

Communication from Public

Name: Stuart Marks
Date Submitted: 12/11/2023 10:48 AM
Council File No: 15-1207-S1
Comments for Public Posting: APCLA Response to CLA/CAO Staff Report: "Status of the Los Angeles Convention Center Expansion Project" dated December 4, 2023

Date: December 11, 2023

To: Trade, Travel and Tourism Committee

From: AEG Plenary Conventions Los Angeles LLC (“APCLA”)

Subject: Comments on CLA/CAO Staff Report: “Status of the Los Angeles Convention Center Expansion Project” dated December 4, 2023 (“2023 Report”)

Summary:

The 2023 Report inaccurately reports the cost of the LACC Expansion under the P3 option because it fails to incorporate APCLA’s February 2023 updated P3 numbers for the Report (as City staff had indicated they would do when the updated proposal was requested from APCLA). If City staff had incorporated APCLA’s updated proposal, the cost of the P3 would be \$4.6 billion over 30 years or an average of \$154 million annually (with a net General Fund impact of \$43 million annually). This is compared to a Non-P3 project which the CLA claims would cost \$4.8 billion over 30 years or \$159 million annually (with a net General Fund impact of \$48 million annually).

APCLA’s P3 proposal includes a detailed financial model with comprehensive cost inputs for all aspects of the project over the full life of the project. These inputs are based on a combination of independent sources, historical performance, market input and industry benchmarks including a detailed construction cost estimate which has been independently vetted by City staff and its consultants. In contrast, no detail is provided in the CLA’s 2023 Report substantiating the purported cost of the Non-P3 option.

Under the P3 option, the LACC Expansion can be delivered by the end of 2027, in time for the LA 2028 Olympic and Paralympic Games. APCLA had already developed a comprehensive plan in consultation with the City during the initial ENA phase. This plan was last updated by APCLA in June 2023 and it can be further updated showing completion of the LACC Expansion in time for the LA 2028 Olympics provided the City makes a decision to proceed under the amended and restated ENA by January 2024. In contrast, the City has not shared any details as to how or by when it could deliver the LACC Expansion project under a Non-P3 method nor has it identified which Non-P3 method the City would use (it has only stated the City *may* use a CM-AR approach).

Given the years of predevelopment work that APCLA and the City have already done on the P3 option relative to no work having been started on the Non-P3 option (despite the 30% Schematic Design Package produced by APCLA potentially being available to the City) and given the time frames typically associated with City delivered projects (as evidenced below), the only realistic way that the LACC Expansion project can be delivered in time for the LA 2028 Olympics is through a P3 option. If construction of the project is delayed until after the 2028 Olympic and Paralympic Games (which is the only realistic option under a City delivery method), the project would be subject to significant construction cost escalation, along with material and potentially irrecoverable loss of the national and international conventions market.

Under the P3 option the City transfers significant risk and responsibility to APCLA including the risk of cost overruns, the risk of schedule delays and responsibility for operating and capital renewal cost overruns and risks related to deferred maintenance. Unlike the P3, all of these risks are retained by the City under a Non-P3 (CM-AR) delivery method. Recent City projects delivered under a traditional (Non-P3) delivery model experienced cost overruns of 32% to 44% and schedule delays of 7% to 76% (LAPD Headquarters Building and Sixth Street Viaduct). This is compared to projects delivered under a P3 model which experienced 0% cost overruns and 0% delays for the public owners.

CLA/CAO reversed their position between the 2020 Report (where they stated that traditional delivery could result in a more expensive project than a P3 after taking risks to the City into account despite a 10% P3 premium), and the 2023 Report (where they state that the P3 is \$1.7B or 35% more expensive than traditional and suggest that there is more risk to the City under a P3 than under a traditional delivery), despite there being no material design work, site investigation work, or estimating/scheduling work and despite there being no changes to the proposed risk allocation since the 2020 Report. The CLA warned Council in its 2020 Report “*If Council wishes, City staff could further explore a Traditional Delivery [i.e Non-P3] option, but it would come associated with significant risks and delays.*”

A more detailed commentary on the CLA’s 2023 Report is set forth below and supported in the attachments to this note.

Outdated/Unsubstantiated Cost Analysis:

- The CLA’s 2023 Report states that the cost of the P3 (using City’s own estimates, not APCLA’s proposed numbers) would be \$6.5 billion over 30 years or an average of \$215 million annually (with a net General Fund impact of \$103 million annually after accounting for revenues) compared to a Non-P3 project which the CLA claims would cost \$4.8 billion over 30 years or \$159 million annually (with a net General Fund impact of \$48 million annually).
- If the City had incorporated APCLA’s February 2023 updated P3 numbers for the Report (as City staff had indicated they would do when the updated proposal was requested from APCLA), the cost of the P3 would be **\$4.6 billion over 30 years** or an **average of \$154 million annually** (with a **net General Fund impact of \$43 million annually**). See below and attached for further detail on APCLA’s February 2023 proposal.
- Under the P3 option, APCLA has produced detailed construction cost estimates as part of the Schematic Design Plus package that were fully vetted by the City and the City’s consultants. Most recently as February 2023, at the request of City staff APCLA provided a detailed financial model with comprehensive cost inputs for all aspects of the project over the full life of the project. While these are not yet committed numbers (as per the agreed process with the City in the ENA), these are based on a combination of independent sources, historical performance, market input and industry benchmarks rather than “*best guess*” estimates as suggested in the 2023 report.
- By contrast, no detail whatsoever has ever been provided on the proposed Non-P3 option other than a statement in the CLA’s 2023 Report that it is a “*high-level*” scenario “*with inputs from the Bureau of Engineering (BOE) and CTD*”.

Path Ahead to 2028 Olympic and Paralympic Games:

- APCLA has produced a detailed plan showing that the LACC Expansion can be delivered by the end of 2027, in time for the LA 2028 Olympic and Paralympic Games. The plan was first developed in consultation with the City during initial ENA phase and was last updated in June 2023 based on a decision by the City to restart project under the ENA in September 2023. This plan can be updated to still ensure completion of the LACC Expansion in time for the LA 2028 Olympics provided the City makes a decision to proceed under the amended and restated ENA by January 2024.
- The City has not shared any details as to how or by when it could deliver the LACC Expansion project under a Non-P3 method nor has it identified which Non-P3 method the City would use (it has only stated the City *may* use a CM-AR approach).
- Given the years of predevelopment work that APCLA and the City have already done on the P3 option relative to no work having being started on the Non-P3 option (despite the 30% Schematic Design Package produced by APCLA potentially being available to the City) and given the time frames typically associated with City delivered projects (as demonstrated below), the only realistic

way that the LACC Expansion project can be delivered in time for the LA 2028 Olympics is through a P3 option.

- If construction of the project is delayed until after the 2028 Olympic and Paralympic Games (which is the only realistic option under a City delivery method), the project would be subject to significant construction cost escalation, along with material and potentially irrecoverable loss of the national and international conventions market.

CLA's 2023 Report is inconsistent with the CLA's 2020 Report:

- CLA/CAO reversed their position between the 2020 Report (attached for ease of reference) (where they stated that traditional delivery could result in a more expensive project than a P3 after taking risks to the City into account despite a 10% P3 premium), and the 2023 Report (where they state that the P3 is \$1.7B or 35% more expensive than traditional and suggest that there is more risk to the City under a P3 than under a traditional delivery)
 - 2023 Report claims that the LACC Expansion costs \$6.5 billion over 30 years under a P3 compared to \$4.8 billion in a Non-P3.
 - In the February 2020 Report (“2020 Report”) issued by the CLA, the CLA states that the CAO estimates the cost premium for the P3 to be 10%.

*2020 Report, p.13 “As an alternative to continuing with the P3, if the City were to change course and instead choose to expeditiously develop the Project using a traditional method, the CAO has estimated that it could potentially reduce the overall projected cost of delivery, operations, maintenance and ownership of the Project by **approximately 10%.**”*
 - 2020 Report goes on to acknowledge that while the baseline numbers show a lower cost for traditional delivery, factoring in the value of greater risks retained by the City under a traditional method could make the P3 more cost effective:

*2020 Report, p.13 “However, this [traditional method] would expose the City to cost risks across project phases that could outweigh any potential savings of a traditional approach, **and possibly result in a more expensive project.**”*
- As the 2023 Report states, “no serious design work, site investigation work, or estimating/scheduling work” has been conducted since 2020. Furthermore, no changes have been made to the proposed risk allocation between the City and the Developer since the 2020 Report. On what basis, therefore, has the CLA and CAO changed their position between 2020 and 2023 from traditional being more expensive than P3 after accounting for project risks to a P3 being \$1.7 billion or 35% more expensive than non-P3?

Why didn't the City use APCLA's updated P3 proposal that was provided, at the City's specific request, in February 2023?

- 2023 Report uses City's own “conservative, high level” numbers for the P3 option despite having received an updated set of numbers from APCLA for the P3 option in February 2023.
- The reason given by the City for not using the Feb 2023 numbers is “because it did not benefit from meaningful or recent cost estimating, or design or planning work to validate cost reductions, the City did not have a basis to believe this level of cost reduction can be achieved **without ultimately impacting project scope** or the City taking significantly more risk”. This is difficult to understand for the reasons set out below.
- 2023 Report fails to note the following in relation to APCLA's updated P3 proposal:
 - City requested that APCLA provide updated P3 proposal on February 15, 2023 and told us we had to provide them by February 28, 2023 (less than two weeks) or they would not

be considered. This clearly did not leave any time for any re-design or revised cost estimation. Furthermore, no re-design or revised cost estimation was necessary because there was no change to project scope only adjustments to the assumptions as set out below, including construction cost escalations as directed by the City.

- City gave APCLA explicit instructions on the assumptions it wanted us to update and told APCLA to provide an updated financial model together with a short document explaining the updated assumptions and that “*no other information is required at this time*”. (See attached email from City with attachment “LACC: updated P3 assumptions”).
- APCLA responded as requested on February 28, 2023 with a fully updated P3 financial model and a seven page explanation of the updated assumptions (see attached APCLA Updated P3 Proposal).
- APCLA’s February 2023 proposal included:
 - The full scope of the project as designed was included in the updated assumptions (without any value engineering or scope reduction items) as specifically requested by the City (i.e. there was no impact to project scope)
 - APCLA increased the cost of construction by applying a 24.38% construction cost escalation rate in accordance with disclosed rates from 2020 to 2024 to account for the significant construction cost escalation experienced in the market (again, there was no reduction in project scope)
 - Reduced private financing costs (including reduced APCLA development fee in real terms)
 - Reduced fees to APCLA for administering and managing the delivery of the project through both construction and operations based on a leaner management structure
 - APCLA offer to subordinate payment of its management costs (i.e. no payment of management costs until debt service is fully paid) which facilitates a more cost-efficient financing structure and lower Availability Payment (this puts more risk on APCLA, not the City)
 - Removal of the assumed 3-year Lifecycle Reserve account typically required by lenders but removed by APCLA on the basis of Plenary’s AAA rated parent company’s willingness to provide financial support of APCLA’s operations, maintenance and lifecycle replacement obligations
 - Reduced insurance premia based on feedback from APCLA’s insurance broker reflecting current market conditions (which have improved considerably) and accounting for property insurance being carried by the City as previously advised by the City
 - Reduced “transition costs” (i.e. costs of transitioning from construction to operations) based on APCLA being able to use the existing fleet of vehicles (indoor carts, outdoor vehicles, zoom booms and scissor lifts) rather than having to purchase a new fleet and based on APCLA being able to use the LACC’s existing operations and maintenance tools and equipment rather than buying new ones
 - 21% reduction in assumed operating costs for both the existing LACC facilities and for the expansion facilities based on ASM Global’s revised FY2024 budget with improved assumptions on economies of scale across the expanded facility (NB: City staff and their advisors had been pushing APCLA to take a more

aggressive assumption on these economies of scale during prior negotiations and discussions)

- 18% reduction in lifecycle replacement cost assumption for the new expansion scope based on improved assumptions on economies of scale (NB: City staff and their advisors had been pushing APCLA to take a more aggressive assumption on these economies of scale during prior negotiations and discussions)
 - 2.5% reduction in lifecycle replacement cost assumption for the existing South and West Halls based on the existing condition and age of these assets (West Hall built in 1971 and South Hall added in 1993)
 - **Express confirmation that APCLA’s updated P3 proposal contained the full design and construction scope of the project and was based on the same operations, maintenance and lifecycle risk regime as proposed in the CLA’s March 2020 Report.**
- APCLA submitted its update P3 assumptions to the City at 1.45 PM on February 28, 2023 as requested along with an offer *“We will make ourselves available as required to answer any questions and provide further information”*. At 1.58 PM on February 28, 2023 APCLA received a response from CLA as follows *“Much appreciated. We’ll follow up with you”*.
 - Over six months elapsed between APCLA’s timely submission of the requested P3 update in February 2023 and completion of the City’s 2023 Report, yet APCLA never received any follow-up questions or requests for additional information regarding its proposal or the assumptions contained therein. APCLA repeatedly sought the opportunity to understand what assumptions were being made to inform the City’s comparison of P3 and non-P3 delivery methods, but was not given any opportunity between submission of its updated February proposal and completion of the Report to review and comment on those assumptions and the conclusions set forth in the 2023 Report.
- If the City had incorporated APCLA’s updated P3 assumptions into its Report, as it told APCLA that it was going to do in February 2023, the results would have been as follows:

LACC Payment Analysis (2023 Staff Report)

All amounts below are expressed in millions.

