

**CITY OF LOS ANGELES**  
**INTER-DEPARTMENTAL CORRESPONDENCE**

Date: April 15, 2016

To: Honorable Members of the Economic Development Committee

From: Sharon M. Tso, Chief Legislative Analyst   
Miguel A. Santana, City Administrative Officer 

Subject: **INTERIM REPORT #1: STATUS OF LOS ANGELES CONVENTION CENTER  
DUAL PATH PROGRESS**

**SUMMARY**

At its meeting held on March 2, 2016, the City Council approved an Economic Development Committee (EDC) report (C.F. 14-1383) with recommendations for a Dual Path approach related to the Los Angeles Convention Center (LACC) Expansion and Modernization project (Project). Pursuant to the Council-adopted instructions in the report, the City has commenced the Project by initiating the CEQA compliance process while continuing, over a 90 day period, to evaluate the relative merits of financing and delivering the Project under a public-private Design-Build-Finance-Operate-Maintain (DBFOM) Approach versus the Traditional Approach, which relies upon municipal bonds to finance the "cost of ownership" or lifecycle costs (specifically construction and long-term maintenance) of the LACC.

This Report includes a description of the deliverables, process, and progress to date on the DBFOM Approach.

**RECOMMENDATION**

That the Council note and file this report.

**DEBT IMPACT STATEMENT**

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

**FISCAL IMPACT STATEMENT**

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

**POPULOUS CONCEPTUAL DESIGN REFINEMENT – CONVENTIONAL FINANCING**

On March 21, the Bureau of Engineering (BOE) initiated a series of workshops with Populous, the architectural firm selected to design the LACC Project. Participants included the Department of Convention and Tourism Development, City Administrative Officer (CAO), and Chief Legislative Analyst (CLA). Issues and concerns discussed included contiguous exhibit hall space, placement of the convention hotel, functionality of the outdoor ballroom, cost effective placement of the formal ballroom, creating additional revenue generating opportunities, and ways to reduce project costs.

It was determined that Populous will prepare three alternative designs, which will be reviewed

with stakeholders and City departments and offices beginning April 20, 2016. Stakeholder groups include show managers and owners, neighbors, business associations, and hotel developers and operators. These design alternatives will be presented to the Economic Development Committee for consideration as well. Input received from these presentations will lead to the selection of a single design for conceptual design refinement.

## **DBFOM BUSINESS CASE**

The analysis of the DBFOM Approach is led by the CAO and the CAO's consultant Arup Advisory Inc., with assistance from the CLA, CTD, and BOE. Efforts are underway on developing the detailed Business Case, which evaluates the feasibility of the proposed Project Alternative<sup>1</sup> in terms of market acceptance, technical/architectural viability, procurement and development schedule, lifecycle costs, and financial affordability. The Business Case also includes a similar analysis of the Traditional Approach and its Populous-led project design to establish a benchmark of comparison.

The Business Case report, led by the CAO's consultant Arup Advisory Inc., includes the following components:

### **1. Basis of Design: Technical Analysis & Architectural Design Alternatives.**

The purpose of this element of work is to demonstrate the architectural viability of the DBFOM Project Alternative, which will satisfy the programmatic space requirements of the LACC expansion and modernization as a top-tier convention facility while freeing up additional developable land for a mixed-use development. Arup has hired as subconsultant the architectural design firm HOK to perform this task. This task entails developing alternative architectural plan layouts that are developed collaboratively with input from CTD and BOE.

The resulting design provides the basis for lifecycle cost estimates, including design, construction, and long-term facility maintenance.

#### **Deliverable(s):**

- A DBFOM Reference Design that accommodates the required convention center space program, including rentable convention space (exhibit, meeting, ballroom), non-rentable convention space (circulation, elevators, etc.), and back-of-house space.
- A document that details the LACC space program, architectural design criteria, operational requirements, urban design requirements, and technical performance standards for the Project.

### **2. Market Feedback**

The purpose of this task is to solicit feedback from the infrastructure and real estate investment community so that the Business Case can reflect real world market conditions and demonstrate the level of market interest for the DBFOM Approach. Arup is preparing to release a Request for Information (RFI) by April 22, and will gather feedback and input from

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<sup>1</sup> The Project Alternative, defined as the "Value-optimized Scheme" in the CAO's December 23, 2015 report titled *Public-Private Financing Options for the Los Angeles Convention Center Expansion Project*, includes an expanded convention center integrated with a 9- to 14-acre mixed-use development, delivered by procuring a development partner to privately finance and maintain the facility over a multi-year contract period.



the investor community to be completed in mid-May. This task will include feedback from the infrastructure investors/developers that would be the likely respondents to a City-issued Request for Proposals seeking a DBFOM development partner, and will inform the analysis of financing terms, number of likely responses to the RFP, procurement features and schedule, and overall deal structure of the Project. Feedback from the real estate community will demonstrate the market interest in a mixed-use real estate component integrated into the LACC campus and will help estimate the expected fiscal benefits of this added Project component.

