



DEPARTMENT OF
**CONVENTION &
TOURISM DEVELOPMENT**

CITY OF *Los Angeles*

FREQUENTLY ASKED QUESTIONS & ANSWERS



THE LOS ANGELES CONVENTION CENTER EXPANSION AND MODERNIZATION PROJECT

JUNE 2016



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INTRODUCTION

The time has arrived to make a decision regarding the future of the Los Angeles Convention Center (LACC)!

A truly competitive convention center can be one of the City's **strongest forms of economic development**. It attracts people from across the nation and around the world, who spend a lot of money in a short period of time at our hotels, stores, restaurants, and entertainment venues, and then go home before using our police, fire, paramedics, etc. **Every tax dollar paid by a conventioner is one less dollar which has to be collected from local businesses and residents to pay for our basic municipal services.**

Our immediate competitors on the West Coast already significantly outpace the LACC in hosting lucrative conventions. To do nothing while San Francisco, Anaheim, and San Diego are currently working on their own convention center expansion projects would result in an even smaller market share for Los Angeles.

An independent economic analysis estimated that the proposed expansion could increase the average number of annual citywide conventions from 23 to 40, increasing hotel room nights by 186,130 and incremental economic output by \$177 million per year!

For over two years, the City has been developing plans to turn the 54 acre, 870,000 square feet of meeting and exhibit space into a better economic engine for the City. The Bureau of Engineering (BOE) led a very successful conceptual design process, including a Design Competition which attracted the best convention center architectural firms in the nation. In June 2015, the team led by Populous and HMC Architects was chosen to guide this landmark project.

Over the next eleven months, numerous workshops, meetings, and presentations were conducted with major clients, show managers, hotel developers and operators, contractors, and community stakeholders to refine and improve upon the original design competition's winning proposal. In May

2016, the Board of Los Angeles Convention and Tourism Development (CTD) unanimously voted to recommend to the City Council its Preferred Design.

Concurrently, the City Administrative Officer (CAO) has been working on plans to pay for the project – within the very strict guidelines that the project **must not exceed the original \$350 million construction budget** and that **no new or increased taxes be proposed**.

In December 2013, the CAO was also authorized to explore “alternative development projects or a public private partnership” to help pay for the project. In December 2015, the CAO made an initial report back to the City Council introducing a “Design, Build, Finance, Operate, and Maintain” (DBFOM) alternative delivery method to both build and help pay for the Convention Center project.

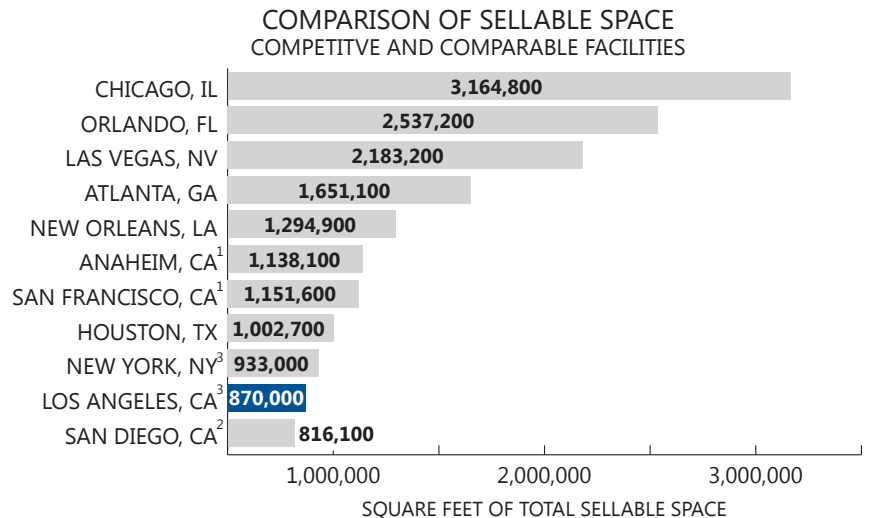
In March 2016, the City Council directed the CAO and Chief Legislative Analyst (CLA) to report back in 90 days on the Dual Paths: 1) the conventional delivery and financing model and 2) the DBFOM alternative delivery model. On June 21, 2016, the CAO will issue the Dual Path report, including a Business Case and possible campus designs informing the DBFOM model. The CAO will also provide a financing plan for the conventional financing model. **A final, fully-informed decision by the Mayor and City Council regarding the future of the LACC could then be possible during the summer of 2016.**

The **purpose of this report** is to provide **Frequently Asked Questions and Answers** (FAQs) regarding the overall convention center expansion and modernization project, in addition to an overview of Populous' design, for the **conventional delivery method**.

WHY DO WE NEED TO EXPAND & MODERNIZE THE CONVENTION CENTER?

The City of Los Angeles has incredible market potential to be competitive on the world map: tourism is at an all-time high at 45.6 million visitors in 2015, and that number is projected to reach 50 million by 2020. LA is the second largest city in the United States, and serves as the gateway to the Pacific Asian market, with the second busiest airport and the busiest port complex in the nation.

Despite the many offerings of the City and year-round beautiful weather, the LACC underperforms in attracting conventions, meetings, and corporate events among its competitor facilities across the nation. As shown in the chart (right), the LACC is relatively small compared to other major convention centers.



Reported by CSL, 2015
 1. Figure includes current expansion projects
 2. Figure does not include upcoming expansion project
 3. Reported by CTD Department

CONVENTION CENTER ROOM NIGHT GENERATION COMPARISON IMMEDIATE COMPETITORS

CALENDAR YEAR 2014	LOS ANGELES	SAN FRANCISCO	ANAHEIM	SAN DIEGO
CITYWIDE EVENTS	26	59	32	38
ROOM NIGHTS SOLD	197,037	1,018,422	420,083	571,176
AVG ROOM NIGHTS/EVENT	7,578	17,261	13,127	15,031

Reported by LATCB, 2015; Visit San Diego, 2015

Los Angeles is capable of so much more — the LACC is a billion dollar asset, which should serve as a long-term economic engine for the entire region, but even our West Coast competitors (San Diego, Anaheim and San Francisco) regularly book clients and events that would be well-suited for LA.

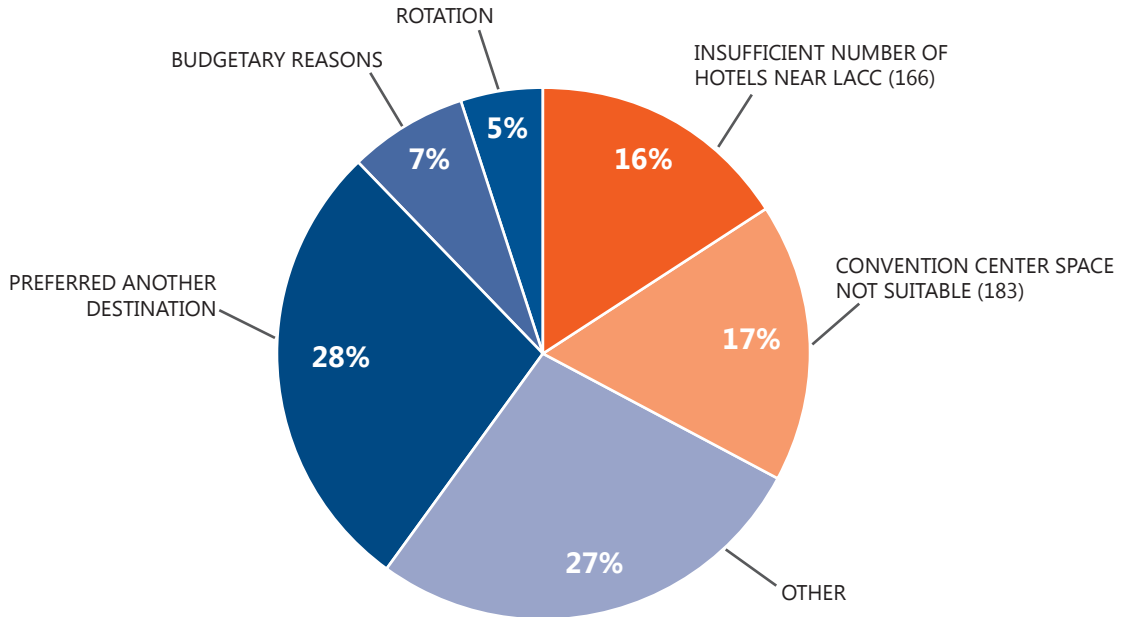
Although they already outperform the LACC in citywide events and room night generation (see chart above left), these cities are planning their own respective expansion projects. Anaheim and San Francisco have already begun construction, leaving LA even further behind (see table left).

