

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

April 21, 1993

(Task Force to Review Office Space
and Building Sites--Action)

(Executive Committee--Action)

To: Board of Directors (Organization and Personnel Committee--
Action)

From: General Manager

Subject: Consultant Agreement Amendment for Long-Term Headquarters Pre-
Development Services

Report

On October 1, 1992, the District executed a consulting agreement with Kosmont & Associates, Inc., a minority business enterprise (MBE), to provide "predevelopment" project support towards the identification of a preferred site for a long-term District headquarters. Predevelopment is the period prior to the commencement of development, during which the potential buyer (in this case, the District) determines the property's development potential and completes the technical tasks necessary to initiate construction. Kosmont and Associates was originally retained on a sole-source basis due to its unique expertise in the evaluation of real estate transactions, as well as its outstanding references. A partial list of Kosmont & Associates' related project experience has been included as Attachment A.

At the time the initial agreement was executed (in an amount not to exceed \$205,000), consultant tasks were limited to analyses of potential headquarters sites received in response to RFP No. 047. Kosmont has been performing Agreement No. 3825 project tasks on schedule, and to date, District staff has been satisfied with the quality of the firm's work.

However, since the drafting of the original scope of services, the volatile condition of the Southern California real estate market has made it necessary to evaluate additional factors to ensure that the District receives the greatest cost and functional value on the headquarters transaction. These factors include assisting the District in identifying and choosing a qualified "implementation" Project Manager to oversee day-to-day construction activities of the preferred project; assisting the District in identifying and selecting a Cost Estimator to verify developer cost estimates; due diligence evaluation of RFP No. 047 project proponents beyond what was originally anticipated; and assisting District staff with public, press and governmental relations associated with

this project. The presence of these additional factors has lengthened the evaluation process by several months, but staff anticipates presentation of a complete analysis to the Task Force to Review Office Space and Building Sites, as well as to the Board of Directors, no later than Fall 1993.

Because of the extended schedule and the need to evaluate this added information, it is necessary to amend Kosmont & Associates' original scope of services and increase the total amount of the firm's existing agreement with the District. Additional reasons justifying an amended agreement include:

- Kosmont & Associates, as the RFP No. 047 evaluation coordinator, has extensive knowledge of all aspects of the project. A new consulting firm would need to undergo a substantial learning curve to duplicate the level of project support currently provided by Kosmont & Associates;
- Retention of a new consultant would result in significant schedule slippage. As RFP No. 047 respondents have already expended considerable sums of money, and, given the current real estate environment, unreasonable delay will add significantly to the financial burdens of these firms. The District should be sensitive to the negative public perception which will result from such a deferral;
- Kosmont is a small, locally-based business (approximately 15 employees), which has MBE certification. Amendment of the existing Kosmont agreement would contribute to the realization of the District's MBE goal.

Staff proposes that Agreement No. 3825 be amended to show a revised scope of services for the estimated total amount of \$390,000. This amount includes \$380,000 for professional services (an additional \$180,000) and \$10,000 for incidentals (an additional \$5,000). This level of funding will provide the resources for staff to direct Kosmont & Associates to complete the tasks included within the revised scope, and allow for a smooth transition of this project to a future contract "implementation" Project Manager. As part of Kosmont & Associates' initial agreement, staff had negotiated discounted rates from the firm's standard fees, which will continue under the amended agreement (Attachment B).

It is also important to note that staff has structured Kosmont's existing agreement to provide for compensation on a per-hour basis, and that the firm will receive no commission upon the closure of a real estate transaction. This compensation strategy, in addition to the conflict-of-interest statement approved by the Staff Evaluation Team (for RFP No. 047) and on-file with the Administrative Services Division, provides the District with assurances that Kosmont will conduct thorough due diligence investigations. Under these conditions, the firm has no financial incentive to a) fail to pursue all reasonable avenues of investigation regarding entitlement and developer capitalization; b) withhold pertinent data which could be damaging to specific proposals under consideration; and c) close a real estate transaction with any particular developer. This per-hour compensation arrangement will continue under the amended agreement.

The action proposed herein is categorically exempt from the California Environmental Quality Act.

Board Committee Assignments

This letter is referred for action to:

The Task Force to Review Office Space and Building Sites, as the Task Force is directing staff and consultants in the evaluation of potential long-term headquarters sites.

The Executive Committee, as the Task Force to Review Office Space and Building Sites was formed at the specific direction of the Board Chairman, and reports directly to your Chair.

The Organization and Personnel Committee, pursuant to Sections 2481(g) of Metropolitan's Administrative Code to study, advise, and make recommendations with regard to the terms and conditions of employment of all consultants, advisors and special counsel.

Recommendation

TASK FORCE TO REVIEW OFFICE SPACE AND BUILDING SITES, AND EXECUTIVE AND ORGANIZATION AND PERSONNEL COMMITTEES FOR ACTION.

