

DEFERRED DRAW ON HYBRID DBFOM

THE CITY OF LONG BEACH, CALIFORNIA REACHED COMMERCIAL AND FINANCIAL CLOSE ON APRIL 20 2016 FOR ITS US\$520M LONG BEACH CIVIC CENTER PUBLIC PRIVATE PARTNERSHIP PROJECT. BY **MICHAEL PALMIERI**, PRESIDENT OF **P3POINT**.

The project deal structure includes a classic design, build, finance (taxable private placement), operate and maintain structure for certain assets, a separate design, build and construction finance for other assets, and adjacent private real estate development. This is the second large social infrastructure P3 project to reach financial close in the US, the first to use a deferred draw taxable private placement, and potentially sets the stage and model for more P3 municipal facilities in the US.

At the financial close, Long Beach Mayor Dr Robert Garcia commented “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. I’d like to congratulate and thank our City Council, City staff, our partners, and the Plenary led consortium that helped us to reach this important milestone.”

The project is the first hybrid design-build-finance-operate-maintain (DBFOM) deal in North America, combining both public infrastructure and private development components within a single project. This hybrid approach enabled the City to achieve its affordability targets and also allowed the Plenary-led winning consortium to deliver a vibrant master plan combining, civil, commercial and residential elements in a cohesive manner that will revitalise the entire downtown area.

During the bid period, both Plenary and Macquarie had initially proposed using tax-exempt bonds to finance the project but Plenary moved to the private placement solution because it offered lower overall financing costs and better risk allocation for the City of Long Beach.

The City’s availability cap meant that all financing would need to be secured and fixed at financial close and the taxable delayed-draw structure had enough interest savings during construction compared with the all upfront muni financing to offset the higher borrowing rates of the taxable debt vs. the muni debt.

The Port is paying for it’s building upon construction completion but the City does not make any payments to the developer until occupancy in the new City Hall and new Main Library. Upon occupancy, the City makes monthly payments to the project, which increase annually, a portion at a fixed rate of 2.18% per year and a portion indexed to CPI.

The Plenary-led consortium included co-developer Edgemoor Infrastructure & Real Estate, operating service provider Johnson Controls, general contractor Clark Construction, and lead designer Skidmore

Owings & Merrill, and the City’s advisers included p3point as lead P3 financial adviser to the City, Arup as lead overall project adviser to the City and Port, including their team of HOK, BAE Urban Economics and MBI, Sheppard Mullins and Kutak Rock as legal advisers to the City and Port, and KNN as municipal finance adviser to the City.

p3point, the lead P3 financial advisor to the City on the Project, noted that the final financing package achieved was less than the annual limits for the project approved by City Council in December 2015, while providing additional risk protection during construction. While market conditions helped in part to gain savings, p3point, working closely with the City and it’s advisors to develop, structure and negotiate the project documentation and risk allocation, helped develop multiple financial structuring elements that saved the City millions of dollars.

Although the financing only shows US\$513m, there are other project costs that are not included in the financing, raising the total to approximately US\$520m.

A summary of the US\$513m financing arranged by Plenary and its bankers HSBC and Barclays, consisted of:

- US\$239m approximately 43-year term taxable delayed draw private placement with Allianz;
- US\$213m approximately three-year term taxable construction loan from Sumitomo Mitsui Banking Corporation;
- US\$21m equity investment by Plenary at a pre-income tax internal rate of return on equity projected to be earned over the full term of the project agreement, which as of the date of financial close was 13.25%; and

TABLE 1 - FINANCIAL CLOSE SOURCES AND USES (US\$)

Sources	
Private Placement Notes	239,058,469
Equity Contribution	21,159,416
City Cash Contributions	18,780,000
Land Sales Proceeds	21,703,960
Port Completion Payment/Construction Loan	212,602,502
Total Sources	513,304,347
Uses	
Design, Construction, Contingency	437,219,613
Prepayment of Existing City Debt	17,784,146
Financing Costs and Fees	58,300,588
Total Uses	513,304,347

TABLE 2 - PROCUREMENT TIMELINE

Project progress	Approx date
Seismic deficiency findings	May 2007
Explore alternatives and delays due to Global Financial Crisis	2008-2012
Issue RFQ	Apr 2013
RFQ responses submitted	Jul 2013
Updated retrofit study reconfirmed	Oct 2013
Shortlisting announcement (Related, Macquarie, Plenary)	Oct 2013
Bidder one-on-one meetings, formal clarification questions	Jan-May 2014
Release of first draft RFP	Feb 2014
Final RFP issued	May 2014
RFP responses submitted	Jun 2014
Bidder presentations and public outreach	Jun-Nov 2014
City awards Preferred Bidder (Plenary)	Dec 2014
Design development and project agreement structuring and negotiations	Jan 2015-Apr 2016
City approves Project Agreement and confirms availability price cap	Dec 2015
Financial close	Apr 2016
Ground breaking	Jul 2016
Scheduled completion of all buildings	Jun 2019
Scheduled park completion	Nov 2020

- Contributions of cash and land from the City of Long Beach totalling approximately US\$40m in value.

