


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: October 8, 2014

TO: Honorable Members of the City Council

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**NEW HALL AND EVENT CENTER EXTENSION
AND CONVENTION CENTER DEVELOPMENT ALTERNATIVE**

SUMMARY

In September 2012, the City Council and Mayor approved entitlements, transaction documents, and other, plans, documents and actions that would have allowed for the development of a new convention center hall and an event center that would host a National Football League (NFL) team. The key document in that set of approvals was the Implementation Agreement (IA) which required that the Anschutz Entertainment Group (AEG) secure a team to play in the event center within two years. Otherwise, the entire action would expire. On October 18, 2014, the two year deadline will be met and the agreements will expire.

Throughout 2013, the City Council investigated development options for the Los Angeles Convention Center (LACC) to ensure that an alternative plan was ready in case AEG was not able to secure an NFL team. Key criteria for an expanded and modernized convention center were developed based on reports from specialists in the convention business, as well as a technical panel assembled by the Urban Land Institute (ULI). In June 2014, the Council authorized the Bureau of Engineering (BOE) to initiate a design competition to seek architects to design an alternative development plan for the LACC. That process began with a Task Order Solicitation (TOS) seeking qualified architectural teams. The City received 11 responses and eventually selected three teams for the design phase of the competition.

On September 29, 2014, AEG requested that the City extend the IA for up to one year to allow more time to secure an NFL team and meet the requirements of the IA (Attachment A). In addition, AEG offered to secure an architect and develop an alternative design for the LACC.

This report recommends granting an extension to the IA. It also recommends a Collaborative Design Process wherein the TOS design process already initiated would continue with the participation of AEG on the City's team. A design review panel comprised of the Chief Legislative Analyst (CLA), City Administrative Officer (CAO), the President or other designated commissioner of the Board of Los Angeles Convention and Tourism Department Commissioners

(Commission), and AEG will develop design criteria and work with BOE and LACC to direct the design process. Several alternative designs will be developed, providing decision makers with options to move forward the expansion and modernization of the LACC should no NFL team commit to this development site. To support this process, AEG will contribute \$750,000 to support architectural designs, economic analysis, or other services needed to inform the Collaborative Design Process. Designs will be displayed for public viewing as part of the evaluation process.

At the conclusion of this process and in the event that no team commits to Los Angeles, City staff and AEG will provide a series of reports and designs to inform the Council and Mayor's next actions.

RECOMMENDATIONS

That the City Council, with approval of the Mayor:

1. Authorize the Mayor and the Councilmember of the Ninth District, on behalf of the City, to execute an extension to the Implementation Agreement (IA) (Attachment B) for the New Hall and Event Center project, which provides an additional six months to secure an NFL team, plus six months at the discretion of the Chief Legislative Analyst (CLA) and City Administrative Officers (CAO), to close escrow if appropriate and to complete requirements of the IA;
2. Instruct the CLA and CAO, with assistance of the President or other Commission Designee of the Board of the Los Angeles Convention and Tourism Department Commissioners (Commission), Bureau of Engineering (BOE), and AEG to formulate and provide design criteria to the architects selected under the previously-approved Task Order Solicitation Process and instruct the BOE to issue a notice to proceed with the LACC expansion and modernization design process according to those criteria;
3. Authorize the CLA to receive \$750,000 from AEG to fund the Task Order Solicitation Process, now to be known as the Collaborative Design Process, and complete studies, reviews, and other documents necessary to inform the Council and Mayor with regard to alternative development opportunities for the LACC; request/authorize/instruct the Controller to deposit/appropriate/expend all funds received as a result of this action in Fund 100, Department 28, Contractual Services Account 3040; and authorize the CLA to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action;
4. Instruct the CLA and CAO to report to Council with assistance from AEG, LACC, BOE, City Attorney, Department of City Planning, Economic and Workforce Development Department (EWDD), and other departments as appropriate to evaluate the Convention Center expansion and modernization project, including review of entitlements, economic impacts, timelines, cost

estimation, legal issues, operational impacts, cost estimations, and other related matters, and, if appropriate, prepare a Memorandum of Understanding (MOU) to advance terms into preparation of transactional documents or amendments to existing transactional documents;

5. Instruct the CAO to prepare and report on a finance plan based on the information available for the LACC alternative development scenarios; and
6. Request/authorize/instruct the Controller to unencumber a total of \$71,755.29, encumbrance document ID#GAE 53 C012119703M (\$27,711.79 for KNN Public Finance and \$44,043.50 for Public Resources Advisory Group, PRAG), revert said amount to the Reserve Fund, transfer therefrom to the Unappropriated Balance, Fund 100/58, and reappropriate therefrom to the Capital Finance Administrative Fund, 100/53, Account No. 000339, Fiscal Year 2014-15, to pay for advisory and consulting costs including legal fees and authorize the CAO to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action.

