



GAIL FARBER, Director

COUNTY OF LOS ANGELES

DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

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November 22, 2016

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:

**CONSTRUCTION-RELATED CONTRACT
SAN PEDRO COURTHOUSE REDEVELOPMENT PROJECT
CITY OF LOS ANGELES
AWARD EXCLUSIVE NEGOTIATION AGREEMENT
SPECS. 7413; CAPITAL PROJECT NO. 69776
(SUPERVISORIAL DISTRICT 4)
(3 VOTES)**

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

42 November 22, 2016

LORI GLASGOW
EXECUTIVE OFFICER

SUBJECT

Approval of the recommended actions will authorize the negotiation and execution of an Exclusive Negotiation Agreement (ENA) with Holland Partner Group for the potential redevelopment of the San Pedro Courthouse and authorize the Chief Deputy Director of Public Works or his designee, in consultation with the Chief Executive Office (CEO), to manage pre-development activities for this potential redevelopment project.

IT IS RECOMMENDED THAT THE BOARD:

1. Find that the proposed recommendations are categorically exempt from the California Environmental Quality Act for the reasons stated in this Board letter and the record of the proposed project.
2. Authorize the Chief Deputy Director of Public Works or his designee, in consultation with the Chief Executive Office, to negotiate an Exclusive Negotiation Agreement to include the performance of pre-development services and in accordance with the terms and conditions described herein, with Holland Partner Group.

3. Delegate authority to the Chief Deputy Director of Public Works or his designee, in consultation with the Chief Executive Office, to execute an Exclusive Negotiation Agreement with Holland Partner Group and, if necessary, to extend the initial term of the agreement.
4. Authorize the Chief Deputy Director of Public Works or his designee, in consultation with the Chief Executive Office, to manage the pre-development phase.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of the recommended actions will approve the negotiation and execution of an ENA with Holland Partner Group for the potential redevelopment of the San Pedro Courthouse and authorize the Chief Deputy Director of Public Works or his designee, in consultation with the CEO, to manage pre-development activities for this potential redevelopment project.

Background

The vision of the proposed project will provide public amenities and development to fit in with the City of Los Angeles' new San Pedro Waterfront Redevelopment project at the existing Ports O'Call Village. The City's redevelopment project is seen as a key step in transforming San Pedro's once industrial waterfront into a regional destination that includes dining, music, and tourist attractions. The current fishing village will be demolished and replaced with 16 acres of restaurants, fresh markets, retail shops, and offices. The new San Pedro Public Market is set to open in 2020.

In May 2016, the CEO commissioned a real estate economic study for the San Pedro Courthouse property that resulted in the following recommendations:

- The highest and best use for the property involve a mix of high-rise residential, retail, restaurant, a cultural space, and an above-ground parking structure.
- There is demand for a significant amount of cultural use in this community and would suit the project well.
- The residential market for the property may be able to bear up to 250 rental residences in a mix of studios and 1- and 2-bedroom units.
- Market conditions appear to bear a rental rate of approximately \$3 per square foot and when included with for-rent retail and restaurant spaces, annual ground

lease rates may yield the County a substantial return per year, subject to entitlement conditions of approval and developer negotiations as necessary to finalize the transaction terms.

In an effort to reduce the County's potential cost for development of this project, firms from the private sector and a real estate economic advisor were consulted on ways to lower overall costs. One of the recommendations was to utilize a ground-lease revenue generating project delivery methodology, which allows the County to select a best-value developer based on its experience developing projects similar to the proposed mixed-use residential, commercial, retail, and/or cultural project type.

Exclusive Negotiation Agreement and Pre-Development Phase

Approval of the recommended actions authorizes the Department of Public Works, in consultation with the CEO, to negotiate and execute an ENA with the Holland Partner Group. The ENA would allow the Holland Partner Group to proceed with pre-development work related to the potential project, including but not limited to: (a) preparation of the required documentation by the California Environmental Quality Act (CEQA) for the project site, (b) performance of all necessary onsite investigations (including without limitation) geotechnical investigations, hazardous materials testing, topographic surveying, and environmental site assessments), (c) conduct community outreach, (d) conduct building programming efforts, and (e) development of the preliminary designs of the site and various buildings to a sufficient level of detail to allow the Holland Partner Group to submit a final development plan inclusive of the final cost and financing plan. Other than the County project management activities, the costs for all pre-development activities to be provided pursuant to the ENA will be solely borne by the Holland Partner Group.