The timeline for the procurement roughly followed the dates in Table 2.

Need for a new facility

In May 2007, the City of Long Beach, California (2015 population 474,000) concluded infrastructure studies that identified significant seismic deficiencies in the existing Long Beach City Hall and Main Library buildings. These studies concluded that a full renovation (including tenant improvements and building code upgrades) would increase the cost to approximately US\$194m to upgrade a building that was over 40 years old, and suffered from functional and operational obsolescence.

Accordingly, the City made a decision to explore relocation to an existing facility or consideration of development of a new city hall facility. During 2008 to 2012, the Port of Long Beach also evaluated developing its own new headquarters building and the City evaluated potentially relocating to existing downtown buildings. In 2013 the City and Port proceeded to jointly to explore the potential to develop a new civic centre complex that would incorporate a new City Hall, new Port Headquarters and a new Main Library.

Project site and existing facilities

The current Long Beach Civic Center is located on a mega block of 14.89+/- gross acres and includes City Hall (a 15-storey concrete and glass tower with 225,000 usable ft²), the Main Library (135,000ft²), the 4.9+/- acre Lincoln Park, the above-ground Broadway parking structure*, the subterranean Lincoln Park parking structure, the Public Safety Building* and the Old Courthouse (being demolished). (*Not being changed or part of the project)

The Main Library, is a two-storey structure, with one level at grade and one level below grade. The roof of the first floor (or grade level) functions as a roof garden. The lower level connects to the subterranean VIP parking area of City Hall and,

indirectly, to Lincoln Garage. It has suffered decades of maintenance challenges, including an inability to correct waterproofing defects that have resulted in near-constant water leakage.

Lincoln Park is a 4.9+/- acre public park, which is an under-utilised, inaccessible and poorly designed civic space that does not capitalise on its location nor provide utility to the Downtown residential or office population.

Project environs

The Civic Center is located in the Downtown core, which contains a mix of uses, including high rise condominium and apartment buildings, Class A office buildings, hotels, and a thriving Convention Center and tourist area along the waterfront. One of the City’s goals was to develop a new Civic Center that emphasises a mixed-use, walkable environment that is more comparable with the existing urban fabric and small block development of the Downtown. To that end, in January 2012 the City adopted the Downtown Plan and Program EIR, which incorporated the vision of a more walkable mixed-use Downtown.

Choice of P3

With the successful example of the P3 Deukmejian State Superior Courthouse project (a State of California project sited in Long Beach) under way nearby the current City Hall, the City choose to proceed with the P3 method because it would: (i) enable the City to procure a new Civic Center without any budget increases, bond issues, tax measures or voter approvals (although the City eventually had over 100 public outreach sessions on the project), (ii) facilitate design and operational innovation from the P3 developers, (iii) provide a high level of 40-year life cycle maintenance for the new Civic Center without regard to changing government budgetary circumstances or political preferences, (iv) integrate significantly increased private real estate development of the downtown area with the new Civic Center through the City’s contribution of land in the Civic Center area, and which (v) also helped subsidise the cost of the Civic Center project in the near and long term.

“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,” noted Michael P Conway, director of Economic & Property Development and City lead for the project.

“This method also facilitated design and operational innovation from the P3 developers; provided a high level of 40-year life cycle maintenance for the new Civic Center; and integrated significantly increased private real estate development of the downtown area through the City’s contribution of land.”

Request for qualifications

In April 2013, the City issued a request for qualifications (RFQ) that outlined the City’s objectives for the project that the potential bidders would be required to deliver, including a DBFOM and opportunities for private development of downtown property contributed by the City. The project included

the possibility of also developing a new headquarters building for the Port of Long Beach.

The City was open to a significant master planning opportunity as well as an opportunity to enter into a public-private partnership to explore various financing delivery mechanisms, including but not limited to tax exempt financing, tax credits or other structures.

RFQ evaluation

The City’s internal Evaluation Committee evaluated the RFQ responses based on the following criteria in Table 3.