Delivery Model	Feb 2020		Nov 2023		Nov-23		Non-P3 (CMAR)	
	P3 (City 2020 Report)		P3 (City 2023 Report)		P3 (APCLA Proposal)		Non-P3 (City 2023 Report)	
Operating Term	30 years		30 years		30 years		30 years	
Construction Cost (\$M)	-1,100		-1,500		-1,218		-1,400	
	Total	Annual	Total	Annual	Total	Annual	Total	Annual
(A) LACC Net Operating Revenues	2,200	73	2,800	92	2,800	92	2,800	92
(B) LACC Expansion Project Cost (\$M)	-4,100	-137	-6,500	-215	-4,616	-154	-4,800	-159
(C) General Fund Impact (A+B)	-1,900	-64	-3,700	-122	-1,816	-62	-2,000	-67
(D) Incremental Tax Contributions	500	17	600	19	600	19	600	19
(E) Net General Fund Impact (C+D)	-1,400	-46	-3,100	-103	-1,216	-43	-1,400	-48

2023 Report but does not provide any detail on the numbers used for the Non-P3 (CM-AR) option, does not provide any meaningful detail on how it would be delivered and does not accurately describe the risks to the City associated with the Non-P3 (CM-AR) option

- 2023 Report does not specify with certainty which delivery method it would use for the Non-P3 option, it merely states that CM-AR *may* be appropriate.
- 2023 Report provides no supporting numbers, calculations or assumptions on how it arrived at its project cost estimate under a Non-P3 (CM-AR) approach.

- 2023 Report does not disclose or quantify any of the risks associated with the City delivery (CM-AR) approach. In particular:

- With the CM-AR and other traditional delivery methods, all risk lies with the Owner (i.e. the City) in respect of design errors, omissions, and potential construction change orders for missed scope and differing conditions. Resultant cost overruns on largescale public projects delivered by the City and other public agencies around the country have been well documented and history shows that final costs on largescale public projects have exceeded budgets by significant amounts.

See attached examples of cost overruns and schedule delays on recent City projects delivered using a traditional delivery model (Sixth Street Viaduct Replacement Project and the LAPD Headquarters Building) compared to projects that Plenary has delivered recently in California under the P3 delivery model. Note that all the information for the Sixth Street Viaduct Replacement Project and the LAPD Headquarters Building was sourced from the Council file including reports from the CAO and Budget and Finance Committee.

As the attached examples show, **recent City projects delivered under a traditional delivery model experienced cost overruns of 32% to 44% and schedule delays of 7% to 76%**. This is compared to projects delivered under a P3 model which experienced **0% cost overruns** and **0% delays** for the public owners.

- As stated by CLA in the 2020 Report (p.13) in relation to a traditional City delivery method:

*“As well, the **project completion date would likely be delayed** for another year at a minimum and, as result, the **City would also be exposed to construction inflation cost increases**. For example, the **City would not benefit from the certainty of a fixed-price design-build contract contained in the P3**. Over the long term, **City would also retain responsibility for operating and capital renewal cost overruns and risks related to deferred maintenance** on the new, modernized and un-modernized existing facilities.*

If Council wishes, City staff could further explore a Traditional Delivery [i.e Non-P3] option, but it would come associated with significant risks and delays noted above.”

As confirmed in APCLA’s February 2023 updated assumptions, these risks would be transferred to APCLA under a P3 but retained by City under a traditional method. Why didn’t the 2023 Report disclose these material risks to the City under a Non-P3 (CM-AR) delivery method?

Also, the statement in the 2023 Report (p.14) in relation to the DBFOM P3 Option with APCLA that under a P3, APCLA would provide a “*project management*” service for the City fails to also say that under a P3, APCLA assumes significant and material risk associated with cost overruns and schedule delays which far outweigh the 10% P3 risk premium noted above.

- Based on the historic record of City projects, the City should be assuming on average **30% construction cost overruns** and **40% delay in schedule completion** for the traditional method.

What cost overrun and schedule delay assumptions did the City use in the 2023 Report coming up with their cost and schedule estimates for Non-P3 (CM-AR) delivery method?

- 2023 Report states (p.16), in respect of the P3, that *“there are multiple reasons for the City to be concerned that the prospects of meaningful risk transfer or for any valuable performance guarantees are unlikely”*. In particular, the Report identifies three concerns (1) connecting the new expansion over Pico Boulevard to the existing legacy buildings at South Hall and West Hall; (2) the Project Agreement contains dozens of “Relief Events”; and (3) cost and performance risk for the existing aged assets.

Each of these is addressed as follows:

- (A) **Expansion structure over Pico Boulevard:** the expansion structure over Pico Boulevard was intentionally designed as a standalone building through the use of new expansion joints so that it would be structurally independent from the legacy buildings at South Hall and West Hall and will not, therefore, require intricate shared capital components as suggested by CLA. See attached diagrams showing the simplicity of the new expansion joints. It is noted that the City would be retaining the entire risk of the connecting the new expansion to the legacy buildings under a Non-P3 (CM-AR) approach.
- (B) **Relief events:** Relief events or excusable delays are standard in all P3 *and non-P3 (CM-AR) construction contracts* to protect the contractor from delays caused by factors outside the control or management of the contractor. The proposed relief events include: failure by the City to perform its obligations, City directed changes, City caused delays, earthquakes, terrorism, delays caused by third party utility owners and latent structural defects in the existing structures. It is noted that the City would retain all of these risks and more under a Non-P3 (CM-AR) approach.
- (C) **Cost and performance risk for existing assets:** The proposed risk allocation is very clear in that the P3 developer and contractor would be responsible for all of the work that they do on the new expansion and the modernization of the existing facilities including anything that they “touch” in doing that work. The City would retain responsibility for anything in the existing facilities that is not being upgraded or modernized. This is consistent with standard risk allocation in P3 and non-P3 (CM-AR) delivery methods. See attached diagram showing the campus modernization elements that the P3 developer would be responsible for building and maintaining.

2023 Report inaccurately reports the time required to develop a comprehensive development plan under P3 versus non-P3.

- 2023 Report proposes in its Recommendations (pp.5-6) that it would take the same time (60 days) to provide a comprehensive plan for a City managed delivery model as it would to provide a comprehensive plan for a P3 project delivery. This is inaccurate and unrealistic.
- The CLA’s 2023 Report states that *“advancing the Non-P3 Scenario will require the Bureau of Engineering to confirm a recommended delivery method for a City-funded construction contract; to plan the City’s costs and strategy for detailed design development, site investigation work and other preconstruction services; and to prepare various other deliverables required for Council approval in order to commence a Non-P3 Expansion Project”*. This would likely take several months and cost millions of dollars for the City and its consultants to prepare whereas all of this has already been completed for the P3 option and would only need to be refreshed.
- **APCLA and the City have already developed a comprehensive and detailed plan for the delivery of the project using a P3 delivery model.** As noted in the 2020 Report (p.5): *“The City and APCLA have been negotiating a potential agreement regarding development of the LACC since execution of the ENA [i.e. Jan 19, 2019]. During negotiations, the parties have worked to finalize a development plan, complete schematic designs and additional design development documents, develop a finance plan, and determine an operations and maintenance (O&M) program”*.

The development plan was most recently updated in June 2023 which shows a development period of less than a year from the City Council's decision to proceed to financial close and ability to start construction (see attached "LACC Expansion Restart Schedule"). This plan took several months to develop and can easily be updated by adjusting the start date. In particular, this P3 development plan could be updated to ensure the LACC Expansion was completed by the end of 2027 in time for the LA2028 Olympics provided there is a decision by the City to continue negotiations with APCLA under an amended and restated ENA by January 2024. This would require the City to undertake a package of early works as proposed by APCLA and referenced in the 2023 Report (Attachment A, p.5).

- It is unrealistic to expect that the City could develop a similarly comprehensive plan for a City delivery model given (1) the City hasn't yet decided which City delivery model they would use (it may or may not be CM-AR); (2) they do not have a well developed plan to start from (and may be starting from scratch); (3) they have not yet procured a construction manager and so would be developing the plan without input from the firm ultimately responsible for delivering it.

Development Costs under P3 versus Non-P3:

- The 2023 Report states that the development costs (detailed design development, site investigations and other preconstruction work) and additional consultant costs would be the same under both the P3 and Non-P3 scenarios and this cost is estimated at \$65 million (\$50 million development costs plus \$15 million consultant costs).
- While no detail has been provided on these costs, costs under the P3 option are expected to be materially less than the Non-P3 option because of (1) the considerable work done to date by APCLA; (2) the expectation that design would need to be developed to a higher degree for pricing under a Non-P3 (CM-AR) (typically 100% design development or construction drawings) than under a P3 (schematic design plus or 50% design development); (3) the City would not have access to the APCLA development team (dozens of individuals) whose time is only recoverable if the project is successfully closed as opposed to City consultants who are paid by the hour.
- The 2023 Report states that the City has paid \$6.275 million in consultants and requests an additional \$1 million (total of \$7.275 million) to complete a 60 day report. In contrast, APCLA has produced specific, detailed deliverables, including a detailed set of enhanced schematic design documents, site and facility condition due diligence reports, a detailed financial model, an operations and maintenance program and a comprehensive entitlements package with revenue-generating signage opportunities for LACC for less than the City's current spend on consultants.
- In particular, APCLA has incurred in the order of \$2 million in securing entitlements on behalf of the City for the LACC Expansion. These costs have been (and continue to be) incurred by APCLA in good faith and with the City's knowledge from 2019 through the present (including after the ENA expired). The LACC expansion project would not be able to proceed under any delivery model had APCLA not incurred these costs and it would be unfair for the City not to reimburse APCLA for these costs in the event that it proceeds with a non-P3 option.

Other inaccurate statements in the 2023 Report:

- **Flexibility under P3 method:** while the 2023 Report correctly states that dynamic nature of the convention industry necessitates a level of flexibility at the convention center including future upgrades, it incorrectly states that a P3 requires rigidity. The P3 contract contains express provisions for the City to make changes to the facility or its operations through a defined change order process with pre-agreed parameters for ensuring competitive and transparent pricing (including permitted markups and other pricing terms).

Under the draft P3 Project Agreement developed by the City and APCLA under the ENA, the only restrictions on the City's ability to require a change would be where such change would result in a

breach of law, require a new governmental approval which could not reasonably be obtained, cause any insurance policy protecting the convention center to be voidable or which would materially and adversely affect the health or safety of any person.

As an example of the flexibility under a P3 to meet the dynamic future needs of the convention industry, Plenary completed the \$1.4 billion Melbourne Convention & Exhibition Center for the Government of Victoria under a P3 delivery model in 2009 and then completed a \$350M expansion to the Center in 2018 under the terms of the P3 contract: www.mcec.com.au

- **P3 performance regime:** the 2023 Report states (p.16) that *“the more rigid and expensive performance regime of a P3 is not expected to affect the LACC customer sentiment, meaning that revenues generated by the LACC are not expected to be any higher under a P3 compared to a Non-P3”*. It is entirely up to the City to propose its preferred level of performance regime for the operation of the convention center and APCLA will provide full and transparent pricing with backup information on staffing levels required to meet the City’s preferred performance regime. During the ENA phase, APCLA repeatedly pressed the City to provide the City’s proposed performance regime for the operations and also provided examples of performance regimes from other convention center projects. To date, the City has never provided APCLA with its preferred performance regime.

At a minimum, APCLA is undertaking to provide the same level of service as is currently provided by ASM Global under the existing management contract together with a commitment to ensure the expansion and modernization elements are properly maintained to avoid the deferred maintenance issues that currently exist.

As noted by the CLA in the 2020 Report (p.9): *“[Under the P3], Developer will be held to performance standards that will be quantifiable and objectively measured. These performance standards will be specified and developed by the City and priced by the Developer as part of the APO [i.e. P3] costs, and the Developer is then “at-risk” of meeting these standards. Because the [Availability Payment] is agreed upon and fixed at financial close, the Developer is responsible for the risk of cost overruns on the new and modernized facilities. Failure to perform, or causing the facilities to become unavailable for use, will result in a deduction to the [Availability Payment], which incentivizes the Developer to meet performance standards”*.

- **Fees, Profit Margins, Reserves, Contingencies and Cost Premiums:** the 2023 Report inaccurately and unfairly states (p.13) that *“Project costs are expected to be materially lower for the City in a Non-P3 Scenario, for the same scope of construction work, primarily due to the lower cost of a public financing compared to the high cost of private equity and private debt, and the layers of increased fees, profit margins, reserves, contingencies, and cost premiums and mark-ups that are inherent throughout the full cost structure of a P3 delivery model”*. This is inaccurate, unsubstantiated and unfair for the following reasons:
 - The 2023 Report does not specify or quantify what these items are so it is difficult to respond to other than to note that all the items are standard in all delivery methods (P3 and Non-P3), APCLA has provided full transparency to the City on all line items including for the 2020 Report (which notably did not include any commentary from the CLA on these items) and are at or below market comparables.
 - As noted in APCLA’s revised P3 update in February 2023, a number of reserves and fees were able to be reduced through the use of Plenary’s AAA rated parent entity and through more streamlined management.
 - The general contractor under a non-P3 (CM-AR) method would carry the same or similar level of design contingency costs as under a P3. The design contingency amount is typically based on the level of design development and is transferred into specific line

items of construction scope as design is developed (i.e. it does not represent potential savings under either delivery method).

