



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: FEBRUARY 7, 2013

FROM: PLANNING & ECONOMIC DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ FOR THE APPROVAL OF AN EXCLUSIVE NEGOTIATING AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND THE RECOMMENDED PORTS O' CALL VILLAGE DEVELOPER, LA WATERFRONT ALLIANCE

SUMMARY:

It is recommended that the Board of Harbor Commissioners (Board) approve an Exclusive Negotiating Agreement (ENA) between the City of Los Angeles Harbor Department (Harbor Department) and LA Waterfront Alliance (Developer), a collaboration between The Ratkovich Company and Jerico Development which is the recommended developer of the Ports O' Call Village (Ports O' Call) development site as the result of the Harbor Department's Request for Qualification (RFQ) process. The term of the ENA is for 240 days with an option for the Executive Director to extend the term up to 120 days for a cumulative total of not more than 360 days. The ENA identifies specific responsibilities and actions for both the Harbor Department and Developer during the term of the ENA, including finalizing the development concept, preparing financial and market analyses and an initial business plan, conducting public outreach, initiating the evaluation of the development concept to determine if further environmental assessment is required and preparing a term sheet to be used in support of further entitlement agreements, including an option agreement and ground lease for the Ports O' Call development site. These agreements would require future Board approval. During the ENA period, the Harbor Department will not negotiate with any other party for the development of Ports O' Call and both parties have the right to terminate the ENA due to failure to perform or if it is determined that the development is infeasible to execute.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Exclusive Negotiating Agreement between the City of Los Angeles and The Ratkovich Company and Jerico Development (collectively the LA Waterfront Alliance), the recommended developer of the Ports O' Call site;

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2. Authorize the Executive Director to execute and the Board Secretary to attest to said Agreement, for and on behalf of the Board; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – The San Pedro Waterfront Environmental Impact Statement/Environmental Impact Report (EIS/EIR), approved by the Board on September 29, 2009, included the redevelopment of the 30-acre Ports O' Call site. The Ports O' Call development site is entitled to support up to 300,000 square feet (sf) of visitor-serving commercial uses and up to 75,000 sf for a conference center. The existing parcel was developed as Ports O' Call Village in the 1960s and was a popular regional destination for several decades. The site currently features approximately 150,000 SF of restaurant and retail buildings with existing tenant leases set to expire December 31, 2014 (Transmittal 1). The San Pedro Waterfront Project envisioned a comprehensive development of the Ports O' Call site that would contribute to the transformation of the San Pedro waterfront and adjacent downtown San Pedro into a vibrant, world-class urban visitor-serving destination.

Development of the Ports O' Call site has long been seen as the critical component for a successful transformation of the waterfront. In order to enhance interest in the Ports O' Call development site from the development community, staff pursued a strategy of building critical mass along the waterfront. This effort included offering Warehouses Nos. 9 & 10 in the Outer Harbor for adaptive reuse to accommodate a visitor-serving use, which resulted in CRAFTED at the Port of Los Angeles, accommodating the berthing of the USS Iowa battleship museum along the Main Channel and activating the waterfront with events, including the summer concert series at the Fanfare Fountain and other year round events along the promenade. Additionally, the Harbor Department has made significant infrastructure investments resulting in public areas for recreation and greater access to the waterfront. Examples of these improvements include the Gateway Fanfare fountain, Cabrillo Way Marina Phase II, the SP Slip enhancements, 22nd Street Park, the Cruise Terminal and Harbor Boulevard promenades and the Downtown Harbor, which is currently under construction.

A second effort to increase interest in the Ports O' Call site from developers was participation in commercial real estate events. Harbor Department staff presented the San Pedro Waterfront Project and the Ports O' Call development site at several Urban Land Institute events and also engaged developers at the International Council of Shopping Centers and Waterfront Center conferences.

