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November 30, 2010

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Re: Gambol Industries, Inc.

Dear Ben, Ken and George:

We have received Ben's and Ken's letter dated November 18, 2010. It is ironic that Gambol accuses POLA of "duplicity" and "outrageous manipulation" in analyzing the capital costs necessary to develop the shipyard Gambol has proposed, given Gambol's recent departures from long-held and fundamental positions on how its shipyard would be developed.

The first departure concerns a cornerstone of Gambol's proposal -- that 100% of project funding would come from private sources. Since the MOU's inception, in public fora and private lobbying sessions, Gambol has pitched its project as a no-cost, no-risk proposition that would generate millions of dollars in revenue and thousands of jobs, without requiring a cent of City investment. This pitch has been persuasive. Indeed, a July 28, 2010 *Daily Breeze* op-ed authored by Janice Hahn, Richard Slawson, Linda Dishman and Tom Politeo (copy attached) states:

Gambol wants to invest 50 million private dollars to bring a green, union, state-of-the-art shipyard at the vacant Southwest Marine site, which could generate thousands of jobs and millions of dollars in revenue. This is a difficult prospect for any of us to pass up. And to be clear, it will not cost any taxpayer or public dollars. (Emphasis added.)

Either Gambol changed its pitch after July of 2010 and failed to tell anyone, or the pitch has been false all along, as Gambol conceded on November 12, that POLA would need to invest over \$10 million in capital improvements to the existing Southwest

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November 30, 2010  
Page 2

Marine site for a shipyard development to be viable. Those who have supported Gambol's project on the basis that it constitutes a no-cost, no-risk, 100% privately funded proposition, may wish to take notice of Gambol's about-face on this key point, and consider what it may say about Gambol's credibility.

The second departure concerns access to the raw data supporting the vast majority of the capital costs stated in Gambol's business plan, which Gambol represented at the November 4 Board meeting it would provide. As you know, Gambol's business plan asserts a gross amount for the capital improvements necessary to rehabilitate the existing Southwest Marine site for shipyard use, broken down into several line item amounts. The business plan, which Gambol submitted to POLA a day before the MOU's deadline, provides no engineering or backup (in the form of contractor estimates, conceptual layouts or sketches, quantity estimates or cost calculations) to support these figures. Fulfilling its duty to review the business plan and provide recommendations to the Board, POLA staff independently analyzed capital costs through AECOM, not once, but twice. The reports for these separate analyses, which we have provided to Gambol, contain cost estimates with which Gambol obviously disagrees, but which contain the backup and calculations to support the conclusion that Gambol has un- or under-estimated capital costs by close to \$60 million.

At the November 4 Board meeting, Gambol criticized POLA staff for failing to directly raise concerns about the business plan with Gambol, and representing that, had POLA done so, Gambol would quickly respond with information that would allay such concerns. Taking this representation at face value, on November 10, we asked Gambol to provide the backup supporting the capital costs in its business plan at our November 12 meeting. Though Gambol actually brought the backup to the meeting in several three-ring binders, and referred to it repeatedly during the meeting, it refused to provide that information to POLA at the meeting. Since then, Gambol provided POLA with backup related to building rehabilitation costs only, an area in which the parties largely are in agreement. No backup has been provided for other areas in which Gambol claims costs much lower than POLA's, such as power/electrical, grading/paving/drainage, and wharf and pier work.

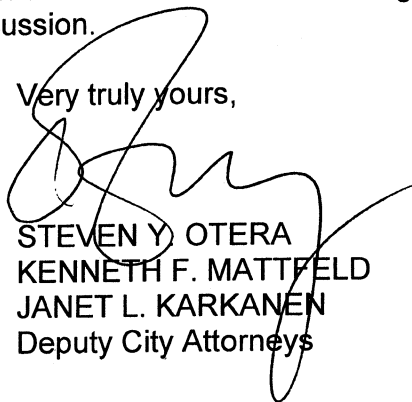
The persona Gambol adopts in public relative to cooperation and transparency differs starkly from what it practices away from an audience. The facts remain as follows: POLA has provided Gambol with two separate analyses that support POLA's belief that the capital costs in Gambol's business plan are hugely understated. Though Gambol has been quick to attack these analyses, it has yet to confirm the accuracy of the capital costs figures in its business plan with analysis or data, despite repeated invitations to do so. Those invitations stand. We await Gambol's response.