It is recommended that the Board of Directors authorize the General Manager to execute an amendment to Agreement No. 3825, for the estimated amount of \$185,000, to provide for continuing predevelopment support services for the

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selection of a site for the District's long-term headquarters, in accordance with the terms of this letter and in a form approved by the General Counsel.

Board approval of the recommendation is categorically exempt from application of the California Environmental Quality Act.


for General Manager

GFI:di

Attachments



PARTIAL LIST OF PROJECT EXPERIENCE

THE STATE BAR OF CALIFORNIA - LOS ANGELES HEADQUARTERS RELOCATION PROJECT

Kosmont & Associates, Inc. (KA) was retained by The State Bar of California, in conjunction with Cushman Realty Corporation and Steinmann•Grayson•Smylie, to assist the Bar in evaluating the real estate options and "deal" structure opportunities of a potential relocation from its current headquarters in the Beaudry Center. KA helped the Bar determine a preferred location within Los Angeles County in which to satisfy its future occupancy requirements, analyzed long-term occupancy costs, and assessed various financial transactions in which the value of its tenancy can be captured through a participation in the equity of a potential development project or other means. In addition, the consultant team prepared a Request for Proposals (RFP) soliciting development proposals from a number of pre-qualified developers and/or site opportunities. The RFP described the terms of occupancy which the Bar was seeking, including various ways to dispose of the Bar's existing real property asset within the framework of the overall relocation and occupancy transaction. KA reviewed the proposals received from developers and helped the Bar select a new headquarters location.

The State Bar assignment illustrates KA's experience in assisting a public agency in defining and negotiating a complicated real estate transaction, and selecting a development entity to work in a partnership or some other basis to accomplish the transaction.

CITY OF SACRAMENTO - ASSET MANAGEMENT PROGRAM

KA provided the City of Sacramento with comprehensive consulting services in the development and implementation of the City's Asset Management Program. The Program involved creating a system of organizing information and financial data regarding real estate owned and leased by the City and the development of a strategic plan for utilizing real estate assets to yield the highest value based on the operational and financial objectives of the City. The objective of the Program was to encourage the asset enhancement of the City's currently underutilized resources in order to generate much needed new sources of revenue and to meet the current and future space needs of City offices and community facilities.

CITY OF SAN JOSE REDEVELOPMENT AGENCY - REAL ESTATE CONSULTING SERVICES

KA serves as one of the primary real estate consultants for the City of San Jose Redevelopment Agency. KA provides on-call services to the Agency in the general areas of site-specific real estate transaction analysis and fiscal impact analysis, and in the larger area of economic policy analysis. Specifically, KA's services to the Agency include highest and best use studies, fair market and reuse analyses, comparison of alternative financing options, evaluation of cash flow projections and the negotiation and structuring of ground leases. KA also provides the Agency with expert assistance in the preparation of fiscal impact studies, tax rate and assessed valuation projections and cost/benefit analyses.



Partial List of Project Experience
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COUNTY OF LOS ANGELES - CIVIC CENTER STRATEGIC PLAN

KA managed the preparation of a Strategic Master Plan for the phased disposition and development of property owned by the County of Los Angeles in Downtown Los Angeles. The County has a controlling or participatory ownership interest in nine properties within the Bunker Hill and Civic Center areas, representing a total land area of over 30 acres. Under current regulations, over 9 million rentable square feet of office and retail space can be developed on these properties.

The purpose of the Strategic Master Plan was to maximize the value and guide the entitlement and development of these County properties. Aspects of the Plan included: authoring and implementing a strategy regarding density transfers among County properties; evaluating alternative County negotiating strategies regarding quid pro quo trade-offs between Los Angeles Redevelopment Agency tax increment financing and desired County discretionary entitlement actions; and, preparing an area urban design plan defining development density, phasing and timing, and land use mix and configuration for each development site.

CITY OF LOS ANGELES COMMUNITY REDEVELOPMENT AGENCY - DEVELOPER SELECTION PROCESS

KA staff participated in a number of developer selection processes for office and parking structure projects in downtown redevelopment project areas. Responsibilities included review of development and financial proposals, analysis of project costs and revenues, evaluation of development terms, etc. KA staff then assisted in the negotiation of disposition and development agreements and ground leases for these projects.

THE TIMES MIRROR COMPANY - BUNKER HILL PROPERTIES ASSET MANAGEMENT

KA prepared an entitlement evaluation and strategizing an asset enhancement strategy for Downtown properties owned by the Times Mirror Company. The assignment included determining an optimum disposition and development strategy for Times Mirror's Bunker Hill property, including an assessment of the regulatory, political, and economic feasibility of alternative development scenarios, and calculating the property's residual land value for each alternative.