- Most importantly, there is material risk to the City of cost overruns and schedule delays in the Non-P3 (CM-AR) which have not been priced or otherwise accounted for by the CLA. As shown above, based on recent historic performance of the City on City delivered projects the City should expect **30% construction cost overruns** and **40% delay in schedule completion** on City delivered projects. In contrast, the risk of construction cost overruns and schedule delays is transferred to the P3 entity for a **P3 cost premium of approx. 10%** (as stated by the CLA in the 2020 Report).
- As referenced above, the CLA noted in the 2020 Report: ***“If Council wishes, City staff could further explore a Traditional Delivery [i.e Non-P3] option, but it would come associated with significant risks and delays noted above”***. It is unclear why the CLA omitted to include a similar warning in the 2023 Report.
- **Cost and benefit of public financing versus private financing:** There is not a material difference between the public and private costs of finance for the convention center and there are material benefits to the City through the use of private finance.
 - As at the time of the February 2023 City’s MICLA debt rate was 5.175% compared to APCLA’s private debt rate of 5.27% (less than 0.1% difference). While interest rates on both MICLA debt and APCLA’s private debt will vary over time, the relative difference between the two is expected to remain constant.
 - APCLA also has experience with various tax-exempt structures that would potentially have a lower rate than the City’s taxable MICLA rate and that APCLA would be willing to consider with the City.
 - APCLA will also contribute its own equity capital to the project so that its own capital is at risk. The repayment and return of this equity capital is not only dependent on the successful completion of the expansion project, but also on the successful long-term performance of the facility (including ensuring there is no future deferred maintenance issues). Equity capital is less than 10% of the total private financing and so does not have a material impact on the cost of the project.
 - The use of private finance means that the City preserves its \$1.6B in debt capacity against the General Fund to be available for other critical City needs (including addressing homelessness).
- **Sole sourced basis of ENA leads to higher price.** This is an incomplete and inaccurate statement. All of the core project elements will be competitively procured or otherwise procured on a transparent and open-book basis subject to city review. In particular:
 - Construction component: APCLA conducted a competitive bidding process to select a general contractor. As noted by the CLA in the 2020 Report (p.5) *“During negotiations, APCLA conducted a competitive bidding process to procure a general contractor... In August 2019, APCLA selected a joint venture between PCL Builders Inc. and Webcor Construction LP (PWJV) to provide construction services”*.

Final pricing will be developed on an open-book basis to ensure competitive and efficient pricing. As noted by CLA in the 2020 Report (p.7) *“PWJV and APCLA will develop a design-build Firm Fixed Price on an open-book basis... that will be incorporated into the Project’s final financial analysis for review and consideration by the City”*.

- Design component: City required APCLA to engage Populous as its architecture firm rather than allowing APCLA to competitively procure these services. City also proposes to engage Populous on a sole source basis under a Non-P3 delivery approach.
- Operations & maintenance component: Under the ENA, City had the option to require APCLA to competitively procure the long-term operations and maintenance component but elected to have APCLA price these services to avoid additional mark up and profit that would likely be required by a third party. APCLA would be happy to competitively procure the long-term operations and maintenance if that is what the City prefers.
- Debt component: The private debt component under the P3 will be privately placed through a *“transparent, competitive process to institutional investors and pension funds”* (see 2020 Report, p.9)

It is also noted as follows:

- The “sole sourced” process outlined above for the P3 option is essentially the same process that would be undertaken by the City under a Non-P3 (CM-AR) approach where the general contractor is selected before a firm fixed price is provided and the final price is developed on an open-book basis.
 - The City elected to work exclusively with APCLA on the LACC Expansion P3 because of AEG’s unique rights and interests in the LA Live campus. These unique rights and interests would continue to apply under a Non-P3 delivery method.
- **LACC is a public not a private asset.** Report sometimes compares the P3 to a Non-P3 and at other times, when convenient to do so, it compares the P3 to a ground lease arrangement, such as Staples Center (now called Crypto.com Arena).
 - Under both the P3 and Non-P3 option, the City retains full ownership of the LACC (including both the existing facilities and the expansion) at all times.
 - It is not appropriate to compare the LACC Expansion to the Crypto.com Arena because the LACC is a city owned public asset (developed for public benefit) and the Staples Center is a privately owned asset (developed for private benefit).
 - Similarly, it is appropriate that the Developer (AEG) is responsible for the majority of development and business risks in the case of the Crypto.com Arena because it is a private asset, whereas it is equally appropriate that the City be responsible for the long-term projected revenues from the LACC because it is a City owned and controlled asset. In particular, the City controls the pricing policy for the LACC so that it can ensure its broader public policy objectives are met which may include providing the LACC on a rent-free basis to community organizations and events, to generate business in the DTLA and broader LA region or to make the space available for other public uses.
 - **No U.S. convention center P3s.** While it is correct that there have not been any convention centers or convention center expansions delivered utilizing the P3 model in the U.S. to date, the 2023 Report fails to also note the following:
 - The following international convention centers have been successfully delivered as P3s (including some by AEG and Plenary): Melbourne Convention & Exhibition Centre (<https://www.mcec.com.au/>), Sydney’s International Convention & Exhibition Centre (<https://iccsydney.com.au/>), Darwin Convention Centre (<https://www.darwinconvention.com.au/>).
 - As noted above, the subsequent expansion of the Melbourne Convention & Exhibition Centre was also delivered under a P3 model.

- Several other large scale and complex public assets have and are currently being delivered in the U.S. using the P3 model (including several by Plenary, PCL and Webcor): University of California Merced 2020 Project (CA) (<https://merced2020.ucmerced.edu/>), Long Beach Civic Center (CA) (<https://plenary.com/project/long-beach-civic-center-redevelopment>), Governor George Deukmejian Court House (CA) (<https://www.courts.ca.gov/facilities-la-longbeach.htm>), Clackamas County Courthouse (OR) (<https://www.clackamas.us/courthouse>) and several others.
- **Level of City Effort under P3 versus Non-P3 method.** The 2023 Report correctly identifies that a certain level of effort will be required by the City for the development and delivery of the LACC Expansion under a P3 delivery model. Under the P3 option however, the City would be working in collaboration with APCLA's extensive team of infrastructure experts (whose time is only recoverable if the project is successfully closed), whereas a Non-P3 delivery method would required a far greater level of effort by City staff in conjunction with a much higher level and cost of consultant support.

Attachments:

1. CLA Report on the LACC Expansion Project, February 2020
2. February 15, 2023 email with instructions from City (CAO) requesting the updated P3 proposal from APCLA together with the response from City (CLA) (February 15 to 28, 2023)
3. APCLA Updated P3 Proposal with explanations (February 28, 2023)
4. Recent Examples of P3 versus Traditional Delivery
5. Pico Blvd Expansion Independent Structure Diagram
6. LACC Modernization Elements
7. LACC Expansion Restart Schedule (2023)

Attachment 1

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE:

TO: Honorable Members of the City Council

FROM: Sharon M. Tso *SMT*
Chief Legislative Analyst

Council File No. 15-1207-S1
Assignment No. 20-01-0102

SUBJECT: Los Angeles Convention Center Expansion Project

SUMMARY

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

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, the AEG Plenary Conventions Los Angeles, LLC (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.

Subsequent to execution of the ENA, the City and APCLA have engaged in negotiations to expand and modernize the LACC, and provide operations and maintenance services on the LACC campus. Depending upon options chosen by Council, the LACC Expansion Project would provide 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 Project would also include a redesign of the adjacent Gil Lindsay Plaza to provide improved public amenities at the site. As proposed, APCLA notes that the LACC Expansion Project would be the second-largest social infrastructure P3 project in North America.

In order to evaluate the feasibility of the LACC Expansion Project, the City undertook studies to determine Potential Project Funding Availability and a total Target Budget for the construction of the expanded facilities, as well as the Operations and Maintenance (O&M) of the existing and

expanded facilities over a 30-year period. Financing is being considered on an Availability Payment structure, which will result in a fixed annual funding amount to be financed by the City. The City team has identified approximately \$102 million per year of annual available City funding for the Project. But the City estimates the Project as originally envisioned would cost approximately \$111 million per year for 30 years, a portion of which would be escalated annually. This would leave a potential \$9 million annual funding gap in the Project.

The City could choose to reduce portions of the scope of the LACC Expansion Project to reduce the annual Availability Payment. Populous has suggested moving the Western exterior wall of the new Exhibit Hall further inward, reducing the square footage of the site to a total of 145,000 square feet of new exhibit hall space (a loss of 45,000 square feet), and reducing the new multi-purpose room space by 13,000 square feet. If the City elects to proceed with the value-engineering option to reduce the square footage of the new exhibit hall and multi-purpose space, the potential funding gap would be \$5 million.

The determination of the Target Budget with a potential funding gap of either \$9 million or \$5 million, depending on Council action, relies upon entering into an Early Works Agreement (EWA), which would accelerate the overall design and construction schedule of the Project by having the APCLA team continue design development and preconstruction services between June and December 2020. This performance period is prior to the final execution of all project financing agreements, or Financial Close. Execution of the EWA would reduce escalation costs borne by the extended term of the construction period; APCLA has estimated that an EWA would save \$70 million in total costs over the life of the Project and accelerate the Project schedule by approximately eight months. The EWA, however, includes a risk that the City would be obligated to pay \$12.8 million in the event of a termination of the Project.

The funding gap will require an incremental increase to annual General Fund appropriation. City negotiations will continue to explore mitigating options to further reduce this gap, with the goal of producing a Project that has a net-neutral General Fund impact.

To reach as small of a funding gap as possible, the City and APCLA expended significant time and resources finding avenues to reduce costs across the Project. This effort would not have been possible without the diligent efforts of the City Administrative Officer, Bureau of Engineering, Convention and Tourism Department, Tourism and Convention Board, Office of the City Attorney, and City consultants.

It should be noted that APCLA will next enter into a costing exercise that will result in a Firm Fixed Price by the end of September 2020. At that time, Council will be asked to approve all final deal documents. It is anticipated, however, that if the Firm Fixed Price exceeds the current Target Budget, the Project may be in jeopardy.

Additionally, Council's actions on December 12, 2018 authorized up to \$5 million in City funding to retain outside counsel, financial advisors, construction review support, and other specialists in P3 developments who would support the City team in negotiations. Since that time, the need for additional services by these advisors has been identified, which will require additional funding to

complete. This report therefore recommends that \$10 million in additional funding be approved for use by the City to retain advisors relative to the LACC Expansion Project.

Finally, please note that the ENA between the City of Los Angeles and AEG, and subsequently APCLA, was extended on January 9, 2020 by mutual agreement of the Parties under the terms of the ENA for an additional 180 days, ending on July 12, 2020. The ENA can be extended beyond July 12, 2020 by mutual agreement for an additional two 90-day periods under the terms of the ENA, to January 9, 2021 if required.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor, relative to the Los Angeles Convention Center Expansion Project:

1. Authorize the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) to negotiate the Early Works Agreement with AEG Plenary Conventions Los Angeles, LLC, in accordance with the business principles set forth in the Early Works Term Sheet (Attachment A).
2. Request the CLA to report back to Council for approval of the Early Works Agreement.
3. Authorize the CAO, CLA, the City Attorney, and the Bureau of Engineering, subject to CAO review, to procure, negotiate, and execute contracts and contract amendments for financial advisory, legal, construction management and review, and other consulting services as necessary for an additional \$10 million, up to an aggregate amount of \$15 million, paid from the Municipal Improvement Corporation of Los Angeles (MICLA) Commercial Paper Program (Los Angeles Convention Center).
4. Recommend that City Council authorize the Information Technology Agency and the Bureau of Contract Administration to take any action necessary or desirable to facilitate and oversee APCLA's and its subconsultants/subcontractors' Business Inclusion Program efforts, including granting access to them to post opportunities on the Los Angeles Business Assistance Virtual Network.

BACKGROUND

The Los Angeles Convention Center's (LACC) original West Hall was opened to the public in 1971, and has been in continual use for nearly 50 years. The LACC's initial expansion, which added the South Hall along Pico Boulevard, the Concourse Hall, and other improvements, was opened in 1993. A major renovation or expansion has not been performed since. The LACC's initial construction and expansion projects were financed through traditional governmental funding tools and constructed with City oversight.

The Los Angeles Tourism and Convention Bureau (LATCB) represents the City in attracting convention business to the LACC. In the December 2019 LATCB report titled "Citywide

Conventions Sales Lost Business Five Year Report,” the LATCB reports that, over the five-year period from 2015-2019, the current condition of the LACC has resulted in the loss of 171 conventions that would have otherwise used the LACC. This has resulted in the loss of an estimated \$2.8 billion in economic impact within the City. Additionally, the uncertainty surrounding the LACC Expansion Project has caused potential convention customers to eschew the LACC for their shows, resulting in additional, ongoing lost economic impact.

LATCB has indicated that Council’s authorization for a modernized and expanded LACC would attract larger and more lucrative convention customers to the City, and not lose shows that would otherwise abandon the LACC without an expanded and modernized facility.

The City Council has approved actions to expand and modernize the LACC on several occasions since 2010. The Convention and Event Center project included the replacement of the West Hall at the LACC with an event center that intended to host a National Football League team, with replacement exhibit and meeting hall space to modernize and expand the LACC designed by Populous. When it was determined that the Event Center would not be built, on July 2, 2015 (CF 14-1383) Council approved recommendations to initiate a design competition for the LACC, and on December 7, 2015 authorized a \$470 million budget for such a project (2015 Report). The City subsequently selected Populous to design the LACC expansion as a City-directed project.

The parameters for the proposed project at the time included at least 190,000 square feet of additional contiguous exhibit hall space; 55,000 square feet of additional meeting room space; and at least 95,000 square feet of multi-purpose space. The proposed project would have also resulted in the renovation of Gilbert Lindsay Plaza as a pedestrian-friendly open space that would support LACC events as well as the general public.

