

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: February 29, 2016

CAO File No. 0670-00008-0000  
Council File No. 14-1383  
Council District: 9

To: The City Council  
The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: C.F. 14-1383

Subject: **HOUSING OPPORTUNITIES WITHIN THE PUBLIC-PRIVATE FINANCING  
OPTIONS FOR THE LOS ANGELES CONVENTION CENTER EXPANSION  
PROJECT**

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### SUMMARY

At its meeting held on February 9, 2016, the Economic Development Committee (EDC) considered reports from the City Administrative Officer (CAO) relative to public-private financing options for the Los Angeles Convention Center (LACC) Expansion Project (Project). This Office offered recommendations that endorsed a 90-day "dual path" approach to move the Project forward. Via this dual path, the City will initiate the CEQA compliance process for the Project immediately and in parallel dually develop both traditional and alternative project delivery and financing approaches and return to Council for a final selection of one path by June 2016.

At the February 9, 2016 meeting, the EDC adopted amended recommendations, which will be presented for Council action at its Tuesday, March 1, 2016 meeting (Attachment 1). Although the amended recommendations support the dual path approach, the EDC's report stipulates, "The Business Case document's project description will prohibit residential use" (Item 9 in Attachment 1), which eliminates housing as an option for analysis in the Business Case for a "Design Build Finance Operate Maintain" (DBFOM) project delivery method.

The issue of whether to allow housing on the LACC campus or not is part of a larger land use and urban design discussion that will be included in the Business Case. A holistic land use analysis will consider the policy, economic, fiscal, and operational pros and cons of mixed-use development along with the extent to which various real estate uses (i.e. office, retail, residential, and hotel uses) can be compatible with a thriving, state-of-the-art convention center. This will provide the Council and Mayor with the breadth of information they will need to make the most prudent decision for how to structure and invest taxpayer resources in the LACC.

The CAO recommends that the Business Case be presented with and without housing as a potential component of the proposed Project alternative. Key stakeholders of the LACC also support this approach as demonstrated in a signed letter from the President of the Board of the Los Angeles Convention and Tourism Development Department (Attachment 2).

## **ADDRESSING THE HOUSING CRISIS**

Every opportunity to create a range of housing options throughout the affordability spectrum should be explored within the City. The City's well-known housing crisis and need for affordable housing are so severe that overlooking housing without an analysis in the context of the LACC campus is not practical. This would be counter to the City's goal to increase the housing stock by using City land as potential sites for housing. While the prohibition of housing on the LACC campus may stand in the end, the housing issue merits review during the 90-day period.

### **Economic and Community Benefits**

From a purely economic standpoint, housing will help reduce the City's general fund obligation to support the LACC over time. This in turn would provide budgetary flexibility for the City to support other key long-term priorities, such as homelessness and affordable housing. Housing as part of a mixed-use development with retail and office uses can also activate the LACC campus and make it a more marketable and attractive convention destination.

Additionally, housing units produced on the LACC campus could also be a source of new affordable housing. The Emerson, developed by the Related Companies next to the Broad Museum in downtown, serves as an example of a successful luxury apartment development that includes 271 units, 20% of which are set aside as affordable housing to moderate-income renters (80% to 120% of the Area Median Income or AMI). The nearby Gas Company Lofts, Met Lofts, and Glo Apartments as well as Sakura Crossing Apartments and Hikari Apartments in Little Tokyo all have low-income residences in otherwise newly-built market-rate buildings<sup>1</sup>.

Affordable housing guidelines for the Project would likely follow similar requirements, where the developer could choose to set aside 15% of the units to low-income renters (50% to 80% AMI) or 20% of the units to moderate-income renters (80% to 120% AMI).

### **Mitigating Concerns Relative to Housing**

There are mitigations to address the concerns expressed thus far relative to housing sited at or near the LACC campus. The few issues raised against allowing housing so far are: (1) recommendations against housing sited near the freeway due to traffic pollution and (2) the heavy industrial nature of convention center operations (e.g. noisy shipping trucks, loading docks, and forklifts in the middle of the night; congestion of constant truck deliveries) being incompatible with residential living, creating a "Not In My Back Yard" (i.e. NIMBY) tension between residents and convention center operators.

