

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: February 3, 2021

TO: Economic Development Committee

FROM: Doane Liu, Executive Director
Department of Convention and Tourism Development



SUBJECT: **POLICY RECOMMENDATIONS FOR THE LOS ANGELES CONVENTION CENTER, COUNCIL FILE NO. 09-0136**

SUMMARY

On July 15, 2020 and October 21, 2020, the Board of Los Angeles Convention and Tourism Development Commissioners (CTD Board) approved recommendations prepared by the Los Angeles Department of Convention and Tourism Development (CTD Department) related to policies for events hosted at the Los Angeles Convention Center (LACC). The CTD Department's recommendations were prepared in light of the ongoing effects from the novel coronavirus (COVID-19) pandemic and based off information gathered from its two prime contractors, AEG Management, LACC, which manages and operates the LACC; and the Los Angeles Tourism & Convention Board (LATCB), which markets Los Angeles as a destination and books citywide business for the LACC. These recommendations are emergency in nature and will require temporary provisions to be added to the Los Angeles Administrative Code (LAAC).

In addition to the temporary emergency provisions, the CTD Board has also recommended two permanent provisions that are technical improvements to the LAAC.

BACKGROUND

Since the implementation of restrictions on travels and mass gatherings during spring in 2020, industry conditions have not materially improved: the pandemic continues to disrupt life on a global scale and the spread of COVID-19 has not been effectively reduced to ensure public safety. Therefore, the reopening and subsequent recovery of the economy will depend more heavily on collaboration between the public and private sector, adequate implementation of safety protocol and guidelines, the continued development of therapeutics, and the rollout of the vaccine.

Because the LACC's own financial health has been jeopardized by pandemic-related impacts, it is imperative that the City of Los Angeles (City) be flexible with organizations desiring to book events at LACC once mass gatherings are permissible. Since the start of the moratorium on large meetings and events in March 2020, the LACC has cancelled or postponed over 140 events, resulting in a total economic loss of \$598

million to Los Angeles, including a projected \$14.8 million in transient occupancy tax (TOT) General Fund receipts and over \$20 million in direct revenue to the LACC. Thankfully, the LACC has successfully built up its Reserve Fund over the last several years, however, these funds will quickly be depleted and the LACC would then become a General Fund liability for any ongoing expenses. The LACC's clients themselves have sustained increasingly significant financial setbacks and will be facing increased expenses due to safety protocols and guidelines once they return.

The leisure and hospitality super sector in Los Angeles County usually employs over half a million people; as of December 2020, the number of leisure and hospitality jobs in Los Angeles County was 372,100, which is a 31.9 percent decrease compared to prior year. City of Los Angeles hotels typically maintain occupancy rates close to 80 percent and above, however, they reported an average 45.4 percent occupancy during calendar year 2020, the lowest average on record. As a result, TOT General Fund receipts totaled \$132.3 million during 2020, which was a 59.1 percent decrease compared to prior year's total of \$323.4 million.

Once it is safe to do so, facilitating the return of large meetings and events to Los Angeles will be a critical driving force behind the recovery of our local businesses and rebuilding our local workforce. These emergency recommendations will enable the LACC to competitively bid on new business and retain, reschedule and postpone existing clients, maximizing the LACC's role as an economic engine for the region. The provisions include the ability to increase rental discounts to qualified events and the ability to waive penalties for shortfalls in TOT generated by events. These provisions will make the difference between a potential client choosing Los Angeles over another destination in an increasingly competitive environment.

These provisions are recommended to be retroactive, so as to not disrupt ongoing negotiations with clients. The recovery period for the pandemic is anticipated to be several years, especially for the international travel segment, as there are many challenges to overcome before the industry will see pre-pandemic levels of activity again. Therefore, these temporary provisions are recommended to be effective through December 31, 2024.

RECOMMENDED TECHNICAL IMPROVEMENTS

Rates for Use of Equipment

Under Section 8.149.1, the current LAAC allows for the discounting of equipment rental at the LACC under two provisions: Flexible Demand Based Space Rental Pricing or under the City-wide discounting policy. However, this creates an excessive

administrative burden with very little monetary reward and adds complexity to a process that should instead be streamlined and efficient. Therefore, the CTD Board recommends the CTD Executive Director should have the discretion to establish the schedule of rental rates for equipment. This will help the LACC retain desirable business and increase the ability to be competitive in the industry by meeting equipment pricing standards while better managing limited administrative resources. This technical improvement will require changes to both Sections 8.149.1 and 8.149.6 of the LAAC.