AEG 2016 Proposal

AEG, as long-term operators of the LACC, approached the City in November 2016 with a proposal to modernize and expand the LACC, as well as perform the JW Marriott Expansion (AEG 2016 Proposal). City staff, including the Chief Legislative Analyst (CLA), City Administrative Officer (CAO), Convention and Tourism Department (CTD), Planning Department, and City Attorney, met with AEG subsequently to review the AEG 2016 Proposal and identified a project that would result in the expansion of the LACC.

The AEG 2016 Proposal included plans for the JW Marriott Expansion project, which would add a new tower with 850 rooms on the corner of Georgia Street and Chick Hearn Court. The JW Marriott Expansion would happen concurrently with the LACC expansion. The hotel is proposed to be a full service facility and will include additional ballroom and meeting space. The concurrent development of the expanded JW Marriott Hotel addresses the City’s previously stated goal of 8,000 hotel rooms within walking distance of the LACC.

AEG reported at the time that they had a gap in project financing and requested a hotel development incentive to support development of the property. A review conducted by the City’s independent consultant, Keyser Marston Associates, determined that the project had a finance gap of \$119.4 million, and that the project would generate \$195.5 million net present value (NPV) in net new

revenues to the City. Consistent with City policy, the Developer was determined to be eligible to receive up to \$97.7 million NPV in financial assistance (which is 50 percent of net new revenues NPV generated by the project). The City was estimated to also receive \$97.7 million NPV in new General Fund revenues. Execution of a hotel development incentive agreement with AEG would occur concurrently with Financial Close of the LACC Expansion Project.

On December 12, 2018, the City Council authorized the Mayor to execute an Exclusive Negotiating Agreement (ENA) between the City of Los Angeles and AEG providing terms for agreements necessary for the expansion of the LACC. The ENA was entered into by the parties on January 15, 2019. Subsequently, AEG formed a partnership with Plenary, a specialist in public-private partnership (P3) development deals, to help advance this project. The development team is known as AEG Plenary Conventions Los Angeles, LLC partnership (APCLA). APCLA was named as a Contracting Party to the ENA by Council's action of July 2, 2019.

Pursuant to the ENA, the City would be required to reimburse AEG up to \$4 million for actual costs incurred in connection with the preparation of the schematic design in the event that both parties do not enter into a mutually agreed-upon Implementation Agreement for the LACC Expansion Project.

Negotiations with APCLA

The City and APCLA have been negotiating a potential agreement regarding development of the LACC since execution of the ENA. During negotiations, the parties have worked to finalize a development plan, complete schematic designs and additional design development documents, develop a finance plan, and determine an operations and maintenance (O&M) program.

During negotiations, APCLA conducted a competitive bidding process to procure a general contractor for potential construction of the LACC Expansion Project. In August 2019, APCLA selected a joint venture between PCL Builders Inc. and Webcor Construction LP (PWJV) to provide construction services. PWJV has provided input on the project design and construction plans during negotiations, and has committed to providing a Firm Fixed Price for construction services prior to Financial Close of the Project.

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. Populous has continued design development during the negotiation process.

Populous SD+ Design

Populous has continued design development of the LACC Expansion Project and has completed a Schematic Design Plus (Populous SD+ Design). Architectural renderings from the Populous SD+ Design are attached to this Report (Attachment B).

The Populous SD+ Design was developed based on the parameters set forth in the ENA: at least 190,000 square feet of additional contiguous exhibit hall space; 55,000 square feet of additional meeting room space; and at least 95,000 square feet of multi-purpose space. The Populous SD+ Design also includes a redesign of the adjacent Gil Lindsay Plaza to provide improved public

amenities at the site. The Populous SD+ Design is estimated to have a total cost of \$1.14 billion according to City consultants.

The cost of Populous SD+ Design is significantly higher than Council's contemplated 2015 Report budget of \$470 million. Since 2015, the construction market in Los Angeles has steadily accelerated, decreasing the availability of potential contractors to perform the construction work and increasing their costs. Additionally, price escalation has occurred in the previous five years due to economic inflation, increases in the price of various materials, and tariffs.

One of Council's directives in the 2015 Report was to connect the existing West and South Halls to create one contiguous hall. This is seen as necessary to compete with other premier convention centers in the country. In order to achieve a fully contiguous hall, Populous designed a new hall that connects the South and West Halls by spanning over Pico Boulevard. Spanning over a pre-existing thoroughfare has driven additional structural costs that would not otherwise exist in a more traditional construction project. Significant steel infrastructure is needed to support the spans over Pico Boulevard, as support pylons must be strategically placed to avoid traffic lanes.

Finally, construction of a large multi-purpose space is required in order to maintain functionality and attractiveness in a crowded convention center market. This space will be divisible into multiple meeting rooms of varying sizes, or could be used a ballroom. However, the only location acceptable for such a multi-purpose space is directly above the New Hall. Building to this higher elevation necessitates using "high-rise" construction practices with additional requirements and restrictions and additional steel infrastructure. Most importantly, the LACC will need to provide proper and safe circulation to and from the multi-purpose space, including emergency egress for this elevated space. Construction of this multi-purpose space as proposed drives additional costs into the Project that were not contemplated in the 2015 Report.

Target Budget Process

In order to evaluate the feasibility of the LACC Expansion Project, the City undertook studies to determine Potential Project Funding Availability and a total Target Budget for the construction of the expanded facilities, as well as the O&M of the existing and expanded facilities over a 30-year period. The following provides analysis of costs to deliver the LACC Expansion Project, including value engineering and an Early Works Agreement designed to reduce costs. The analysis also includes an evaluation of revenues anticipated to be generated by the newly expanded Project. This analysis of costs and revenues was developed in a collaborative process with APCLA supported by the City's independent consultant, Ernst and Young.

Estimated Project Costs

APCLA is currently budgeting for a \$957 million estimated construction price, based on initial market pricing received from PWJV during a competitive selection process in Summer 2019. The estimate was produced on the basis of APCLA's schematic design for the Project, and subsequently augmented by additional scope items for modernization work, value-engineering proposals, and other required scope items to ensure a high-performing Project. The estimate is subject to ongoing refinement as the City's required technical criteria and contract risk allocation are refined over the next phase of project development, and remains subject to ongoing validation and review by the City

as design is progressed, key subcontractor packages are procured, and construction pricing efficiencies are investigated and resolved to the City's satisfaction. Ultimately, PWJV and APCLA will develop a design-build Firm Fixed Price on an open-book basis in late September or early October of 2020 that will be incorporated into the Project's final financial analysis for review and consideration by the City. An open-book process would allow APCLA and the City to review all underlying assumptions and data associated with pricing and scheduling of the work anticipated to be required under the Design-Build Agreement.

At this time, based on current Project assumptions pertaining to design, construction, operations, maintenance, lifecycle, schedule, and other critical elements, the City estimates the Project to cost approximately \$111 million per year for 30 years, a portion of which would be escalated annually as described below. This estimate does not include design and construction-related City soft costs such as internal resources, consultants, and contingency, and is not yet a Firm Fixed Price but is instead based on high-level estimates that have been developed for assessing Project affordability at this interim point in these negotiations. Cost estimates will be fully developed into a Firm Fixed Price with the benefit of design progress and scope refinement, at which point the City team will report back with the final set of contract documents and financial analysis. Please note that this price incorporates savings from an Early Works Agreement, as discussed below.

Potential Project Funding Availability

In assessing the City's ability to afford the Project, the City developed a framework centered around a goal of maintaining a net neutral impact to the General Fund on an ongoing basis. To meet that objective, the City team has identified approximately \$102 million per year of annual available City funding for the Project. This amount is comprised of:

1. General Fund resources equivalent to existing LACC debt payments; and
2. Revenues derived from the ongoing and expanded operations of an expanded and modernized LACC.

These available City resources currently represent a rough order of magnitude estimate given the ongoing analysis and progression of the business negotiations and commercial structure of the Project. The City has retained Ernst and Young and Convention, Sports and Leisure International to evaluate potential revenue streams over a 30-year period. The revenue projections are based on initial estimates that have been produced for the purposes of assessing project affordability at this interim point in negotiations between the City and the Developer, and will be refined as negotiations progress.

In 2015, the City refinanced and consolidated all outstanding debt related to the LACC into a single issuance: the Municipal Improvement Corporation of Los Angeles (MICLA) Taxable Lease Revenue Refunding Bonds, Series 2015-A (the Bonds) (CF 15-1206). LACC debt service payments are, and have historically been, a General Fund obligation. The City currently pays approximately \$50 million per year for the debt service associated with the Bonds. Once the Bonds fully mature in Fiscal Year 2022-23, this obligation will expire and \$50 million in annual General Fund resources will become

available. Under this LACC Expansion Project pricing framework, the \$50 million in current LACC debt service is assumed to be re-dedicated to the Project once the Bonds are paid off.

Additionally, revenues generated by LACC operations, including rent, parking, food and beverage sales, digital signage, and naming rights would also be used to fund the Project. Based on current analysis, the LACC is projected to generate approximately \$55 million in net annual stabilized revenue after expansion. The impact of LACC modernization and expansion on increased volume of LACC events and related revenues is expected to ramp-up in the years following project completion. Stabilized revenue estimates are assumed to be reached after four years, and are based on 2.5% annual inflation thereafter. It should be noted that a signage program consistent with the surrounding area is a significant source of new revenue to support the Project.

Currently, the CTD budget of approximately \$3 million per year is predominately funded by LACC revenues. Because all revenues derived from the LACC would be committed to the Project after expansion, the ongoing CTD budget is assumed to be a future General Fund obligation. Applying the impact of CTD costs to the rededicated \$50 million commitment yields a General Fund project affordability constraint of approximately \$47 million per year. Combining this affordability constraint with the \$55 million in projected LACC net revenues results in \$102 million of annual City funding available for the Project.

Availability Payments in a P3 Project

The development, design, construction, operations and maintenance and lifecycle costs associated with the Project will be paid by the City to the Developer in the form of construction Progress Payments as well as annual Availability Payments (AP) contingent upon meeting operational and performance standards. Of the \$111 million annual cost, approximately \$23 million is associated with Progress Payments and other City capital costs, and \$88 million is associated with the AP.

Progress Payments are periodic payments by the City to the Developer for a portion of the design and construction (D&C) costs throughout the construction phase. These Progress Payments (approximately \$373 million), along with approximately \$30 million in additional City capital costs related to digital signage displays, would be financed through taxable MICLA debt to reduce the overall D&C cost by infusing lower-cost financing into the Project. The debt service associated with such MICLA debt would be a General Fund obligation, estimated to be approximately \$23 million annually, paid over 30 years. The City will continue to analyze the financial benefits of using Progress Payments as well as their amount as the overall project financial plan is solidified.

APs are periodic payments to the Developer throughout the operating phase of the Project (currently assumed to be 30 years). Payment of the AP will start upon commencement of operations and consist of two components:

1. A Capital Availability Payment (APC) to reimburse the Developer for the Project's amortized capital costs that are not funded by Progress Payments; and,

2. An Operating Availability Payment (APO) to the Developer for the annual costs of operating the facility, including the costs of operations, maintenance, and lifecycle components.

The APC repays the Developer for front-funded D&C costs and is projected to be approximately \$44 million in 2023, the first full operating year of the Project. The Developer will provide financing for D&C costs through a mixture of private debt and equity. The debt is expected to be privately placed through a transparent, competitive process to institutional investors and pension funds. The Developer will invest equity in the Project, which will be the basis for their return. The APC will escalate annually by 1% to allow for a lower initial City payment and for the repayment of an increasing share of capital costs over time as LACC revenues grow.

The APO is currently projected to be approximately \$44 million in 2023. This amount is a high-level budget estimate produced by APCLA for the current affordability assessment, and is subject to further negotiations. It represents APCLA's forecasted annual costs of operating the facility, including operations, maintenance, and lifecycle. These projected costs will ultimately be converted into a detailed bottom-up pricing subject to City approval, based on agreed O&M and Lifecycle plans, final contract scopes, and agreed risk allocation. The APO is subject to annual escalation (currently based on the Consumer Price Index) to compensate for general cost increases year-to-year to operate and maintain the facility.

The AP will be paid to the Developer periodically during the operating phase of the Project. For any new and modernized facilities the Developer will be held to performance standards that will be quantifiable and objectively measured. These performance standards will be specified and developed by the City and priced by the Developer as part of the APO costs, and the Developer is then "at-risk" of meeting those standards. Because the AP amount is agreed upon and fixed at financial close, the Developer is responsible for the risk of any cost overruns on the new and modernized facilities. Failure to perform, or causing the facilities to become unavailable for use, will result in a deduction to the AP, which incentivizes the Developer to meet performance standards. While existing facilities will also be maintained and operated by the Developer, the City will continue to retain capital asset performance risk, as is the case under the current AEG LACC Management Agreement. The APO includes a \$4 million annual baseline amount for lifecycle costs associated with existing facilities. The City will be responsible for any costs beyond this budgeted amount and would benefit from any reduction or deferral of expenditures, and may elect at its discretion to appropriate a modified funding amount for any desired capital reinvestment projects.

Gap in Financing

Given the previously discussed \$102 million in annual available funds and the \$111 million in annual Project costs, the current funding gap is approximately \$9 million per year with an Early Works Agreement as discussed below. The \$9 million annual gap can be reduced by \$4 million with additional value engineering, as discussed in the next section.

LACC Value Engineering

In order to bring project costs down to align with the City's projected net revenues, the Parties and their consultants engaged in value engineering activities. Several components of the Project, such

as a bridge spanning Chick Hearn Court, were removed to reduce costs and incorporated into the cost estimate that results in the \$111 million annual payment previously referred.

One additional, significant revision would reduce costs, as well as project scope. Populous has suggested moving the Western exterior wall further inward, reducing the square footage of the site to a total of 145,000 square feet of new exhibit hall space (a loss of 45,000 square feet) and reduce the multi-purpose space to 82,000 square feet (a loss 13,000 square feet).

