THE BOND BUYER
Thursday, April 28, 2016 | as of 9:31 PM ET

Regional News

Long Beach Closes on Financing for Civic Center P3

By Keeley Webster
April 21, 2016

LOS ANGELES — Long Beach, Calif. closed Wednesday on $513 million in financing for a public-private partnership to build a new city hall, port headquarters, library and park.

"We are excited to see this deal move forward and to meet the goals set by the city three years ago when it embarked on the Civic Center P3 Procurement," Long Beach Mayor Robert Garcia said in a prepared statement.

Instead of the city paying upfront to build the facilities and then paying for their operating costs over time, those expenses, along with design and construction costs, are all wrapped into "availability payments" the city and the Port of Long Beach will make over a 43-year period.

Developer Plenary-Edgemoor Civic Partners will design and build the project and then operate and maintain it for 43 years in return for the availability payments.

The $513 million financing package arranged by Plenary and banker HSBC consists of a $239 million private placement with Allianz over a 43-year term, a three-year, $213 million construction loan from Sumitomo Mitsui Banking Corp., a $21 million equity investment from Plenary and $40 million in cash and land contributions from the city.

"The P3 method was selected because it enabled the city to procure a new Civic Center without any bond issues, tax measures or voter approvals, and included over 100 outreach sessions," said Michael P. Conway, Long Beach Director of Economic and Property Development.

Typically, the least expensive cost of financing for municipalities to finance construction projects is to issue lower-interest tax exempt bonds.

During the tendering phase, the city had confirmed to bidders its willingness to facilitate the issuance of tax-exempt bonds for the project.

In public-private projects, the private sector P3 sponsor is often responsible for financing the project and that was the case in Long Beach.

The P3 sponsors evaluated a variety of potential tax-exempt and taxable financing structures and ultimately chose the taxable solution because, despite the higher taxable rate, the delayed draw feature of the taxable debt resulted in substantially less capitalized interest cost, said Michael Palmieri, president of p3point, the city's lead P3 financial advisor on the project.

The city had set an annual cap on how much annually it would pay for the P3 project, partly based off the amount being close to what it currently costs to maintain the existing buildings; and the P3 sponsor had to meet that cap.

The city plans to use the $12.6 million annually it already spends to maintain and operate the civic center buildings to make the availability payments. The plan was for the availability payments to be the same as the existing expense, but the payments are going to be $14.7 million, plus a couple million dollar service fee that covers the cost of interest on privately-placed debt, according to city documents.

The only way to eliminate the risk of breaching the cap was to fix all costs, including the financing costs, upfront, Palmieri said.

That eliminated the option of using potentially cheaper financing solutions, such as issuing short-term or variable rate debt over the three-year construction project and then issuing long-term debt at completion as take-out financing, which would introduce interest rate risk.

The project has been designed with a high seismic resiliency targeted to achieve Leadership in Energy and Environmental Design (LEED) gold or better certification, a designation based on environmental building standards.

The civic center will have an 11-story 270,000-square foot city hall, an 11-story port headquarters building, a two-story 92,000-square-foot main library, and a 73,000-square foot plaza. It also includes plans for future mixed-use private development of up to 580 residential units, retail space and up to 200 hotel rooms.

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