CALIFORNIA CONVENTION CENTER EXPANSION PROJECTS

	CITY	EXISTING SQ FT	FUTURE SQ FT	STATUS
	LOS ANGELES	870,000	1,238,000	PLANNING
	ANAHEIM	938,100	1,138,100	UNDER CONSTRUCTION
	SAN DIEGO	818,100	1,224,100	PLANNING
	SAN FRANCISCO	816,600	1,151,600	UNDER CONSTRUCTION

HOW MUCH BUSINESS DOES THE LACC LOSE WITHOUT AN EXPANSION?

**LOST CITYWIDE BUSINESS RECORDED IN 2010-2015
FOR EVENTS WITH AN ARRIVAL DATE IN 2010-2027**

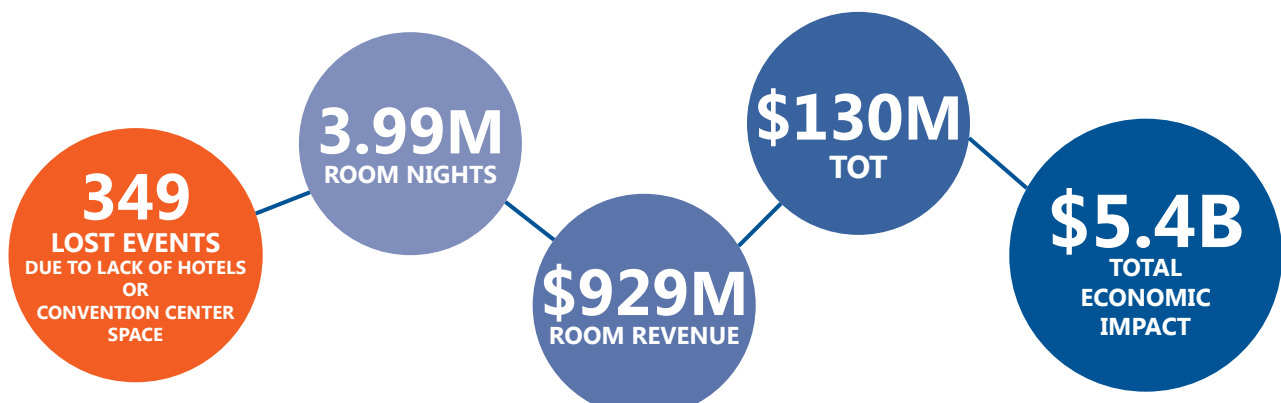


The Los Angeles Tourism and Convention Board (LATCB), responsible for booking citywides at the LACC, tracks the reasons why potential clients ultimately book with competitors instead of with LA (see chart above).

Of the 1,041 events that were lost from 2010 to 2015 (that would have occurred from 2010 through 2027), 349 pieces of business were lost due to lack of space and/or the configuration of space at of the LACC and an insufficient hotel room supply.

Those 349 events equate to 3.99 million room nights, \$929 million in room revenue, and over \$130 million in transient occupancy tax. This amount of business could have generated \$5.4 billion in total economic impact for the City.

While it would be impossible to book all 349 events at the LACC due to scheduling constraints, this sizable missed opportunity for revenue generation for the City must be considered. The LACC must address a lack of facilities and infrastructure required by the contemporary convention and event planning industry to fill a more fitting role in the local economy and to better compete with peer cities.



HOW WOULD THE CITY BENEFIT FROM A CONVENTION CENTER EXPANSION?

The biggest benefit to the City will be the economic impact. By expanding and modernizing the LACC, the City will be increasing the Convention Center's potential as an economic engine, thus **increasing events and room nights, direct and indirect spending, tax revenues, and jobs for the region.**

To quantify the LACC's current and future impact, two market and economic impact analysis studies were undertaken: the first report, performed by Conventions, Sports & Leisure (CSL) in 2015, focused on LATCB citywide conventions and a few major local events utilizing exhibit halls. CSL

projected that if there was no expansion, business would decrease as a result of losing market share to competitors that are improving their facilities. The second report, by Johnson Consulting in 2016, expanded the scope of CSL's analysis to comprehensively include all LACC events, even those taking place outside the exhibit halls.

The following charts compare FY 2014-15 with post-expansion projections, assuming the improved facility has reached its potential (approximately six years after the completion of construction).

INCREASED EVENTS AND ROOM NIGHTS

PROJECTED LACC EVENTS & ROOM NIGHTS

		FY 2014-15	WITH EXPANSION
CITYWIDE CONVENTIONS	NUMBER OF EVENTS	25	40
	TOTAL ROOM NIGHTS ¹	361,630	539,410
LOCAL EVENTS	NUMBER OF EVENTS	290	307
	TOTAL ROOM NIGHTS	104,240	112,590
TOTAL EVENTS	NUMBER OF EVENTS	315	347
	TOTAL ROOM NIGHTS ¹	465,870	652,000

Source: Johnson Consulting, 2016

1. Includes estimated attendees, exhibitors and show managers booking outside the room block

This proposed expansion will better equip the LACC to host large events, **even simultaneously**, which then allows for an improved event mix with significant room night counts. Johnson Consulting projected total room nights from all event activity could increase by **40% to 652,000 room nights** per year after the expansion is completed. Without an expansion, CSL projected a 14% drop in room nights from the historical average.

HIGHER REVENUE FOR THE CITY

FISCAL IMPACT GENERATED BY THE LACC BASED ON TOTAL SPENDING GENERATED BY LACC ACTIVITY, IN MILLIONS

	FY 2014-15	WITH EXPANSION
LA SALES TAX	\$1.6	\$2.3
HOTEL MOTEL TAX - LA	\$20.8	\$29.3
SALES TAX - INDIRECT SPENDING	\$0.5	\$0.7
LA BUSINESS TAX	\$0.02	\$0.04
LA PARKING USER TAX	\$0.5	\$0.7
TOTAL REVENUES	\$23.5	\$33.1

Source: Johnson Consulting, 2016

The direct and indirect spend resulting from LACC activity ripples out into the local economy. According to Johnson Consulting, the expansion of the LACC could **increase total tax revenues for the City of LA by 40.9% to \$33.1 million per year.** Transient occupancy tax could rise from \$20.8 million to \$29.3 million. These revenues can then be used to improve the quality of life for the residents of the City.

If the City did not expand the LACC, CSL projected a 12.8% decrease in total revenues from the historical average, and a 35% decrease from the expansion scenario.

GREATER DIRECT AND INDIRECT SPENDING

With the increase in citywide and major local events, an increase in total visitors to the LACC will follow. Johnson Consulting projected total attendance to the facility (including exhibitors and show managers) will increase by 21% after expansion to **2.59 million attendees**, generating an estimated **\$368 million in direct spending*** (new dollars injected into the local economy from outside LA), and a **total spend of \$600 million** per year.

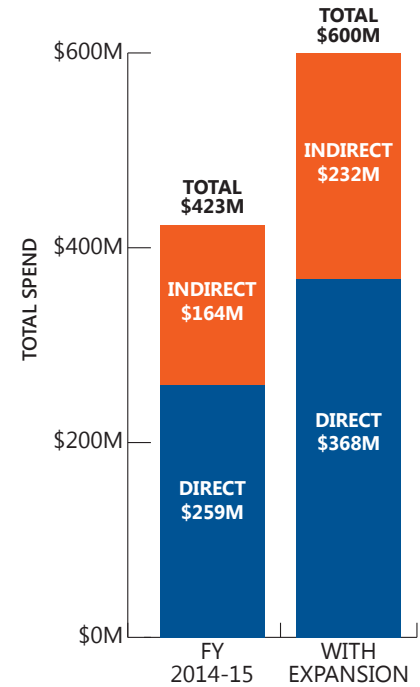
If the LACC does not improve, CSL estimated total spending generated by LACC activity would be 35.6% lower than if there was an expansion.