The proposed reduced scope remains competitive with, and still exceeds, the square footage of similar convention centers in our competitive set. Therefore, City consultants and CTD concur that the reduced scope of this design will not have an adverse effect on convention center business or revenues. However, it is unlikely that the loss in scope for the new Exhibit Hall will ever be recovered. Architectural renderings of the proposed reduction in scope to the Project are attached to this report (Attachment C).

Another potential cost saving would be to increase the number of columns in the new hall. This would reduce sight lines in the building, potentially affecting the attractiveness of LACC on the market. The addition of these columns would save an estimated \$4 million in total construction and O&M costs in the Project. Our consultants have determined, however, that while the added columns would not result in a substandard space, the estimated capital cost savings may be too limited to justify implementation of this value engineering concept.

If the City elects to proceed with the value-engineering options to reduce the square footage and add columns to the new exhibit hall, the Project would be reduced by an estimated \$41 million in total construction costs in the Project, with minor impacts on the O&M and lifecycle costs. This would result in the funding gap being reduced by \$4 million, from \$9 million to \$5 million. In either scenario, this gap would require an incremental increase to annual General Fund appropriation beyond the \$47 million affordability constraint. The City will continue to explore mitigating options to further reduce this gap as negotiations progress, with the goal of producing a Project that has a net-neutral General Fund impact..

Table 1 comparing the expanded square footage figures and projected funding gaps between the 2019 LACC Design Proposal (Original) and the 2019 LACC Design Proposal (Reduced) is below.

Green New Deal

The Mayor introduced the City's Green New Deal in April 2019, which requires all new municipally owned buildings and major renovations be all-electric. To fulfill the directives of the Mayor's Green New Deal, the LACC Expansion Project would be required to convert existing gas equipment in the building to electric, including kitchen and HVAC equipment. CTD has reported that these revisions to the scope of the LACC Expansion Project would cost an estimated \$5 million over the life of the Project, and increase the annual Availability Payment, and therefore the City's financing gap. These costs have been factored into the construction costs of the Project as listed in this Report.

Table 1: Comparison of Design Proposals: Added Square Footage, and Project Costs

	2019 LACC Design Proposal (Original)	2019 LACC Design Proposal (Reduced)
Exhibit Hall	190,000 sf	145,000 sf
(Reduction from 2015 Scope)	0	(45,000)
Meeting Rooms	55,000 sf	55,000 sf
(Reduction from 2015 Scope)	0	0
Multi-Purpose Space	95,000 sf	82,000 sf
(Reduction from 2015 Scope)	0	(13,000)
Construction Cost	\$957M	\$916M
Progress Payments	\$373M	\$357M
Annual P3 Availability Payment	\$88M	\$85M
Annual MICLA Debt Service	\$23M	\$22M
Total Annual City Payments	\$111M	\$107M
Existing LACC MICLA Debt Service	\$50M	\$50M
Stabilized LACC Revenues	\$55M	\$55M
CTD Budget	(\$3M)	(\$3M)
Projected Annual Funding Available	\$102M	\$102M
Projected Annual Funding Gap	(\$9M)	(\$5M)

Early Works Agreement

As noted previously, achieving a Project cost to align with the funding gap as described above relies upon entering into an Early Works Agreement (EWA), which would accelerate the overall design and construction schedule of the Project. This approach was developed with a goal of significantly decreasing City costs of the LACC Expansion Project by accelerating the overall design and reducing the construction period. Under the terms of an EWA, the APCLA team would continue design development and preconstruction services between June and December 2020 while the City and APCLA continue to develop the Firm Fixed Price and final, definitive deal documents. This performance period is prior to the final execution of all project financing agreements, or Financial Close.

Without an EWA, APCLA would pause the design effort between June and December 2020 to avoid incurring further design costs prior to City’s final approval of the Project. Such pause would add construction cost inflation due to additional time in the project schedule. Additionally, CTD has

indicated that an accelerated schedule would have a positive affect on convention business at the LACC.

Execution of the EWA would reduce escalation costs borne by the extended term of the construction period; APCLA has estimated that an EWA would save \$70 million in total costs over the life of the Project, and accelerate the project schedule by approximately eight months. This translates to a reduction of the Availability Payment by \$4 to \$5 million annually. As noted, this savings is already incorporated into the gap analysis presented earlier in this report.

The EWA scope would include development of design documents to 100%, advancement of construction documents, preconstruction services, preparation of all enabling works packages, and general permitting and plan check requirements, all with a view to allowing APCLA's design-builder to commence construction promptly upon achievement of Financial Close.

Since the EWA performance period would take place prior to Financial Close, the EWA would provide for a sharing of financial risk between APCLA and the City for specified design and preconstruction costs, should the parties be unable to reach a final project agreement under the ENA or if the City elects to terminate the EWA at any time. The City would not bear any cost to execute the EWA, but would begin to be at risk for design costs incurred by APCLA and the PWJV. At the end of the first phase of the Early Works Agreement, the City would be at risk for paying \$12.8 million in the event of termination of the Project.

Pursuant to the ENA, the City would be required to reimburse AEG up to \$4 million for actual costs incurred in connection with the preparation of the schematic design in the event that both parties do not enter into a mutually agreed-upon Implementation Agreement. If the City were to enter into an EWA, it would increase the City's investment in the Project's design development to \$16.8 million. Again, this is in the case of project termination.

In addition, if the City were to use the design drawings developed by the PWJV team to develop a substantially similar expansion of the LACC within 3.5 years of termination, the City would be required to pay an additional amount determined by the date of termination of the EWA, with \$5.7 million being committed at the time the City receives the Firm Fixed Price and \$11.5 million being committed by the time of Financial Close. It is contemplated that the City would consider termination when it receives the Firm Fixed Price if that price is too expensive; therefore, it is unlikely the City would be obligated to pay more than \$5.7 million to pursue a substantially similar expansion project of the LACC within 3.5 years of termination.

The benefit of the EWA is to generate significant cost and time savings in the Project. However, execution of the EWA would put the City at greater financial risk if the Project is terminated because the Firm Fixed Price will not be known until after the City has committed to up to \$16.8 million in reimbursable costs. If the Firm Fixed Price is too expensive, the City might terminate the Project but would still be required to reimburse at least \$12.8 million, plus the \$4 million previously obligated through the ENA, for a total of \$16.8 million or up to \$28.3 million if the City proceeds with a substantially similar expansion project within 3.5 years of EWA termination.

The City is assuming additional risk in order to advance design of the Project and potentially reduce overall costs. It should be noted that APCLA is also taking on significant risk in the terms of the EWA, up to \$23.4 million (not including internal expenses), to advance the design in aid of the Project. If the Project were to be approved by Council and reach Financial Close, the EWA would lower the City's annual AP payment significantly over 30 years.

If the City does not enter into the EWA, the funding gap would increase from \$9 million to between \$13 and \$14 million without the proposed scope reduction, or between \$9 and \$10 million with the proposed scope reduction. An Early Works Agreement Term Sheet detailing the scope and terms of an Early Works Agreement is attached to this report (Attachment A). If City Council's prerogative is to continue pursuing the EWA as constituted, we recommend Council instruct City staff to negotiate the EWA with APCLA. City staff anticipates bringing a proposed final version of the contract to City Council for its review and approval in May 2020.

Comparison with a Traditional Delivery

As an alternative to continuing with the P3, if the City were to change course and instead choose to expeditiously develop the Project using a traditional method, the CAO has estimated that it could potentially reduce the overall projected cost of delivery, operations, maintenance and ownership of the Project by approximately 10%. However, this would expose the City to cost risks across project phases that could outweigh any potential savings of a traditional approach, and possibly result in a more expensive project. As well, the project completion date would likely be delayed for another year at a minimum and, as a result, the City would also be exposed to construction inflation cost increases. For example, the City would not benefit from the certainty of a fixed-price design-build contract contained in the P3. Over the long term, City would also retain responsibility for operating and capital renewal cost overruns and risks related to deferred maintenance on the new, modernized, and un-modernized existing facilities.

If Council wishes, City staff could further explore a Traditional Delivery option, but it would come associated with the significant risks and delays noted above. Whether the City pursues a Traditional or P3 model, the expansion of the LACC is seen by City staff as an necessary project to uphold Los Angeles as a prominent market for convention business and thereby maintain considerable City revenues.

Consultant Fees

Council's actions on December 12, 2018 authorized up to \$5 million in funding from the MICLA Commercial Paper Program (Los Angeles Convention Center) to retain various consultants to support the City team in negotiations. Nossaman LLP was retained to provide legal services in support of the Project; Gruen Advisors was retained to provide design and document review services; and Ernst and Young Infrastructure Advisors was retained to provide financial advisory services with various subcontractors who specialize in commercial elements relevant to the Project.

Since that time, the need for additional services by these advisors has been identified, which will require additional funding to complete. This report therefore recommends that \$10 million in additional funding be approved for use by the City to retain advisors relative to the LACC Expansion Project.

ENA Extension Notification

The ENA between the City of Los Angeles and AEG, and subsequently APCLA, was extended on January 9, 2020 by mutual agreement of the Parties under the terms of the ENA for an additional 180 days, ending on July 12, 2020. The ENA can be extended by mutual agreement for an additional two 90-day periods under the terms of the ENA.

PWJV Access to BAVN

In January 2011, the City established the Business Inclusion Program (BIP) to ensure that all businesses have an equal opportunity to do business with the City. The BIP is administered through the Los Angeles Business Assistance Virtual Network (BAVN), an online resource providing up-to-date contract and procurement information on City contracts. Council action is required to authorize access to BAVN by non-City entities.

During negotiations, it was determined that, in order to accomplish the goals of the BIP, Council would need to authorize APCLA to access BAVN. Therefore, this report requests the Council authorize Information Technology Agency and the Bureau of Contract Administration to take any action necessary or desirable to facilitate and oversee the BIP efforts of APCLA and its subconsultants and subcontractors, including granting access to these groups to post opportunities on BAVN.

Next Steps

Council has a number of options to decide regarding the future of the Project:

1. Council can decide to end negotiations with APCLA regarding the Project, and end all City discussions regarding an Expanded LACC. As a condition of the ENA, the City would reimburse APCLA \$4 million for their direct costs, and the City would receive the Populous SD+ design package; or,
2. Council can decide to end negotiations with APCLA regarding the Project, but continue to pursue an Expanded LACC using a traditional, non-P3 delivery method. As a condition of the ENA, the City would reimburse APCLA \$4 million for their direct costs, and the City would receive the Populous SD+ design package; or,
3. Council can decide to continue negotiations with APCLA, and not pursue an Early Works Agreement. This would continue development on the Project, but extend construction by eight months compared to a Project including an EWA and potentially increase the Availability Payment by between \$4 and \$5 million annually; or,
4. Council can decide to continue negotiations with APCLA, and authorize the CLA and CAO to negotiate the Early Works Agreement with APCLA. City staff would present a proposed final version of the contract to City Council for its review and approval in May 2020. The City would be committing up to an additional \$12.8 million for APCLA reimbursement in the case of project termination, bringing the

total to \$16.8 million. In the event of a termination of the ENA, the City would receive the Design Documents.

The Los Angeles Convention Center is a major facet of the economic landscape of the City, generating tourism, transient occupancy tax, sales tax, and other direct and indirect revenues. However, this major infrastructure asset of the City's real estate portfolio has not seen a major investment in nearly 30 years. As noted previously, the LATCB has reported that the current condition of the LACC has resulted in the loss of 171 conventions that would have otherwise used the LACC. This has resulted in the loss of an estimated \$2.8 billion in economic impact within the City. Additionally, the uncertainty surrounding the LACC Expansion Project has caused potential convention customers to eschew the LACC for their shows, resulting in additional, ongoing lost economic impact. Expansion of the LACC is critical step in maintaining Los Angeles as a hub for convention business, and maintaining the City's robust economic position.

While the City will take significant risk in reimbursable expenses, the cost savings and schedule acceleration that results from the EWA will provide the City with benefits to tourism revenues, convention business, and tax revenues, and maintain Los Angeles as a premier destination for groups seeking to hold major conventions. The EWA will also provide the opportunity for Project to result in the lowest potential cost and least impact to the General Fund. Therefore, this Office recommends that the Council move forward with Option 4, and authorize the CLA and CAO to negotiate the Early Works Agreement with APCLA.



Alex Whitehead
Analyst

Attachment A: Early Works Agreement Term Sheet

Attachment B: Architectural Renderings (Populous SD+ Design)

Attachment C: Architectural Renderings (Proposed Reduction in Scope)

Attachment 2

Stuart Marks

From: John Wickham <john.wickham@lacity.org>
Sent: Tuesday, February 28, 2023 1:57 PM
To: Stuart Marks
Cc: ben.ceja; tfikre
Subject: Re: LACC: Updated P3 Financial Model

Much appreciated. We'll follow up with you.

John Wickham
Office of the Chief Legislative Analyst
phone: (213) 473-5738
fax: (213) 620-9869

On Tue, Feb 28, 2023 at 1:45 PM Stuart Marks <Stuart.Marks@plenarygroup.com> wrote:

Ben and John

Thank you for the opportunity to provide an updated P3 proposal and financials. Attached is an updated P3 financial model and supporting summary as requested.

We will make ourselves available as required to answer any questions and provide further information.