While these are valid concerns, equally compelling mitigating measures to these issues have also been presented. To address air quality issues related to traffic pollution, there are existing planning protocols that require high-strength air filters in buildings, certain building orientations, and the strategic placement of landscaping to reduce particulate matter. In downtown high-rise construction, sound barriers, noise dampening wall features, and double- and triple-pane windows are reportedly also effective at blocking out noise. Proper site planning addresses

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<sup>1</sup> Los Angeles Downtown News, June 2015. "When It Comes to Affordable Housing, for a Lucky Few, the Price is Right", by Eddie Kim. [http://www.ladowntownnews.com/news/when-it-comes-to-affordable-housing-for-a-lucky-few/article\\_c0b81796-1389-11e5-9c37-13b8e8a27071.html](http://www.ladowntownnews.com/news/when-it-comes-to-affordable-housing-for-a-lucky-few/article_c0b81796-1389-11e5-9c37-13b8e8a27071.html).

ingress/egress congestion as well as noise attenuation. These and other concerns and mitigating measures also are relevant to the hotel developers that are being encouraged to locate at or near the LACC, so the issues should be analyzed and presented in the Business Case relative to all land uses.

Examples of branded condominiums in the nearby Ritz Carlton and JW Marriott as well as the new residential developments under construction across the street from the LACC on Figueroa suggest that thoughtful amounts of residential may be workable on the LACC campus.

## **MARKET FEEDBACK**

The market feedback about the early prohibition of housing that this Office has received from interested infrastructure investors indicates that eliminating housing would make a DBFOM delivery method less attractive for the City, resulting in higher general fund costs in the form of an availability payment. The key to successfully procuring a development/financing partner is that the City must define its goals and priorities as “the client” without being overly prescriptive, which is a red flag to the investor community.

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

## **RECOMMENDATIONS**

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

1. AMEND recommendation No. 9 in the Economic Development Committee report dated February 9, 2016 to allow for the Business Case documentation to present two Project feasibility scenarios – one with market rate and affordable residential uses and one without any residential uses.

## **DEBT IMPACT STATEMENT**

There is no debt impact resulting from the recommendations in this report.

## **FISCAL IMPACT STATEMENT**

There is no impact to the General Fund associated with the recommendations in this report.

## BACKGROUND

On December 23, 2015, this Office released a report entitled *Public-Private Financing Options for the Los Angeles Convention Center Expansion Project*, which recommended a P3 approach for the expansion and modernization of the LACC based on an analysis completed by the CAO's consultant, Arup Advisory, Inc. (Arup). After a month of feedback and meetings with City stakeholders involved in the Project, this Office offered amended recommendations that endorsed a 90-day "dual path" approach to move the Project forward. Via this dual path, the City will initiate the CEQA compliance process immediately and in parallel dually develop both traditional and alternative project delivery and financing approaches and return to Council for a final selection of one path by June 2016.

At its February 9, 2016 meeting, the EDC approved amended recommendations that, if adopted by the full Council and Mayor, would prohibit any further exploration of residential uses as part of the Project.

A key finding in the Arup report is that a convention center re-design derived from an expansion that is contiguous with the South Hall can achieve the desired convention space offering while freeing up an additional 9 to 14 acres of developable land on the north end of the LACC site. This added development potential would be suitable for a mixed-use development that could enliven the campus with 24/7 urban activity, increase the connection to the rest of the development occurring in South Park, and create additional economic value for the City (e.g. more jobs, increased tax revenues, and a reduced general fund obligation required to support the LACC).

With respect to the mixed-use component of Arup's analysis, the report explored the maximum economic value that could be achieved on the site and included space allocations for office, retail, residential, and boutique hotel uses. In today's market climate, apartment development has the highest value, and sizable allocations of residential were a part of Arup's analysis. However, this analysis in itself was not a land use recommendation.

The issue of whether to allow housing on the LACC campus or not is part of a larger land use and urban design discussion that should be included in the Business Case. A holistic land use analysis should consider the policy, economic, and operational pros and cons of mixed-use development along with the extent to which the various real estate uses (i.e. office, retail, residential, and hotel uses) can be compatible with a thriving, state-of-the-art convention center.

Attachment

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