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Los Angeles Weighs Convention Center P3.

LOS ANGELES —Los Angeles' city administrative officer wants the city to consider a public-private model to expand and renovate its convention center.

Miguel Santana's proposal, which would be a first for a U.S. convention center, received some pushback from city council members who had already approved a $470 million plan to be financed with tax-exempt bonds.

Santana first made this recommendation to explore the public-private model in a report released on Dec. 23 and followed up with a supplemental report last week.

The City Council's Economic Development Committee approved Santana's proposal on Tuesday with some amendments after peppering the CAO with questions about the approach.

"We selected a firm through a design competition," said the committee's chair, Cullen Price Jr. "Now at the 11th hour, you are talking P3. It could take more than 18 months to select a firm for that."

So far, no one in this country has used the design-build-finance-operate-maintain model to complete a convention center project, according to city officials.

Broward County, Florida has a request for proposals seeking private partners for such a project in Fort Lauderdale.

The DBFOM model has been more widely used in other countries for such "social infrastructure" projects.

"As cities confront challenges with their debt capacity or being able to take advantage of low interest rates, because of revenues going to salaries and pension costs, there has been greater interest in looking at P3s to build infrastructure," Santana said.

The committee approved a plan to move ahead on the "dual track" of fleshing out a public-private model even as it continues to explore using the more traditional bond-financed model. Two other council committees would have to approve the dual track before it would go to the full City Council.

If the council approves Santana's plan, as expected, within the next couple of weeks, the clock would start on a 90-day process during which the city and its consultants would work on the dual track proposals and come back to the council with recommendations for one or the other. The hope is that by June the city would be moving forward on either a process to select a private investor or the traditional method, Santana said.

While there have been no convention centers done with such a P3, other municipalities are pursuing the social infrastructure approach, Santana said.

Twenty miles to the south, Long Beach approved a $533 million public-private plan in December to build a new city hall, port headquarters, library and park.

"We are trying to find an approach that will allow the city to have a thriving convention center," Santana said.

City officials said the idea of seeking a public-private partnership arose out of a recognition of how much private investor interest there is in the area of downtown Los Angeles that houses the multi-block L.A. Live entertainment complex and convention center.

"There are cranes all over the place down there," said Bud Ovrom, executive director of the Los Angeles Department of Convention and Tourism Development.

South Park, the downtown Los Angeles neighborhood that includes L.A. Live, is the hottest neighborhood in Los Angeles, he said.

According to ARUP, the city's P3 consultant for the convention center, the acreage could support nearly $250 million in added revenue in present value terms from a 50-year ground lease connected to development that could include a combination of retail, hotel or offices. The city could also realize $10 million to $13 million in additional property tax and sales tax revenue, according to the estimates.

"A DBFOM is a public-private partnership at the furthest extreme," Ovrom said. "That has never been done in a convention center in the U.S. They say there is one in Australia."

The challenge with using such a method for a convention center is the economic impact is "not contained within the four walls," Ovrom said.

The economics are less challenging in Long Beach, Ovrom said, where the Port of Long Beach, the city and the state are the developers' customers.

"These are top tier rent-paying clients," he said. "It is not tough to make them successful."

A convention center, on the other hand, is not a cash cow, he said.

"It is a big building that we rent to people cheap, so they will stay in our hotels," Ovrom said. "The P3 operator does not get that money; it goes to the hotels and restaurants."

What the city has been trying to figure out, Ovrom said, is if the social infrastructure model is transferable to something like a convention center that isn't a cash generator by itself.

He said most cities consider convention centers a loss leader, though LA's convention center had $200 million in profit in both 2014 and 2015, after contracting its operations to L.A. Live owner Anschutz Entertainment Group. The city expects the convention center to realize a profit this year too.

"It's because the private sector pays employees lower salaries and less benefits," Ovrom said.

AEG has 100 employees doing the work that the city had 125 people doing, he said, and customer satisfaction has remained steady.

Though the committee approved the recommendations from Santana's report released on Dec. 23, some council members raised caution flags.

"I am a P3 fan, but it worries me that there is no example of a convention center done using this P3 model in the U.S.," said Councilman Paul Krekorian during the committee meeting.

Krekorian said he was concerned the city could be negotiating a contract with a private partner that has completed many such projects all over the world while the city has no experience.

He questioned how the city ensures that the private company's interests align with the city's.

Contemplating the DBFOM model for the convention center may be a new concept for the City Council, but Los Angeles is no stranger to public-private partnerships on massive projects.

The Grand Avenue Committee, a city-county joint powers authority, had Related Cos., the developer pay the majority of the cost to develop the Grand Park in downtown Los Angeles' Bunker Hill neighborhood as part of a lease agreement in which the developer would build a mixed-use development on ground it leases through the JPA.

The multi-billion Grand Avenue project, however, was a bit star-crossed. The park was built, as was billionaire Eli Broad's contemporary art museum, and a $120 million apartment tower opened last fall. But two planned towers have yet to be built in a project originally slated for completion in 2009.

L.A. Live has a public-private flavor too. The city provided tax breaks to AEG on different aspects of the district, which includes The Staples Center sports arena.

AEG received a break on its bed taxes when it constructed the 1,001-room Ritz-Carlton/J.W. Marriott hotels. It is also seeking subsidies on its plans to build a 755-room, 38-story hotel as an expansion of the J.W. Marriott, expected to begin construction this year.

Santana said his office has spent the past year investigating potential public-private models even as the city moved forward on the "traditional method" that would involve issuing $470 million in tax-exempt bonds to fund the project

Los Angeles began working toward what it called a "Plan B" as doubts emerged about AEG's ability to land a National Football League team to anchor a stadium planned in conjunction with a new convention center.

In the end, the NFL chose instead to move the St. Louis Rams to a new stadium in the L.A. suburb of Inglewood.

As part of Plan B, the city held a request for qualifications that resulted in a team of HMC and Populous architects producing a $470 million design under the so-called traditional tax-exempt model.

Santana sent the City Council a report on Dec. 23 recommending the dual track and that the city hire ARUP to design a request for proposals for firms to use a social infrastructure P3 model.

If the city's availability payments to a private partner came to less than the $50 million debt service payments the city makes on the existing convention center, it could save money, Santana said.

The city could structure the deal so that if the asset is not maintained at a certain level the payments the city makes could be penalized.

"We are the client and we could lay out expectations," Santana said. "We subsidize big conventions, because they are a net benefit to the city."

Los Angeles does not have a good track record of maintaining its assets, Santana said.

He said the current convention center needs new carpet and renovations to its restrooms.

Santana’s recommendation also included getting an independent analysis of the $470 million price tag Populous said it would cost to rebuild and expand convention center, and moving forward on an environmental impact report even as the city contemplates the two financing methods.

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