The results of the RFQ were three shortlisted bidding consortia:

- *Related California Team* – Related, Pei Cobb Freed & Partners, LPA, Studio 111, Rios Clementi Hale Studios, Griffin Structures, CW Driver, Hensel Phelps, ARB Structures, Moffatt & Nichol, Gotama Building Engineers, Englekirk Structural Engineers, MPH Structural Engineers, Twining, Roy Jorgensen Associates, Cushman Wakefield, Citi, David Taussig & Associates, Cordero & Associates, Best, Best & Krieger and Affiliated Development Group.
- *Long Beach CiviCore Alliance* – Macquarie Capital Group, Mar Ventures, Continental Development Corporation (CDC Mar), Lend Lease Investments, PCL Construction, Fentress, Nabih Youssef & Associates (NYA), Civitas, Pamela Burton & Associates, P2S Engineering, RBF Consulting, ABM Facility Services, Milbank, Bank of America Merrill Lynch and Hurst Harrigan and Associates City of Long Beach New Civic Center.
- *Plenary-Edgemoor Civic Partners* – Plenary Group, Edgemoor Infrastructure & Real Estate, SOM, HMC, Kelly Sutherlin McLeod Architecture, Syska Hennessy Group, Gustafson Guthrie Nichol, Bennitt Design Group, Clark Construction Group, P2S Engineering, Johnson Controls, De La Rosa & Co, O’Melveny & Myers LLP and Nabih Youssef & Associates .

Request for proposals

The request for proposals (RFP) issued by the City to the three shortlisted bidders was seeking proposals to DBFOM a new civic centre, which would include City Hall, the Main Library, Lincoln Park, and possibly a Port Headquarters. The RFP required bidders to submit two proposals, one with the Port Headquarters and one without because the Port needed to confirm that the bidder’s cost of the Port Headquarters was

acceptable before proceeding, while the City had set an availability cap. An overarching goal was to ensure that the City’s cost to operate and occupy the new City Hall was no greater than its current cost, then estimated at US\$12.6m annually.

The City was also seeking the development of contributed property for private real estate development that the proposer believed would contribute to the revitalisation of the downtown area, the Civic Center, and Lincoln Park. The private development would help subsidise the City’s cost of the project.

The RFP included an availability payment formula, templates for performance deductions, design and performance specifications, draft project agreement terms and legal considerations. Although the City had full legal authority to enter into a P3 project agreement, it made the decision to proceed with special legislation to provide for a clear legal position to procure the project on best value or other criteria. The RFP also provided for a stipend of US\$500,000 to each bidder that submitted a complete and legitimate response to the RFP but was not selected as preferred bidder.

Bid evaluations

Shortly after release of the RFP to the three shortlisted bidders, the Related team dropped out of the process. It was rumoured that the ratio of P3 development compared with private real estate development opportunities was greater than Related was comfortable with. The fact that the City was holding elections in the middle of the procurement and bid evaluation process, which would have a new mayor and new majority City Council, may have added to their perception of procurement risks.

Both the Plenary and Macquaire-led teams submitted compliant bids and evaluations were based on a detailed scoring protocol, summarised below in Table 4

Design development and negotiations

After formal award of the project to Plenary as the preferred bidder in December 2014, the rest of the design development and project agreement and other documentation negotiations began. After nearly 16 months of this work by all parties, the project reached financial close.

The final project delivers a new civic centre designed with a high seismic resiliency (<5% PML, 30-day re-occupancy and no loss of life) targeted to achieve a LEED gold or better certification and facilitates a reinvigorated downtown Long Beach. ■

TABLE 3 - RFQ CRITERIA

Evaluation criteria	Max points
Team Members’ demonstrated management experience with Performance-Based Infrastructure (PBI) and Public-Private Partnerships (PPP)	25
Team Members’ strength and demonstrated architecture and engineering design ability, experience and capacity to develop a large Civic Center campus in an urban setting including prior experience of the architect on projects of similar scale and complexity.	20
The Team Members’ demonstrated construction experience	20
Team Members demonstrated financing experience	20
Team Members’ strength demonstrated ability, experience and financial capacity to operate and maintain city hall, library and parking facilities with a high volume of public use	15
Total	100

TABLE 4 - BID CRITERIA

Evaluation criteria	Max points
Administrative information and compliance documents (9 categories)	Pass/fail
Technical Scoring Civic Center (39 categories evaluated, including Citywide amenity, program (each City Hall, Port and Library, parking, council chambers, meeting rooms), quality, access, urban form)	118
Technical scoring facilities management (5 categories)	18
Technical scoring private real estate development (14 categories)	43
Financial scoring civic center (8 categories)	50
Financial scoring private real estate development (6 categories)	38
Total	267