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Request For Qualifications – On July 25, 2012, a Request for Qualifications (RFQ) was released for the development of Ports O' Call (Transmittal 2). The original deadline to submit responses was September 21, 2012. Several requests were received from developers requesting the deadline be extended. To enhance the opportunity of receiving more responses, staff agreed to extend the deadline two weeks to October 5, 2012. The RFQ identified the development site, explained the Harbor Department's vision for transforming the San Pedro waterfront, and identified investments the Harbor Department has made in public infrastructure projects. The RFQ also identified the process and timing for securing a long term ground lease. Additionally, the RFQ addressed criteria to be considered for developing a response. These criteria included identifying the maximum amount of development allowed under the San Pedro Waterfront Project EIR (300,000 sf of visitor-serving commercial uses and up to 75,000 sf for a conference center); encouraging the prospective developer to consider the inclusion of successful existing Ports O' Call tenants in their development concept; and stating that the development must comply with the Harbor Department's State Tideland Trust and that residential development is not a permitted use under the Trust. Lastly, the Selection Evaluation Form was included in the RFQ identifying the criteria to be used in evaluating the responses. Five categories were used, with a weighted factor given to each criteria. The project vision and the developer's commercial development experience were the most heavily weighted of the five criteria. The other criteria used to evaluate the responses included the implementation, operation and sustainability strategy of the proposed concept, the financial capability to carry out the concept, and the ability to complete the project on schedule.

A pre-submittal meeting and optional boat tour of the site was held on August 8, 2012. There were 89 participants at the pre-submittal meeting and 62 participated in the boat tour. A second boat tour of the site was made available and held on September 6, 2012, which was attended by 12 participants. In addition to the pre-submittal meeting, RFQ responders were provided the opportunity to submit questions to Harbor Department staff until August 17, 2012, in an effort to assist with their submittal document. Any questions received and responses to those questions were to be posted on the Port's website. However, no questions were received.

Eight responses were received from interested developers by the submittal deadline. One respondent, Battaglia, requested to be removed from the evaluation process. The remaining seven respondents and a summary of their proposed concepts are as follows:

- Cal-Coast – a complex of restaurants, international marketplace, amusement rides, creative office space and neighborhood retail such as a grocery store, dry cleaners and coffee shop;

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- LA Waterfront Alliance – a regional destination consisting of restaurants, visitor-serving retail, a boutique hotel, market square, live-work residential and the relocation of the Harbor Department's administration offices within the site. The project also includes a 13th Street gateway connecting the local community to Ports O' Call.
- McArthurGlen – a designer outlet mall with restaurants and public gathering space for event programming;
- Majestic Realty – included retail and restaurants, a conference center and international marketplace;
- Rising Realty Partners – a site re-entitlement to allow for high density residential development and neighborhood retail uses to support the residents;
- Sonnenblick Development – a large number of national chain restaurants including a national chain retailer, amusement rides, public gathering places to host events, as well as office space and parking which were outside the Ports O' Call project site;
- Strata – a regional waterfront amusement destination with retail, restaurants, amusement rides, entertainment, a farmer's market, exploratorium and immigrant museum, a hotel and conference center.

Evaluation and Selection Process – The remaining seven respondents were invited to interview with the evaluation team and required to submit supplemental financial documentation. Review of the responses was undertaken by a five member evaluation team. Due to the importance associated with selecting the developer, staff recognized the need to include individuals with extensive experience with commercial developments. Therefore, in addition to the Harbor Department's Director of Real Estate and Director of Planning & Economic Development participating, the evaluation team also included the Executive Director of the Port of San Francisco, the City of Los Angeles' Department of Building & Safety General Manager, and a San Pedro-based commercial developer. Other contributors to the evaluation process included the Harbor Department's Chief Financial Officer who reviewed the developer's financial documents and the Maxima Group, commercial real estate consultants who assisted staff throughout the process.