FINANCIAL IMPACT

Approval of this action will have a positive impact on the City's General Fund. Receipt of the funds provided in this action will offset the need to issue \$600,000 in commercial paper notes through the Municipal Improvement Corporation of Los Angeles, previously approved by the Council for expenditure for architectural services. Otherwise, the City would have paid in the 2014-15 Fiscal Year approximately \$2,500 which includes costs associated with the interest letter of credit and remarketing fee rates in addition to future debt repayment costs.

EVENT CENTER AND NEW HALL PROJECT

In September 2012, the City Council and Mayor approved a series of actions related to the development of an event center on the site of the West Hall of LACC to be built and operated by AEG. Replacement of the West Hall was one of the critical elements of those actions. The approvals for that project, which became known as the New Hall and Event Center project, were based on a series of principles adopted by the City and agreed to by AEG. Among these was a requirement that any reduction in LACC facilities would be replaced with equivalent space and that costs to construct the New Hall would be borne entirely by net new revenues. Further, the City would expend no funds for construction of the Event Center. The actions approved by the Council and Mayor in September 2012 conformed to these principles.

The September 2012 actions approved a series of entitlements that allowed for the development of the project, with the IA serving as the organizing document for the entire project. The IA functions, in part, as an escrow document. It contains a series of actions that must be met in order to close escrow on the project, transfer site control to AEG, and move forward with construction of the New Hall and Event Center.

A central requirement to meet the escrow instructions of the IA rested on the ability of AEG to secure an NFL team. None of the entitlements, the Specific Plan and Signage District, the

Development Agreement, or any other transactional document (such as ground leases) would activate until an NFL team was secured.

Finally, the IA included a termination date two years from execution of the IA if an NFL team had not been secured. Failure to close escrow within two years would end the project and all project entitlements and transaction documents would expire.

The IA was fully executed on October 18, 2012, which means that the IA expires on October 18, 2014. To date, AEG has not been able to secure an NFL team. This means that the IA and all related entitlements and other transactional documents will expire on October 18, 2014.

AEG Extension Proposal

On September 29, 2014, AEG submitted a letter to the City (Attachment A) requesting an extension of the IA for the New Hall and Event Center project. The letter indicates that recent negotiations with the NFL have been productive and warrant additional time to secure commitments from the NFL. In addition, AEG proposed an alternative development strategy for the LACC and put forward a process for the development of that strategy.

AEG reports that they have recently made progress with the NFL regarding the location of a team in Los Angeles. They indicate that an extension of six months would provide AEG and the NFL with an opportunity to determine whether these discussions could lead to the placement of a team in Los Angeles. The City has not received any communication from the NFL on this matter.

IA Extension

To effectuate an extension, the Council would need to approve a contract amendment that extends the escrow period in the IA. Providing an extension meets the policy position of the City, most recently reiterated in Council Resolution (CF 13-1167-S1) which again strongly supported the placement of an NFL team in Los Angeles. A draft amendment to accomplish this extension is provided in Attachment B.

It should be noted that the extension of six months only concerns the opportunity for AEG and the NFL to determine the terms related to the relocation of a team to Los Angeles. If these negotiations are successful, then an additional six months would be needed for AEG to complete the escrow requirements in the IA.

The following outlines the actions that would occur under each six-month phase of the proposed extension:

- Six months to April 17, 2015:
 - * Provide AEG and NFL opportunity to complete discussion of terms necessary to locate a team in Los Angeles
 - * Establish a clear expiration date
 - * The New Hall Target Construction Date of October 18, 2014, specified in the IA will be determined by April 17, 2015, if an NFL team is secured.