ESTIMATED DIRECT SPENDING
GENERATED BY LACC ACTIVITY, IN MILLIONS

	FY 2014-15	WITH EXPANSION
HOTEL	\$96	\$135
RESTAURANT	\$79	\$105
ENTERTAINMENT	\$22	\$33
RETAIL	\$14	\$17
AUTO RENTAL	\$7	\$11
OTHER LOCAL TRANSIT	\$13	\$18
OTHER INDUSTRIES	\$29	\$49
TOTAL DIRECT SPENDING	\$259	\$368

Source: Johnson Consulting, 2016

TOTAL SPENDING
GENERATED BY LACC ACTIVITY
DIRECT & INDIRECT/INDUCED



Source: Johnson Consulting, 2016

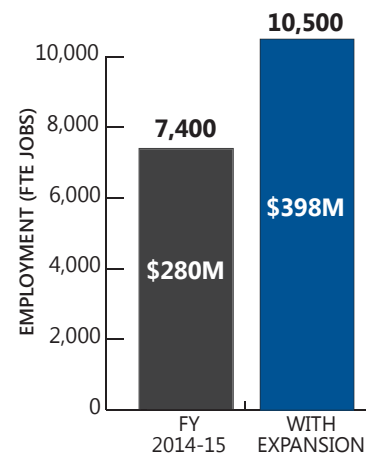
*Based off estimates determined by attendee spending characteristics according to event type

JOB GROWTH GENERATED BY LACC ACTIVITY

Employment generated by activity hosted at the LACC during FY 2014-15 and related total spending was 7,400 full time equivalent (FTE) jobs, according to the Johnson Consulting report. That number would grow to **10,500 FTE jobs** with associated earnings totaling \$398 million per year as a result of an expansion and improvement of the LACC. CSL's report projected a 35.8% decrease in employment when comparing the expansion to the no-expansion scenario.

Leisure and hospitality is the fifth largest employment super-sector in the Los Angeles County economy, with total jobs averaging 488,142 during calendar year 2015. Improving the LACC further strengthens this essential industry's contribution to the local economy.

EARNINGS & EMPLOYMENT ESTIMATE
BASED ON
TOTAL SPENDING GENERATED BY LACC ACTIVITY



Source: Johnson Consulting, 2016

WHERE ARE WE NOW?



Above: an aerial rendering of the LACC expansion and modernization project, as proposed by Populous | HMC Architects during the design competition

THE WORK PROGRAM

Considering the current and future needs of the LACC, combined with the goals mentioned on the previous pages, the City determined the expansion should include the following: 220,000 square feet of additional exhibit space, 70,000 square feet of ballroom space, and 78,000 square feet of meeting room space (see chart below).

LACC SPACE OFFERINGS
APPROXIMATIONS IN SQUARE FEET

TYPE OF SPACE	EXISTING TOTALS	EXPANSION	NEW TOTALS
EXHIBIT	720,000	220,000	940,000
BALLROOM	0	70,000	70,000
MEETING ROOM	150,000	78,000	228,000
GRAND TOTAL	870,000	368,000	1,238,000

THE DESIGN COMPETITION

Per the City Council's instruction in June 2014, the Bureau of Engineering (BOE) spearheaded a design competition for the CTD Department to select an architectural team for the proposed expansion project.

BOE received 11 responses, and following an interview process, selected three finalists to submit drawings, renderings, models and cost estimates for consideration. The winning team, led by Populous, includes HMC Architects, landscape architects from Olin Studio, interior designers from Chu+Gooding Architects, engineers from Syska Hennessy and Magnussan Klemencic Associates, and other specialty consultants. The team is a collection of local and industry-leading talent in convention center design and construction.



Left: Michael Lockwood of Populous presents their design submission to the CTD Board, the Los Angeles Convention and Exhibition Center Authority and the Board of Public Works

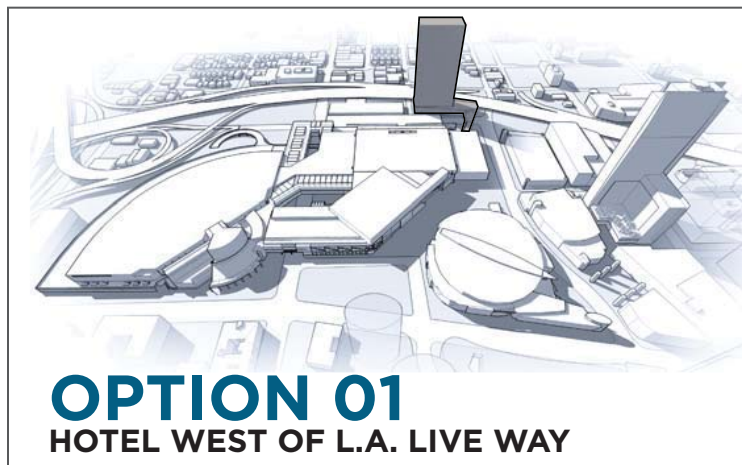
HOW ARE LACC STAKEHOLDERS INVOLVED?

By holding several workshops for current and future clients, hotel owners and developers, contractors, and the community, Populous' conceptual design refinement process benefited from a wealth of stakeholder feedback.

Using the winning design submittal as a starting point, the direction of the project adapted to meet the needs of the facility while preserving the elements that captured

the essence of the City. For instance, because there was a consensus that contiguous exhibit hall space is a priority, the team explored connecting South and West Exhibit Halls while still improving the experience on Pico Boulevard.

The following three options, identified primarily by onsite hotel location, are the result of these workshops, combined with guidance from CTD, BOE and other City advisors.



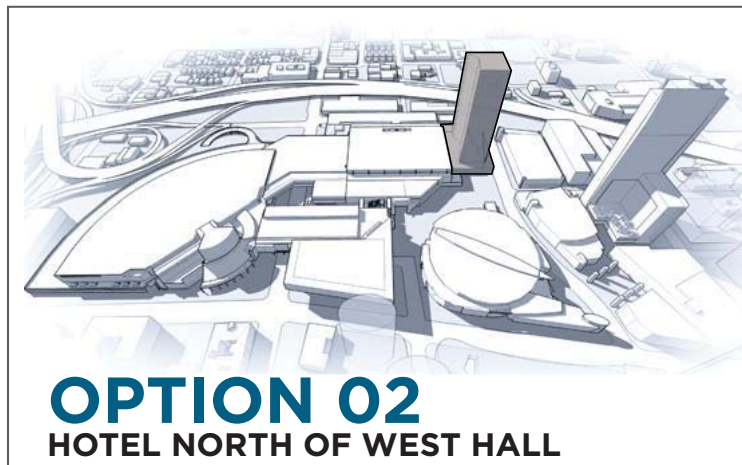
OPTION 01
HOTEL WEST OF L.A. LIVE WAY

PROS

- Contiguous exhibit hall experience
- Maximizes outdoor event space
- Openness of Pico Boulevard

CONS

- Not a true contiguous exhibit hall
- Significant demolition of existing program space
- Higher cost and longer duration of construction
- Cost of elevated ballroom above building
- Hotel is distant from the district



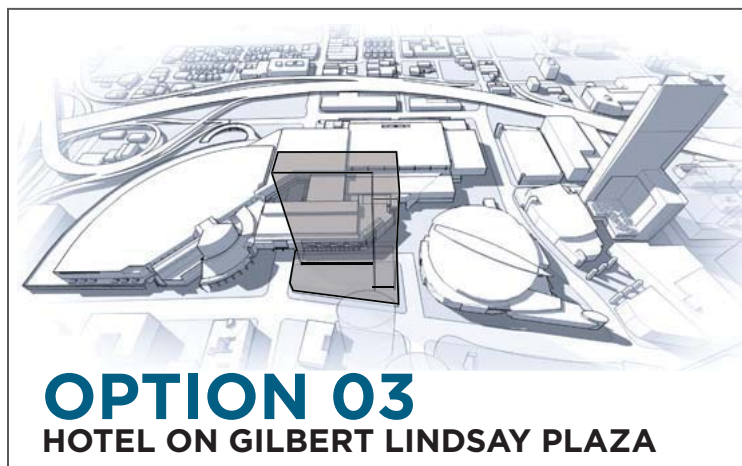
OPTION 02
HOTEL NORTH OF WEST HALL

PROS

- True contiguous exhibit hall
- Creates new front door for the LACC
- Prominent community ballroom space
- Developable street level space on Figueroa Street
- Shorter construction period

