

Agenda Item

AGENDA SUPPORT



ASR Control 17-001082

MEETING DATE: 10/17/17
 LEGAL ENTITY TAKING ACTION: Board of Supervisors
 BOARD OF SUPERVISORS DISTRICT(S): 5
 SUBMITTING AGENCY/DEPARTMENT: County Executive Office (Approved)
 DEPARTMENT CONTACT PERSON(S): Scott Mayer (714) 834-3046
 Stacy Blackwood (949) 923-3743

SUBJECT: Selection of Master Developer for the Dana Point Harbor Revitalization

CEO CONCUR Concur	C. UNTY COUNSEL REVIEW No Legal Objection	CLERK OF THE BOARD Discussion 3 Votes Board Majority
Budgeted: N/A	Current Year Cost: N/A	Annual Cost: N/A
Staffing Impact: No	# of Positions:	Sole Source: N/A
Current Fiscal Year Revenue: \$45,000		
Funding Source: N/A	County Audit in last 3 years: No	
Prior Board Action: 01/31/2006 #25		

RECOMMENDED ACTION(S):

1. Find that the subject activity is not a project within the meaning of CEQA Guidelines Section 15378 and is, therefore, not subject to review under CEQA.
2. Select Dana Point Harbor Partners LLC as the primary developer and Dana Point Partners LLC as the alternate developer for the lease, development and management of certain portions of Dana Point Harbor.
3. Authorize the Chief Real Estate Officer or Designee to negotiate Option and Lease agreements with Dana Point Harbor Partners LLC as the primary developer and return to your Board for approval, if and when, there is agreement with Dana Point Harbor Partners LLC on all terms and conditions.
4. Authorize the Chief Real Estate Officer or Designee to negotiate Option and Lease agreements with Dana Point Partners LLC as the alternate developer in the event agreements cannot be reached with Dana Point Harbor Partners LLC and return to your Board for approval, if and when, there is agreement with Dana Point Partners LLC on all terms and conditions.

SUMMARY:

Selection of Dana Point Harbor Partners LLC will allow the County to negotiate Option and Lease agreements with a qualified real estate development team for the purpose of leasing, revitalizing, and managing certain

portions of Dana Point Harbor for the long-term use and enjoyment of the public.

BACKGROUND INFORMATION:

Dana Point Harbor (DPH) is a marine oriented facility located in the City of Dana Point (City). DPH is owned by the County of Orange (County) in trust for the public as a small boat marina pursuant to a State Tidelands Grant (Tidelands Grant). DPH was created in 1968 from a natural cove along the shoreline as a small boat marina. In 1971, in cooperation with the Army Corps of Engineers, DPH's basic infrastructure and public facilities were constructed.

The DPH facilities were built mostly from 1971 through 1975, and over the past 45 years plus, much of DPH's infrastructure has deteriorated and requires modernization and/or replacement. Recognizing the need to revitalize DPH, the Board of Supervisors (Board) in 1997 created the Dana Point Harbor Revitalization Task Force to assist with the development of a comprehensive plan for DPH's future. The DPH Revitalization Plan was developed through extensive community outreach efforts, public hearings, agency reviews, and entitlement approvals. On January 31, 2006, the Board adopted Resolution No. 06-014 approving the DPH Revitalization Plan with its proposed improvements through a two-phased approach.

With various approvals in place to implement the DPH Revitalization Plan, CEO/Real Estate and OC Parks, embarked on a two-step solicitation process to select a real estate development team to revitalize, operate, and manage certain portions of DPH for the long-term use and enjoyment of the public pursuant to a master lease with the County. The first step was the release of a Request for Qualifications (RFQ) followed by step-two, the release of a Request for Proposals (RFP) to the pre-qualified proposers. The process contemplates the successful proposer entering into an option agreement and master lease with the County to manage DPH and the revitalization process. Currently, a master lessee would be required to complete the revitalization in compliance with the DPH Revitalization Plan and the City's LCP. Any changes to these would require further Board approval, in addition to approvals by the California Coastal Commission (CCC) and the City.

