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LA County Uses P3 Lease Revenue Bonds for 21-Story, $295 million Office Tower.

Los Angeles County is using lease-revenue bonds sold through a public-private partnership to finance a 21-story office building, the first phase of a drive to bring jobs, housing, and public space to a blighted area of the second largest U.S. city.

The $295 million project will begin construction in Los Angeles' Koreatown area later this month as part of a larger development that will create new office space for county workers, additional housing and a community center that area residents say is long needed.

Los Angeles County Facilities, Inc., a private nonprofit created by the county to build the projects, is issuing $297.3 million in Series A tax-exempt lease revenue bonds and $5.1 million in Series B taxable lease revenue bonds.

The bonds priced July 26 with Barclays Capital Inc. selected as the underwriter. Orrick, Herrington and Sutcliffe is the bond counsel and Montague DeRose and Associates is the municipal advisor.

The Public Facilities Group, a Seattle-based nonprofit, is overseeing the county project and will run its facilities agency. The group previously worked with Los Angeles County to build a three-story office building for the county Community Development Commission in the nearby city of Alhambra and has worked on several public-private partnerships in Washington state and in Salinas, California and Riverside, California.

John Finke, president of the Public Facilities Group, said he's seeing more interest in California in the P3 financing model which he refers to as American Approach P3.

"This is one of the bigger ones," he said of Los Angeles County. "It's a fairly significant project."

The financing approach allows the project to be built more efficiently and at a lower cost, he said.

The county's analysis showed that the P3 financing model would save $30 million in project costs, reduce debt service payments by $66.4 million and shave 11 months off of the construction time, Finke said. "The structure is one where the development team provides a guaranteed maximum price insulating the county from cost overruns."

The agreement includes a guaranteed delivery date of October 2021 with the development team sharing in a percentage of the savings if the project comes in under-budget. And if the developers miss the deadline, they earn less in fees.

"It brings a powerful incentive to line everybody up working in the same direction," Finke said.

The bonds were rated AA by S&P Global Ratings and AA-minus by Fitch Ratings – the same rating given to the county for its own lease revenue bonds.

S&P also revised the county's outlook to positive from stable.

"The outlook revision reflects our view of the county's long-term trend of robust local economic performance from an already strong and very diverse base and an associated strengthening in revenue and tax base that have improved its capacity to meet capital and service priorities," the agency's analysts said in a July report.

The county will make lease payments to the nonprofit to pay off the bonds over a 33-year period. Once it is paid off, the county — which already owns the property — will take ownership of the building.

The rent — about $18 million a year — will cover debt service, operations and maintenance costs including taxes, utilities and capital expenditures.

County officials say the Vermont Corridor Administrative Offices Building — named for its S. Vermont Avenue location — has been long needed to reduce blight and consolidate county department employees at one location.

The building will feature an 8-story parking structure with 13 floors of office on top, providing a total of 468,000-square-feet of office space. It will also include a separate adjacent 10-story parking structure with a 9th floor sky bridge link.

The ground floor will include some retail space and a 3,597-square-foot mental health clinic.

The building, designed to house 2,167 employees, will serve as the new home for the county's mental health, workforce development, and aging and community services departments.

"This is a symbol of cutting edge and inclusive ways of delivering services in the County," said Supervisor Mark Ridley-Thomas, who represents the area and championed the project, in a statement after the project approval in May.

Ridley-Thomas said the new quarters will help in improving the delivery of mental health services. The department, which will make up the bulk of the employees at the building, has been working in dilapidated quarters for the last two decades, he said.

"We are creating jobs while positively transforming once-neglected blight into modern and robust assets," he said.

The office tower is the first of a three-phase transformation of the Vermont Corridor on three county-owned parcels.

On the second site, the existing 12-story mental health department building will be converted into market- rate housing with 172 units and a five-story parking structure. The project will be financed through private capital.

On the third site, a six-story, 72-unit senior affordable housing project with three stories of underground parking is planned. Tax credits and other financing will be used to build it.

The affordable housing site will also feature a 13,200-square-foot community center that Koreatown residents say is sorely needed. At a public hearing two years ago, many came out in support of that element of the project, saying the area is one of the most densely-populated in the city but lacks recreational opportunities.

“The lack of public space in Koreatown has profound impacts on the health of our community as residents and especially children have nowhere to recreate, exercise or interact with their neighbors,” said Brady Collins, a policy analyst with the Koreatown Immigrant Workers Alliance at the meeting. “The county’s redevelopment of a stretch of Vermont Avenue is the opportunity that we have been waiting for.”

By Imran Ghori

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