Regards, Stuart

Stuart Marks | Senior Vice President & Co-Head, Project Structuring & Investment Group | Plenary Americas

555 W. 5th Street | Suite 3150 | Los Angeles, CA 90013

Direct: (424) 278-2175

Mobile: (347) 514-3117

Email: stuart.marks@plenarygroup.com

From: Benjamin Ceja <ben.ceja@lacity.org>
Sent: Wednesday, February 15, 2023 7:27 AM
To: tfikre <tfikre@aegworldwide.com>; Stuart Marks <Stuart.Marks@plenarygroup.com>

Cc: john.wickham <john.wickham@lacity.org>

Subject: LACC: Updated P3 Financial Model

Ted and Stuart,

The CLA and CAO are working to get a report in front of Council before their review of the FY24 Budget starts in earnest in April.

Given the latest APCLA P3 financial model information the City has is from 2021, we would like to provide APCLA with the opportunity to update P3 financials that would be presented to Council. The City would need to receive any updated APCLA P3 model or proposal by February 28th to allow adequate time for analysis and preparation of the report.

Towards this end, we have prepared a simplified list of actions related to updated assumptions for any new P3 proposal/model. This list is reduced from what you had sent back in September 2022, largely with the intent of simplifying efforts from both APCLA and the City team, and to reflect the fact that CLA and CAO do not intend to discuss the specifics of a potential non-P3 concept with APCLA (as previously communicated). However, to the extent the City does present a non-P3 concept in the Council report, where appropriate, we will seek to use similar assumptions to those included in the attached list and/or which are provided by you in any updated P3 proposal.

The CLA and CAO specific request to APCLA is narrowed to (1) an updated P3 financial model, together with (2) a short document/brief presentation that explains APCLA's updated P3 model assumptions and provides APCLA's approach to the issues identified in the attached document. No other information is required at this time.

We appreciate the quick turnaround on this request.

Thank you,

Ben

--

Ben Ceja

Office of the City Administrative Officer

200 North Main Street, Room 1500 City Hall East

Los Angeles, CA 90012

(213) 978-7688

ben.ceja@lacity.org

LACC: updated P3 assumptions

Assumptions to update		Suggested approach
1.	<u>Dates</u> <ul style="list-style-type: none"> City Council decision on delivery method Preconstruction period Financial Close Construction period Operations period 	<ul style="list-style-type: none"> City proposes June 2023 as an indicative City Council decision date APCLA to make reasonable proposal on all other dates/periods APCLA to confirm high-level updated proposal for Early Works Agreement (if any), and confirm the assumed impact on the Preconstruction and Construction periods 30-year operating term
2.	<u>Value Engineering assumptions</u> <ul style="list-style-type: none"> Construction & O&M/Lifecycle 	<ul style="list-style-type: none"> City suggests remove VE estimates at this time (City may revisit as part of a future design review)
3.	<u>Escalation</u> <ul style="list-style-type: none"> Construction cost O&M/Lifecycle cost Capital-AP 	<ul style="list-style-type: none"> APCLA to make reasonable proposal on updated Construction Cost escalation¹ Long-run O&M/Lifecycle costs at 2.5% Capital-AP escalation at 1%
4.	<u>Private debt</u> <ul style="list-style-type: none"> Interest rate (benchmark, spread) Issuance costs, tenor etc 	<ul style="list-style-type: none"> APCLA to make reasonable proposal on updated P3 private debt structure and market costs City suggests benchmark rate is pulled from 1/6/2023, in line with City's working MICLA assumption (see below) Assume zero cushion on P3 debt at this stage
5.	<u>Progress Payments/MICLA debt</u> <ul style="list-style-type: none"> Quantum and cost of Progress Payments 	<ul style="list-style-type: none"> Progress Payments to be optimized to maximize reduction to AP, subject to operational leverage City intends to use 5.175% as the all-in cost of MICLA debt, based on rates from 1/6/2023 Assume zero cushion on MICLA debt at this stage
6.	<u>O&M/Lifecycle risk regime</u> <ul style="list-style-type: none"> APCLA vs City allocation of cost and performance risk 	<ul style="list-style-type: none"> APCLA to confirm basis of costs in updated P3 financial model (i.e. is APCLA assuming the "Nov 2021" O&M/Lifecycle risk proposal or other)
7.	<u>Limited other issues</u> <ul style="list-style-type: none"> Market insurance costs Signage modification costs 	<ul style="list-style-type: none"> APCLA to confirm any updates to insurance costs (assumed market premiums and contingencies) APCLA to confirm whether Construction Costs will include building modification costs for Signage²

¹ For example, using published indices to account for actual LA buildings escalation up to now, and then a reasonable forecast for further cost escalation out to the projected completion date.

² City had budgeted \$24m for signage building modifications in the City's indicative updated signage plan (prepared in Dec-21, and shared with APCLA in Feb-22). This budget excludes the costs of Digital Displays which are to be contracted separately by the City. City does not propose to refresh this estimate now, but as this is cost/scope that would be carried by the General Contractor, the simplest path may be for APCLA to include \$24m plus appropriate construction cost escalation in its updated Construction Cost budget.

Attachment 3

Note: Dollar amounts below are expressed in real dollars as of the assumed financial close date for the respective case unless otherwise noted.

Item	Previous Assumption (August 2021) ¹	Current Assumption (February 2023)	Notes
Schedule-Related Assumptions			
Financial Close Date	December 31, 2022	July 31, 2024	<p>We have assumed a Financial Close date of 7/31/2024 based on the following schedule:</p> <ul style="list-style-type: none"> • City Council decision on delivery method in mid-June 2023; • Six week remobilization period (based on input from Populous and PWJV); and • 12-month extended ENA period (including Early Works).
Construction Period Length (assuming Early Works)	28 Months	32 Months	<p>We have added an additional four months to the baseline construction schedule based on feedback from PWJV that the previously-assumed 28-month baseline construction period (assuming Early Works) be extended by four to six months due to the factors identified below.</p> <p>Contributors to this change in baseline construction duration include:</p> <ul style="list-style-type: none"> • Extended review and approval times from authorities having jurisdiction (AHJs) such as LADBS (firm commitments from AHJs would be sought during the ENA period); and • Market volatility and supply challenges.
Project Agreement Term Length	32.33 Years	32.67 Years	<p>The term has been extended by four months to account for the assumed four month extension of the construction period noted above. The operating term remains unchanged as 30-years from operational readiness in accordance with the City's "LACC: updated P3 assumptions" memo sent to APCLA on 2/15/2023 ("City Instructions").</p>

¹ Refers to the "Potential August Base Case #1 (CPI Escalation for O&M)" from the financial model named "Plenary LACC Financial Model_08.23.21 EY.xlsm" sent to City on August 24, 2021.

Early Works	Full scope	Full scope	<p>We have assumed the full scope of Early Works as contemplated in the March 2020 staff report (development of design documents to 100%, advancement of construction documents, preconstruction services, preparation of enabling works packages, and general permitting and plan check requirements) to achieve the previously reported cost savings to the City by accelerating the overall design and reducing the construction period.</p> <p>APCLA is willing to finance 100% cost of the Early Works (~\$40 million) on the basis that those costs would become a cost of the Project upon Financial Close (i.e. to be reimbursed from Financial Close proceeds) and provided that the City agrees to reimburse APCLA the full cost of those Early Works (including reasonable financing costs) if the City abandons or otherwise terminates the P3 before Financial Close is achieved. Upon reimbursement of the Early Works costs, the City would receive all of the work product produced as part of the Early Works.</p>
Cost Assumptions During Construction Period			
Construction Escalation (December 2020 – Financial Close)	9.02%	24.38%	<p>Construction costs have been escalated from the initial December 2020 PWJV market-tested estimate to an assumed financial close date of 7/31/2024 using the following construction escalation factors:</p> <ul style="list-style-type: none"> • 7.75% escalation in 2021, per Rider Levett Bucknall (“RLB,” the PWJV’s recommended source for escalation data); • 6.85% escalation per 2022, per RLB; • An assumed escalation rate of 5% for 2023, per the recommendations of the PWJV based on current market conditions; and • An assumed escalation of 5% for 2024, prorated for an assumed 7/31/2024 closing date, per the recommendations of the PWJV based on current market conditions. <p>The compounded aggregate escalation rate of the escalation factors above is 24.38%. Post-closing construction escalation continues to be carried in the December 2020 market-tested estimates.</p>

Date: February 28, 2023

Expansion Construction Cost	\$965,390,184	\$1,101,405,532	Represents the December 2020 market-tested estimate, escalated by the construction escalation factor noted above.
Modernization Elements Construction Cost	\$74,830,296	\$85,373,254	Represents the December 2020 market-tested estimate, escalated by the construction escalation factor noted above.
Additional Risk Items (Hazardous Material Abatement) Construction Cost	\$3,270,600	\$3,731,400	Represents the December 2020 allowances, escalated by the construction escalation factor noted above.
Signage Construction Cost	-	\$27,703,200	Per footnote #2 in the City Instructions, \$24 million of signage building modification costs have been added, escalated from December 2021 to an assumed financial closing date of 7/31/2024 using the 2021-2024 construction escalation factors noted above.
Value Engineering Assumptions	-	-	As per the City Instructions, no VE items have been assumed.
Transition Costs	\$17,735,141	\$1,000,000	We have reduced this cost significantly based on the following assumptions: <ul style="list-style-type: none"> • APCLA will be able to use the existing fleet of vehicles (including indoor carts, outdoor vehicles, zoom booms and scissor lifts) • APCLA will also be able to use existing O&M tools and equipment • New Attic Stock will be included in the construction scope
Financial Closing Costs	\$82,230,726	\$73,994,622	Closing costs have been updated based on escalating the pre-construction services costs by the construction cost escalation rate, escalating the bid cost recovery amount by assumed CPI (2.5%), holding development fee flat (no escalation) and reducing the OMR mobilization costs (where applicable).
SPV/Admin/Management Costs Per Annum During Construction (Annual)	\$2,373,344	\$600,000	Modifications include elimination of operational insurances during construction (carried separately by ASM Global) and other refinements to PWJV's SPV budget (reduction of assumed third party and internal costs, inclusivity costs and general contingency).

Date: February 28, 2023

Construction Completion Costs	\$7,475,081	\$2,795,625	Reflective of reduction in assumed initial insurance premium cost (see below) and applicable escalation of certain costs.
Cost Assumptions During Operating Period			
Non-F&B Fixed Costs (Annual)	\$30,902,425	\$24,177,066	Revised based on ASM Global's FY2024 budget, with improved assumptions on economies of scale to be achieved and costs of delivering the higher level of service under the P3 performance regime.
Non-F&B Fixed Costs – Expansion Only (Annual)	\$21,530,686	\$17,063,470	Revised based on ASM Global's FY2024 budget, with improved assumptions on economies of scale to be achieved with the expansion and improved assumptions on the costs of delivering the higher level of service under the P3 performance regime.
F&B Fixed O&M Costs (Annual)	\$4,328,595	\$3,379,799	Revised based on ASM Global's FY2024 budget, with improved assumptions on economies of scale to be achieved with the expansion and improved assumptions on the costs of delivering the higher level of service under the P3 performance regime.
% of O&M Costs Benchmarked	20.00%	50.00%	Assumes that 50% of the O&M Costs will be benchmarked to market through a market testing exercise every 3 to 5 years (City gets the potential benefit of any market improvements in the benchmarked services) with the remaining 50% being guaranteed for the operating term (City has certainty on the cost of the underlying services). The increase in the percentage of benchmarked services has the additional benefit of reducing operational leverage and improves the anticipated financial ratios as noted below.
SPV/Admin/Management Costs Per Annum During Operations	\$1,206,688	\$700,000	Cost savings include: <ul style="list-style-type: none"> • Leaner SPV management structure; and • No escalation to SPV management costs.
Management Cost Priority	Senior to Debt Service	Subordinated to Debt Service	APCLA has elected to subordinate its management costs, which facilitates a more cost-efficient financing structure, a lower cost of capital, and a lower availability payment for the City.

Operating Insurance Costs (Annual)	\$5,129,415 (includes property insurance)	\$1,390,000 (excludes property insurance)	Annual insurance premia have been revised based on feedback from APCLA’s insurance broker, reflecting current market conditions, which have improved considerably since mid-2021 (NB: property insurance assumed to be carried by the City as previously advised by the City).
Expansion Lifecycle Costs	\$145,630,867	\$118,677,879	Revised estimate is based on the escalated expansion and modernization construction budgets noted above together with improved assumptions on economies of scale to be achieved with the expansion and improved assumptions on the costs of delivering the higher level of service under the P3 performance regime.
South and West Hall Lifecycle Costs	\$119,119,312	\$116,189,105	Revised estimate is based on existing facilities’ square footage, an assumed cost per square foot (escalated using the construction escalation factor noted above) together with improved assumptions on economies of scale to be achieved with the expansion and improved assumptions on the costs of delivering the higher level of service under the P3 performance regime.
Lifecycle Cost Profiles	Flat Throughout Operating Term	Varies Throughout Operating Term Based on Anticipated Lifecycle Expenditure	Lifecycle costing profiles over the 30-year operating period have been updated to align with comparable P3 assets that also include a 30-year operating period.
Lifecycle Reserve	3-year MMRA	-	Plenary has in principle approval for its AAA-rated parent company, CDPQ, to provide financial support with respect to its OM&R obligations, which should allow APCLA to eliminate the need for a lifecycle reserve, thus reducing the City’s availability payment.
O&M and Lifecycle Risk Regime			The O&M and lifecycle costing assumed within the updated P3 model is based on the O&M and lifecycle risk regime proposed in the March 2020 Staff Report. It is noted that the reduced O&M and lifecycle cost estimates used in this updated P3 model are based on the improved assumptions on economies of scale to be achieved with the expansion and improved assumptions on the costs of delivering the higher level of service under the P3 performance regime. These costs and assumptions are subject to an open-book pricing exercise with full build-up of O&M

			and lifecycle costs to be undertaken in consultation with the City during the preconstruction period.
Escalation			
Construction Escalation (December 2020 – Financial Close)	9.02%	24.38%	See above.
O&M Costs	2.5%	2.5%	As per City Instructions (NB: this is the assumed escalation rate post-Financial Close).
Lifecycle Costs	2.5%	2.5%	As per City Instructions (NB: this is the assumed escalation rate post-Financial Close).
Capital-AP	1%	1%	As per City Instructions.
Financing Assumptions			
City Progress Payments	40.4% of Construction Cost	50% of Construction Cost	Given the reduction in operational leverage (i.e., a reduction in operating costs as a percentage of capital costs) and an increase in the percentage of benchmarked services noted above—both of which significantly improve financial ratios that are scrutinized by lenders and rating agencies—a greater quantum of City progress payments should be able to be accommodated without adversely impacting APCLA’s financial structure or debt pricing. Further maximization of City progress payments may be achievable based on rating agency and lender feedback.
Debt Service Reserve Account Funding	Maximum Semi-Annual Debt Service	Six Month Look-forward	The six-month debt service reserve account has been modified to be funded on a “look-forward” basis, consistent with recent P3 bids/closings and lender feedback.
Debt Service Coverage Ratio	1.20x	1.17x	The debt service coverage ratio has been reduced on account of CDPQ’s support of Plenary in performing its OM&R obligations (see above), as well as a reduction in operating leverage and the increased in benchmarked services, which should facilitate a more cost-efficient debt service coverage ratio without adversely impacting APCLA’s financial structure or debt pricing.