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November 30, 2010  
Page 3

The third departure concerns Gambol's position that it could easily adjust its shipyard design to accommodate the MHRP (i.e., leaving the Berths 243-245 slips unfilled, as they presently exist). Indeed, Gambol's business plan states on page 8 that "[t]he Business Plan presented here remains valid for a site layout without the CDF landfill, and many alternative CDF and drydock slip arrangements have been designed and evaluated over the past year. This Plan will not change materially if the CDF is not created (the drydock slips remain in their current open configuration). . . ." Apparently, this representation of Gambol no longer is true, as Gambol also conceded on November 12 that, even if the Port of Long Beach accepts all MCDP dredge material for placement in the MHRP, a steel-wall vertical containment system nonetheless still would need to be constructed within the slips to house the contaminated sediments that would be dredged from the slips, and to create the land needed to implement Gambol's vessel transfer system, since sufficient area does not exist between the road and the back of the slips to roll vessels on and off dry docks. Implementing this "mini-fill" would eradicate any theoretical cost savings represented by the MHRP.<sup>1</sup>

We have enclosed a matrix and meeting notes which recap the status of the various capital cost issues at the conclusion of our November 12 meeting and look forward to receipt of your analysis and discussion.

Very truly yours,



STEVEN Y. OTERA  
KENNETH F. MATTFELD  
JANET L. KARKANEN  
Deputy City Attorneys

SYO/dls  
Enclosures

cc: Tom Russell, General Counsel, Office of the City Attorney - Harbor Division  
Linda Dishman, Executive Director, L.A. Conservancy  
Jenny Chavez, Office of Council District 15

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<sup>1</sup> As detailed in our November 1 letter, the theoretical maximum cost savings represented by the MHRP consist of a depleting \$12 million. Gambol has not responded to this letter, or otherwise attempted to support its contention that the MHRP would save POLA in excess of \$30 million.

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## Why shipyard is good news for San Pedro

By Janice Hahn, Richard Slawson,  
Linda Dishman and Tom Politeo

Posted: 07/27/2010 08:07:00 PM PDT

Updated: 07/28/2010 09:25:27 AM PDT

For more than a year, we have been talking about the possibility of building a shipyard at the Port of Los Angeles. The proposal, brought forward by Gambol Industries, has captured the imagination and support of many - all focused on creating good jobs.

Gambol wants to invest 50million private dollars to bring a green, union, state-of-the art shipyard at the vacant Southwest Marine site, which could generate thousands of jobs and millions of dollars in revenue. This is a difficult prospect for any of us to pass up. And to be clear, it will not cost any taxpayer or public dollars.

It is really a no-brainer. While there are some concerns about making it work logistically, we can overcome those concerns. This is a great opportunity to create new jobs, generate tax revenue and redevelop the historic Southwest Marine shipyard. Of the top 25 ports in the world, Los Angeles and Long Beach are the only ones without a major ship building and repair facility. Large ships have to travel to San Diego or Seattle for maintenance and major repairs,

which generates additional diesel pollution, and sends the jobs there, instead of keeping them here in Los Angeles.

The Los Angeles Economic Development Corp. found that the shipyard would be "a jobs-generator capable of sustaining more than 2,000 full-time jobs" and "a welcome addition to a city that has struggled to create employment opportunities for its growing population."

The LAEDC also reported, "When

the shipyard reaches full capacity, we estimate that it will generate total annual economic activity of over \$219 million and sustain 2,040 full-time jobs in Los Angeles County with earnings of \$79million."

Our goals are simple: We want to create jobs, generate revenue and preserve the location's historic purpose. At a time when the region is dealing with double-digit unemployment, let's seize this opportunity to bring economic development to the Harbor Area. When the Harbor Commission takes up this issue today, we urge them to do the right thing and commit to bringing jobs back to San Pedro.

Los Angeles City Councilwoman Janice Hahn represents the harbor district, Richard Slawson is executive secretary of the Los Angeles/Orange County Building and Construction Trades Council, Linda Dishman is executive director of the Los Angeles Conservancy, and Tom Politeo is co-chair of the Sierra Club Harbor Vision Task Force.

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**Capital Cost Items Discussed at 11/12/10 Meeting Between POLA & Gambol**