CONS

- Challenges with ballroom support
- Eliminates potential hotel site
- Moderately covers Pico Boulevard



OPTION 03
HOTEL ON GILBERT LINDSAY PLAZA

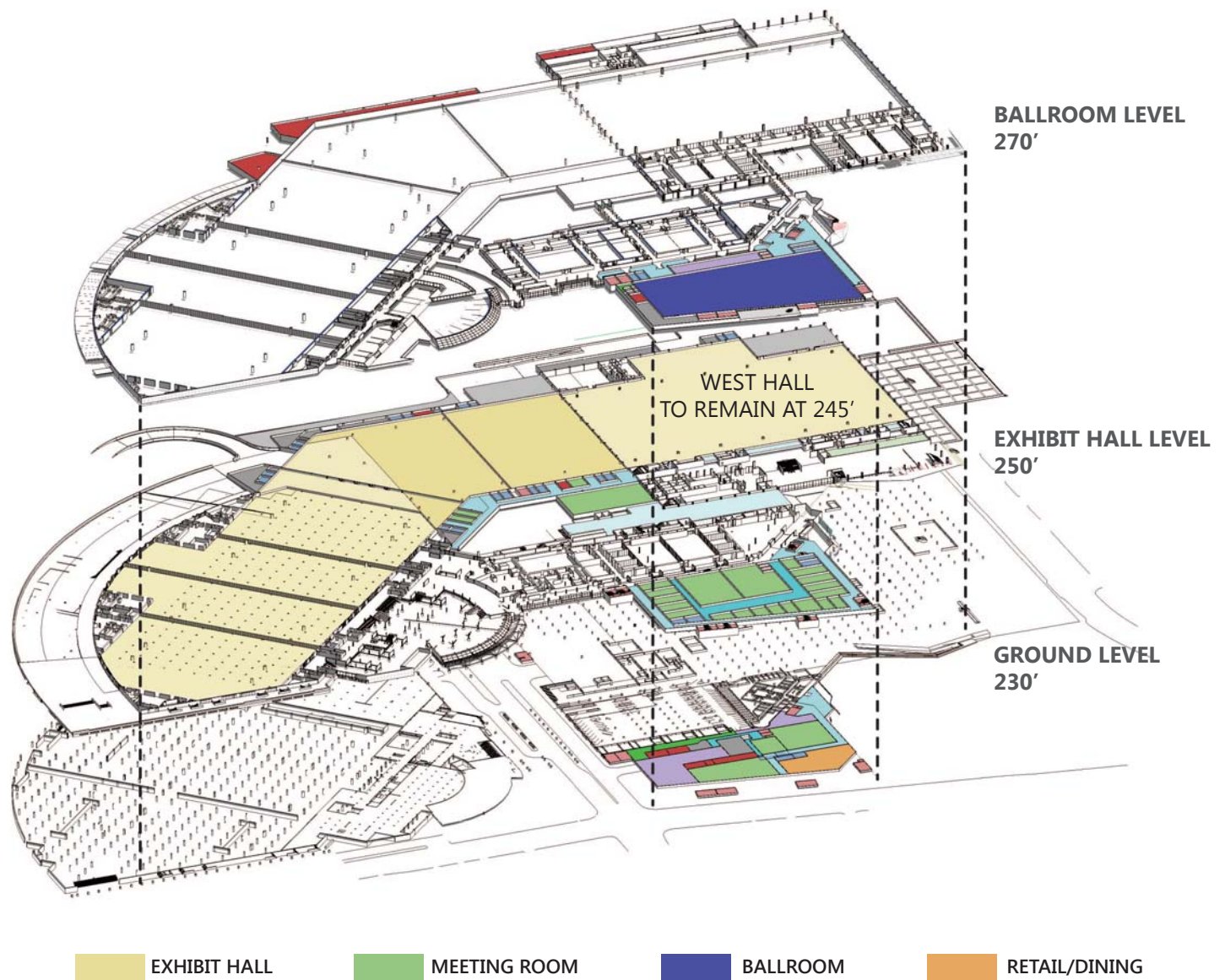
PROS

- True contiguous exhibit hall
- Centralizes break-out space
- Shorter construction period

CONS

- Challenging onsite hotel pad
- Visually hides LACC from Figueroa Street
- No civic presence for ballroom
- Moderately covers Pico Boulevard

WHAT IS THE PREFERRED DESIGN?



Design Option 2, with the hotel on Chick Hearn Court, was selected by the CTD Board and the design team as the preferred option for the LACC expansion under the conventional municipal financing path.

While both Options 2 and 3 were both evaluated to be within budget by a professional estimating organization (see p. 15), Option 2 offered the best value, overall layout, construction phasing options and program for the cost.

In this design, the onsite hotel is situated on the north end of the LACC. South and West Halls are connected to create one contiguous exhibit hall, spanning over Pico Boulevard. A new meeting room and ballroom complex is added on the east side of the building, connecting to the existing Concourse Hall and 400 series meeting rooms. Petree Hall and the West Hall Tower are demolished to improve site circulation and create a new grand entrance to the facility.



Above: A new aerial rendering of the LACC expansion and modernization project, as proposed by Populous | HMC Architects under the preferred design.

EXHIBITION SPACE

Combining the South and West Exhibit Halls is a significant design choice; the new space will be 737,000 square feet of contiguous exhibit space, the largest on the West Coast.

With a space of this size, it can easily attract and accommodate signature conventions without breaking up a large show between two halls. It will also give the LACC's largest shows room to grow, increasing the potential generation of economic impact. This also prevents the "lesser hall" or "more disconnected hall" dilemma which could occur when you have separate halls.

This contiguous space will enable the LACC to reach its goal of booking larger citywide conventions as well as multiple events simultaneously. The space can even be divided into thirds, and each third would have their own respective entrance, lobby and pre-function space, allowing for easy compartmentalization and great flexibility.

An outdoor exhibit space of 40,000 square feet will capitalize on the wonderful outdoor environment created by LA's dependably pleasing weather. Meetings and conventions have indicated they want more outdoor experiences; this space offers a unique and flexible canvas for programming outdoor exhibits and connecting guests to the City during their event.

ONSITE HEADQUARTER HOTEL

This design option places the pad for a potential onsite headquarter hotel off Chick Hearn Court. Many hotel owners and developers confirmed this as a desirable location for a hotel project because of its proximity to L.A. Live and the rest of Downtown.

The hotel lobby could connect directly to the LACC's lobby, creating the seamless convention experience desired by show managers for the convenience of their delegates. The proposed hotel meeting and conference space could complement shows that are held at the Convention Center.

The proposed 1,000-room tower would create an iconic skyscraper, easily visible from major freeways and roads. Even between conventions, the hotel would serve as a valuable asset to the City as tourists will want to stay in the Sports and Entertainment District year-round.

If the onsite hotel cannot utilize this preferred location, there are other equally-viable sites that can also be considered as alternatives.



Above: The view from the balcony above the new ballroom offers a unique vantage point to observe Staples Center, Oceanwide Plaza (once completed) and Downtown LA.

MEETING ROOMS

While the dimensions and exact placement will be determined during the next design stage, the current vision places the majority of the 78,000 net new square feet of meeting space between two levels in the new structure that will be built next to Concourse Hall. By adding this new component, it will activate and give more purpose to the Concourse Walkway, improving circulation. This structure could even serve as a standalone conference center for smaller events, easily hosting a large general session and breakout sessions in one centralized block.

The ground floor of this expansion will be activated with dining or potentially retail; even if no event is utilizing the building, there will still be street-level activation for visitors, residents and hotel guests.

BALLROOM

A key element of the proposed design is the addition of a 70,000-square-foot ballroom, which will be the largest on the West Coast. This state-of-the-art event space will be perched on top of two levels of meeting room space, giving it views of Downtown LA.