Rates for Use of Special Event/Marketing Spaces

LACC clients frequently rent out other spaces in the facility and around the campus besides the exhibit halls and meeting rooms, however, the LAAC is silent on how to charge for the use of these spaces. The CTD Board recommends that a new provision be added to the LAAC in Section 8.149 to capture the rental and utilization of these spaces by allowing the Executive Director to establish a schedule of rates for these spaces.

RECOMMENDATIONS

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

Request the City Attorney to prepare and present an Ordinance to:

1. Amend the Los Angeles Administrative Code section 8.149.1, "Rate Adjustment Procedure for Certain Licensees", to grant the Department of Convention and Tourism Development (CTD) Executive Director the temporary ability to approve rent discounts exceeding the expected Transient Occupancy Tax (TOT) for citywide events hosted at the Los Angeles Convention Center (LACC) from January 1, 2021 through December 31, 2024 that present significant opportunity to generate economic impact, other sources of revenue and development of future business.
2. Amend the Los Angeles Administrative Code Section 8.149.1 to temporarily grant the CTD Executive Director the ability to waive the difference owed when rent discounts exceed the TOT revenue for citywide events hosted at the LACC from January 1, 2021 through December 31, 2024.
3. Amend the Los Angeles Administrative Code section 8.149.1 to temporarily grant the CTD Executive Director the ability to waive the requirements for a licensee to qualify for a citywide event rate reduction or waiver with the following conditions:

- a. Event shall be hosted at the LACC from January 1, 2021 through December 31, 2024;
 - b. Event shall have demonstrated a recent historical precedence of having met the citywide event qualifications set by the City while being hosted either at the LACC or another convention center; and
 - c. Event shall present significant opportunity to generate economic impact, other sources of revenue and development of future business.
4. Amend the Los Angeles Administrative Code (LAAC) section 8.149.1, "Rate Adjustment Procedure for Certain Licensees", to grant the CTD Executive Director the temporary ability to approve rent discounts exceeding 35 percent for local events hosted at the LACC from January 1, 2021 through December 31, 2024 that present significant opportunity to generate economic impact, other sources of revenue and development of future business.
 5. Amend the LAAC Sections 8.149.1 and 8.149.6 to grant the CTD Executive Director the ability to establish the schedule of rates for the use of equipment at the LACC.
 6. Amend the LAAC Section 8.149 to grant the CTD Executive Director the ability to establish the schedule of rates for the use of spaces not named in LAAC Sections 8.149.2 and 8.149.5.

FINANCIAL IMPACT STATEMENT

CTD anticipates no negative financial impact on the General Fund. It is anticipated that the proposed changes shall preserve LACC revenues by preventing the potential loss of business during the recovery phase.

DL:kn

Exec. Ref. 21-004

Attachments

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: July 9, 2020

To: Board of Los Angeles Convention and Tourism Development
Commissioners

From: Doane Liu, Executive Director 
Department of Convention and Tourism Development

Subject: **CITYWIDE EVENT POLICY RECOMMENDATIONS FOR THE
LOS ANGELES CONVENTION CENTER – BOARD REPORT #20-003**

SUMMARY

On March 10, 2020, the pricing policy for the Los Angeles Convention Center (LACC) was updated for the first time since 2010 with Ordinance 186501, after this Board made recommendations for improvements and updates to the existing policy's language in the Los Angeles Administrative Code. However, during the following months, the novel coronavirus (COVID-19) and related travel restrictions, stay-at-home orders and a moratorium on mass gatherings have completely stalled the meetings and conventions industry as well as the leisure and hospitality sector.

In anticipation of the significant challenges that will continue within the meetings industry, in combination with the heightened competitive atmosphere post-pandemic and the upcoming proposed LACC Expansion and Modernization Project, the Department of Convention and Tourism Development (CTD) staff is recommending temporary emergency changes to citywide booking policies for the Board of Los Angeles Convention and Tourism Development Commissioners (Board) to consider in order to keep citywide events booked at the LACC to support the economic recovery of the City of Los Angeles.