Date: February 28, 2023

Debt Drawdown	Quarterly	Up-Front	The privately placed debt is assumed to be fully drawn up-front (vs. delay draw over construction) based on lender feedback and current market conditions.
Debt Repayment Frequency	Quarterly	Monthly	Debt service has been modified to be paid monthly, consistent with recent P3 bids/closings and lender feedback.
Debt Tail	Six Months	Three Months	The debt's operating tail has been modified to three months, consistent with recent P3 bids/closings and lender feedback.
Debt Benchmark Rate	2.50%	3.62%	The debt benchmark rate has been modified to 3.62%, which represents a linear interpolation of US Treasury rates as of January 6, 2023 based on a 22-year weighted average life of the debt.
Debt Credit Spread	250bp	165bp	The debt credit spread has been modified based on lender feedback from recent P3 bids and direct feedback specific to this project as of January 6, 2023. Assumes A3-level rating.
Interest Earnings During Construction	1.50%	5.00%	The interest earnings rate during construction has been modified based on recent feedback from guaranteed investment contract providers on debt proceed investments of a similar size and tenor.
Interest Earnings During Operations	1.00%	3.50%	This interest earnings rate during operations has been modified based on recent feedback from guaranteed investment contract providers on reserve fund investments of a similar size and length, with added conservatism given this rate will not be known until operational readiness.
Equity IRR	11.50%	11.00%	APCLA is willing to reduce its equity IRR to improve the project's cost of capital under the P3 approach in a further good faith effort to reduce the City's availability payment. This reduction in pre-tax IRR assumes efficient tax structuring to maintain a market-based post-tax equity return.

Attachment 4

P3 VS TRADITIONAL RECENT EXAMPLES

TRADITIONAL DELIVERY



LAPD Headquarters
Los Angeles, CA

Construction Start Date	01-Nov-06
Scheduled Completion Date	02-May-09
Actual Completion Date	08-Jul-09
Delay	7%
Initial Construction Cost	\$303,000,000
Actual Construction Cost	\$437,000,000
Cost Overrun	44%

TRADITIONAL DELIVERY



Sixth Street Viaduct Replacement
Los Angeles, CA

Construction Start Date	01-Sep-16
Scheduled Completion Date	31-Dec-19
Actual Completion Date	09-Jul-22
Delay	76%
Initial Construction Cost	\$446,584,000
Actual Construction Cost	\$588,000,000
Cost Overrun	32%

P3 DELIVERY



Long Beach Civic Center Redevelopment
Long Beach, CA

Construction Start Date	01-Apr-16
Scheduled Completion Date	30-Jun-19
Actual Completion Date	30-Jun-19
Delay	0%
Initial Construction Cost	\$391,120,491
Actual Construction Cost	\$391,120,491
Cost Overrun	0%

P3 DELIVERY



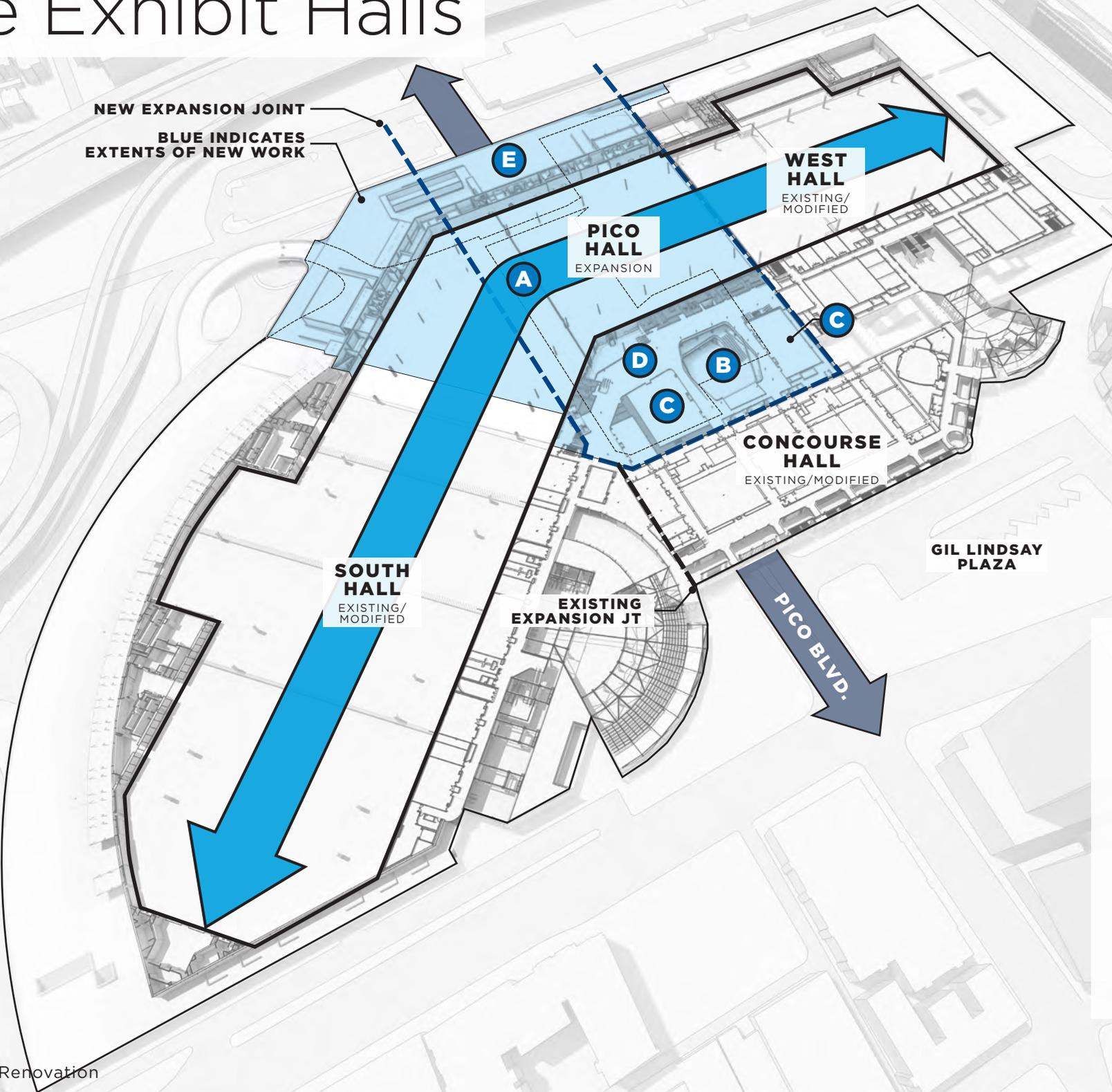
UC Merced 2020 Project
Merced, CA

Construction Start Date	01-Aug-16
Scheduled Completion Date	01-Sep-20
Actual Completion Date	01-Sep-20
Delay	0%
Initial Construction Cost	\$1,166,631,875
Actual Construction Cost	\$1,166,631,875
Cost Overrun	0%

Attachment 5

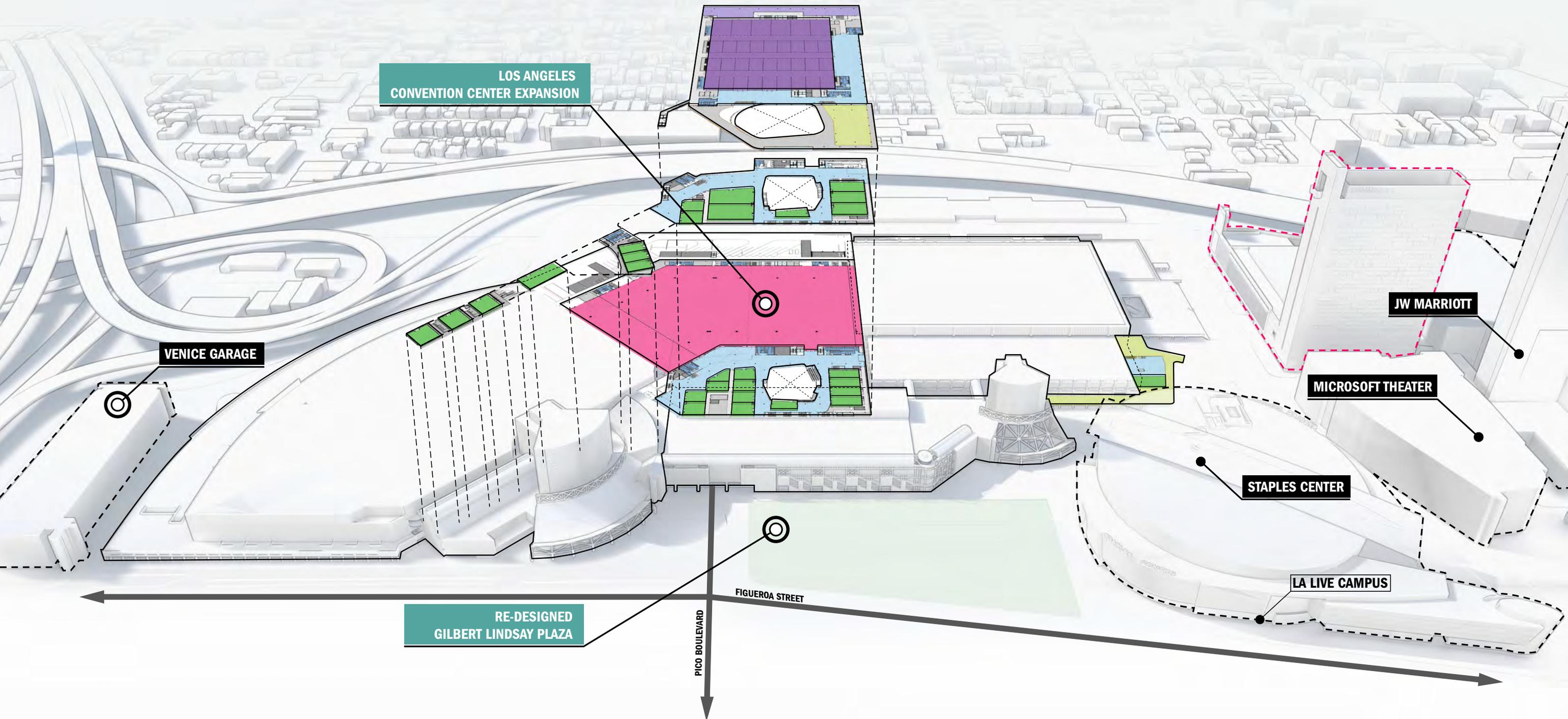
Bridging the Exhibit Halls

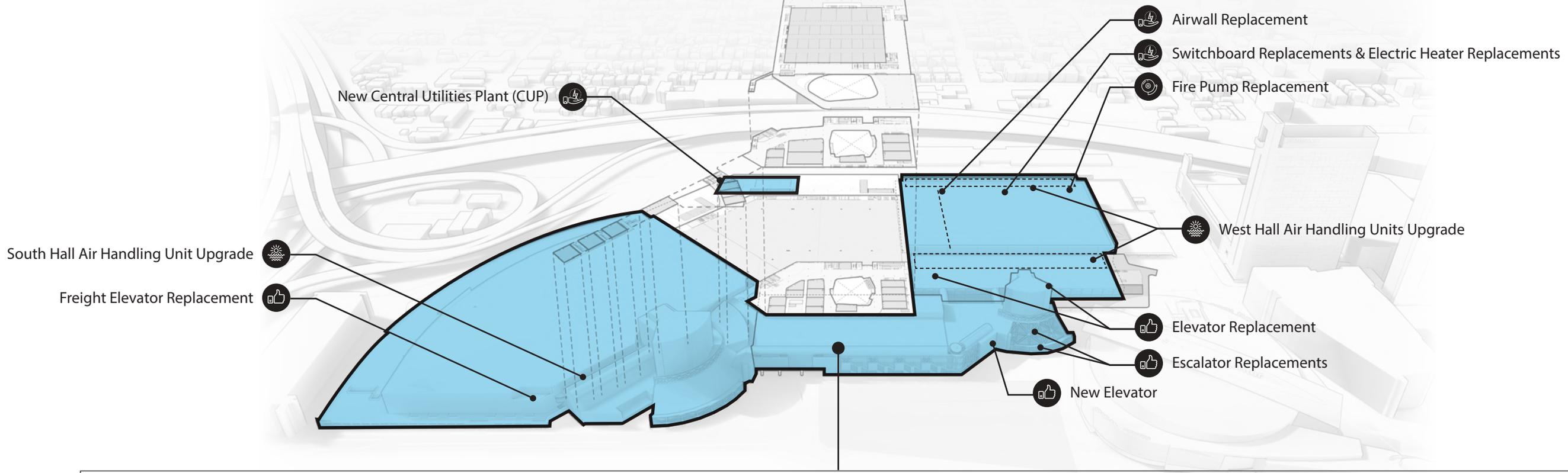
NEW EXPANSION JOINT
BLUE INDICATES
EXTENTS OF NEW WORK



