

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

January 7, 1994

(Organization and Personnel Committee--
Action)

To: Board of Directors (Executive Committee--Action)

From: General Manager

Subject: Third Amendment to Consultant Agreement for Permanent
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. Kosmont and Associates was originally retained on a sole-source basis due to its unique expertise in the evaluation of corporate headquarters real estate transactions, as well as its outstanding references.

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, and a Board site selection was anticipated no later than mid-1993. 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.

Since the date of the initial consulting agreement, the Task Force to Review Office Space and Building Sites, as well as the full Board of Directors, has made significant changes in Kosmont's original scope of work, necessitating two subsequent Agreement amendments. As a result of these scope modifications, Agreement No. 3825 has twice been amended to a current total not-to-exceed amount of \$550,000, for both professional services (\$535,000) and reimbursable expenses (\$15,000).

At the December 1993 meeting of the full Board, staff was directed to enter into a 120-day negotiation period with Catellus Development Corporation, the developer of Union Station. Under this schedule, the Board will not make a final site selection until its April 1994 meeting. However, all Agreement No. 3825 funds have been expended as of the consulting agreement's December 31, 1993 termination date.

Because of the extended schedule and the Board's request that staff commence negotiations with Catellus, it is necessary to again amend Kosmont & Associates' original consulting agreement with a new scope of services, which may include those items outlined in this Third Amendment (Exhibit A) and increase the total amount of the firm's existing consulting agreement with the District. It is proposed to amend Agreement No. 3825 to authorize payment for additional services and expenses in an amount not-to-exceed \$155,000, for a total contract amount of \$705,000. This additional \$155,000 includes \$150,000 for professional services fees and \$5,000 for incidental expenses.

Kosmont & Associates has extensive knowledge of all aspects of the project as it has developed to date. Because a new firm would lack familiarity with the permanent headquarters project, it would be unable to complete the necessary tasks within the 120-day timeframe, established by the Board on December 14, 1993. Additionally, as a Union Station selection would by necessity involve the development of an exit strategy from the 1111 Sunset Boulevard property, it is in the District's best interest to complete the permanent headquarters selection process quickly to maximize cost efficiencies on other space planning decisions, including, but not limited to the interim location of the data center and the printshop.

The proposed level of funding will provide the resources necessary for Kosmont & Associates to complete its due diligence analysis and assist the District in achieving the most favorable real estate transaction with Catellus Development Corporation. This Third Amendment would extend the Agreement No. 3825 termination date to April 30, 1994. As part of Kosmont & Associates' initial agreement, staff had negotiated discounted rates from the firm's standard fees, which were continued under subsequent amendments. To further contain costs, staff has negotiated an 11 percent rate reduction from Kosmont's President's (Larry Kosmont) previous hourly rate, bringing this rate down to \$195.00/hour. All other Kosmont and Associates staff hourly rates will remain at past levels (Exhibit B).

It is important to reiterate that staff has structured the Agreement with Kosmont & Associates so 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; and b) withhold pertinent data which could be damaging to Catellus Development Corporation. This compensation arrangement will continue under this Third Amendment.

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

Board Committee Assignments

This letter is referred for action to:

The Organization and Personnel Committee, pursuant to Section 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.

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.

Recommendation

ORGANIZATION & PERSONNEL AND EXECUTIVE COMMITTEES FOR ACTION.

It is recommended that the Board of Directors authorize the General Manager to execute a Third Amendment to Agreement No. 3825, in an amount not to exceed \$155,000, to provide for continuing predevelopment support services for the 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 the application of the California Environmental Quality Act, because the recommendation consists of evaluation activities which do not result in disturbances to environmental resources.



John R. Wodraska

EXHIBIT A

SCOPE OF SERVICES

1. Assist the consultant lead negotiator and other staff/consultant team members, as required, in preparing for and participating in negotiation sessions with representatives of the Catellus Development Corporation.
2. Assist staff in preparation, review, and evaluation of qualifications of project management, environmental, architectural and other consultants and participate in interviews as requested to facilitate the selection of additional team members needed for the implementation of the MWD headquarters project.
3. Assist in the development of a strategic plan to facilitate further discussions with Catellus and preparation of a development contract outline for the Union Station contract, including resolution of land prices for the Sunset and Union Station sites, and risks and responsibilities of participants in transaction.
4. Upon request, investigate potential ways to reduce occupancy costs in Two California Plaza, including analysis of lease buyout and purchase of condominium interest in the building.
5. Attend meetings with the City of Los Angeles to refine the entitlement process for the Union Station project, and assist in the preparation of a Memorandum of Understanding that details the financial and processing assistance the City will provide for the headquarters project.
6. Work with District financial staff to confirm an appropriate tax-exempt financing structure for selected transactions.
7. Assist the District in keeping the headquarters project on schedule, including review of the Alameda District Plan environmental database, assist staff in drafting a Notice of Preparation, and preparation of a detailed timeline for the development and occupancy of the Union Station project.
8. Further investigate and evaluate the entitlement and mitigation requirements of the Union Station project.
9. Prepare a detailed cost and financial analysis of "lowest cost" Union Station project, based on current state of negotiations with Catellus, the City of Los Angeles, and parties of the Two California Plaza transaction.
10. Attend team and staff meetings, and prepare and deliver presentations to the Task Force and Board of Directors as necessary.

EXHIBIT B

Kosmont & Associates, Inc.
Rate Schedule
(Third Amendment to Agreement No. 3825)

President (Larry J. Kosmont)	\$195/hr
Principal (Charles E. Loveman, Jr., AICP)	\$160/hr
Vice President (David Rodriguez)	\$140/hr
Project Coordinator	\$110/hr
Project Associate/Analyst	\$ 90/hr
Technical Support	\$ 70/hr
Clerical Support	\$ 40/hr

Amendment is for a not-to-exceed amount of \$150,000 for professional services. An additional \$5,000 has been allocated for incidentals, for a total amendment amount of \$155,000.