Prior to the interviews, each respondent was informed that they would be provided 45 minutes for the interview and that they would have the opportunity to provide a summary statement of the concept, financial resources and qualifications of the development team. This would be followed by a set of questions that were consistent for each developer. Following the interviews, the evaluation team determined that additional questions were necessary for four of the respondents. These four were not representative of a short list of respondents, but rather were asked to participate in a

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second interview to clarify issues relative to their proposal. The four respondents were Rising Realty, Sonnenblick Development, Strata, and LA Waterfront Alliance. Each respondent was provided with questions specific to their response prior to the meeting and were advised that the scope of the second interview was only to address the specific questions and that they would not be allowed the opportunity to present why they should be selected or further expand on their vision or development team. The remaining three respondents were not offered a second interview as the evaluation team did not have any follow-up questions of them. The evaluation team felt that offering a second interview to these respondents would provide an unfair advantage since they could use that time to further present their argument for selecting their response since they would not be responding to any specific questions from the evaluation team.

An issue relating to the responses was whether the proposed concepts were consistent with Tidelands Trust requirements. All respondents who submitted concepts that included non-compliant Trust activities, as well as development elements that were outside of the identified project site boundaries were asked if these were essential to their overall development concept. One responder, Rising Realty stated that their non-compliant Tideland Trust use, residential, was essential to their concept.

Harbor Department staff worked closely with the City Attorney to ensure a fair and transparent evaluation process. The evaluation team evaluated each respondent on their written submittal to the RFQ, interviews and requested supplemental financial documents. Other than responses to the October 25, 2012 request for supplemental financial information requested of all respondents, no other information, either submitted in writing or voiced at the interview that differed from the original response was considered after the submittal deadline of October 5, 2012. One responder, Majestic Realty, came to their interview and presented a revised development concept. However, since it was received after the submittal deadline, the evaluation team did not consider that submittal. Doing so would have resulted in a an unfair advantage to Majestic Realty as they would have had an additional 5 weeks to develop a concept, the time between the submittal deadline of October 5 and their interview on November 8, 2012. Each team member evaluated and assessed this information using the criteria and weighing factors in the Selection Evaluation Form to individually determine a total score for each developer. The individual scores were averaged to determine a final ranking of developer scores.

The selection criteria focused on five weighted criteria; the developer's project vision for the site and how it would draw additional visitors to the waterfront; the qualifications and experience of the developer; the implementation, operation, and sustainability strategy of the project; the financial capability of the respondent to carry out the project; and the

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ability to complete the project on schedule. The project vision and the developer's experience each had a weighted factor of 5. The implementation strategy and financial capability of the developer each had a weighted factor of 4. The developer's ability to complete the project on schedule had a weighted factor of 2. Each criteria was scored from 0 to 5 with 0 being non responsive and 5 being exceptionally well qualified. Each score for the five criteria was then multiplied by the weighted factor and the results totaled. A maximum score of 100 was possible.

Proposers	Rater A	Rater B	Rater C	Rater D	Rater E	Average
LA Waterfront Alliance	93	91.75	62	89	76	82.35
Proposer 1	76	86.5	53	65	67.5	69.6
Proposer 2	80	80.25	46	78	62.5	69.35
Proposer 3	80	77	50	60	61.5	65.7
Proposer 4	51	78.25	51	61	68	61.85
Proposer 5	54	76.5	51	70	50.5	60.4
Proposer 6	66	64	43	72	56	60.2
Proposer 7	-	-	-	-	-	0

LA Waterfront Alliance – Based on the RFQ selection criteria, the evaluation team recommends the LA Waterfront Alliance be selected as the developer for the Ports O' Call site.