Multiple balconies and expansive glass windows will blend the indoor and outdoor experience, activating the façade of the building and constructing the civic prominence of the new face of the LACC.

The valuable address on Figueroa Street is ideal for high-profile events, offering easy access to Staples Center and Microsoft Theater while leaving space for a VIP, star-studded entrance if desired.



Above: An elevation drawing of the new ballroom and meeting room complex shows how the structure will cantilever over the walkway by Figueroa Street.



Above: The proposed design creates multiple opportunities for signage and wayfinding that will be appropriate for the Sports and Entertainment District. Large digital displays and dynamic exterior lights could match the vibrant energy of L.A. Live and the upcoming Oceanwide Plaza across the street. This placemaking strategy will grow and extend the L.A. Live destination south toward the LACC and the rest of the neighborhood.

Below: Looking south, this rendering shows the entrance for the newly configured West Hall lobby and outdoor exhibit space. Terraced stairways and integrated landscaping with two expansive plazas blend the indoor and outdoor experience. The flexibility of this area lends itself to event programming, opportunities for networking, and community use.



WHAT WILL HAPPEN TO GILBERT LINDSAY PLAZA?

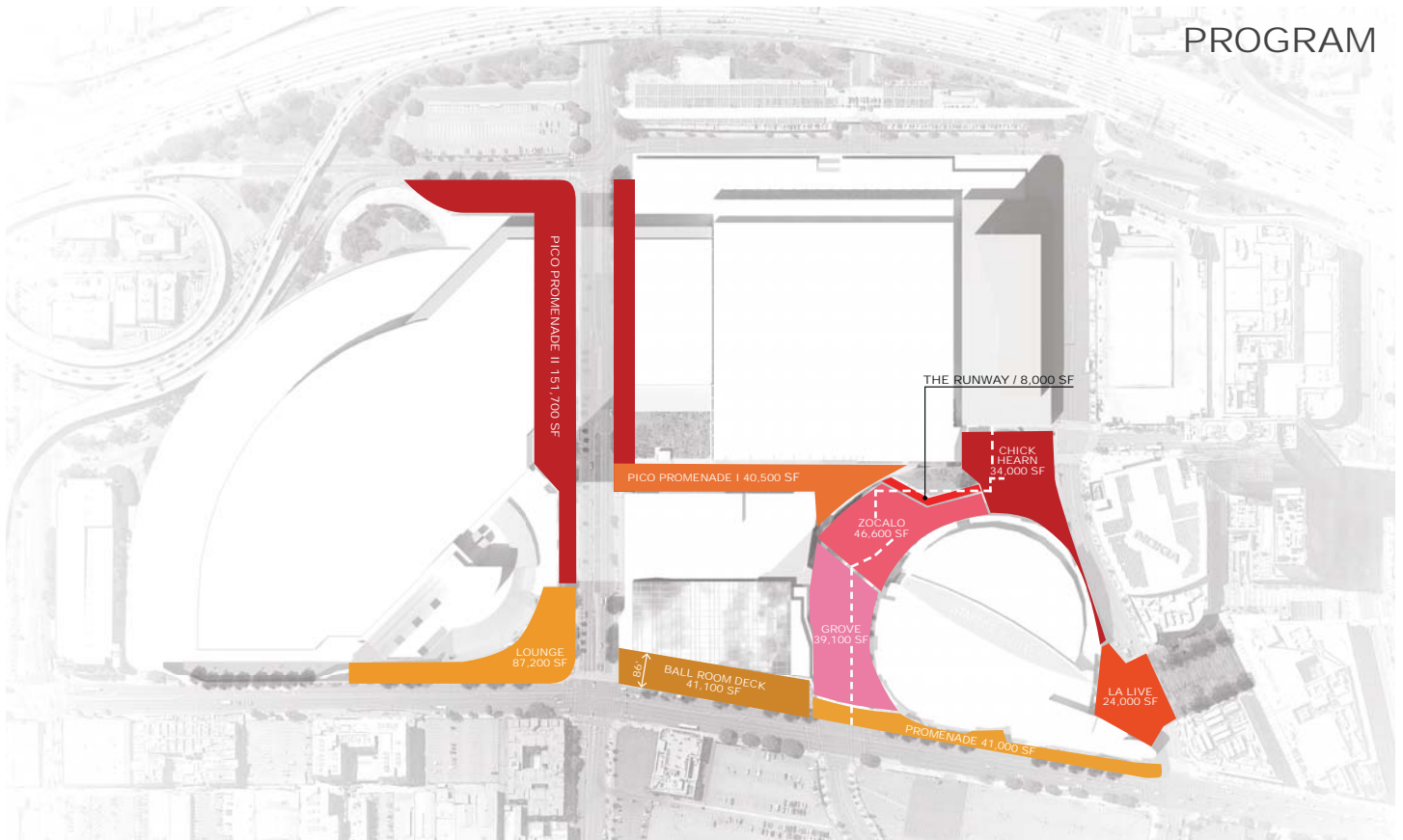
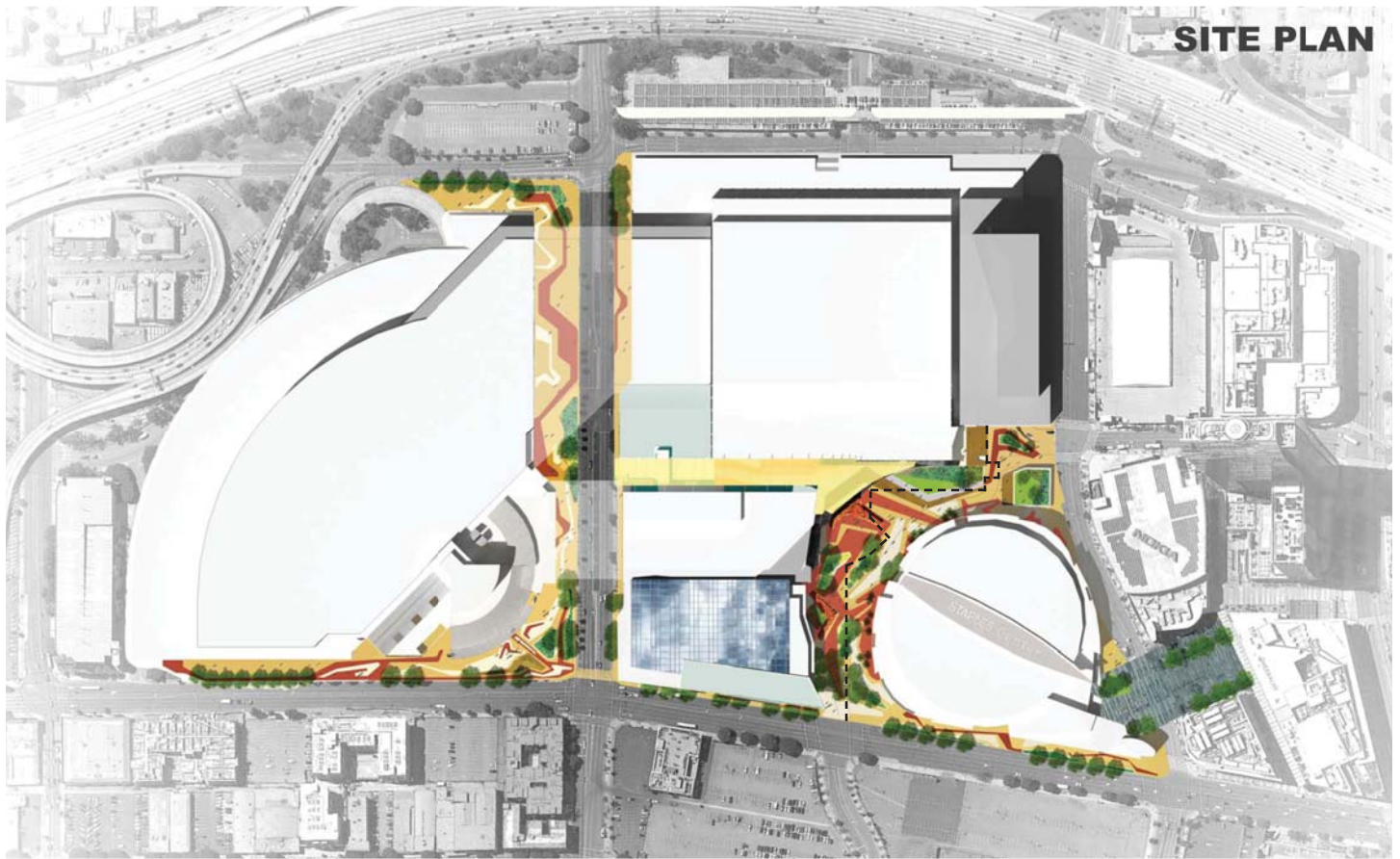


Above: Proposed areas of outdoor space developed for efficient and flexible uses of space to meet needs of attendees, clients and growing South Park neighborhood.

