LA GEECS

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Comments to 6.26.2013 Agenda No. 16 and Agenda No. 17-CF 12-0692 Anschutz Entertainment Group (AEG) Management for LA Convention Center

1 message

Joyce Dillard <dillardjoyce@yahoo.com> Wed, Jun 26, 2013 at 9:50 AM
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DENY proceeding with any MANAGEMENT AGREEMENTS.

You have changed the name of the GENERAL MANAGER of the LA Convention Center to the EXECUTIVE DIRECTOR of the LA Convention Center along with an increase of salary range from $149,229-$223,825 to $210,345-$315,392 under Ordinance 182529 with no signature from the Mayor.

We believe you have no justification to proceed.

On December 12, 2012, the Mayor writes:

> *This is an opportunity for our City to grow revenues proactively, and I urge you to support the CAO's report to enhance the structure of the Convention Center and promote tourism. While the CAO projects that an alternative management structure for the Convention Center could generate General Fund savings of $2.1 million to $6.3 million for the first year and up to $3.8 million to $8.5 million by the fifth year, the real long term benefits will come with increased sales tax and TOT revenues for the General Fund and ultimately a better way of promoting our great City.*

You have not addressed LA Convention Center square footage available currently or five years out to determine if the savings anticipated is even feasible.

You have not addressed any disruption in construction issues if the Event Center aka Farmers Field was to proceed or if the Convention Center was remodeled without Farmers Field.

Is the state of the US economy supportive to the goals and projections?

Simply, you have made no attempts at substantial financial planning to match the realities of the existing conditions.

Your goals are for the year 2020 in the December 12, 2012 CAO report states:

> *In addition to generally improving the LACC's competitive industry standing, one of the many goals of utilizing a professional management company for the LACC ~~is to generate significant savings by reducing expenses, creating efficiencies and implementing best practices~~. Taking into consideration the cyclical nature of citywide convention business from year-to-year in terms of number of events and attendees, ~~the Mayor and Council established a goal of hosting between 400,000 and 425,000 citywide convention attendees -- an increase of approximately 50% -- by 2020~~.*

Where is the hard core planning to reach that goal. You have no substantial basis to guarantee the taxpayer that this has been considered in the budgetary process.

The CAO report goes on to state:

> *~~The most opportune time to change management would be in advance of the construction of the New Hall, so that any new management team would be well positioned to participate in the negotiating and development phase.~~ It is not uncommon for convention centers to undergo construction and capital improvement periods. ~~The private management firms currently in the market have experience in pre-opening services including consulting on design, planning, development, and construction~~*

You are, in essence, hiring a outside Project Manager without a set salary.

The CAO report goes on to state:

> *~~Debt Finance and Private Use~~*
>
> *The Convention Center is financed with tax-exempt bonds; therefore it is governed by a number of rules under the Federal Tax Code and IRS regulations. Among these rules are ones that govern the nature of "management contracts" the City can enter into with private parties. ~~The City can contract for private management, but only when it doesn't create a "private business use" of the facility.~~ The IRS has published rules for "~~qualified management contracts~~" that are permitted that in summary, require that the longer the term of a contract, the more that the compensation be based on a fixed fee. For example, the City could enter into a 15-year contract for management of the Convention Center, but 95 percent of the payment to the contractor would have to be on a fixed-fee basis. At the other extreme, the City could enter a*

management contract where 100 percent of compensation was based on performance (for example, a percent of gross revenue), but such a contract could not be longer than two years. The standard term for a convention center management contract is in the middle of this continuum: a five year term, with at least 50 percent of the compensation paid by the City being in the form of a fixed fee. ~~Our financial advisors and the CAO recommend that the City seek a five-year contract with up to 50 percent of the private manager's compensation being based on an incentive fee.~~

To maintain the tax-exempt status on the bonds of the facility the operation of the facility must comply with federal tax laws. ~~Safe harbor exceptions to tax laws allow for private use subject to a maximum of \$15 million (in private security or payments). The City has used virtually all of its private use capacity in accommodating the Staples Center for parking, contracts for LACC services, and other shared uses.~~ The analysis for privatization must address the implications associated with the outstanding debt.

The limited terms for management are not being taken into consideration in the reality of debt restrictions. Your contract terms would be at least 2 years (performance based) or maybe 15 years (fixed fee based) but recommended at a hybrid 5 years (50% incentive; 50% fixed).

You chose a 60-month or 5-year contract with a base and incentive fee. Where are the realistic, detailed projections based on factual data of past performance to justify this 5-year timeframe with increased revenues? Why are you neglecting the fragility of debt and obligations incurred by the City? Are you driving the City to bankruptcy?

Can the City afford this when the projections and goals are based on the year 2020 which is 7 years out? There is no consideration for construction or remodeling which would delay the goal projection.

The CAO report goes on to state (BEACON ECONOMICS):

From this assumption, Beacon estimated the economic impact of higher attendance, as well as the fiscal impact to the City's transient occupancy tax (TOT) and sales and use tax revenues.

Beacon presented all results in 2012 dollars. Applying the City's TOT rate of 14%, Beacon calculated TOT revenues the City can expect under various scenarios. Beacon states "In our low estimate, ~~we find that the City can expect an additional \$3.1 million in TOT revenue from an additional 150,000 LACC attendees over the baseline scenario, which corresponds to an additional 127,500 hotel room nights. In our high estimate, we find that the City can expect an additional \$3.5 million in TOT revenue from an additional 175,000 LACC attendees, which corresponds to 148,750 additional room nights.~~" Beacon also calculated the amount of sales and use tax. Beacon states "With respect to the

CAO goal of 400,000 annual LACC attendees, the City can expect to receive an additional $256,064 to $293,540 in sales and use tax revenue over
the baseline scenario, and for the CAO goal of 425,000 annual LACC attendees, the City can expect to receive an additional $309,032 to $342,464 in sales and use tax revenue over the baseline scenario."

How is TOT tax generated when the hotels are not even built to accommodate these goals? How can these goals be reached at a planning stage? Does the City have the revenues currently to sustain this planning? How can the CONVENTION CENTER become the Enterprise with self-sustaining revenues?

Where is the report on the collected TOT tax? It does not exist.

You have no definitive MANAGEMENT PLANS. In fact, a Memorandum of Understanding MOU is being negotiated for 90 days before a Management Agreement is negotiated. Why? Is this leadership? You do not know how you want to manage the facility yet expect financial improvements. Have you never reviewed existing data on the Convention Center?

Nowhere is mentioned the existing Memorandum of Understanding MOU with AEG on the EVENT CENTER which has existing terms regarding the CONVENTION CENTER.

Where is the consideration of CONFLICTS OF INTEREST? Where are the recusals?

Nowhere do you mention the governance issues under the LOS ANGELES CONVENTION AND EXHIBITION CENTER AUTHORITY, a Joint Powers Authority.

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