BACKGROUND

As a result of the changed landscape, the average occupancy rate of City of Los Angeles hotels dropped by 60.0 percent year-over-year during May 2020, to reach 32.2 percent. This means two out of every three hotel rooms remained unused, whereas the pre-pandemic occupancy rate hovered around 80 percent. Average daily rate (ADR) decreased by 41.1 percent to reach \$108.07, and total room nights sold (demand) decreased by 65.6 percent to approximately 350,000. As a result, monthly transient

occupancy tax (TOT) General Fund receipts have decreased significantly. TOT has been one of the fastest-growing sources of revenue for the General Fund, but for this fiscal year, it will finish below prior year's total. According to the latest national lodging forecast revision published by STR, demand in hotel room nights will take until 2023 to reach pre-pandemic levels. ADR will have an even slower recovery timeline, potentially taking five years to reach full recovery.

The impact on employment was swift and drastic as well: the leisure and hospitality industry is the fifth largest super sector in Los Angeles County, normally employing over half a million people at hotels, restaurants, museums and entertainment venues. During May 2020, there was a 43.9 percent decrease in leisure and hospitality jobs compared to prior year, or a drop of 241,000; this accounted for more than a third of the total nonfarm job loss in Los Angeles County. The unemployment rate for Los Angeles County nearly quadrupled from a pre-pandemic level of 4.3 percent during February 2020 to reach 20.9 percent during May 2020. The June 2020 University of California Los Angeles (UCLA) Anderson Forecast projected that the United States and California will not return to peak 2019 employment levels until 2023. The leisure and hospitality sector is expected to have an even slower recovery, due to its dependence on international travel.

In observance of the moratorium on mass gatherings, event activity at the LACC has been suspended, with nearly all bookings cleared from the current calendar year. While the LACC has been able to find some unique and safe alternative uses for the facility, they do not come close to the loss in revenue and economic impact expected from the events that were cancelled from mid-March onward. During Fiscal Year 2018-19, citywide events were responsible for \$12.5 million in net revenue, which was 41 percent of the total revenue generated during the fiscal year. Registered delegates that attended these events booked an audited 226,600 room nights in the City's hotels, which generated \$8.7 million in TOT for the General Fund and \$483.7 million in total economic impact for the Los Angeles region.

Steps to reopen the economy have begun, and are determined by guidance and permission from various government agencies. However, even as more activities are allowed, the confidence to participate in or even organize such activities is tenuous, especially in the absence of a vaccine, therapeutic or a reduction in transmission of the virus. According to a survey performed by Destination Analysts during June 2020, 47.3 percent of American travelers "say they are done traveling until the coronavirus situation blows over". Furthermore, 74.5 percent of American travelers say "they are unlikely to attend any conferences or conventions until the coronavirus situation is resolved". A recent convention and tradeshow planner survey performed by Convention, Sports and

Leisure (CSL) indicated that combined event cancellation and postponement rates reach 83 percent by November of 2020, and continue between 50 and 65 percent through March of 2021.

Already under serious financial stress due to the pandemic, citywide clients are also facing a potential reduction in delegate registration and exhibitor participation. They may even refrain from holding their events altogether, or hold their event in another location, resulting in a loss of revenue for the City. Furthermore, other competitive destinations are likely to offer their own incentives, aiming to lure conventions away from Los Angeles for their own respective economic recoveries. With significant competition, and with consumer sentiment leaning toward a disinclination to gather, it is imperative that the City be flexible with organizations desiring to book events at LACC once mass gatherings are permissible, particularly considering the economic consequences that have already been incurred within the first few months of this crisis.

DISCUSSION

The following summarizes the proposed, temporary changes for the Citywide Discount Policy and discusses the economic benefits of such changes for the City in response to this crisis. These changes would also assist in preventing LACC from becoming potentially dependent on the General Fund due to loss of revenue, which would follow the eventual depletion of the LACC's Reserve Fund due to the lack of event activity. Only citywide events would be eligible for consideration for these measures, as they bring significant economic benefits to the City. This proposal was developed with feedback from the Los Angeles Tourism & Convention Board, the organization that is contracted to book citywide events, and with AEG Management LACC, LLC, the private operator of the LACC. CTD recommends that these terms be carried through December 31, 2024, which has been forecast as the potential timeline for recovery.