A key feature of the expansion design is the re-imagined Gilbert Lindsay Plaza that will greatly improve the connection of LACC guests to L.A. Live and the Downtown area. Instead of being isolated and underutilized, it now wraps around Staples Center, serving both as a hub for the district and as an accessible and programmable asset for the community while uniting the LACC campus.

The footprint of the Gilbert Lindsay Plaza will expand by **over 30%** to approximately **123,800 square feet**, an increase of 31,000 square feet.

As currently envisioned, iconic hardscaping and thoughtfully curated landscaping will create engaging urban spaces while improving the pedestrian and guest experience.

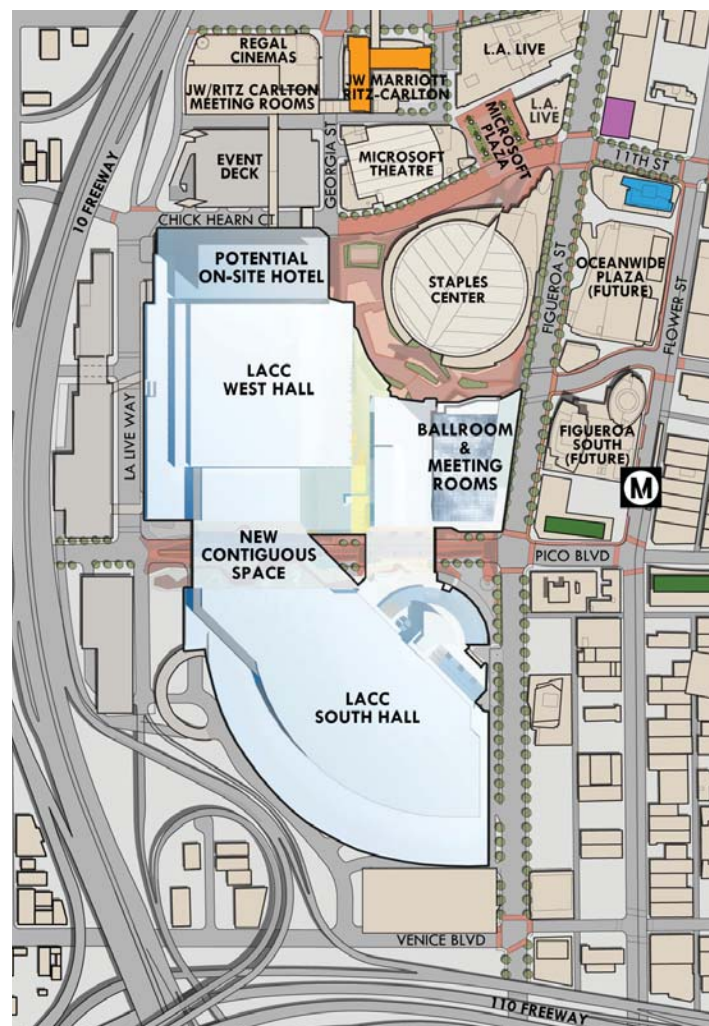
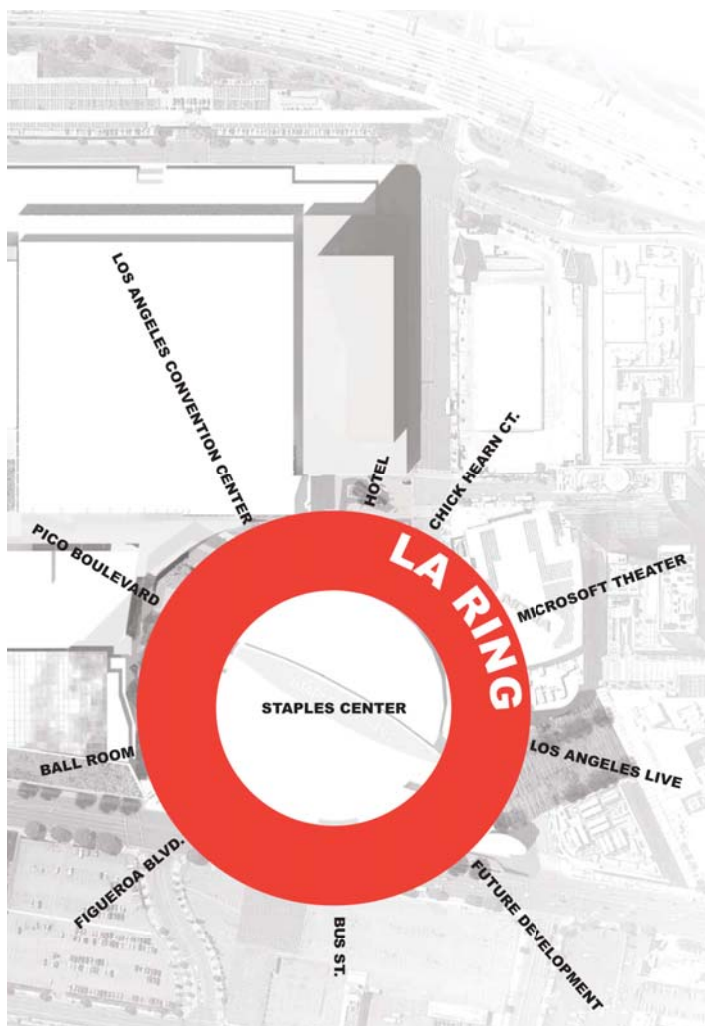


Above (top): Rendering provides an example how the outdoor spaces may be activated with hardscaping and softscaping for a united campus.

Above (bottom): Aerial layout shows how the space can be broken into unique nodes, facilitating community and guest interaction with the merged indoor/outdoor experience. These spaces are on the ground level, with the exception of Pico Promenade I (exhibit hall level) and the Runway (which traverses from the ground level to the exhibit hall level).

Please note the scope of this project will only address LACC property, which excludes property covered under the Staples Center Lease Agreement (approximate boundaries denoted by dashed lines).

WILL THIS EXPANSION IMPROVE THE NEIGHBORHOOD?



The urban design of this expansion **improves the walkability and accessibility of the neighborhood and expands the Sports and Entertainment District.**

By leveraging the new connectivity offered by the expanded Gilbert Lindsay Plaza, the Staples Center will serve as a hub for the LA Ring: a **new dynamic urban core** for the City of LA (see above left). The LA Ring connects both existing and proposed LACC programmatic elements to each other and with surrounding venues and future developments.

Improving the LACC campus will also **strengthen the connections with adjoining neighborhoods** in all directions, especially since Pico Boulevard and Figueroa Street serve as major arterial connectors for the City.

The redesigned Gilbert Lindsay Plaza and accompanying landscaping improvements will complement the upcoming Figueroa Corridor Streetscape project, which is scheduled to be completed in 2017. The overall walkability of the campus

and the neighborhood will be greatly improved, contributing to the quality of life for visitors and residents.

The program of the proposed design is **complementary to the district.** With L.A. Live to the north and two major mixed-use developments to the east, Oceanwide Plaza and Circa (Figueroa South), the expanded LACC will not compete with these projects and their retail and dining components (see above right). Instead, it will support their growth by attracting more visitors to Downtown.

The scale of the expansion is also suitable given the rapidly changing landscape. While the height of the new ballroom facility will continue the rhythm and energy set by L.A. Live and Staples Center, the open spaces provided by Gilbert Lindsay Plaza will provide a counterpoint to the 30 to 49-story towers that are under construction across the street. This will give welcome opportunities for the community to relax and enjoy green space while connecting to the City.

