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## Long Beach Civic Center may influence pipeline

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There is no shortage of US schools, courthouses and civic buildings in desperate need of rehabilitation or replacement. But, despite this significant need, there has been little momentum in the social infrastructure space. The recent closing of the Long Beach Civic Center P3, however, might signal that better times are ahead. *InfraAmericas'* Senior Reporter Eugene Gilligan looks at this hybrid P3/real estate transaction, and its possible impact on social infrastructure projects in the US.

The Indianapolis City-County Council's decision to abandon procurement of the Indiana Consolidated Justice facility in June 2015, was a serious setback for US social infrastructure P3s. But, almost a year later, things are looking up for social infrastructure projects following the successful close of the Long Beach Civic Center P3.

The City and Port of Long Beach, on 20 April, reached financial close on the USD 520m Long Beach Civic Center project. The consortium of private partners, which includes **Plenary Group**, Clark Construction, Edgemoor, Johnson Controls and Skidmore, Owings & Merrill, will design, build, finance, operate and maintain the new civic center for a 43-year term.

The project includes the construction of a new City Hall, a new Main Library, a revamped Lincoln Park, and a new headquarters for the Port of Long Beach. A new library will be relocated to the northern end of the park, which will have dual entrances for park users and for surrounding neighborhoods to the north.

Sumitomo Mitsui Banking Corp. is providing a USD 213m, three-year term construction loan for the construction of a new headquarters building for the Port of Long Beach. Plenary will also make a USD 21.2m equity investment, to be used to build the public facilities.

Allianz Global Investors is providing a USD 239m, private placement, for a term of approximately 43 years. It will be a delayed draw facility, used over three years for construction, and then repaid over the 40-year operating period.

The city will make annual availability payments to the private partners. A payment of USD 15.2m due this year.

In a statement on the project, Michael Conway, Director of Economic and Property Development for the City of Long Beach, said a P3 was chosen for the project "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."

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## Cost of financing

The financing profile of the project changed throughout the procurement process, according to Stuart Marks, Senior Vice President at Plenary, who served as project director.

Tax exempt bond financing was originally considered for the project, but Marks said that Plenary was also monitoring the private placement market. On 15 March, a Plenary-led consortium reached financial close on the State Street Redevelopment P3. A USD 40.5m private placement was used to help finance that deal, Marks pointed out.

Utilizing a private placement offered the city the lowest cost of financing, after taking into account relative pricing terms and the delayed draw feature of the private placement. Also, the lease revenue bonds that were being considered for the transaction, which were to be issued by a joint powers authority, did not allow the City to transfer as much risk to its private sector partners as the private placement did, Marks said.

One attractive feature of the private placement is that it offered city officials certainty of financing at a fixed spread before the Long Beach City Council voted to approve the deal in December, 2015, Paul David, Director, Infrastructure Debt at Allianz Global Investors, said.

"This certainty of execution was perhaps all the more valuable given the length of the concession," David said.

Interest in using a private placement for the deal could have intensified after the sale of the Indiana Toll Road in 2015, David said. Allianz provided a USD 700m private placement on that transaction, for a tenor of 30 to 40 years, to the winning bidder, IFM.

Deals such as the Long Beach Civic Center and the Kentucky Information Highway, which also used a private placement, are proving grounds that show private financing can successfully compete with tax-exempt debt, David said. Familiarity with tax-exempt debt will mean that it typically starts as the presumed favorite for most projects, David said, but he expects at least one or two a year will have a private placement as a funding solution, he said.

Samara Barend, founder of the Performance Based Buildings Coalition, and Senior Vice President for P3 Development at Aecom, said that, with a significant need to rehabilitate and build new schools, courthouses and other government facilities, Plenary should be commended for "being nimble" and including a real estate component in the deal.

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## False starts

The market for social infrastructure projects has been littered with false starts and failures. Aside from the Indianapolis Consolidated Justice Facility, Texas' Travis County Commissioners Court opted to procure its new civil courthouse through a design-build to build in 2013 and, in 2015, officials in Washington's Multnomah County officials decided to procure a new courthouse through a traditional procurement model, after having considered a P3.

Orion Fulton, associate principal at Arup, which advised the City of Long Beach on the transaction, said one barrier to the growth of social P3s in the US may be that procurements are focused on the facility, without taking into account the impact the project can have on economic development and the revitalization of a community or neighborhood.

The Long Beach Civic Center P3 combines public infrastructure and private development components within a single project. The private development part of the project includes development of approximately 6 acres, located on two downtown parcels, for which the private consortium paid USD 22m.

Fulton said that the entitlements for development of the land is at the planning level, and could change once there are individual development proposals in play. He added that development must conform to the City's Downtown Plan.

The master plan entitlements that have been approved call for the development of up to 200 residential units on one parcel, 580 residential units, 32,000-square-feet of retail, 8,000-square-feet of restaurant space, and a 200-room hotel on the other.

Fulton noted that the public and private elements of the project can work in tandem to strengthen one another. He added that the private development aspects strengthen the public aspects of the project, and that more attractive public spaces can boost private development.

Another key to the deal's completion was the consortium's confidence in the Long Beach economy, Marks

said. He noted that this was primarily due to the leadership of the City Council, Mayor Robert Garcia, and the business generated by the Port of Long Beach.

### Model for other projects

Marks said he believes that the deal structure of the Long Beach Civic Center transaction can serve as a model for other cities, as many have assets that are underutilized, or which operate at less than maximum efficiency.

Arup Principal Ignacio Barandiaran noted that both the proposed Los Angeles Civic Center and the Los Angeles Convention Centers could move forward as P3s. He said that the projects, like the Long Beach Civic Center, may also contain a significant degree of real estate development.

Barandiaran said that the convention center project could include the development of 10 acres of land in downtown Los Angeles. He added that the project's value would be significantly larger than the Long Beach Civic Center, as a result.

He noted that plans for the Los Angeles Civic Center are still developing. The project would consolidate city workers scattered around the city into one office, and potentially turn the surrounding area into an attractive destination for workers, Barandiaran said.

Fulton agreed that the Long Beach Civic Center can serve as a template for future P3 deals. He noted that city administrators should look at any excess land they may have, in concert with the community's broader economic and development goals, to examine if they might be able to execute a similar transaction.

Fulton said that Arup supports the Performance Based Building Coalition' (PBBC) efforts, particularly its initiative to have legislators authorize a category of exempt facility bond that can be used to finance social infrastructure projects. He noted that, until that happens, the private sector will have to use innovative methods to find ways to get projects like the Long Beach Civic Center across the finish line.

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