These proposed changes also take into consideration the upcoming proposed LACC Expansion and Modernization Project. With the expansion of the site approaching, it is critical that there are tools to assist with the creation and retention of bookings during construction and as the completed facility ramps up to fully optimized operations.

These proposed changes are not meant to result in automatic benefits for all eligible citywide clients. Rather, whether to utilize these measures and the extent to which they are applied will be considered on a case-by-case basis and should only be utilized if absolutely necessary to retain and book business.

Rent Discounts

Currently, the Citywide Discount Policy in the City's Administrative Code allows rental rates for a citywide event to be reduced or waived only when the anticipated TOT revenues which may be attributed to the citywide event under consideration exceed the total amount reduced or waived. CTD staff recommends that the CTD Executive Director have the temporary authority to approve rent discounts exceeding the expected TOT for citywide events. Only events hosted at the LACC from January 1, 2021 through December 31, 2024 that present significant opportunity to generate economic impact, other sources of revenue and development of future business would be eligible for consideration under this measure.

With many citywide clients struggling financially, a discount greater than the projected TOT could be the deciding factor for the LACC to be chosen as a venue. Although less rent would be paid to the LACC, the facility would still benefit from the other associated revenues generated from the event, such as from food and beverage, utilities and other services. More importantly, this incentive would help bring economic benefits to the City in the form of other local spending, revenues for the City's General Fund and future business in a competitive market.

TOT Shortfall Penalty Waiver

After each event where a reduction or waiver in rent is granted, an audit is performed by an independent consulting firm to compare the actual amount of TOT generated to the discounted amount of rent. If the discount amount exceeds the TOT revenue, the licensee is required to pay the City an amount equivalent to the difference. Because of the significant effect that the COVID-19 pandemic has had on the mass gathering industry, many citywides will be faced with audited TOT shortfalls due to reduced attendance numbers and depressed ADR. Unable to weather the anticipated shortfall penalty, clients will potentially be forced to either cancel their event or move to a different destination. Although the adverse effects of this pandemic have significantly affected the revenue that the City will receive from events in terms of rent and TOT, even reduced revenues are better than no business at all.

CTD staff recommends that the Board change the Citywide Discount Policy in order to temporarily grant the CTD Executive Director the ability to waive the difference owed when rent discounts exceed TOT revenue. Only citywide events hosted at the LACC from January 1, 2021 through December 31, 2024 would be eligible for this waiver. Clients will be appreciative of the City's flexibility, and this will assist with future business retention, especially for the eventual return of these events during later post-recovery years.

Eligibility for Citywide Status

To qualify as a citywide event and to be eligible for Citywide Discount Policy considerations, an event held at the LACC must generate at least three thousand (3,000) room nights with one thousand five hundred (1,500) room nights on peak and utilize no fewer than three (3) hotels. It is likely that events which previously qualified as a citywide and met the above conditions will no longer meet the same standards during the recovery phase, due to reduced attendance and an increase in hybrid events that combine in-person programming with virtual components. Even with reduced room night generation and an understanding that these events will be smaller in size and revenue during the recovery phase, it will still be advantageous to retain these pieces of business for their associated economic benefits, as well as to build the relationship toward future post-recovery bookings. It will also assist LACC's citywide clients as they weather the pandemic.

CTD staff recommends a temporary change to the Citywide Discount Policy granting the CTD Executive Director the ability to waive the requirements for an event to qualify as a citywide event. Only clients that previously met the above standards (for instance, during a recent, pre-pandemic year) would be eligible for consideration. This will only be applicable for events to be hosted between January 1, 2021 to December 31, 2024 and that present the opportunity to generate economic impact, other sources of revenue and the development of future business.