The ENA allows for an exclusive negotiation period between the County and the Holland Partner Group during which deal terms will be identified. The initial negotiation period term will be set at six months and may be extended at the sole discretion of the County. If timely progress is not achieved during the exclusive negotiation period, Public Works may return to the Board to request authorization to re-advertise the project and select an alternate developer with which to pursue negotiations.

The pre-development phase requires the Holland Partner Group to make substantial investment in planning the project. The purpose of the ENA is to provide assurances to the Holland Partner Group that, during the term of the ENA, the County will be dealing with Holland Partner Group exclusively, according to the terms spelled out in the ENA, while the Holland Partner Group is investing resources to further study the feasibility of the project.

The terms to be negotiated during the exclusive negotiation period, include, but are not limited to, the following: project description, public or community outreach, development concept, due diligence, entitlement approach, timeline, ground lease terms, Holland Partner Group's deposit, and compensation structure to the County.

Consistent with the Board's recent action regarding community participation economic development projects, the project will include appropriate public outreach, due diligence, proactive communications, and local agency collaboration during the pre-development and development phases.

The ENA will provide that during the pre-development phase, the Holland Partner Group will be responsible for all due diligence costs and costs associated with securing all entitlement and environmental approvals.

During the pre-development phase, the County and the Holland Partner Group will formalize deal terms through a development agreement to include a ground lease agreement, which will be presented to the Board for approval before proceeding with the project. Environmental documents and recommendations will be also presented for the Board's approval at that time.

Should the Board ultimately approve the required environmental documents and a ground lease or other development agreement with the Holland Partner Group, the Holland Partner Group will be responsible for all costs associated with the demolition of the existing courthouse, design fees, site preparation, construction, utilities, taxes, permits, and inspection fees.

Implementation of Strategic Plan Goals

The Countywide Strategic Plan directs the provision of Operational Effectiveness/Fiscal Sustainability (Goal 1), Community Support and Responsiveness (Goal 2), and Integrated Services Delivery (Goal 3). In this case, the County is supporting these goals by proposing a project that enriches the lives of the local community by providing a cultural space as a joint use component of the project and promotes fiscal responsibility by providing significant local revitalization in the area.

FISCAL IMPACT/FINANCING

The total estimated budget for the County services to be provided, including project management activities, is \$640,000, which includes County services to negotiate the ENA and manage and oversee the pre-development phase. This budget was authorized by the Board in its action on the June 14, 2016, motion, Item 3. No additional County costs are anticipated during the pre-development phase.

The CEO, with the assistance of Public Works, shall provide a full analysis of the fiscal impacts when we return to the Board with a recommendation related to the final ground lease or other development agreement.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

In accordance with the Board's Civic Art Policy amended on August 11, 2015, the project budget will include 1 percent of design and construction costs to be allocated to the Civic Art Fund. This amount will be established when we return to the Board to award the development agreement.

On September 23, 2016, the Governor of the State of California approved Assembly Bill No. 1900, which authorized the sale of the San Pedro Courthouse property (Assessor's Parcel Number 7455-013-901) to the County of Los Angeles, pursuant to Section 70395 of the Government Code. The Board approved the acquisition of the property from the State in accordance with Government Code 25350 on October 25, 2016.

The ENA is authorized by Government Code Section 25549.1, which allows the County to enter into leases and agreements relating to joint use of real property.