WHEN WOULD THE EXPANSION BE COMPLETED?

LACC EXPANSION PRELIMINARY PROJECT SCHEDULE

	FY 2016-17				FY 2017-18				FY 2018-19				FY 2019-20				FY 2020-21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Environmental impact review & approvals	[Orange bar]																			
Conceptual design refinement	[Orange bar]																			
Schematic design		[Orange bar]																		
Design development			[Orange bar]																	
Construction drawings					[Orange bar]															
Construction (phased simultaneously)									[Blue bar]											

Currently, the projected completion date for the LACC expansion project under the conventional municipal financing path is by October 2020.

Considering the tremendous progress accomplished over the past several months with Populous and the City team, the conceptual design refinement stage is nearly complete. Proof of concept has been verified, which means the project can quickly progress to the schematic design stage once approvals are given and a construction manager is selected.

Construction of the expansion could begin as early as July 2018. The scope and phasing of the planned work prioritizes continuity of business for clients by maximizing the availability of the LACC’s existing operating space inventory. With an estimated construction duration of slightly over two years, the project would be delivered during 2020.

HOW MUCH WOULD IT COST?

Following the direction of City Council and the Mayor, the City team and Populous have made every effort to ensure the estimated construction costs not exceed a budget of \$350 million, plus an additional \$120 million for “soft costs,” such as architecture, engineering, permitting, etc., for a total project cost of \$470 million.

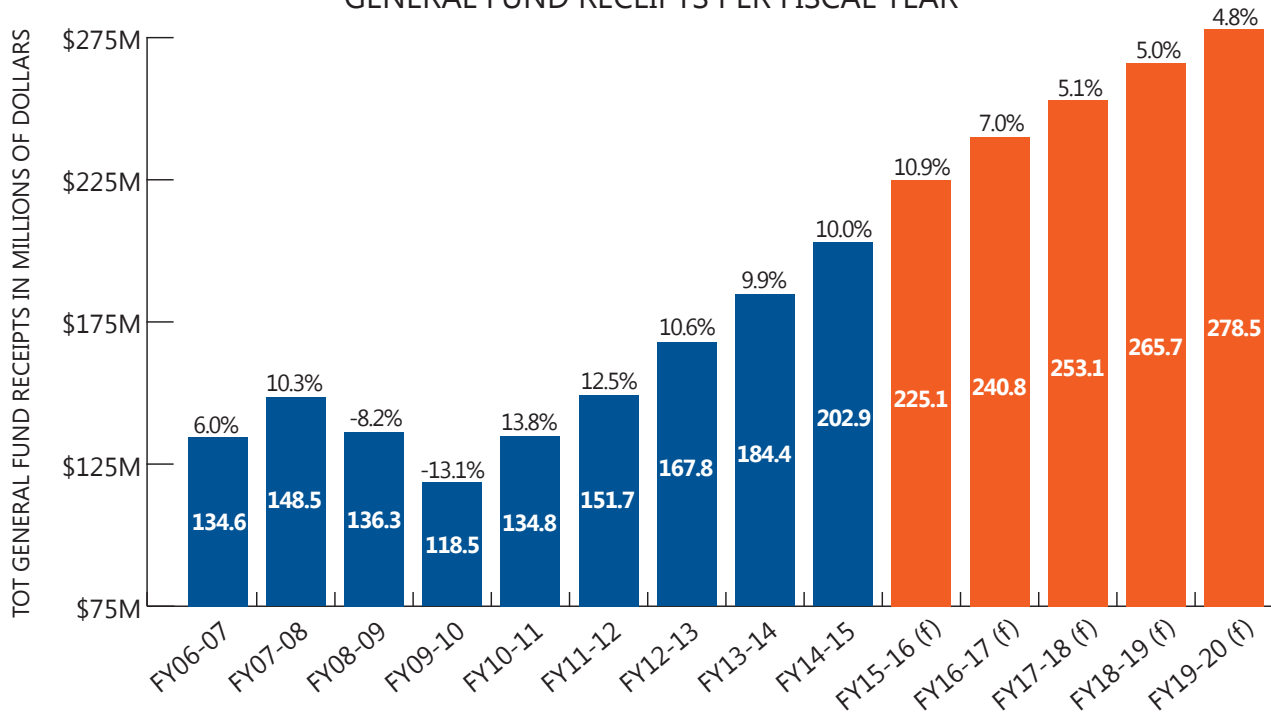
Part of the success of the preferred design is that it minimizes demolition (about 21,000 square feet) and utilizes already-existing pre-function, exhibit and meeting room space. Preserving West Hall, which is still viable, and not matching the elevation of South Hall and the new expansion significantly reduces costs and enables a better construction schedule to prioritize continuity of business.

To ensure the feasibility of the program and project goals as currently proposed in the preferred design, the design team engaged a professional estimating organization, C.P. O’Halloran Associates Inc. In May 2016, they reported that the preferred design could be built within the \$350 million construction budget.

Because the design is currently in the conceptual refinement stage, minor adjustments will follow as stakeholders and the design team continue to improve the details. When the plans are more finalized in subsequent stages, another cost estimate will be performed to confirm goals are being met.

WHO WOULD PAY FOR IT?

LOS ANGELES TRANSIENT OCCUPANCY TAX GENERAL FUND RECEIPTS PER FISCAL YEAR



Source: Los Angeles Office of Finance
5-year Forecast, Fiscal Year 2016-17 Los Angeles City Budget Revenue Outlook

On July 2, 2015, the Mayor and City Council instructed the CAO to develop a financing plan for the expansion project. Currently, the CAO is preparing a comparative analysis considering conventional as well as alternative financing strategies.

Under the conventional municipal financing model, **the project could be paid for by visitors who stay in local hotels.**

The City would finance the cost of the project by issuing municipal bonds, which is how the City typically finances capital improvements, such as buildings and infrastructure projects, including the existing LACC.

Historically, and based on the current budget, 3.5 percentage points of the 14 percent Transient Occupancy Tax (TOT), a tax charged to visitors who stay in hotels within City boundaries, is allocated towards the debt service payment cost of the LACC. Between 1967 and 1990, the TOT rate was raised four times specifically for the purpose of building and expanding the Convention Center.

With the resurgent economy, particularly in the leisure and hospitality sector, the TOT is one of the fastest growing revenues in the City. As such, the 3.5 points for FY 2015-16 are anticipated to generate over \$56 million, well above the FY 2015-16 debt service payment, which is approximately \$48 million.

Every major convention center in the nation has been built using some form of public financing. In LA's case, the bonds allocated towards the West Hall construction cost have been paid off. The remaining bonds will be paid off by FY 2022-23. Assuming current interest rates and steady market conditions, the new project cost of \$470 million may be sustainable should the City assume the same level of annual funding for debt service payments.

As with any major, municipally-financed public project, there is an associated debt impact. Currently, the City is considering moving forward with several major capital projects that could be coming online within a short time period of one another. Managing the debt impact is a policy consideration that could require the Council to prioritize projects against one another, while dispersing the construction timeline to avoid taking on too much debt within a short period of time.

The LACC expansion project is distinguished and unique from other public improvement projects in that the business hosted at the Convention Center generates a regional economic impact. The full financial gains ripple beyond the LACC's four walls and into the hotels, restaurants, stores and entertainment venues throughout the City.

Indeed, many cities operate their convention centers as "loss leaders" and measure their true success by the total revenues and jobs created citywide. The financial return and positive gain to city revenues are also made evident by the

fact that major cities throughout the country have committed to convention center expansion projects, including San Francisco with a project budget of \$508 million, and Anaheim with a project budget of \$300 million.

Other revenues the City may consider in helping offset costs associated with the new debt could be revenues generated from the project site. The City has expressed interest in developing a public private partnership with a potential developer for an onsite convention center hotel. Revenues generated from this partnership could include a ground lease payment, property tax paid by the private entity, and one-time construction sales tax associated with the development. Unlike other project site revenues such as sales tax or TOT which fluctuate and are sensitive to market conditions, a ground lease payment or property sales tax are revenues that are predictable and easier to trace.

