

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: October 29, 2020

TO: Honorable Members of the City Council

FROM: Sharon M. Tso *SM TSO* Council File No. 15-1207-S1
Chief Legislative Analyst Assignment No. 20-10-0927

SUBJECT: Status of the Los Angeles Convention Center Expansion Project

SUMMARY

In December 2018, the City Council authorized the Chief Legislative Analyst (CLA) to negotiate with Anschutz Entertainment Group (AEG), and subsequently the AEG Plenary Convention Los Angeles, LLC (APCLA), to provide terms for agreements necessary to expand the Los Angeles Convention Center (LACC) (LACC Expansion Project or Project), as well as a complementary private proposal by AEG to expand the existing JW Marriott Hotel at LA Live, under the terms of an Exclusive Negotiating Agreement (ENA).

On February 26, 2020, the CLA released a report (February 2020 Update) detailing the City's negotiations to expand and modernize the LACC and to provide operations and maintenance services on the LACC campus. The February 2020 Update outlined expansion options for Council's consideration that would have provided up to 190,000 square feet of additional contiguous exhibit hall space; up to 55,000 square feet of additional meeting room space; and up to 95,000 square feet of multi-purpose space. The February 2020 Update recommended the negotiation of an Early Works Agreement (EWA) that would accelerate the Project schedule by eight months and save an estimated \$70 million in costs over the life of the Project. This report is pending before the Economic Development Committee.

The onset of the Coronavirus Pandemic in March 2020 drew an immediate halt to operations at the LACC, and altered the direction of negotiations regarding the LACC Expansion Project. The EWA as proposed is no longer a practical option for the parties to pursue and there may be other impacts to the financial structure of the deal that need to be evaluated. The City and APCLA will continue to negotiate in an effort to provide Council with a viable scope and schedule for the LACC Expansion Project at a future date, however, negotiations are dependent upon a resolution to the Coronavirus Pandemic and better information concerning the economics of the convention business.

The ENA between the City of Los Angeles and AEG, and subsequently APCLA, was extended on July 7, 2020 by mutual agreement of the Parties under the terms of the ENA for an additional 180 days, ending on January 9, 2021. This was the final extension option available under the ENA. If the Council wishes to continue negotiations with APCLA beyond January 2021, we recommend that the Council authorize the execution of an ENA Extension.

RECOMMENDATION

That the City Council authorize the Office of the Chief Legislative Analyst, with the assistance of the City Attorney, to negotiate and execute an extension to the Exclusive Negotiating Agreement with AEG Plenary Convention Los Angeles, LLC for the expansion of the Los Angeles Convention Center for a period of one (1) year, from January 10, 2021 to January 9, 2022, with two (2) optional mutual extensions of one hundred and eighty (180) days each.

BACKGROUND

On November 23, 2016, Motion (Price-Wesson) was approved to authorize the CLA to evaluate a public-private partnership development (P3) proposed by AEG to expand the LACC, as well as a complementary private proposal by AEG to expand the existing JW Marriott Hotel at LA Live. On December 12, 2018, the City Council approved CLA recommendations to, among other actions, authorize the Mayor to execute an ENA between the City of Los Angeles and AEG providing terms for agreements necessary for the expansion of the LACC.

AEG would serve in the role as Developer, with Plenary Group as a partner, under a P3 design-build-finance-operate-maintain (DBFOM) development agreement, whereby for a term of 30 years after completion of construction, they would receive annual payments from the City to recoup its investment in the LACC Expansion Project. Payments are subject to deduction if the agreed-upon performance standards set by the City in the development agreement are not met. AEG and Plenary have since formed a partnership, APCLA, which was named as a Contracting Party to the ENA by Council's action of July 2, 2019. Populous, the architecture firm previously selected by the City to design the LACC expansion as a City-directed project, has been retained by APCLA to remain as architect for this iteration of the LACC Expansion Project.

On February 26, 2020, the CLA released the February 2020 Update detailing the City's negotiations to expand and modernize the LACC, and provide operations and maintenance services on the LACC campus. The February 2020 Update outlined expansion options for the Council to consider that would have provided up to 190,000 square feet of additional contiguous exhibit hall space; up to 55,000 square feet of additional meeting room space; and up to 95,000 square feet of multi-purpose space.

The options included in the February 2020 Update, if adopted, could have resulted in a Target Budget with a potential annual funding gap of between \$5 million and \$9 million, reliant upon the execution of an EWA between the City and APCLA. The EWA was intended to provide design development and pre-construction services prior to the Project's Financial Close, accelerating the Project schedule by eight months and saving an estimated \$70 million in costs over the life of the Project. As proposed, the EWA would have been executed in May 2020. This report is pending before the Economic Development Committee.

Effects of the Coronavirus Pandemic

Subsequent to the release of the February 2020 Update, the onset of the Coronavirus Pandemic in March 2020 drew an immediate halt to operations at the LACC, and altered the direction of negotiations regarding the LACC Expansion Project. Without a determinate end to

Pandemic-related restrictions currently in place, it is unknown when negotiations could be finalized and construction could begin on the Project. Further, with the international economy reeling from the effects of the Pandemic, the financial assumptions made in the February 2020 Update require reexamination before any Project is agreed to between the parties.

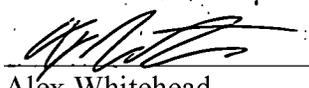
Due to these complications, the EWA as proposed in the February 2020 Update, which was intended to provide benefits to the construction schedule of the Project, is no longer a practical option for the parties to pursue. The effect of the Pandemic has been to stop all work on project design and limit negotiations to the final contractual elements of the deal. And while the Pandemic significantly curtailed any progress with negotiations for final terms to implement the LACC Expansion Project, the time constraint within the ENA remains intact.

Extension of ENA

The ENA between the City of Los Angeles and AEG, and subsequently APCLA, was extended on July 7, 2020 by mutual agreement of the Parties under the terms of the ENA for an additional 180 days, ending on January 9, 2021. This was the final extension option available under the ENA. If the Council would like to continue negotiations with APCLA beyond this date, we recommend that the Council extend the ENA for one full year, from January 10, 2021 to January 9, 2022, with the option to implement two 180-day extensions upon mutual agreement of the parties. Since there is no clear understanding of when the Coronavirus Pandemic will be resolved, this extension will allow the City and APCLA to remain under contract until such time as there is greater certainty in the economy, the convention business, and the City's financial capacity.

LACC Project Reevaluation

The Council authorized \$5 million in funding for consulting services related to the Project in November 2018 (LACC Consulting Funds). Once there is greater certainty as to when the Coronavirus Pandemic impacts will abate, the City will engage its consultants to prepare an updated financial analysis of the LACC Expansion Project. The City has retained Ernst and Young (E&Y) to provide financial advisory services with various subcontractors who specialize in commercial elements relative to the Project. E&Y will provide the City with an updated evaluation of the costs and expected revenues of the Project in light of the new economic environment. Funding has been reserved from the LACC Consulting Funds to ensure that E&Y can conduct the necessary financial analysis of both the economy and the LACC Expansion Project.



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