ITEM	DESCRIPTION	COST (IN MILLIONS)	Status of Cost Discussions		
			Agreed Cost Differentials	Gambol Disagrees with POLA cost Differentials	Gambol believes costs of these items are POLA's responsibility
RESTORATION AND REFURBISHMENT OF EXISTING BUILDINGS	Electrical Building Upgrades in excess of Business Plan estimate	\$0.564		\$0.564	
	Main Substation/Building 2 (34.5KV substation; 4.16KV Distribution)	\$2.495		\$2.495	
CONSTRUCTION OF NEW CONCRETE PIERS AND WHARVES INCL. CDF	Removal of surcharge pile	\$3.383			\$3.383
	Concrete Cap Beam	\$1.000			\$1.000
	Refurbish existing pier fendering, coping and appurtenances	\$1.500			\$1.500
	Wharf utilities	\$0.538			\$0.538
	Reconstruct portion of Pier 1,3 (demo from MCDP)	\$2.695			\$2.695
Reconstruct Piers 1, 3 & 4 to provide safe operations of cranes	An extensive engineering study and evaluation are required to determine extent of reconstruction for crane operation. Gambol indicated any costs for this item are the Port's responsibility.	TBD			TBD
MHRP Option - Open Cell Fill	Even if MCDP sediments are disposed at MHRP, Gambol stated an open cell fill is still needed to accommodate remaining legacy contamination in the slips and also facilitate VTS operations of the proposed shipyard	TBD			Note 3
GRADING AND PAVING NEW LAND AREA	Grading, paving and drainage 4.24 acres created by CDF	\$1.186		\$2.944	\$1.186
GRADING AND PAVING EXISTING LAND AREA	Grading, paving and drainage of existing site (11 acres)	\$2.944			
NEW SITE INFRASTRUCTURE AND SHIPYARD FACILITIES	<ul style="list-style-type: none"> <li>Parking Structure</li> <li>On-site Lot</li> <li>Off-site Lot</li> </ul>	\$9.600	\$0.143		
	Duct bank and Cables	\$0.560			
	Crane Power	\$1.435		\$1.435	
	High Mast Lighting	\$4.750		\$4.750	
	Water	\$1.500		\$1.500	
	Storm Drain (New Landfill only)	\$0.522		\$0.522	
	Sewer	-\$0.430		(\$0.430)	
	Crane Rehabilitation (in excess of business plan costs)	-\$0.048		(\$0.048)	
NEW FLOATING DRYDOCKS	Sheet pile wall	\$1.391	\$0.00		note 1
	Dredging	\$11.200		\$0.00	note 1
OPEN CELL VS. POLA CDF COSTS	Additional costs for Gambol Slip Development compared to POLA Channel Deepening CDF	\$1.842			
PIER 3/ PIER 4 TRANSITION	Demo, Strengthening, Dredging etc.	\$5.500		\$5.500	
EIR/EIS		\$3.369		\$3.369	
DESIGN & CM	Engineering, Design, CM, Survey, Inspection (17% on const. cost)	\$1.200		\$1.200	
		\$6.900		\$4.683	note 2
<b>TOTAL ADDITIONAL COSTS</b>		<b>\$55.579</b>	<b>\$0.143</b>	<b>\$28.484</b>	<b>\$10.302</b>
				Revised Cost Differential(1.143+28.484+10.302)	\$38.979

Note 1: This cost is eliminated based on Gambol's statements that the 720 foot dry dock would not operate/lift vessels at Pier 4

Note 2: This amount is reduced due to elimination of costs associated with Pier 4 sheet pile and dredging (per Note 1)

Note 3: Gambol's stated need for a fill in the slips even with the MHRP disposal option exercised would clearly negate any potential cost savings associated with that option

**Meeting Notes from Gambol/Harbor Dept. Meeting of 11/12/10**

Following is a summary of meeting notes from Friday's half-day meeting with Gambol (11/12/10) regarding their shipyard development cost estimate, contained in their June 2010 Business Plan, and the July 2010 AECOM report's shipyard development cost estimate (which was further revised in the October 21, 2010, Supplement to the July 21, 2010 AECOM Report, distributed to Gambol and discussed extensively at this meeting). The objective of the meeting was to discuss the differences between AECOM's and Gambol's estimates in an effort to either resolve or more precisely define these differences. The notes are organized into three categories, 1) cost estimate items upon which Gambol and Harbor Dept. staff agree, 2) cost estimate items upon which Gambol and Harbor Dept. staff **do not** agree, and 3) costs that Gambol believes should be paid by the Harbor Department as capital improvements to the site that will be covered under a prospective lease.

The most recent AECOM estimate (October 21, 2010, Supplement to the July 21, 2010 AECOM Report, distributed to Gambol and discussed extensively at this meeting) showed \$56 million in project development costs that Gambol had omitted. Following is a breakdown of cost differentials following Friday's meeting.