- If an NFL team is secured, six additional months to October 16, 2015:
 - * Address any outstanding items related to the IA, Ground Lease, Reciprocal Easement Agreement, Specific Plan, etc. and obtain Council and Mayor approval as needed
 - * Negotiate three-party agreement between AEG-City-NFL Team
 - * AEG and City to initiate formation of a Mello-Roos District to support project financing
 - * AEG and City to meet final escrow requirements of the IA and execute the Ground Lease and all other documents

PLAN B ALTERNATIVE DESIGN

In June 2014, the City initiated a design competition to develop an alternative development plan for the LACC due to uncertainty in securing an NFL team. Reports from the LACC and the Los Angeles Convention and Tourism Board indicated that the City was at risk of losing significant convention and exhibition business if an alternative strategy for the LACC was not in place.

To advance the development of an alternative strategy, the City commissioned reports from Convention, Sports, and Leisure (CSL) and an Urban Land Institute technical panel. Both of these reports identified design criteria that would elevate the status of the LACC as a major convention facility. The Task Order Solicitation (TOS) released to architects by BOE incorporated design criteria developed in these technical reports.

BOE released the TOS to their list of pre-qualified architectural firms. The TOS required that interested teams include a partner that has substantial experience in the design of convention center facilities. BOE received 11 submissions by the July 24, 2014, deadline. The review panel evaluated all proposals and selected six firms to be interviewed. At the completion of the review and interview process, the selection team recommended that three teams move forward in the Design Competition phase of the TOS. The selected teams are:

- AC Martin Partners with LMN
- Lehrer Architects LA with Gensler
- HMC Architects with Populus

AEG Alternative Design Proposal

In their correspondence of September 29, 2014, AEG proposed an alternative design process wherein they would secure the services of an architectural firm, develop an alternative design for the LACC based on criteria identified by the City, and present that plan for City review. This approach would place the City's TOS design process on hold.

Collaborative Design Process

Discussions with AEG led to the development of a Collaborative Design Process that builds on the work of the TOS design process. This approach combines the City's process, already underway, with AEG's concepts. This would ensure that design alternatives are available for review in a timely manner should the effort to secure an NFL team fail.

At this stage, a Collaborative Design Process is recommended to proceed concurrent with AEG's effort to secure a team. This allows the City to continue the TOS process as planned and now includes AEG, the LACC operations manager, as a partner in the design process. The process would be directed by the CLA and CAO, with the assistance of the Commission, and AEG.

The Collaborative Design Process would focus on alternatives for improving, expanding and modernizing the convention center, beginning with the criteria developed by the TOS and amplified by recommendations from AEG. In addition, the architects would be directed to provide design alternatives with and without the reservation of a hotel site on City property.

It is expected that the architectural teams would provide a total of six design concepts, two from each architectural team. Submissions would include architectural models, 3-D renderings, site plans, floor plans, exterior elevations, cost estimates, phasing plans, and a design and construction schedule. Construction costs would be targeted between \$250 million and \$350 million, with a not-to-exceed amount of \$350 million.

In addition, the architectural teams would provide an urban design analysis related to connectivity and hotel demands and opportunities to ensure that designs consider connectivity between the Convention Center, the Sports and Entertainment District, South Park, Pico Union, and greater Downtown.

The purpose of this Collaborative Design Process is to provide options for the Council and Mayor to consider with regard to expansion and modernization of the Convention Center. These options will consider LACC functionality and service, connections to the community, and cost feasibility.

With regard to the specifics of this project, this approach:

- Capitalizes on extensive staff work to date analyzing prospects for the LACC;
- Incorporates work completed by the Urban Land Institute;
- Takes advantage of previously approved authorities;
- Allows for review of design alternatives;
- Expedites design using the City's procurement procedures, ensuring compliance with contracting rules;
- Incorporates procedures to ensure that local firms participate in the project;
- Provides for analysis and design of campus-wide linkages and connectivity to improve the visitor experience; and
- Retains the timely development of designs for expansion and modernization of the LACC.

To facilitate this process, the CLA and CAO would lead the design competition, with support from AEG, the Commission, the City Attorney, BOE, Planning, and EWDD. This approach ensures that all City agencies with a role in this project can dedicate their resources to the process and facilitate solutions.