ENVIRONMENTAL DOCUMENTATION

The recommended actions, including the award of an ENA and the work contemplated thereby (including preliminary survey work, hazardous materials testing, and other preliminary site investigation for feasibility and planning) are categorically exempt under Sections 15304 and 15306 of the State CEQA Guidelines and Classes 4 and 6 of the County's Environmental Document Reporting Procedures and Guidelines, Appendix G. The activities involve basic data collection, research and resource evaluation as information gathering or part of a study leading to an action, which the Board has not yet approved, adopted or funded and may include minor alterations to land. The proposed testing and other feasibility related activities are also statutorily exempt under Section 15262 of the State CEQA Guidelines because the activities involve feasibility and planning studies for passible future actions, which the Board has not yet approved, adopted, or funded and for which the County has considered environmental factors. The recommended activities will not involve the removal of trees, are not located in an environmentally sensitive area, there are no cumulative impacts or unusual circumstances, and there would be no substantial adverse changes in the significance of historical resources or other limiting factors that would make the exemption inapplicable based on the record of the proposed activities.

The remaining recommended actions are not considered a project under CEQA because they are excluded from CEQA's definition of a project. The activities are administrative activities of government and the establishment of a government funding mechanism, which will not result in physical changes to the environment or reasonably foreseeable indirect changes to the environment pursuant to Section 15378(b)(4) and (5) of the State CEQA Guidelines.

By authorizing the recommended actions, the County is not approving or committing to the development of any project under CEQA. The County, as lead agency, may modify or decide not to proceed with any project for any reason. Nothing precludes the County from rejecting any proposed project or from weighing the economic, legal, social, technological, or other benefits of a proposed project against its unavoidable environmental risks when determining whether to grant approval.

Aside from the preliminary site testing and feasibility activities recommended herein, no activity that would constitute a project under CEQA will be commenced unless the Board takes further action to consider appropriate environmental documentation and make appropriate findings pursuant to CEQA in connection with approval of a project.

Upon the Board's approval of the proposed project, Public Works will file a Notice of Exemption with the Registrar-Recorder/County Clerk in accordance with Section 15062 of the CEQA Guidelines.

CONTRACTING PROCESS

On June 14, 2016, the Board directed the CEO, County Counsel, and Public Works to prepare a Request for Proposals (RFP) for the development of a revitalization project at the site of the San Pedro Courthouse. The Board also adopted a resolution on that date setting the date of September 13, 2016, to receive all proposals.

On July 26, 2016, the Board adopted a resolution to extend the date set for receiving the proposals to September 27, 2016, to allow proposing teams ample time to respond to the County's RFP.

On September 27, 2016, Public Works received a proposal from Holland Partner Group in response to the RFP.

The recommended development team for the potential project was selected through a formal RFP issued by Public Works with assistance from the CEO and County Counsel. The RFP anticipated that, as a first step, an ENA would be awarded to the successful proposer. The proposal was evaluated by a panel of evaluators from Public Works and CEO using objective criteria including but not limited to:

- Qualifications and experience of the developer team with delivering projects comparable both in size and uses.
- Proposed concept including the developer's approach related to engaging public input, managing public outreach, planning, design, entitlement approvals (including CEQA), financing, phasing, development, construction, and operation.
- Description of joint use component.
- Ground lease terms offered to the County.
- Financial capacity of the proposer.

An evaluation panel consisting of representatives from CEO and Public Works scored the proposal independently based on criteria established in the RFP and determined that the Holland Partner Group submitted a qualifying proposal that meets the County's objectives for the project as set forth in the RFP. The Holland Partner Group was invited to participate in a presentation and working meeting with the evaluation panel, and was asked to present a Letter of Intent (LOI). Based on the evaluation of the proposal, presentation and working meeting, and LOI, the evaluation panel is recommending award of an ENA to the Holland Partner Group.

Public Works will return to the Board with a recommendation regarding certification of the environmental documentation and approval of a final development agreement to include a ground lease between the County and the Holland Partner Group.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There will be no impact on current County services or projects during the performance of the recommended actions.

The Honorable Board of Supervisors
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CONCLUSION

Please return one adopted copy of this letter to the Chief Executive Office, Real Estate Division, and the Department of Public Works, Project Management Division II.

Respectfully submitted,



MARK PESTRELLA
Chief Deputy Director



SACHI A. HAMAI
Chief Executive Officer

MP:TL:ec

c: Arts Commission
Auditor-Controller
Chief Executive Office (Real Estate Division)
County Counsel
Executive Office