

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: November 2, 2009

0220-04536-0000

To: The Trade, Commerce and Tourism Committee

From: Miguel A. Santana, City Administrative Officer

Subject: **STATUS REPORT ON FLEXIBLE DEMAND BASED PRICING (MOTION HAHN-PERRY, CF 09-0136)**

On January 23, 2009, the Council referred a motion (Perry-Hahn, C.F. 09-0136) regarding a proposal to implement a Flexible Demand Based Pricing for the Los Angeles Convention Center to the Trade, Commerce and Tourism, and Budget and Finance Committees. An update on the proposal was provided to the Budget and Finance Committee in May 2009 (see Attachment). Since that time there have been a series of meetings with the stakeholders involved, including the offices of the Chief Legislative Analyst (CLA), the City Administrative Officer (CAO), the City Attorney, the Los Angeles Convention Center (Convention Center) and the Los Angeles Convention and Visitors Bureau (LA Inc).

The current daily rental rate at the Convention Center is \$.32 per square foot (Los Angeles Administrative Code Section 8.149.2). The Convention Center seeks the flexibility to adjust this rate upward or downward to reflect market conditions and demands. The proposed policy would apply only to licensees booked by the Convention Center and not those booked by LA Inc. Currently LA Inc. is tasked with booking the Convention Center for the period twenty-four months or more in advance. The Convention Center is responsible for facility bookings twenty-four months or less in advance. The proposed policy as currently under consideration includes three criteria that would permit the Convention Center to offer a flexible rate. The policy was prepared in concert with the City Attorney and mitigates concerns regarding potential legal constraints that were discussed in our original report. This proposed criteria for the flexible rate includes the following:

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- (1) A cancellation in space that occurs within a two-year window of the booking period;
 - (2) Rental space which is not booked within the two-year booking period; and/or
 - (3) Consideration of revenue generated from ancillary services including parking, food, electrical, etc.

A proposed flexible rate is subject to the review and approval of the Convention Center sales division and shall be considered on a case-by-case basis. Final approval of a flexible rate is subject to the General Manager of the Convention Center. The Convention Center would be required to submit a quarterly report to the CAO that includes detail on the flexible rates issued such as the name and date of the event, the flexible rate approved, the amount of space rented, and the length of the event. The City Attorney will work on preparing a draft ordinance, which would implement the proposed policy. The proposed policy will be a three year pilot project. The CAO and CLA will report back on the proposed policy upon

termination of the pilot period with additional recommendations concerning the continuation of the programs. It is recommended that the Office of the Controller address the implementation of flexible rates as part of a future Convention Center audit.

MAS: DM: 08100130

ATTACHMENT

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Memo No. 95

Date: May 5, 2009

To: Budget and Finance Committee

From: Raymond P. Ciranna, Interim City Administrative Officer **Subject: Convention Center – Status on Flexible Demand Based Pricing**

A motion (Perry-Hahn, C.F 09-0136), regarding a proposal to implement a Flexible Demand Based Pricing for the Los Angeles Convention Center was referred to the Tourism, Trade and Commerce and Budget and Finance Committees by the Council on January 23, 2009. The Council requested that this Office, the Office of the Chief Legislative Analyst (CLA), and the City Attorney work with the Los Angeles Convention Center (Convention Center) in reviewing the proposal. Our Office has met with the stakeholders including the Convention Center (Convention Center) and the Los Angeles Convention and Visitors Bureau (LA Inc.) several times since the introduction of the motion in January, 2009.

The current daily rental rate at the Convention Center is \$.32 per square foot (Los Angeles Administrative Code (LAAC) Section 8.149.2). The Convention Center seeks the flexibility to adjust this rate upward or downward by thirty percent to reflect market conditions and demands. The proposed policy would apply only to licensees booked by the Convention Center and not those booked by LA Inc.

The Convention Center has primarily cited the practices of private sector hotels and airlines as models for such a flexible pricing policy. Potential legal issues included the issue of a public entity charging different licensees different rates for similar space, perhaps even for the same periods of time. Therefore, the City would have to justify such a policy by identifying a legitimate public purpose supported by specific criteria. The City Attorney and the CLA presented several options to the Convention Center at meetings on February 23, 2009 and April 8, 2009. Convention Center staff was requested to review the proposals and to select one or a combination of the options described below and to provide additional specific information regarding the implementation of such an option(s), as well as, documentation in support of a public purpose which would permit the charging of variable rates. LAAC Section 8.149.2 could be amended in the following ways:

Option A: An across the board rental rate adjustment, lowering the rate for a twelve to eighteen month period, allowing for a re-evaluation of the economy and the market at the end of that period;

Option B: Establishing a flat reduced rate or flexible pricing for certain identified periods of time which traditionally or based on historical trends are low licensing periods;

Option C: Establishing a series of fixed, lower rates based on the timing of cancellations, e.g. one year before the scheduled event, six months before the scheduled event, four weeks before the scheduled event, etc. and allowing a flexible

pricing rate with the appropriate approval by another entity such as the CAO for other considerations like rapidly changing market conditions or other considerations;

Option D: Establishing flexible rates based on the occupancy rate percentage of the facility, i.e. a sixty percent occupancy rate or below would trigger lowering the rate charged.

It should be noted that this proposal would have no impact on the current rental Discount Policy which is used by LA Inc. to assist with the sales and marketing of the Los Angeles Convention Center to the national convention market. Discounts offered by LA Inc. are offset by Transient Occupancy Tax revenues.

RPC: DM: 08090420

Question No. 154
