



WILLIAM T FUJIOKA  
Chief Executive Officer

## County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
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*"To Enrich Lives Through Effective And Caring Service"*

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November 05, 2014

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

Dear Supervisors:

### ADOPTED

BOARD OF SUPERVISORS  
COUNTY OF LOS ANGELES

20 of November 5, 2014

*Sachi A. Hamai*  
SACHI A. HAMAI  
EXECUTIVE OFFICER

**MUSEUM OF ART:  
PROPOSED EAST CAMPUS REPLACEMENT BUILDING PROJECT  
APPROVAL OF FINANCING CONCEPT AND FUNDING FOR PRELIMINARY DESIGN AND  
PLANNING ACTIVITIES  
(SECOND AND THIRD DISTRICTS)  
(3 VOTES)**

#### SUBJECT

Approval of the recommended action will find the majority of recommended actions not subject to the California Environmental Quality Act, find preliminary testing at the proposed Project site exempt from California Environmental Quality Act, and facilitate funding and planning of the proposed replacement of four aging and deteriorating County buildings on the east campus of the Los Angeles County Museum of Art.

#### **IT IS RECOMMENDED THAT THE BOARD:**

1. Find that approval of the funding concept of County bond financing and contributions from Museum Associates for the proposed East Campus Replacement Building Project, as well as authorization of an advance County contribution to Museum Associates for design, feasibility, and planning activities, do not constitute a project pursuant to Sections 15061(b) and 15378(b) of the California Environmental Quality Act Guidelines, and also find that preliminary site testing related to design and planning for the proposed East Campus Replacement Building Project is exempt under Sections 15262 and 15306 of the California Environmental Quality Act Guidelines.
2. Approve the concept of County bond financing and contributions from Museum Associates in the approximate aggregate amount of \$600,000,000 to build a proposed approximately 400,000 square-

foot museum building to replace four existing County-owned museum buildings on the east campus of the Los Angeles County Museum of Art (East Campus Replacement Building).

3. Authorize the issuance of \$7.5 million in commercial paper notes to provide funding to Museum Associates for feasibility and planning studies, including environmental studies and design activities on the proposed East Campus Replacement Building.

4. Delegate the authority to the Chief Executive Officer to execute a funding agreement with Museum Associates and to instruct the commercial paper trustee to transfer the \$7.5 million in commercial paper note proceeds to Museum Associates and provide for their repayment by Museum Associates.

### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

Approval of the recommended actions related to the East Campus Replacement Building Project (Project) being proposed by Museum Associates will:

1. Find approval of the funding concept for the proposed Project, as well as authorization of an advance contribution to Museum Associates for design, feasibility, and planning activities, are not a project under the California Environmental Quality Act (CEQA);
2. Find the advance contribution of funds to Museum Associates for preliminary site testing for the proposed Project is statutorily and categorically exempt from CEQA;
3. Provide conceptual approval of a financing plan for the proposed replacement of four deteriorating County-owned buildings on the Los Angeles County Museum of Art's (LACMA) east campus; and
4. Authorize the issuance of commercial paper note proceeds for use by Museum Associates on feasibility and planning studies, including environmental studies and design activities for the proposed Project.

### **Existing Conditions**

Three of the four buildings: the Ahmanson Building, Hammer Building, and Bing Center, were constructed in 1965. The fourth, the Art of the Americas Building, was completed in 1985. All four buildings are located on LACMA's east campus. According to a building evaluation study prepared by Owen Group for the Department of Public Works (Public Works) in September 2014, the buildings have experienced extensive water intrusion damage and are compromised by deteriorating and failing building and mechanical systems that have exceeded their expected useful life. The Owen Group's report estimated the cost of needed refurbishment at \$246 million and recommended replacement of the existing buildings.

### **Proposed East Campus Replacement Building**

Museum Associates has proposed demolishing the four existing buildings and replacing them with the East Campus Replacement Building, a single, 400,000 square-foot, two-level horizontal elevated gallery that would cover much of LACMA's east campus and span across Wilshire Boulevard. The proposed Project cost is preliminarily estimated at \$600 million, based upon a conceptual design. The preliminary cost estimate reflects approximately \$240 million in development, design, and preconstruction costs, and \$360 million in construction costs. It is anticipated that construction would

commence in Fiscal Year 2019 and be completed in Fiscal Year 2023.