Concurrent Study

During the Collaborative Design Process, City staff will obtain and prepare various studies necessary to report on the expected outcomes of this project. These reports include:

- An analysis of economic impact and job creation to provide insight into the effects of the alternatives on the local economy;
- An analysis of incremental tax revenues generated by the project;
- Financial and bond counsel will provide insight into financing options for the project;
- Existing project entitlements will be evaluated to determine whether they can support the alternative development scenario;
- Existing agreements related to STAPLES, Gilbert Lindsay Plaza, parking facilities, signage, and other relevant project elements will be reviewed; and
- An evaluation of private uses and revenues that could be generated to support the project.

DESIGN REVIEW

A review panel designated by Council will be assembled to evaluate the submissions of the architectural teams. In addition, models and drawings will be displayed for the public to review and comment on the submissions. This will also provide an opportunity for the Council and Mayor to review the submissions. In addition, the review panel will seek input from the Board of Los Angeles Convention and Tourism Department Commissioners, the Los Angeles Convention Center and Exhibition Center Authority Commission, the City Planning Commission, the Cultural Affairs Commission, and the Board of Public Works. Additional details concerning the design review will be prepared and reported prior to the submission deadline.

PROCESS OUTCOMES

By the end of the six month extension period the City will have had sufficient information on whether to move forward with the original deal as outlined in the IA. If no progress has been made between AEG and the NFL, the Council will have architectural designs and data that would inform further action on LACC expansion and modernization. By the end of the six month period, City staff will report back with necessary information for the Council to consider in deciding the best alternative plan. More specifically, the Council will have answers to the following questions:

1. What does the design of the project look like?

As a highly visible civic building that serves local and regional residents, as well as visitors from across the nation and around the world, the LACC should represent the City's best ideas, while providing functionality and quality of life improvements to the immediate and adjacent neighborhoods. The designs for the facility, then, should provide for an integrated campus and improved connectivity among the Convention Center facilities and with the surrounding community, including the Sports and Entertainment District, South Park, Pico Union, and greater Downtown.

2. What is the proposed financing plan?

The financing plan will address approximate project costs, including construction budget costs, risk assumptions and source of funds. Details will be provided on the proposed debt structure, an analysis on taxable versus tax-exempt debt, term for the proposed bonds, assumed interest rates, etc. This will be a preliminary financial plan. Final costs will not be known until a construction contract is awarded and the bonds are issued. In developing the finance plan, the City will also study the potential for net new General Fund tax revenues generated from each alternative.

3. What is the proposed cost to the City and private use opportunities?

This analysis will determine whether there are any private use opportunities on the site, potential revenues that could be generated through such use, impacts on the General Fund, and other factors. Creating such a partnership may allow for an opportunity to fund a portion of the expansion and modernization project.

4. What is the proposed project timeline?

The convention industry, and potential and existing clients have been following closely the City's activities as it relates to expanding and improving the Convention Center facility. Clients are making decisions based on construction schedules and project completion deadlines. Therefore, time is of the essence. Furthermore, market interest rates are at historical lows. It is uncertain how long the market can maintain such low rates. Timing therefore is a critical factor as it could have significant impacts on costs and the financing structure.

5. How does the proposed design address large convention needs as it relates to exhibit space, ballroom, meeting room space, etc.?

The new design must provide a minimum of equivalent functionality, and must provide the necessary exhibit, meeting room and ballroom spaces that would enable the Convention Center facility to compete for large conventions. If the City's goal is to compete as a top tier convention center there are certain design elements that must be satisfied. As equally critical, the City must be able to balance its facility's needs with the overall financial plan for the City. This also requires that the Council take action in developing a priorities list for all capital improvement projects, including the Convention Center facility.

6. How does the proposed project address needs related to the City's hotel capacity?

The City has a goal of increasing hotel room space to ensure that the City remains competitive with other convention cities in California, indicating a need for at least 8,000 rooms in walking distance of the LACC by 2025. Currently, a factor that hinders the City from competing as a top tier facility is the lack of hotel capacity within walking distance of the Convention Center facility. This coupled with the need to improve the public transportation system, makes it difficult to compete with San Francisco or Chicago. Therefore, the plan to address hotel capacity within walking distance is critical for developing a top tier facility and requires a long term strategic plan that encourages hotel development and growth within Downtown Los Angeles.

Attachment A

**AEG Letter of
September 29, 2014**