Purpose Room
- Support
- BOH / Storage
- Terrace / Plaza / Balcony

Notes:

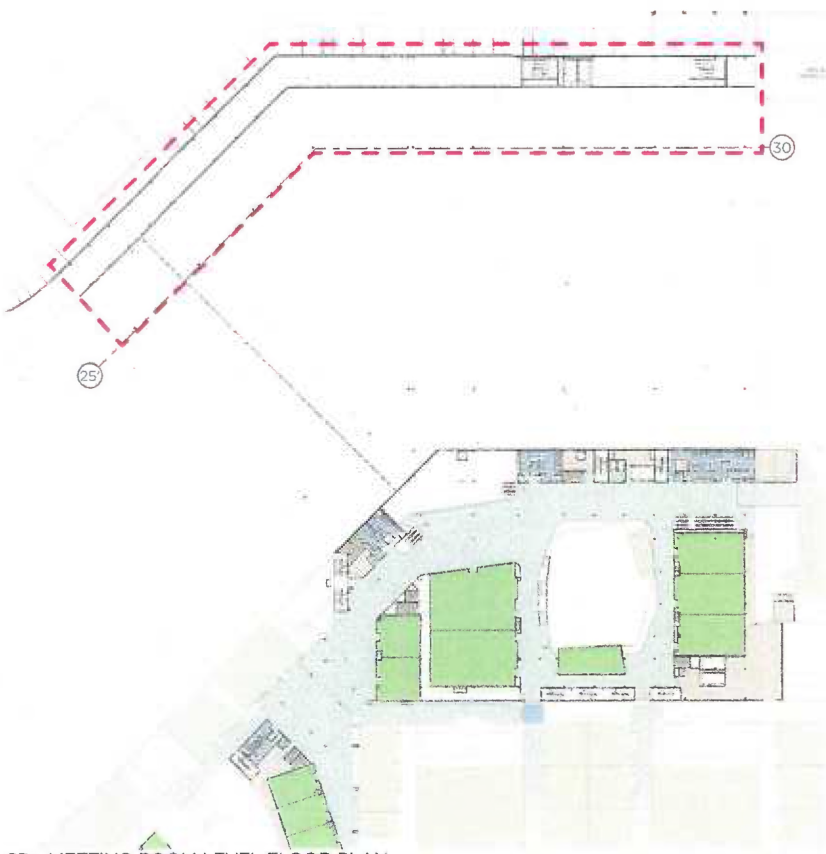
1. Reduce Exhibit Hall – -45,000 sf
2. Shift building enclosure, BOH service zone and loading dock east

Net SF reduction: 45,000 nsf

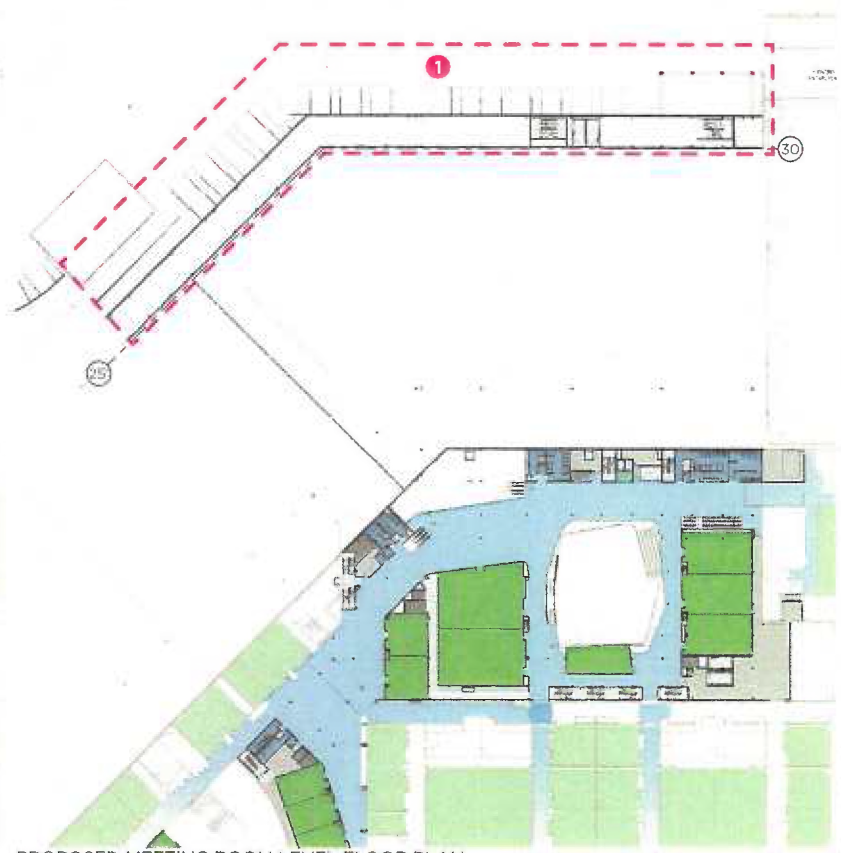
3. Truck apron reduction and saving existing ramp diagram coming Monday