The LA Waterfront Alliance is a collaboration of The Ratkovich Company and Jerico Development. The Ratkovich Company is a Los Angeles based development company with 40 years' experience in commercial property development, construction, renovation, and operations. Projects completed by The Ratkovich Company include the Hercules Campus at Playa Vista, a 29-acre site with over 600,000 sf of creative office space, The Alhambra, a 45-acre site with approximately 950,000 sf of office space, a retail center, open space and over 300 entitled residential units, the renovation and repositioning of several buildings, including Wiltern Center and the entitlement of several master plans, including The Pike Master Plan in Long Beach and the Alameda District Plan in downtown Los Angeles. The Ratkovich Company also has a pending acquisition of Macy's Plaza in downtown Los Angeles, which includes a retail mall, office tower and hotel and will renovate and reposition the property.

Jerico Development is a San Pedro-based development firm that specializes in rehabilitating commercial buildings. Rehabilitated buildings completed by Jerico Development include the Brown Brothers, Gaffey and Grand Annex buildings in San Pedro and the Loft building in downtown Long Beach. The project team includes AECOM as the project architect and planner, The Waterford Group, a hospitality

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consultant with more than 30 years' experience in retail, entertainment and hotel development based in Connecticut, and Gafcon, Inc. for construction management. The team also includes strategic advisors, including the Executive Director of Granville Island, a visitor-serving commercial retail and marketplace in Vancouver, Canada and The Fransen Company, a commercial real estate consulting firm.

The development concept proposed by The Ratkovich Company includes visitor-serving commercial retail, restaurants, a boutique hotel and conference center, open space for events, a gateway at 13th Street to connect to the San Pedro community and the SP Slip, live-work units and relocation of the Port's administration building. The vision also addresses recommendations from the Urban Land Institute Technical Assistance Panel's Ports O' Call study which recommended increasing public access to the waterfront, linking Ports O' Call and the waterfront to downtown San Pedro, embracing the visual aspects of the working port and retaining successful Ports O' Call tenants. The live-work residential element is a non-compliant Tidelands Trust activity and the relocation of the Harbor Department's administration building is not contemplated by Harbor Department staff. The LA Waterfront Alliance stated these elements were not critical to their proposed concept and that it could proceed without these elements.

As the lead developer and majority partner in the LA Waterfront Alliance, The Ratkovich Company has strong relationships and partnerships with several major institutional investors and lenders for both debt and equity financing. Current and past investors and lenders The Ratkovich Company has worked with include CIGNA, New England Mutual Life Insurance, Prudential Insurance, Wachovia Corporation, Massachusetts Mutual, GE Capital, Wells Fargo, East West Bank and California Bank & Trust. Typically, The Ratkovich Company partners with institutional equity investors, forming single purpose limited liability companies (LLC) for its projects. The Ratkovich Company is the managing member of the LLC and responsible for day-to-day management of the assets with shared control over major decision-making. The Ratkovich Company also provides property and development management for the assets. For the proposed boutique hotel, it is anticipated that a third-party would undertake hotel management.

The LA Waterfront Alliance was selected as the proposer that best meets the strategic economic development goals of the San Pedro Waterfront project by providing a community and visitor-serving attraction that would provide a significant number of jobs and bring visitors to the waterfront. Their vision supports the Harbor Department's development goal to integrate the attractions and activities along the waterfront and connect the waterfront with downtown San Pedro.

Based on the development concept as presented in their submittal, the collective experience of The Ratkovich Company and Jerico Development in executing

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commercial development projects, The Ratkovich Company's strong relationships with equity investors and financial institutions, the implementation strategy, including the public outreach process, and the ability to carry out the project on schedule, it is recommended that the Board approve the selection of the LA Waterfront Alliance as the developer for the Ports O' Call site.