<b>Category 1 – Agreed-upon Items</b>	The cost differential between AECOM's Oct. 2010 estimate and Gambol's Business Plan for this category, after reaching tentative agreement on these items, is approx. \$143,000 for an employee parking lot (this was after agreeing that the \$9.6 million parking structure was not necessary and that 3 of the 5 cranes did not need to be rehabilitated saving \$1.391 million).
<b>Category 2 – Items Still in Contention</b>	The cost differential between AECOM's Oct. 2010 estimate and Gambol's Business Plan for the items in this category is approx. \$28.5million (NOT including any work needed on or adjacent to Pier 4/Berth 240).
<b>Category 3 – Costs that Gambol Believes Should Be Paid by the Harbor Dept. and Recovered Through the Lease</b>	AECOM's Oct. 2010 estimate of the items Gambol believes should be paid by the Harbor Dept. and negotiated into the lease is \$ 10.3 million.

**Category 1 (agreed-upon items):**

1. Static preservation of buildings. Gambol's estimate was \$120k and has not been challenge by the Harbor Dept. staff.
2. Crane rehabilitation. AECOM estimated \$1.391 million more to rehab cranes that Gambol has estimated. AECOM's estimate included 5 cranes. Contrary to their Business Plan, Gambol clarified that they now want to rehab only 2 cranes. The money in Gambol's business plan for this item is sufficient to rehab 2 cranes.
3. Employee Parking/Structure. AECOM had estimated \$9.6 million for a parking structure as called out in Gambol's business plan. Gambol clarified, and Harbor Dept. staff concurred, that a

parking structure is not required at facility startup. Gambol took no issue with the AECOM's revised estimate of \$143,000 for the cost of an employee parking lot.

**Category 2 (items still in contention):**

1. Building rehabilitation (NOT including static preservation). AECOM reviewed its earlier estimates and reduced the cost of demolishing one building and rehabilitating four buildings by almost \$1 million based on AECOM's conceptual-level designs. Gambol still believes AECOM's estimate is too high and base their estimates on a combination of contractor quotes and rough estimates. Harbor Dept. staff feel that AECOM's revised estimate represents the lowest practical cost for performing the work on these buildings. The difference between AECOM's revised estimate and Gambol's estimate stands at \$564,000 and includes mostly building electrical work.
2. Main substation rehabilitation/replacement. AECOM revised its estimate for this item downward by approximately \$2.5 million based on information gathered at an August 2010 site inspection with DWP Staff along with AECOM's conceptual-level design. However, Gambol still disagrees with AECOM's estimate and bases their estimate on an October 2009 inspection and quotes from two contractors. Harbor Dept. staff stand by AECOM's revised estimate which shows \$2.5 million more cost for this item than Gambol's estimate. Gambol will review AECOM's conceptual-level electrical design and associated estimate and provide Harbor Dept. staff with their feedback.
3. Shore Power. Gambol acknowledged that they may not have included the cost of shore power in their estimate. They will review their estimate and advise Harbor Dept. staff if that is, in fact, the case. AECOM's estimate has included this within the site electrical costs. Harbor Dept. staff will review AECOM's electrical estimate and determine how much shore power should cost (amount not known at this time).
4. Side grading, paving, and drainage. AECOM's estimate is \$2.944 million above Gambol's for the re-grading, paving, and drainage improvements required on the site as described in Gambol's Business Plan. AECOM's estimate is based on site inspections focused on pavement conditions along with current requirements of similar Port facilities for storm drain catch basin improvements to meet environmental standards. Gambol had apparently not included required environmental upgrades to the drainage system and stated they would be reviewing this estimate. Gambol's estimate is based largely on contractor quotes for a 4 inch pavement overlay. They agreed to share these estimates with Harbor Dept. staff.
5. Electrical system rehabilitation/replacement. AECOM's electrical estimates are based on conceptual-level design for the site electrical system. Gambol's electrical estimates are based largely on contractor quotes for system rehabilitation not previously provided to the Harbor Dept. and rely on reusing most electrical equipment. Harbor Dept. staff believe AECOM's numbers are much closer to the actual cost of this work and are approximately \$6.2 million more than Gambol's. Gambol will review AECOM's conceptual-level electrical design and associated estimate and provide Harbor Dept. staff with their feedback along with contractor quotes upon which they based their estimates.