Pursuant to a proposed lease-leaseback agreement with the County, which would be recommended to the Board following certification of an Environmental Impact Report (EIR) for the proposed Project, Museum Associates would lease the east campus site from the County and contract directly for the further design and for construction of the proposed building and other proposed improvements. The completed improvements would be leased back to the County for the term of the underlying financing bonds. Upon full redemption of the bonds, title to the East Campus Replacement Building would revert to the County.

#### Financing Plan Concept

The conceptual financing plan combines \$475 million in private donations and a proposed County contribution of \$125 million. It is anticipated that approximately \$175 million in pledged donations would be collected within the next five years. The remaining \$300 million in pledged donations would be collected over the following 15 years.

To provide adequate and timely funding for the proposed Project during its eight year delivery schedule, including the County's contribution, it would be necessary for the County to issue \$425 million in leasehold revenue bonds through two separate bond issues. The first series of bonds (Phase I Bonds) would fund the County's contribution of \$125 million. The bonds would be issued following final approval of the proposed Project and certification of the EIR by the Board. The Phase I Bonds would have a final maturity of 15 years and be secured by a leasehold lien on the following Museum Associates and other assets:

- a. Broad Contemporary Art Museum
- b. Resnick Pavilion
- c. Additional specified land currently owned by Museum Associates
- d. Pavilion for Japanese Art (owned by the County)
- e. Pritzker Parking Garage
- f. Spaulding Parking Lot

The debt service on the Phase I Bonds would be repaid solely by the County and is currently estimated to average \$9.5 million per year, or \$142.9 million over the proposed 15-year term.

The second series of bonds (Phase II Bonds) would be issued by the County following the collection of \$175 million in private donations by Museum Associates and their restriction by Museum Associates for Project costs. The Phase II Bonds would provide funding for the final \$300 million in Project expenditures and have a final maturity of 30 years. The annual debt service of the Phase II Bonds, which is estimated at \$18 million, would be fully repaid by Museum Associates from private donations under a separate funding agreement with the County. The Phase II Bonds would be secured by a leasehold lien on the East Campus Replacement Building.

Museum Associates repayment obligation for the Phase II Bonds would be subordinate to Museum Associates' currently outstanding Series 2013 Bonds and a related 2008 interest rate swap agreement, as the same may be refinanced. To raise the Phase II Bond obligation, on a practical basis, to a parity level with that of the 2013 Bonds and the 2008 swap, Museum Associates would deposit the debt service payment on the Phase II Bonds due in any fiscal year with the bond trustee in June of the preceding fiscal year.

We will return to the Board with final recommendations for the financing plan and bond issuance at

such time as certification of an EIR and approval of a proposed Project is recommended.

#### Advance Funding Request

In order to allow Museum Associates to initiate environmental studies and design activities on the East Campus Replacement Building, authorization is requested to provide immediate financing in the amount of \$7.5 million. Upon approval by the Board, the \$7.5 million will be made available to Museum Associates through the issuance of commercial paper notes to be sold under the direction of the Treasurer and Tax Collector.

The notes will be issued by the Los Angeles County Capital Asset Leasing Corporation and secured by the County General Fund. The recommended Funding Agreement between the County and Museum Associates will provide instruction for the transfer of note proceeds to Museum Associates. All principal and interest payments due on the notes will be subject to reimbursement by Museum Associates through the recommended Funding Agreement, which will be negotiated by the Chief Executive Office (CEO) and Museum Associates. To the extent that the Board agrees to provide long-term bond financing for the construction of the proposed East Campus Replacement Building, the principal and interest due on the commercial paper notes will be redeemed from the proceeds of the Phase I Bonds.

It is important to emphasize that the requested funding advance will not increase the amount of the County's contribution under the Phase I Bonds. Museum Associates will deposit the commercial paper note proceeds into a separate project account and will provide monthly statements to the County detailing disbursements from and other activities in the account.

#### **FISCAL IMPACT/FINANCING**

The recommended actions commit the Board to provide \$7.5 million in commercial paper funding to initiate environmental studies and design activities for the proposed Project. Approval of the recommended actions will not commit the Board, however, to further financing obligations on behalf of Museum Associates or the proposed Project, at this time. The CEO and Treasurer Tax Collector will return to the Board with final financing recommendations for the proposed Project, including the Phase I and Phase II Bond issues, following the Board's approval of the proposed Project and certification of the Final EIR.