On March 16, 2016, the RFQ seeking Statements of Qualifications (SOQ) from real estate development teams was released. On June 20, 2016, the County received three SOQs in response to the RFQ. A five-member evaluation committee comprised of public and private sector subject matter experts in areas including real estate development, finance, marina/coastal facility operations/management, and local government reviewed and rated the SOQs. Based on the criteria set forth in the RFQ and the information provided in the SOQs and during the interviews with each proposer, the panel recommended that each proposer receive the RFP.

On October 19, 2016, the RFP was released to the pre-qualified proposers. On May 4, 2017, the County received two proposals in response to the RFP. A five-member evaluation committee comprised of public and private sector subject matter experts in areas including real estate development, finance, marina/coastal facility operations/management, and local government reviewed and rated the proposals and participated in the interview process. Proposers were asked to provide supplemental information related to the proposed development team, development program and entitlements, financial capability, financial offer, and management structure. The evaluation committee carefully considered the information provided by each proposer, including the responses provided during the interviews conducted with each proposer. Based upon the evaluation and selection criteria set forth in the RFP, the evaluation committee ranked the proposers as follows:

Proposers	Subtotal Written	Subtotal Oral	Total Score (Out of 7500 Points)	Rank
Dana Point Harbor Partners, LLC (DPHP)	4320	2360	6680	1

Dana Point Partners, LLC (DPP)	4010	1970	5980	2
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Experience of Proposers:

The DPHP team consists of three co-managing members: Burnham Ward Properties (Commercial Core), Bellwether Financial Group (Wet and Dry Marina), and R.D. Olson Development (Hotel). While there will be one master lease between the County and DPHP, each co-managing member will be responsible for their respective product type, but will work in collaboration with the other co-managing members. DPHP has extensive experience developing and operating retail, marina, and hotel properties along the coast. They are experienced with large-scale and complex ground-up developments and the refurbishment of existing projects. DPHP has the represented internal capacity to fund the Project without using institutional equity sources and the ability to secure construction financing for all project components from one lender. Notable relevant project experience includes the South Coast Collection and the OC Mix, Long Beach Exchange, the Pasea Hotel (Huntington Beach), the Lido House Hotel (Newport Beach), Anchorage 47 (Marina Del Rey), and Alamitos Bay Marina (Long Beach).

The DPP team consists of DJM Capital Partners (Commercial Core), Pacific Marina Development (Wet and Dry Marina), and Pacifica Hotels (Hotel). DPP has extensive experience in the development, operation, and construction of retail, restaurant, marinas, hotels, and parking garages. They have worked on numerous complex, mixed-use coastal projects, which involve complicated coastal permitting processes. DPP is capitalized with a represented combination of managing member private equity and private market funds. Notable relevant project experience includes Pacific City (Huntington Beach), Lido Marina Village (Newport Beach), Bella Terra (Huntington Beach), Marina Del Rey Marina Hotel, Jamaica Bay Inn (Marina Del Rey), and The Wayfarer (Santa Barbara).

Proposed Development Programs:

DPHP's development program proposes the following:

Commercial Retail Component – 116,727 Rentable SF (approximately)

- Restaurant and Outdoor Dining– 77,178 SF
- Retail and Market Hall/Food Court – 31,949 SF
- Marine Related Retail – 2,000 SF
- Office – 5,600 SF
- Surfing Museum – 9,000 SF
- Marina/Dry Boat Storage Component
 - Marina Slips - 2,296
 - Dry Stack Boat Storage Facility – 388 spaces
 - Valet boater slips (Located between the Commercial Core and Hotel)
- Hotel Component
 - Boutique Hotel- 130 rooms
 - Affordable Hotel - 136 rooms
- Proposed & Existing Commercial Core and Hotel Parking - 4,880
 - Existing Parking to Remain – 2,377 spaces
 - Proposed Parking – 2,503 spaces
- Schedule (approximate and subject to change based on timing of option term and lease approval)
 - Start Date: January 2018
 - Entitlements: January 2018 – July 2019
 - Construction: December 2018 – December 2025

DPP's development program proposes the following:

- Commercial Retail Component – 119,531 Rentable SF (approximately)
 - Restaurant - 55,015 SF

- Retail – 11,949 SF
- Food Hall - 22,567 SF
- Office - 30,000
- Patio - 14,000 SF
- Marina/Dry Boat Storage Component
 - Marina Slips -2,316
 - Dry Dock Stack - 400 spaces
- Hotel Component
 - Boutique hotel – 200 rooms
- Proposed Parking Options
 - Parking Garage – Self Park for Retail, Office, Dining, Boat Charter, and Visitors
 - Surface Parking Areas - Wet Slip Boater Parking, Boat Launch Parking, and Dry Boat Storage
 - Valet Parking and Stacked Parking for Marina Visitors and Hotel Guests
- Schedule (approximate and subject to change based on timing of option term and lease approval)
 - Start Date: May 2018
 - Entitlements: May 2018 – February 2020
 - Construction: December 2019 – April 2023

Both DPHP and DPP have similar development programs with the exception of the hotel component. The DPH Revitalization Plan allows for the future renovation or replacement of the existing lower-cost Marina Inn with a new lower-cost facility. Per the approved Local Coastal Program (LCP), if demolition of the existing Marina Inn is proposed, all demolished units shall be replaced with units that are of equal or lower-cost than the existing lower-cost units to be demolished.

DPHP is proposing to construct two hotels, a 136-room affordable hotel and a 130-room boutique hotel. The 136-room affordable hotel would replace all the lower-cost units lost when the existing Marina Inn is demolished. DPP proposes to construct a boutique hotel with some affordable lodging units or shared economy guest rooms; however, the proposal does not replace all lower-cost units.

Both hotel projects will require further CEQA analysis, an amendment to the LCP, which requires approval by the City and certification by the CCC, and a Coastal Development Permit from the City.

Proposed Deal Structures:

Option Term and Agreement

DPHP has agreed to the County-proposed 90-day option term with one 30-day option term extension and to exercise the option and execute one master lease as one integrated team/tenant for the entirety of the project.

DPP has proposed to extend the option term for up to four years and to exercise the option by individual team members for the commercial, hotel, waterside, and dry boat storage components of their project as and when the individual team member is prepared to execute a lease specific to that individual component. The longer option term will require the County to continue to operate and be financially responsible for the Harbor and also extends the timing of the developer's decision to proceed with an individual project component or to walk away from the project component project any time during the four-year term. This also contemplates separate leases for the individual components. Under this proposal, the County may not have a developer for all or portions of the project and be compelled to re-start the revitalization process in whole or in part.

Lease

DPHP has agreed to the County-proposed single master lease structure for all project components and for all team members to constitute and be owners of the tenant entity. This proposed lease structure allows for financial cross-collateralization across all project areas and components by all DPHP team members. One master lease

also allows for consistency and coordinated integration of design, construction, and management of DPHP's project over the term of the lease.

DPP has proposed separate leases for each project component (i.e., commercial core, hotel, waterside, and, possibly, dry boat storage), which are not financially cross-defaulted. Specifically, having separate leases for each project component and with individual team members will result in greater administrative costs for the County due to the additional time that will be required to negotiate and manage three (or four) separate leases. This structure will expose the County to the risk of team members defaulting on leases for the more difficult and potentially less profitable components of the project, while allowing other team members to retain and continue to lease the more profitable components. Separate leases with different tenants may result in inconsistent and a lack of integrated design, construction, and management of the project over the terms of the various leases.

Requested County Subsidy:

DPP is requesting a subsidy of up to \$20,000,000 from the Harbor reserve in Fund 108 to construct the commercial core parking structure (two or three levels) and the hotel podium parking structure. DPHP also proposes that during the lease term the County retain responsibility for the maintenance, replacement, and repairs to the sea wall and regular dredging of the marina within the leased premises. This request will be part of the lease negotiation process and the final master lease that will be brought back for consideration by the County will have a final negotiated subsidy in it.