ATTACHMENT C

Level 270' **Evaluate Exhibit Hall Area**



SD+ MEETING ROOM LEVEL FLOOR PLAN



PROPOSED MEETING ROOM LEVEL FLOOR PLAN

Legend

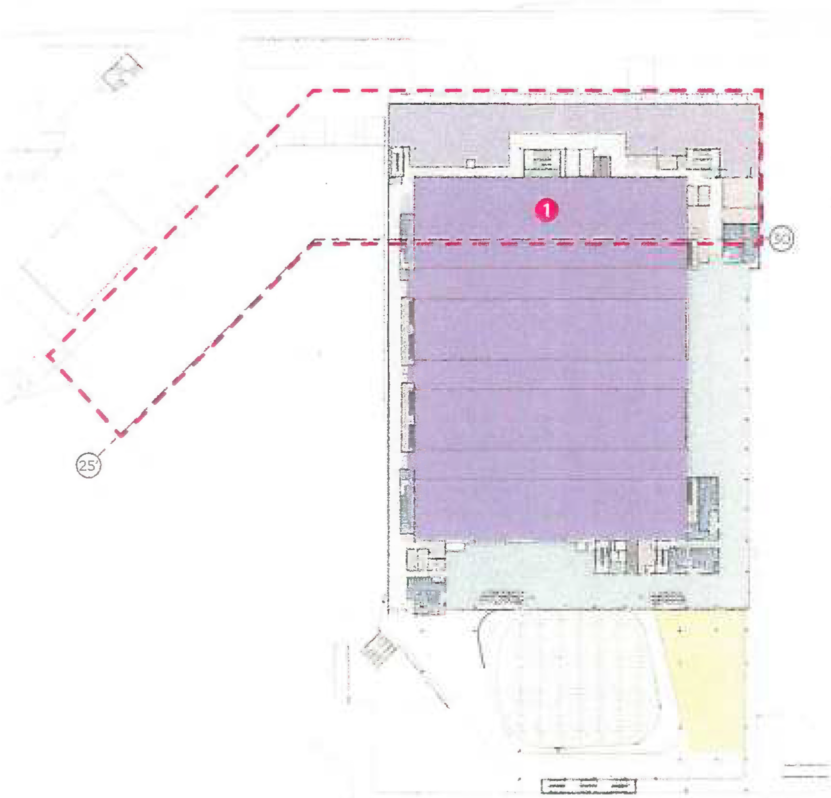
- Exhibit Hall
- Pre-Function
- Meeting Room
- Multi-Purpose Room
- Support
- BOH / Storage
- Terrace / Plaza / Balcony

Notes:

1. Shift building enclosure and vertical cores east

ATTACHMENT C

Level 325' **Evaluate Exhibit Hall Area**



SD+ MPS LEVEL FLOOR PLAN

PROPOSED MPS LEVEL FLOOR PLAN

Legend

- Exhibit Hall
- Pre-Function
- Meeting Room
- Multi-Purpose Room
- Support
- BOH / Storage
- Terrace / Plaza / Balcony

Notes:

1 Reduce MPS
  - -16,000 sf

Reduce Prefunction & BOH
  - -5,500 sf

Maintain cantilever over loading dock

2 Shift building enclosure and BOH service zone east

Net SF reduction: 21,500 nsf