Under the proposed financing plan, the Phase I Bonds will provide \$125 million in project funds and will be secured by leasehold lien held by the County on the Museum Associates' and County assets specified above, which have a combined market value of \$176 million and an annual fair rental value of \$11.1 million. The County will be responsible for annual debt service payments currently estimated at approximately \$9.5 million over a 15-year term.

In order to allow Museum Associates to initiate environmental studies and design activities, advance funding of \$7.5 million is being recommended. The advance will be funded through the issuance of commercial paper and will be repaid by Museum Associates pursuant to a Funding Agreement that, upon the Board's delegation, will be finalized and executed by the CEO. The advance will represent a portion of the Phase I Bond allocation and will not increase the amount of the Phase I Bonds.

The Phase II Bonds will provide \$300 million in Project funds and will be secured by a leasehold lien held by the County on the completed East Campus Replacement Building, which will have a market value of approximately \$600 million. Museum Associates will be responsible for repayment of annual

debt service payments of approximately \$18 million over a 30-year term pursuant to a separate funding agreement with the County.

### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

Not Applicable.

### **ENVIRONMENTAL DOCUMENTATION**

Approval of the recommended actions, including approval of the concept of County bond financing and contributions from Museum Associates for the proposed Project, as well as authorization of an advance contribution to Museum Associates for design, feasibility, and planning activities, is not a project under CEQA because it is an activity that is excluded from the definition of a project by Section 15378(b) of the State CEQA Guidelines. The proposed actions involve an administrative activity of government, which will not result in direct or indirect physical changes to the environment. Additionally, the proposed actions would create a conceptual government funding mechanism that does not involve any commitment to a specific project, which may result in a potentially significant physical impact on the environment.

Approval of preliminary site testing related to design and planning for the proposed Project is exempt from CEQA. The activities are statutorily exempt under Section 15262 of the State CEQA Guidelines because they include only feasibility and planning studies for possible future actions, which the Board has not approved, adopted, or funded for which environmental factors have been considered. Further, the activities are categorically exempt as they are within a class of projects determined not to have a significant effect on the environment and they meet criteria set forth in Section 15306 of the State CEQA Guidelines, as well as Class 6 of the County's Environmental Document Reporting Procedures and Guidelines, Appendix G. The activities involve basic data collection, research, and resource evaluation for information gathering purposes and as part of a study leading to an action, which the Board has not approved, adopted, or funded and which would not result in a serious or major disturbance to an environmental resource. Any site testing activities would not take place in a sensitive environment and there are no cumulative impacts, unusual circumstances, or other limiting factors that would make the exemption inapplicable based on the record of the proposed activities.

Upon the Board's approval of the recommended actions, CEO will file a Notice of Exemption with the Registrar-Recorder/County Clerk in accordance with Section 15062 of the State CEQA Guidelines.

The County, as lead agency for the proposed Project, will work with Museum Associates to commence the EIR process.

The actions contemplated herein only approve the recommended pre-implementation feasibility and planning activities. Any future recommendations on proposed development at the site remain subject to the Board's sole discretion to disapprove or modify the proposed Project and to consider feasible project mitigation and alternatives. Nothing precludes the County from denying any future development project proposed at the site or from weighing the benefits of the proposed project against any unavoidable environmental risks when determining in the future whether to approve a project at the site. We will return to the Board for consideration of appropriate environmental findings and to recommend certification of an EIR if and when approval of activity, which constitutes a project under CEQA and/or other environmental laws is recommended.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

Not Applicable.

**CONCLUSION**

Please return one adopted copy of this Board letter to the Chief Executive Office, Facilities and Asset Management Division; Museum of Art; Department of Public Works; County Counsel; and Treasurer and Tax Collector.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'WTF', followed by a large, stylized flourish that resembles a heart or a large 'M' shape, and then a horizontal line extending to the right.

WILLIAM T FUJIOKA  
Chief Executive Officer

WTF:SHK  
DJT:zu

c: Executive Office, Board of Supervisors  
County Counsel  
Museum of Art  
Public Works  
Treasurer Tax Collector