DISNEY DEVELOPMENT COMPANY - PUBLIC FINANCING ADVISORY SERVICES & STRATEGIC PLANNING (CITIES OF GLENDALE & BURBANK)

KA was retained by Disney Development Company to assist in the negotiation of development plans for campus projects in both Glendale and Burbank. In each of these efforts, the focus was on leveraging the benefits of Disney's private investment to support public financing for regional transportation improvements directly benefiting Disney's properties.



Partial List of Project Experience
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LOCKHEED CORPORATION - BURBANK AIRPORT PROPERTIES

KA assisted the Lockheed Corporation in obtaining vested entitlement approvals with the City of Burbank and the Burbank Redevelopment Agency at a level that would maximize asset value. The subject property was adjacent to the Burbank Airport, and KA was involved in strategizing the most beneficial reuse and public financing structure to benefit the property's close proximity to this major transportation center and provide the highest level of connection to future regional transportation improvements. Transportation linkages planned as part of the development include two commuter rail stations feeding into the Moorpark and Santa Clarita Valley commuter lines, as well as optimization of connections between the development and the new Burbank Airport terminal currently in planning. KA was also involved in assisting with the negotiation of property disposition agreements with joint venture and independent development entities.

MALIBU VILLAGE CIVIC ASSOCIATION - SPECIFIC PLAN

KA represents an association of major property owners (the Malibu Village Civic Association). The Association owns and controls approximately 117 acres of commercially zoned property in the heart of Malibu. The new City of Malibu is currently preparing its General Plan and related development regulations. In conjunction with those efforts, under KA's leadership, the Association is developing a Specific Plan incorporating architectural and land use guidelines, traffic and transportation improvements, development density and mixed-use policies, and other related components.

NBC PLAZA - MEDIA DISTRICT SPECIFIC PLAN

On behalf of NBC Plaza (a joint venture of Cushman Investment Development Corporation (CIDC) and the National Broadcasting Corporation (NBC)), KA achieved approval for a 600,000 square foot mixed use project in the Media District of Burbank. In order to accomplish approval of the project, KA led the negotiations on the Media District Specific Plan with the City of Burbank. The Media District Specific Plan incorporates a series of provisions related to height, density, traffic improvements, transportation management, and other infrastructure improvement requirements for this 575 acre planning area. The Specific Plan area includes large property owners such as Warner Brothers, Disney, Columbia Pictures, NBC, and St. Joseph's Hospital. In this exercise, KA negotiated and worked with the City of Burbank and jointly with the major property owners to develop language for the plan that was beneficial to the major property owners and NBC Plaza.



Partial List of Project Experience
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OHBAYASHI AMERICA CORPORATION - CONVENTION CENTER HOTEL

KA served as financial and negotiation advisor for Ohbayashi America Corporation (OAC), the owner of land adjacent to the City of Los Angeles Convention Center expansion. KA provided services to evaluate the financial feasibility of developing a major convention center hotel on OAC's property. Services included analyzing the level of public participation required from the City and its Redevelopment Agency to make the project feasible, investigating previous offers of financial participation made to other nearby owners of potential hotel sites, and researching the types and amounts of financial and in-kind assistance given to developers of similar convention hotels in other cities. Given this research, KA provided the client with an evaluation of the various transaction options available for the development or disposition of its property.

SANTA ANITA REALTY ENTERPRISES, INC. - STRATEGIC PLANNING, FINANCIAL ADVISOR SERVICES, & ASSET MANAGEMENT (SPECIFIC PLAN)

KA served as asset management consultant to Santa Anita Realty Enterprises, Inc. which owns numerous properties including the Santa Anita Racetrack and Santa Anita Fashion Park mall in Arcadia, California. KA provided residual land value analyses based on various alternative development scenarios, and assistance in obtaining required entitlements and structuring public financing to enable redevelopment of the site. The site represents a potential commuter rail joint development opportunity, as a commuter rail station has been proposed within three blocks of this area.

WELLS FARGO BANK - CORPORATE ASSET MANAGEMENT

KA provided "due diligence", i.e., entitlement attainment, evaluations and public finance analyses and negotiation services for Southern and Northern California properties considered for acquisition by the Corporate Real Estate Division of Wells Fargo Bank. KA's services assisted Wells Fargo in determining the most viable development program for specific sites, given a thorough analysis of local market trends, projected financial and entitlement attainment timeframes and potential project revenue. These properties had a combined site area in excess of 85 acres, and represented a development potential of approximately 1.5 million square feet of commercial space valued at over \$300 million.

Attachment B

**Kosmont & Associates, Inc.
Rate Schedule**

President (Larry J. Kosmont)	\$220/hour
Principal (Charles E. Loveman, Jr.)	\$160/hour
Vice President (David Rodriguez)	\$140/hour
Project Coordinator	\$110/hour
Project Associate/Analyst	\$ 90/hour
Technical Support	\$ 70/hour
Clerical Support	\$ 40/hour