Calculation of Rent Discounts

Currently, internal guidelines inform the method in which the citywide rental discount amount is calculated. A prior three-year historical average of room night generation is used to determine the reasonable amount of TOT that may be generated from an upcoming citywide event, using the most recent three years. Due to the pandemic's disruption, many citywides have canceled, postponed or changed the format of their events, which will yield very low or non-existent room night generation numbers for 2020 and 2021. As a result, when these clients approach the LACC for booking future, post-recovery years, it would be advantageous to use pre-pandemic historical numbers as the basis for the rental discount calculation for citywide events hosted at the LACC beyond January 1, 2025.

RECORD RETENTION AND REVIEW

The implementation of these recommended changes will be recorded and reviewed internally, including the justification behind the application of these measures. CTD

would be responsible for reviewing all such records, and shall report to the Board every six months to review the effectiveness of these changes, and whether they are still necessary.

RECOMMENDATIONS

Staff recommends that the Board of Los Angeles Convention and Tourism Development Commissioners:

1. Approves and forwards a recommendation to the Los Angeles City Council that would request that the City Attorney amend the Los Angeles Administrative Code section 8.149.1, "Rate Adjustment Procedure for Certain Licensees", to grant the Department of Convention and Tourism Development (CTD) Executive Director the temporary ability to approve rent discounts exceeding the expected Transient Occupancy Tax (TOT) for citywide events hosted at the Los Angeles Convention Center (LACC) from January 1, 2021 through December 31, 2024 that present significant opportunity to generate economic impact, other sources of revenue and development of future business.
2. Approves and forwards a recommendation to the Los Angeles City Council that would request that the City Attorney amend the Los Angeles Administrative Code Section 8.149.1 to temporarily grant the CTD Executive Director the ability to waive the difference owed when rent discounts exceed the TOT revenue for citywide events hosted at the LACC from January 1, 2021 through December 31, 2024.
3. Approves and forwards a recommendation to the Los Angeles City Council that would request that the City amend the Los Angeles Administrative Code section 8.149.1 to temporarily grant the CTD Executive Director the ability to waive the requirements for a licensee to qualify for a citywide event rate reduction or waiver with the following conditions:
 - a. Event shall be hosted at the LACC from January 1, 2021 through December 31, 2024;
 - b. Event shall have demonstrated a recent historical precedence of having met the citywide event qualifications set by the City while being hosted either at the LACC or another convention center; and
 - c. Event shall present significant opportunity to generate economic impact, other sources of revenue and development of future business.
4. Approve changes to the booking guidelines and protocol used to calculate the reasonably anticipated TOT receipts generated by a citywide event, to allow for the use of pre-pandemic historical room night generation numbers in order to

accurately project post-pandemic-recovery room night generation for future events.

Attachment: Los Angeles Administrative Code section 8.149.1

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cc: William Chun, Deputy Mayor of Economic Development
Miguel Sangalang, Deputy Mayor of Budget and Innovation
Ron Frierson, Director of Economic Policy
Angeline Buenaventura, Mayor's Office of Economic Development
Kimberly Miera, Deputy City Attorney
Derik Pearson, Senior Administrative Analyst
John Wickham, Office of the Chief Legislative Analyst
Patti MacJennett, Sr. Vice-President, Business Affairs
Ellen Schwartz, General Manager

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: October 21, 2020

To: Board of Los Angeles Convention and Tourism Development
Commissioners

From: Doane Liu, Executive Director 
Department of Convention and Tourism Development

Subject: **POLICY RECOMMENDATIONS FOR THE LOS ANGELES
CONVENTION CENTER – BOARD REPORT #20-007**

BACKGROUND

On July 15, 2020, this Board made recommendations for temporary, emergency provisions to be added to the Los Angeles Administrative Code (LAAC) in anticipation of significant challenges related to the pandemic stemming from the novel coronavirus (COVID-19). The industry conditions that were presented at that time have not materially improved: the pandemic continues to disrupt life on a global scale and the spread of COVID-19 has not been effectively reduced. Therefore, the reopening and subsequent recovery of the economy will depend more heavily on collaboration between the public and private sector, adequate implementation of safety protocol and guidelines, and the eventual development and delivery of vaccines and/or therapeutics.