- NEW FEATURES.
- A** PICO HALL: EXHIBIT
 - B** NEW CONNECTIVE ENTRY LOBBY
 - C** NEW MEETING ROOM INVENTORY
 - D** NEW PREFUNCTION FOR PICO HALL
 - E** NEW CONTINUOUS LOADING DOCK

Attachment 6





Smoke Control System
Automatic Sprinkler System
Smoke Detection System
Fire Alarm System
Fire Pump Replacement

Lateral Force Upgrade

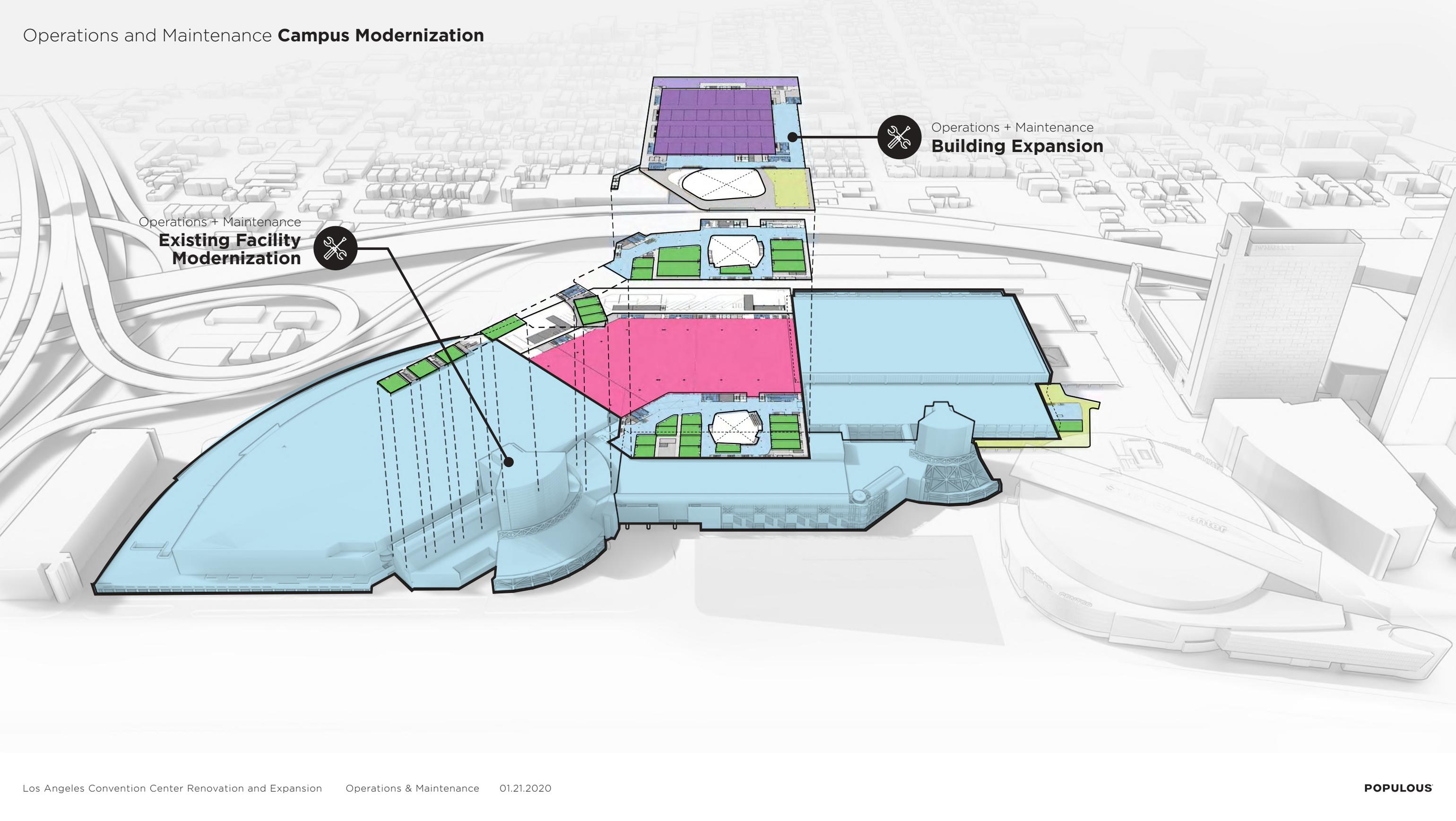
Door Access & Control

Central Utilities Plant (CUP) & Electrification
West Hall Switchboard Replacements

Temperature Systems
South Hall Air Handling Unit (AHU) Control System
West Hall Electric Heater Replacements

Backbone Audio/Video System
Building Automation System (BAS)

Green New Deal

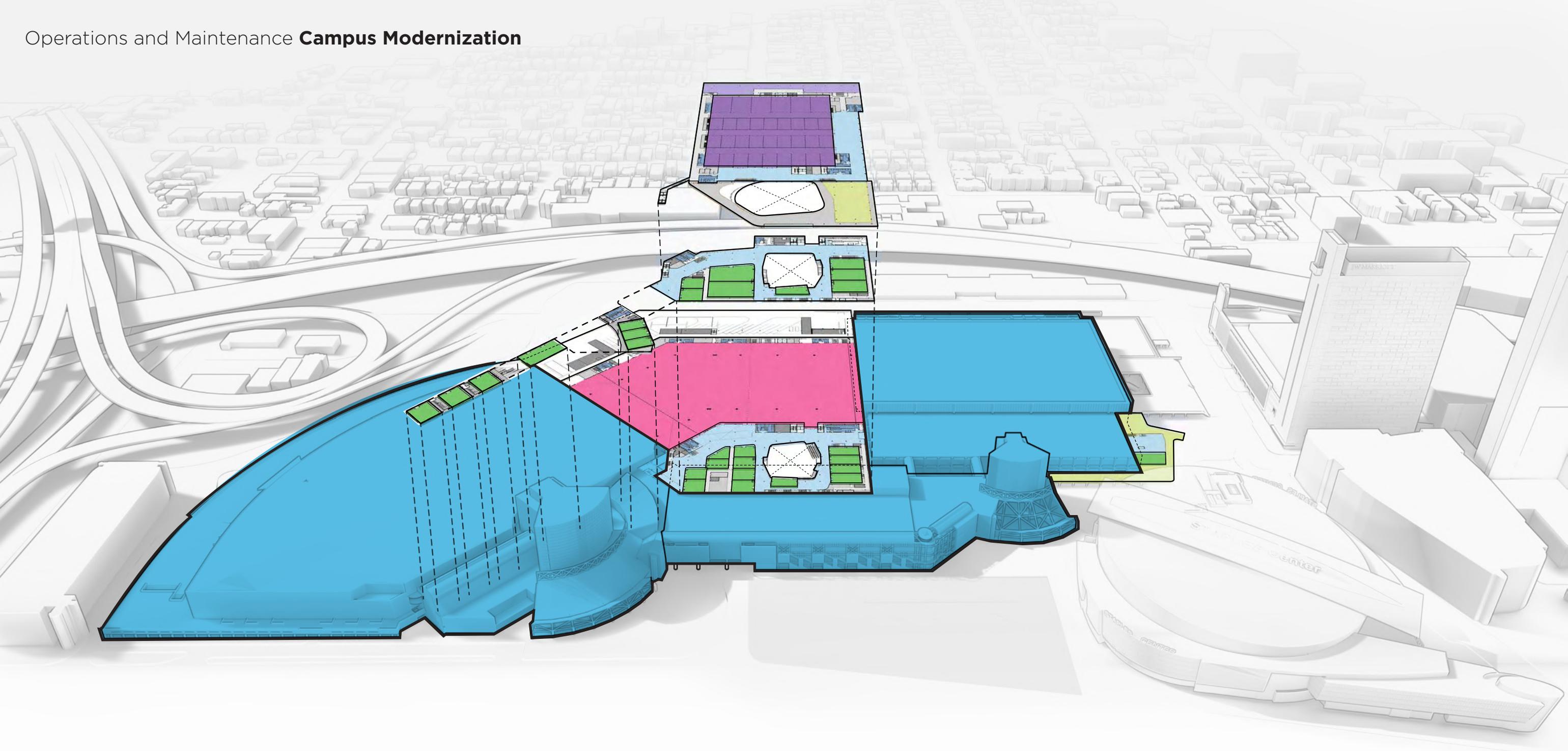


Operations + Maintenance
**Existing Facility
Modernization**

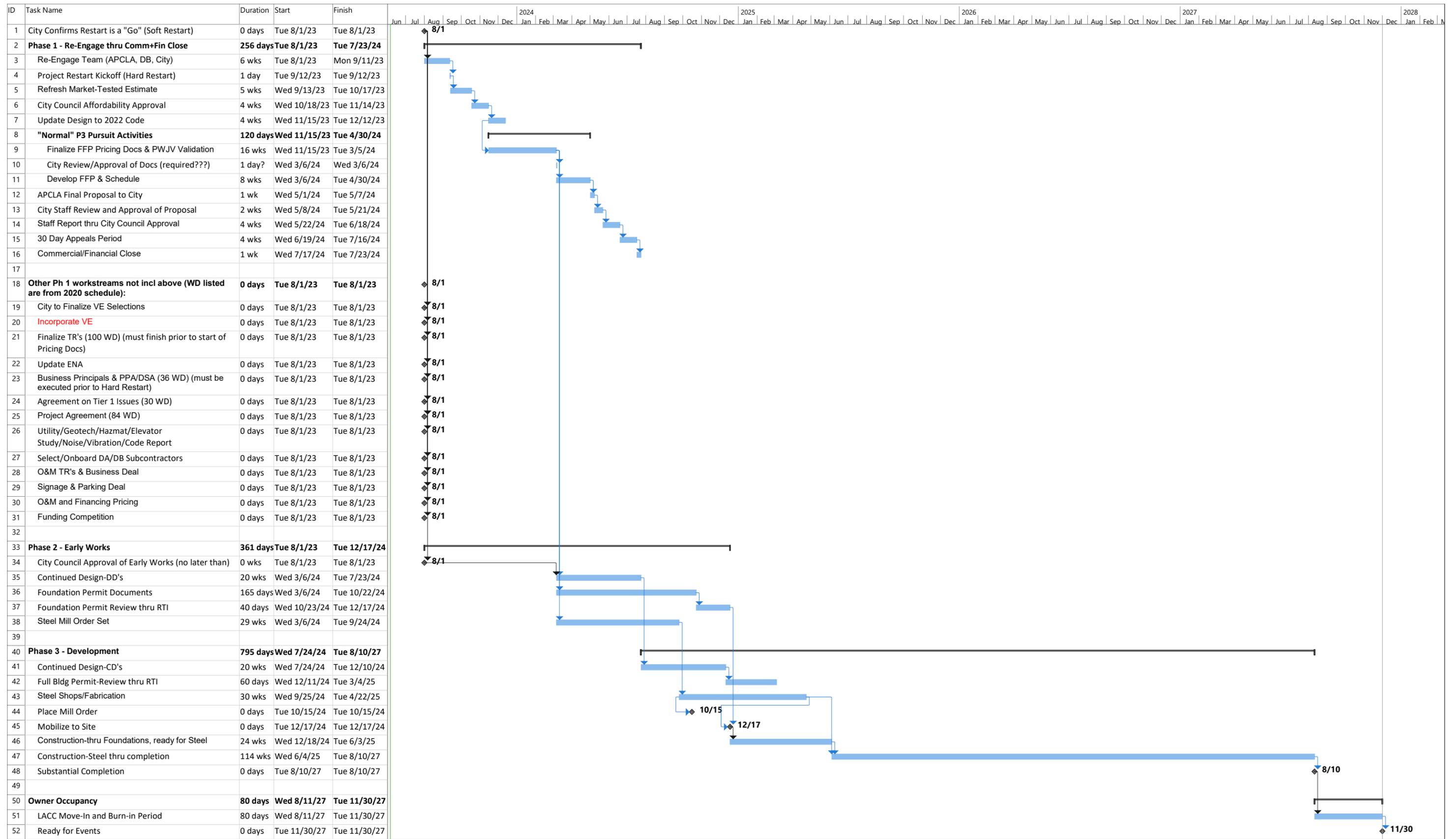


Operations + Maintenance
Building Expansion

Operations and Maintenance **Campus Modernization**



Attachment 7



PCL + Webcor A Joint Venture
 LA Convention Center Expansion
 Preliminary Restart Schedule - WITH EARLY WORKS

Task		Summary		Inactive Milestone		Duration-only		Start-only		External Milestone		Manual Progress	
Split		Project Summary		Inactive Summary		Manual Summary Rollup		Finish-only		Deadline			
Milestone		Inactive Task		Manual Task		Manual Summary		External Tasks		Progress			