**Deliverable(s):**

- As part of the Business Case report, a description of the feedback and key insights gained from the RFI for both infrastructure/DBFOM and real estate investors.

### **3. Independent Cost and Schedule Analysis**

Efforts are underway to hire the Independent Cost Estimator with a goal to commence this task by late April. This task will focus on evaluating the reasonableness of the total lifecycle costs and project schedule projections of the two delivery approaches on an “apples-to-apples” basis. Key points of verification include:

- Cost of ownership analysis (i.e. Lifecycle costs), including design, construction, and long-term facility maintenance costs in addition to estimating the cost implications of risks in each construction plan.
- Construction and project schedule analysis, analyzing the baseline schedule, risk identification with cost implications, and business continuity during construction.

**Deliverable(s):**

- A comparison matrix of the costs (construction, operations, and lifecycle maintenance costs), risks contingencies, and schedule presented for both approaches.

### **4. Feasibility Analysis of Project Alternatives**

The comparative feasibility of the DBFOM and Traditional approaches to the Project will include both quantitative and qualitative analyses.

- **Quantitative Analysis:** This component of the Business Case will produce a financial model for each project scenario analyzing their respective costs (construction and long-term maintenance), revenues, and fiscal impact. The analysis includes estimates of project revenues derived principally from convention center operating projections as well as analysis of the real estate market, lifecycle cost estimates, financing assumptions, risk identification and quantification, and incorporates market feedback into the results. The three key parts of the financial model include: (1) real estate revenue analysis, as appropriate for each project alternative, (2) a Value for Money analysis, which is used to identify the options for use of taxpayer money, and (3) a fiscal impact analysis on the City’s general fund.
- **Qualitative Analysis:** This component of the Business Case includes an assessment of the cost implications, tangible and intangible benefits for each design alternative. Factors 3

that will be considered include, among others: schedule for completion, quality and innovation of the completed facility, business continuity during construction, urban impacts and other economic benefits, and operational performance standards.

**Deliverable(s):** all included in the Business Case report:

- Risk and cost analysis of each project alternative
- Real estate market conditions
- Financial modeling results
- Procurement considerations (timing, cost, etc.)

## PROCESS

The table below summarizes the key activity schedule of the DBFOM Approach, including this initial 90 day schedule, the Business Case and the Basis of Design as deliverables.

	March				April				May					June			
	7	14	21	28	4	11	18	25	2	9	16	23	30	6	13	20	27
Business Case																	
Risk Analysis / Financial Model																	
Procuremnet Strategy																	
Deal Structure																	
Real Estate market research																	
Cost and schedule verification																	
Report Drafting																	
Basis of Design																	
Convention Programming																	
Urban Design Analysis																	
Venue Concept Design																	
Market Outreach/Feedback																	
Infrastructure Developers																	
Real Estate Developers																	
Local Stakeholders																	

As of the date of this Report, the following key activities have taken place:

- The City working group meets bi-weekly (throughout March and into April) to discuss critical issues, key project management milestones, and information sharing protocols.
- March 24, a kick-off meeting with the City working group to discuss the DBFOM process, Business Case document, and architectural overview for the Basis of Design. The schedule above has been refined based on feedback received at that meeting.
- March 30, a more in-depth meeting with Arup, HOK, CAO, CTD, and BOE to discuss the program needs of the LACC as a top-tier convention center.
- Between March 24 and April 6, Arup, HOK, and CTD held a series of site tours of the LACC including back of house and utility facilities.
- Arup and team are preparing a draft RFI for release by or before April 22.

**KEY NEXT STEPS**

- While incorporating the information from the March 30 meeting, Arup and HOK have planned an in-depth vision and design session with CTD and BOE on April 18-19.
- Process is underway to procure the services of a project management consultant (i.e. independent cost estimator) to assess the lifecycle costs and schedule of the project alternatives.
- Release of the DBFOM RFI will occur by April 22 with results compiled by mid May.
- CAO and CLA will provide Interim Report #2 in May 2016.