Because the Los Angeles Convention Center's (LACC) own financial health has been jeopardized by pandemic-related impacts, it is imperative that the City of Los Angeles (City) be flexible with organizations desiring to book events at LACC once mass gatherings are permissible. The LACC's clients themselves have sustained increasingly significant financial setbacks and will be facing increased expenses due to safety protocols and guidelines once they return. In addition, as of the time of this report, the reopening of convention centers is conspicuously missing from the State of California's Blueprint for a Safer Economy.

DISCUSSION

While reviewing the LAAC in preparation for the emergency provisions that were approved, the Department of Convention and Tourism Development (CTD) staff has identified additional recommended changes, one related to the emergency presented by the pandemic and some technical improvements, for the Board of Los Angeles Convention and Tourism Development Commissioners (Board) to consider in order to

keep events booked at the LACC to support the economic recovery of the City. The following summarizes the proposed changes for LAAC, which were developed with feedback from AEG Management LACC, LLC, the private operator of the LACC.

Rent Discounts for Local Events

Currently, the Flexible Demand Based Space Rental Pricing Policy in the LAAC under Section 8.149.1 allows rental rates for a local event to be adjusted by 35 percent under certain conditions, including for the purpose of increased revenue generation. CTD staff recommends that the CTD Executive Director have the temporary authority to approve space rent discounts exceeding 35 percent for local events. Only events hosted at the LACC from January 1, 2021 through December 31, 2024 would be eligible for consideration under this measure.

The temporary nature of this provision is meant to capture the projected timeline for recovery for the convention industry, and will also coincide with the window of construction for the proposed LACC Expansion and Modernization Project. These proposed changes are not meant to result in automatic benefits for all eligible local event clients. Rather, whether to utilize these measures and the extent to which they are applied will be considered on a case-by-case basis and should only be utilized if necessary to retain and book business. Although less rent would be paid to the LACC, the facility would still benefit from the other associated revenues generated from the event, such as food and beverage, utilities and other services.

Rates for Use of Equipment

Under Section 8.149.1, the current LAAC allows for the discounting of equipment rental at the LACC under two provisions: Flexible Demand Based Space Rental Pricing or under the City-wide discounting policy. However, this creates an excessive administrative burden with very little monetary reward and adds complexity to a process that should instead be streamlined and efficient. Therefore, CTD staff recommends the CTD Executive Director should have the discretion to establish the schedule of rental rates for equipment. This will help the LACC retain desirable business and increase the ability to be competitive in the industry by meeting equipment pricing standards while better managing limited administrative resources. This technical improvement will require changes to both Sections 8.149.1 and 8.149.6 of the LAAC.

Rates for Use of Special Event/Marketing Spaces

LACC clients frequently rent spaces in the facility and around the campus besides the exhibit halls and meeting rooms, however, the LAAC is silent on how to charge for the use of these spaces. CTD staff recommends that a new provision be added to the LAAC

in Section 8.149 to capture the rental and utilization of these spaces by allowing the Executive Director to establish a schedule of rates for these spaces.

RECOMMENDATIONS

Staff recommends that the Board of Los Angeles Convention and Tourism Development Commissioners:

1. Approves and forwards a recommendation to the Los Angeles City Council that would request that the City Attorney amend the Los Angeles Administrative Code (LAAC) section 8.149.1, "Rate Adjustment Procedure for Certain Licensees", to grant the Department of Convention and Tourism Development (CTD) Executive Director the temporary ability to approve rent discounts exceeding 35 percent for local events hosted at the Los Angeles Convention Center (LACC) from January 1, 2021 through December 31, 2024.
2. Approves and forwards a recommendation to the Los Angeles City Council that would request that the City Attorney amend the LAAC Sections 8.149.1 and 8.149.6 to grant the CTD Executive Director the ability to establish the schedule of rates for the use of equipment at the LACC.
3. Approves and forwards a recommendation to the Los Angeles City Council that would request that the City Attorney amend the LAAC Section 8.149 to grant the CTD Executive Director the ability to establish the schedule of rates for the use of spaces not named in LAAC Sections 8.149.2 and 8.149.5.

Attachment: Los Angeles Administrative Code Section 8.149

cc: William Chun, Deputy Mayor of Economic Development
Ron Frierson, Director of Economic Policy
Angeline Buenaventura, Mayor's Office of Economic Development
Kimberly Miera, Deputy City Attorney
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