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Long Beach Using P3 For New City Hall, Library

by [Keeley Webster](#)

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LOS ANGELES — Long Beach, Calif. is pioneering a public-private financing method rarely used in the United States outside transportation in a \$533 million project to build a new city hall, port headquarters, library and park.

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 Port of Long Beach will make over a 40-year period.

Developer Plenary-Edgemoor Civic Partners will design and build the project and then operate and maintain it for 40 years in return for the availability payments.

The only other U.S. social infrastructure project that Ignacio Barandiaran, an Arup principal, said he is aware is the Long Beach courthouse agreement the California state government entered into in 2010.

The method has been more commonly used in the United States to fund road projects.

The advantage for the city is no net fiscal impact on the city's general fund and substantial risk transfer, said Barandiaran, the city's lead financial and technical advisor on the project.

"The concept is that equity investment and debt are structured in such a way that it is non-recourse to the issuer," Barandiaran said. "Normally this would be financed with 100% tax-exempt debt with full recourse to the issuer."

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 of million dollar service fee that covers the cost of interest on privately placed debt, according to city documents.

Plenary-Edgemoor Civic Partners expects to close on a \$238 million privately-placed taxable 43-year note in late January to fund the project. It will combine that with a \$213 million bank loan from SMBC.

Plenary investors will contribute another \$21 million in equity funding. The city will contribute \$30 million from sales of adjacent land to private developers for the 800 residential units, 200-bed hotel and 40,000 square feet of retail planned in conjunction with the project.

"The payments will be supported by the availability payments made by the city," said Stuart Marks, a Plenary senior vice president. "This is the first-time that a taxable private placement note has been used to fund a social infrastructure P3 in the U.S."

It also is the first hybrid project that involves a privately developed parcel, Marks said.

"Normally, P3s don't involve private development – those are developed separately," he said.

The city is also contributing \$10.8 million for construction costs. The majority of that expense, roughly \$8 million, will come from a \$12.5 million lease revenue bond it priced Wednesday that will be repaid from revenues from a city-owned parking garage.

The impetus behind the project was an outdated city hall building, constructed in 1972, that was found unlikely to survive a major earthquake.

At the same time, the city's Port of Long Beach enterprise, which had been leasing administrative space, wanted to find a permanent home.

The development of the new courthouse in also meant the city had the site of the old courthouse on which to build.

The state awarded the Long Beach courthouse project in 2010 to Long Beach Judicial Partners LLC, a consortium led by the French firm Meridiam Infrastructure.

The Governor George Deukmejian Courthouse opened slightly ahead of schedule in September 2013.

The city will began demolition of the old courthouse on March 1 and start construction on July 1.

Construction is expected to be completed in fall 2018 and occupancy is set for June 30, 2019.

The Lincoln Park project would be completed by November 2020.

The new design is supposed to be more walkable.

The new City Hall will be 11 stories high, rather than the 14 stories of the existing City Hall, but will maintain 270,000 square feet of floor area.

A 73,000-square-foot civic plaza will separate the 11-story port headquarters from City Hall.

The main library will be located to the north end of Lincoln Park. The park will include a playground, enclosed dog park and 30,000-square-foot lawn for public activities.

The project also includes a cultural loop for public art.

Among the benefits the developer touts are energy-efficient LEED certified workspaces, an "open, modern office environment to help encourage collaboration and work flow efficiency," and a glass-encased city council chamber, "symbolizing the transparency of city government."

The city conducted a request for qualifications in February 2013 for developers qualified to deliver the project using the unique P3 model. It selected Plenary several months later.

Though Long Beach holds double-A ratings, Barandiaran said the privately placed note will likely sell more competitively than if the city sold taxable

bonds on the public markets.

"Investors are looking for this kind of investment and there are not a lot them in the U.S.," said Alfonso Mendez, an Arup principal consultant.

These deals are attractive, because it's a commercial obligation of the city that runs above the debt service, because it is an operating cost, Mendez said.

Since the debt is non-recourse, it doesn't count against the city's debt limit, which is attractive to many cities, but wasn't an issue for Long Beach, because it has a conservative debt profile, Barandiaran said.

"They were just exercising prudence in not taking on a \$200 million bond that could affect their credit rating," he said.

In addition to city hall's seismic issues, the city also was motivated by wanting to extend the appeal of its waterfront to the downtown area.

The area had become a homeless encampment riddled with graffiti and vandalism.

"The city wanted to change that dynamic," Barandiaran said.



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