Additional project revenue sources could include signage. Since refinancing the former tax-exempt lease revenues bonds, the City's current debt on the Convention Center is taxable, providing the City with more flexibility to generate revenue from the site, including signage revenue. Although incremental project revenues would not be sufficient to fully cover annual debt service costs, it could partially relieve the General Fund impact.

The CTD has committed to living within its means and will not request levying any new taxes or increasing any current tax rates.

WHY WILL THE EXPANSION INCLUDE AN ONSITE HOTEL?

2016

METROPOLIS

350 HOTEL ROOMS

1,550 CONDOS (PHASED)

74,000 SQ FT RETAIL (PHASED)



2018

OCEANWIDE PLAZA

183 HOTEL ROOMS

504 CONDOS

166,000 SQ FT RETAIL



2017

INTERCONTINENTAL

900 HOTEL ROOMS

45,100 SQ FT RETAIL

400,000 SQ FT OFFICE SPACE



2020

FIGUEROA NORTH

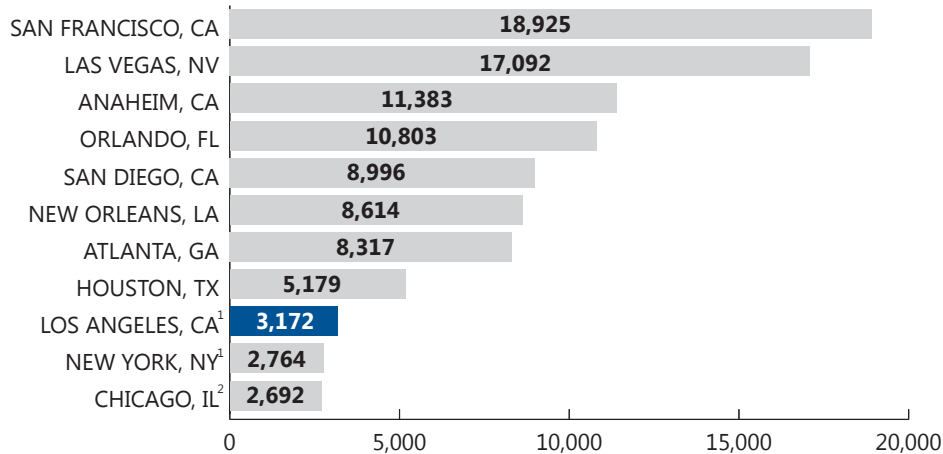
300 HOTEL ROOMS

(125 NET NEW)

650 CONDOS (PHASED)

80,000 SQ FT RETAIL

HOTEL ROOMS WITHIN WALKING DISTANCE OF CONVENTION CENTERS COMPETITIVE AND COMPARABLE FACILITIES



Reported by CSL, 2015
 1. Reported by CTD Department, 2015
 2. Reported by CSL, 2014

Even with Downtown LA's recent resurgence, there are comparatively few hotels within walking distance of the LACC. The Convention Center cannot attract the large conventions which require greater room nights and generate more economic benefit, due to a lack of hotel rooms.

The LACC has struggled with this issue for years. Compared to our competitive set – specifically our West Coast competitors, Anaheim, San Diego and San Francisco – the LACC is significantly out-matched (see chart above). As LATCB's lost business study demonstrates (p. 3), 16% of clients cite an inadequate supply of hotel rooms as the reason for booking elsewhere.

The CTD Department's goal to reach **8,000 hotel rooms by 2020** appeared to be a daunting task, but with Downtown's redevelopment after the Recession, a significant number of hotel rooms are anticipated to come online (see opposite page). Ten properties under construction and in the planning phase will result in approximately 3,000 hotel rooms opening in the near future, leaving another 2,000 rooms to reach the goal (see chart right).

The CTD, LATCB and City have identified a number of opportunity sites that may or may not be realized, including parcels that could be developed and projects that have been announced but not finalized. If a couple of key opportunity sites come to fruition, the City's 8,000-room goal is attainable – especially if the LACC onsite hotel project is successful.

Clients specifically want a sizable hotel as close to the LACC as possible to serve as their convention's headquarter hotel. The addition of an onsite hotel at the LACC with at least 1,000 rooms will be crucial to reach the CTD's goal. To that end, a Request for Interest (RFI) administered by Strategic Advisory Group, currently known as Jones Lang LaSalle, and the Economic and Workforce Development Department was released in December 2015 to gauge hotel developers' and operators' interest in this project.

After a well-attended open house in January with plenty of lively and creative discussions, seven RFI responses from reputable hotel brands and accomplished developers

were received in February 2016. City Council reviewed the promising results and authorized CTD to start drafting a Request for Proposal (RFP) for the onsite hotel for the Council's further consideration. The RFP will be open to all, as participation in the RFI was not mandatory.

This strong interest in the LACC property reflects the incredible value of an onsite hotel. Average hotel occupancy

rates above 80% confirm a very real market demand for an increase in hotel rooms, and an ability to absorb new inventory as it comes online. Because the post-recession recovery will eventually end its cycle, it is imperative for this project to be realized while the window of opportunity is still open.

HOTEL ROOMS WITHIN WALKING DISTANCE OF THE LACC

EXISTING HOTEL ROOM SUPPLY	
EXISTING AS OF JULY 1, 2013	2,597
OPENED DURING FY 2013-14	575
TOTAL EXISTING	3,172
FUTURE HOTEL ROOM SUPPLY	
UNDER CONSTRUCTION	1,990
UPCOMING	1,323
TOTAL FUTURE	3,313
OPPORTUNITY SITES	4,631

CONCLUSION



The time has come to make a decision regarding the future of the Los Angeles Convention Center!

It has been 2-1/2 years since the City Council directed staff to develop a plan for turning the LACC into a better economic engine for the City. It has been over seven years since the City and AEG started its pursuit of an NFL Stadium on the LACC campus – and almost two years since that effort officially ended. It has been over 20 years since the City last made any major physical renovations of the LACC!

A \$470 million decision should never be taken without exhaustive review and analysis. That analysis has now been completed. All the ingredients for a thoughtful and fully-informed decision by the Mayor and City Council should now be at hand.

Time is not our friend. With a fixed construction budget and the current rate of inflation for new construction, **every month which passes costs the project \$1.5 million in lost purchasing power.**

Moreover, we are now in one of the longest economic recoveries in recent history. Some have described the nation as being in the 7th inning of that economic upturn. There are predictions of an economic downturn in 2017 or 2018. If the City does not act now, this window of opportunity might close, and this job and revenue-producing project could be delayed by market conditions until the next cyclical economic upturn. Every year without the expansion could cost the City \$177 million annually in total economic impact.

This report speaks primarily to the **Conventional Financing Path** – the same financing and construction mechanism which has been used for all prior LACC work and for every major convention center in the nation.

A **preferred design by Populous**, which has broad based support, has been recommended. A **realistic construction schedule** has been agreed upon which safeguards **continuity of business for our clients**, offering a completed expansion in time for major upcoming events, such as the NFL Fanfest for the 2021 Super Bowl and the 2024 Olympics.

The **original budget** has been **adhered to** and **validated by cost estimates** (and will be again before construction starts). **No new or increased taxes are proposed** and the LACC retains its commitment to **“live within our means”** with the funding that has historically been committed to the LACC. **All the preconditions set by the Mayor and City Council when this process began have been met.**

If the CAO brings forward an alternative plan which meets all of the LACC program needs and is done as fast or faster and at the same or lower cost, then, of course, everyone could equally embrace that plan. The continued delays and speculative projections are what cause concern among our clients, contractors, hotel developers and operators, and community stakeholders.

Once the Mayor and City Council have selected the direction they want to proceed, City staff will enthusiastically embrace and faithfully implement whatever that direction turns out to be.



MAYOR

Eric Garcetti



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REPORT PRODUCTION

Kim Nakashima - Editor

Donna Jean Irving - Editor

Cristine Villorante - Executive Administrative Assistant

Adria Ybarra - Commission Executive Assistant

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CITY OF *Los Angeles*

1201 South Figueroa St., Los Angeles, CA 90015 | 213-741-1151
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