DPP is requesting a subsidy of up to \$45,000,000 from the Harbor reserve in Fund 108 for the following:

- Parking Garages (Two, built in sequential phases) - \$24,000,000
- Circulation Improvements (Three entrances) - \$5,000,000
- Department of Boating and Waterways Grant - \$200,000
- Sport Fishing Docks Renovation - \$1,000,000
- Vintage Marina & West Basin Operating Agreement Buy-Outs - \$2,000,000
- Tenant Lease Terminations - \$1,000,000
- Infrastructure Improvements - \$10,000,000

DPP also proposes that the County retain ongoing responsibility for maintenance and repair of the sea wall, public streets, bridge, and other unforeseen infrastructure and regular dredging of the marina within the leased premises. This request will be part of the lease negotiation process and the final master lease that is brought back for consideration by the County will have a final negotiated subsidy in it.

Proposed Financial Offers:

Pursuant to the Tidelands Grant, all revenues generated within DPH are required to be used within the Harbor for its maintenance and operation and may not be diverted to other County non-Harbor uses.

DPHP has estimated that rent payments to the County (Fund 108) over the initial 10 lease years will be \$47,130,352 and over the initial 20 lease years will be \$117,190,251. DPP has estimated that rent payments to the County (Fund 108) over the initial 10 lease years will be \$70,574,294 and over the initial 20 lease years will be \$175,629,386. These estimated amounts do not take into account other factors, including the effect of the requested County financial subsidies, the length of the option terms, the lease structures, and the payment of guaranteed rent versus percentage rent.

Refer to Attachment B for a detailed description of each proposer's proposed financial terms.

Recommendation:

The evaluation committee concluded that both teams were highly qualified and experienced, but found that DPHP's team and proposal would be more likely to ensure the timely commencement and completion of the project's development and generate consistent revenue to the County to provide funds for both ongoing County operations within the DPH and growth of reserve funds for future capital renovation and improvement. CEO

Real Estate concurs with the evaluation committee’s recommendation. As such, DPHP is recommended as the primary and DPP as the alternate for the lease and development of portions of DPH. Upon completion of negotiations and agreement on all terms and conditions with DPHP, staff will submit the option and lease agreements to your Board for approval.

CEQA Compliance:

This action is not a project within the meaning of CEQA Guidelines Section 15378 and is therefore not subject to CEQA since it does not have the potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. The approval of this agenda item does not commit the County to a definite course of action in regard to a project, since it is merely a selection of a developer. The action authorized herein may lead to the negotiation of an agreement. This proposed activity is therefore not subject to CEQA. Any future action connected to this approval that constitutes a project will be reviewed for compliance with CEQA.

FINANCIAL IMPACT:

OPTION TERM PAYMENT TO COUNTY (FUND 108) FISCAL YEAR 2017-2018	
90-Day Option Payment	\$30,000
30-Day Option Extension Payment	\$15,000

PROJECTED PAYMENTS FROM DPHP TO COUNTY (FUND 108)	
Fiscal Years 2018/19 - 2027/28: Lease Years 1- 10	\$47,130,352
Fiscal Years 2028/29 - 2037/38: Lease Years 11- 20	\$117,190,251
Fiscal Years 2038/39 - 2047/48: Lease Years 21- 30	\$211,344,896
Fiscal Years 2048/49 - 2057/58: Lease Years 31- 40	\$337,880,866
Fiscal Years 2058/59 - 2067/68: Lease Years 41- 50	\$507,934,628

It is anticipated that the negotiated lease rent payment to the County will provide sufficient funds for both ongoing County operations at DPH, including among other things the harbor patrol and the sailing and events center, and growth of the reserve funds for future capital improvement of the non-leased areas of DPH.

SUBSIDY REQUEST FROM COUNTY (FUND 108)
As stated above, both teams have requested subsidies from the County, the final amount of which will be the subject of the lease negotiations.

STAFFING IMPACT:

N/A

REVIEWING AGENCIES:

OC Community Resources, OC Parks

ATTACHMENT(S):

Attachment A - Memorandum of Recommendation

Attachment B - Proposers Financial Terms

Attachment C - Project Map