6. High-mast lighting. Gambol questions the need for new high-mast lighting. Harbor Dept. staff feel this will be needed to reach safe illumination levels outside the buildings, especially since Gambol confirmed this would be a multi-shift operation. Gambol will review AECOM's estimate for high-mast lighting which presently stands at \$1.5 million.
7. Additional Cost for construction of Alt. 4.2 CDF Configuration. Gambol's engineering team and Harbor Dept. staff had, early July, agreed that Alt. 4.2 would cost about \$5.5 million more than the Confined Disposal Facility (CDF) currently being constructed by the Corps of Engineer's contractor as part of the Main Channel Deepening Project (MCDP). Gambol has failed to include this cost in their estimate even though the MOU clearly states that Gambol's plan cannot cost the Harbor Dept. any more than what is currently being paid for the CDF under the current MCDP. Gambol is now either disputing this cost differential or that they must pay this difference. It should also be noted that Gambol stated in the November 12, 2010 meeting that even if the Middle Harbor Option became reality, a steel walled CDF of some configuration would still be required to accommodate the residual legacy contamination present in the dry dock slips that is under DTSC order for cleanup.
8. Pier 3-to-4 Transition. Gambol plans to reconfigure the wharf in the transition area between piers 3 and 4 to accommodate the roll-on/roll-off activities to/from their floating drydocks. They had simply planned to sawcut the existing wharf and remove a few piles, as needed, and had furthermore omitted the cost of doing even this reduced scope of work in this transition area. Harbor Dept. engineers say Gambol's plan will not work and that a new section of wharf will be needed in this area at a cost of approx. \$3.4 million based on current actual costs of constructing wharves in the Port. Gambol agreed to provide more information to Harbor Dept. staff on their proposed drydock operation (including where and how often they would be making lifts and roll-offs) to help us understand associated infrastructure needs.
9. Wharf work along Pier 4 to accommodate floating drydocks. Gambol doesn't believe they need to do anything to Pier 4 (Berth 240) to accommodate their new drydocks, particularly the 720 ft. multiple-section drydock. AECOM and Harbor Dept. staff have identified the need to drive sheet piles to protect wharf piling (\$11.2 million) and dredge the area (\$1.8 million) to provide sufficient draft to accommodate Gambol's floating drydock. Gambol believes the drydock can do its lifting in the center of the Berth 240 slip or in the adjacent main channel and that nothing needs to be done to Berth 240 (also known by Gambol as Pier 4). Harbor Dept. staff believes that Gambol's proposed operations in the main channel will impede navigation and that insufficient draft exists in the center of the Berth 240 slip for dry dock operations.
10. EIR/EIS Preparation. Harbor Dept. staff estimated this to be, at minimum, \$ 1.2 million more than what Gambol's Business Plan identified.
11. Design and Construction Management. Harbor Dept. staff believe this will cost about \$6.9 million more than what Gambol identified in their Business Plan based on a Port-wide average for these "soft costs" at 17% of construction costs.
12. Sheet Pile Wall in front of Pier 4 (Berth 240). Harbor Dept. staff had estimated that Gambol would need to install a sheet pile wall in front of the wharf at Pier 4 (Berth 240), in order to deepen the berth to allow operation of their 720 ft. drydock, at a cost of \$11.2 million. Gambol believes they can lift ships with this drydock by operating it in the main channel where sufficient

depth currently exists. While Harbor Dept. staff have removed this cost from consideration in this analysis, we have serious reservations about Gambol's ability to do this without disruptions to Port operations.

13. Pier 4 (Berth 240) Wharf Rehabilitation. Harbor Dept. staff have NOT included any costs of rehabilitating the wharf at Pier 4 (Berth 240). Visual inspection indicates the wharf is not in a state of good repair, and Gambol indicated in this meeting that they would be operating their 2 rail-mounted cranes on this wharf. Costs for bringing this wharf to a state of good repair, sufficient to operate these cranes safely, are unknown and would be the subject of a costly engineering study that might yield construction costs in the tens of millions of dollars.

**Category 3 (costs that Gambol believes should be paid by the Harbor Dept. and recovered through the lease):**

1. Concrete wharf replacement / rehabilitation. Gambol believes this cost should be borne by the Harbor Dept. and recovered through a negotiated lease agreement. AECOM estimates this cost will be \$4.2 million.
2. Surcharge soil removal on the Alt. 4.2 CDF. Gambol believes this cost should be borne by the Harbor Dept. and recovered through the lease agreement. AECOM estimates this cost will be \$3.4 million.
3. Wharf Utilities. Gambol believes that AECOM's latest estimate for utilities required on the wharves but of \$538,000 should be part of the Port's capital investment in the facility.
4. Grading and Paving the 4.24 acres created from Gambol's Alt. 4.2 CDF. AECOM estimates that grading and paving the 4.24 acres of new land created as part of the Alt. 4.2 CDF will cost \$1.2 million. Gambol contends this cost should be borne by the Harbor Dept. and rolled into the lease.
5. Concrete Cap Beam. AECOM estimates the concrete cap beam on the ALT 4.2 CDF will cost approximately \$1.0 million. Gambol contends this cost should be borne by the Harbor Dept. and rolled into the lease.