Exclusive Negotiating Agreement – To implement its recommendation of the LA Waterfront Alliance as the Ports O' Call developer, staff is recommending that the Board approve the Exclusive Negotiating Agreement (ENA) with The Ratkovich Company and Jerico Development (Transmittal 3). The ENA provides a framework and guidelines for negotiations that will lead to the development of a term sheet for an eventual option agreement and ground lease for the site, all of which will require future Board action. The ENA establishes an exclusive negotiating period of 240 days, with the ability to extend the term up to an additional 120 days under the authority of the Executive Director. Any extension longer than 120 days will require approval of the Board. During this time, the Harbor Department will not negotiate with any other party for the redevelopment of the site. During this period, both parties will be responsible for carrying out due diligence activities. For the developer these will include, but are not limited to preparing a financial model and financial feasibility analysis for the proposed development, developing an initial business and capital plan, conducting public outreach efforts, and refining the development concept. Responsibilities of the Harbor Department include performing financial due diligence and reviewing the business and capital plans, coordinating public outreach efforts with the developer, initiating the evaluation of the proposed development to determine if further environmental assessment under the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA) is required, and initiating the process for determining any required remediation action necessary for obtaining environmental site approvals.

The ENA does not commit either party to proceed with a proposed redevelopment of the Ports O' Call site. Both parties will have the right to terminate the ENA should either party determine that the proposed project is infeasible or if either party fails to perform its obligations under the ENA. Furthermore, any option agreement and/or ground lease would require future consideration by the Board. The Harbor Department and the developer are responsible for their own costs incurred related to the performance of their due diligence activities, with the exception of any environmental assessment work that may be required. If CEQA/NEPA assessment work is required, the Harbor Department's share of any costs will be 25 percent and the developer will be responsible for 75 percent of the environmental assessment costs. It is anticipated that the LA Waterfront Alliance will form a joint entity to be the developer of Ports O' Call, and therefore the ENA may be assigned to a new development entity. However, the ENA assures that the new entity will control or be controlled by The Ratkovich

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Company's parent company, RM Properties, LLC, a limited liability company of which Wayne Ratkovich is the majority owner. Any other assignment of the ENA requires prior approval by the Board.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an exclusive negotiating agreement with the LA Waterfront Alliance for negotiations on the development of Ports O' Call. Development of Ports O' Call was analyzed as part of the San Pedro Waterfront EIS/EIR which was certified by the Board in September of 2009. Upon finalizing the development concept, Harbor Department staff will initiate the evaluation of the development concept to determine if further environmental assessment is required under CEQA and NEPA, which would be subject to future Board approval. As an administrative activity for which the underlying project has been previously approved, the Director of Environmental Management has determined that the proposed action is exempt from CEQA in accordance with Article II Section 2(i) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

While the action of approving the ENA will have no direct employment effect, the successful development of Ports O' Call is anticipated to attract additional visitors to the waterfront and downtown San Pedro. Additional visitor spending will have a positive impact on the local economy through additional tax revenues and local job creation. However, because these benefits depend on both the type of development and its actual performance, these benefits cannot be quantified at the present time. Job creation relative to the proposed project construction will be quantified when a subsequent ground lease is considered by the Board.

FINANCIAL IMPACT:

The proposed ENA establishes the framework upon which the Harbor Department will enter into an exclusive negotiating period with the LA Waterfront Alliance. The ENA does not commit either party to proceed with a proposed development of the Ports O' Call site as any terms or agreements for the site must be brought before the Board for approval. During the term of the ENA, the Harbor Department and Developer are responsible for their own costs incurred related to the performance of their due diligence activities, with the exception of any CEQA/NEPA compliance costs, which will be shared between the two parties at the rate of 25 percent for the Harbor Department and 75 percent for the Developer. Harbor Department costs related to due diligence include staff time and a 25 percent share of any CEQA/NEPA assessment work, which at this time is unknown pending the finalization of the development concept. Additional

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financial details of the proposed Ports O' Call development are pending further development of the concept and will be brought to the Board in a separate future action.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the Exclusive Negotiating Agreement as to form and legality.

TRANSMITTALS:

1. Site Map
2. Ports O' Call Request For Qualifications
3. Exclusive Negotiating Agreement

FIS Approval: KRP (initials)

CA Approval: gmc (initials)



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