

Long Beach civic center, US

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The \$520 million Long Beach civic center PPP is the largest social infrastructure PPP to close in the US so far this year. The project is also the second PPP to be developed in the City of Long Beach after the \$490 million [Long Beach courthouse](#) which closed in December 2010 with a consortium led by Meridiam Infrastructure and Aecom.

While the courthouse was procured by the state of California, the civic center is being procured directly by the city of Long Beach. The civic center project bundles a combination of new assets that will together make up the new civic center site. The project's financing package involved a combination of short-term bank debt, long-term private placement bonds and sponsor equity. The project is also the first social infrastructure PPP in the US to be financed using a taxable private placement solution. The \$239 million, 34.5 year average life term private placement bond issue was entirely covered by Allianz Global Investors (AllianzGI), marking their first social infrastructure PPP investment in the US.

The transaction is also the second infrastructure project that Plenary has closed this year using a private placement in the US after the City of West Lafayette's \$123 million [State Street redevelopment PPP](#) which reached financial close on 15 March 2016. These deals may help to motivate other states to undertake social infrastructure PPPs and create a pipeline.

Asset procurement

The project, which was launched to the market for bidding in 2013, involves the design, build and finance of the new civic center and related infrastructure, with a 40-year operations and maintenance contract. The new civic center project will comprise a combination of developments including: An 11 story 270,000sqft city hall; an 11 story 237,000sqft port headquarters building; two story 92,000sqft main library; a 73,000sqft civic plaza; new underground parking with 469 spaces; a central utility plant; a three rooftop solar array system to provide up to 25% of the energy needs for the civic center; a revitalized city park of 4.9 acres; and plans for future mixed use development with up to 580 residential units, retail space and up to 200 hotel rooms.

Stuart Marks, senior vice-president at Plenary Group in Los Angeles said that consortia were required to provide proposals with two alternatives - keeping the port as part of the overall project and without. This was because the port authorities were still reserving their decision regarding participation. Eventually the city reached an agreement to combine the port with the overall civic centre procurement to realise both cost and construction efficiencies. Marks added: "Even though the Port is a department of the City, we treated them as a separate Owner with separate approval rights and their own unique financing and operational requirements." This was reflected in the separate financing and commercial structuring, he said.

The majority of the short-term bank debt will be used to finance construction of the port headquarters, while the rest of the facilities will be financed through the private placement. "The deal is a hybrid PPP which combines an availability-payment structure with real estate development risk," Marks said.

The project's relatively lengthy procurement timescale is the result of a combination of factors, Marks said, including taking the time upfront to build a broad base of community and political support for the project. "Over the course of procurement phase there was a change in administration including the election and installation of a new Mayor, Mayor Garcia, who collaborated with us in conducting an extensive community outreach program which has been somewhat unprecedented in PPP projects to date."

The design development and permitting for the project will continue until construction begins at the end of June 2016. The new city hall building, new main library and new port headquarters building are scheduled to be completed by June 2019. Plenary Group is the lead developer, sole equity provider and financial arranger for the project. Other consortium members include Clark Construction, Edgemoor, Johnson Controls and Skidmore, Owings & Merrill.

Financing

Plenary was financial adviser and arranger of the debt, which comprised the taxable private placement bond issue, covered by German insurer AllianzGI and an approximately \$212 million, three-year term construction loan from Sumitomo Mitsui Banking Corporation. Barclays was agent on the private placement which priced on 15 April and settled at financial close on 20 April. The civic centre financing also comprises a \$21 million equity investment by Plenary, and cash contributions and land from the City of Long Beach totaling approximately \$40 million in value.

AllianzGI has been actively investing in US infrastructure since the beginning of last year when it made its debut in the US transportation infrastructure space with a \$700 million investment in the [Indiana Toll Road acquisition](#) in May 2015. This was followed by an investment that covered over 50% of a \$975 million private placement bonds piece to finance the [Chicago Skyway acquisition](#) in February 2016.

Plenary said that it had initially proposed using tax-exempt lease revenue bonds to finance the project but moved to the taxable private placement solution because it offered lower financing costs and better risk allocation for the city of Long Beach. "As we progressed towards financial close, we were continually monitoring both tax and tax-exempt bond markets and taxable private placement was ultimately more cost effective after taking into account competitive pricing terms and unique structural features like a delayed draw," Marks said. The delayed draw feature allows the city and sponsor to only draw down funds as and when they need them and this effectively helps them avoid or mitigate the risk of negative carry.

Marks said that the US social infrastructure market is likely to see more private placements due to the competitive pricing terms being offered and the absence of instruments such as the attractively priced private activity bonds (PABs) which are only available for transportation projects in the US at present.

Advisers

Arup was lead financial adviser and lead technical adviser to the city, while HOK was supporting technical adviser. BAE Urban Economics was the city's real estate consultant, p3point was a consultant to the city's financial manager, and MBI Media was the city's public outreach consultant.

Plenary was sole equity investor and financial adviser to the consortium, Norton Rose Fulbright was its legal adviser, and Corality conducted the model audit.

Nixon Peabody was the lender's legal adviser.

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