




*County Executive Office*  
**Memorandum**

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July 16, 2018

To: Chairman Andrew Do, Supervisor, First District  
Members, Board of Supervisors

From: Thomas 'Mat' Miller, Chief Real Estate Officer   
Stacy Blackwood, Director, OC Parks

Subject: Agenda Item #27 (7/17/18) – Additional Information

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The purpose of this memorandum is to provide additional information related to the Board item seeking approval of Option and Master Lease Agreements for the revitalization of Dana Point Harbor ("Harbor") with Dana Point Harbor Partners ("DPHP"). For financial context please find the attached summary of the various County redevelopment options for the Harbor.

As shown in the attached, the proposed public-private partnership lease results in the greatest benefit to the County, as well as the lowest County expenses and the lowest impact on Harbor Tidelands Funds. In addition to fully revitalizing and construction a brand new state of the art complement of Harbor amenities, including two new hotels, new retail space and full upgraded docks and recreational improvements, the following highlights other major benefits to the County:

- Streamlined management structure for harbor operations, including one point of contact for lease administration and management for the County, as well as stakeholder, tenants and Harbor users.
- A reduction of County obligations and expenses during the 66-year lease term from more than \$2 billion to less than \$1.2 billion.
- DPHP assumption of risk and liability for entire premises, including an approximate \$410,000,000 in obligations that are currently performed and paid for by OC Parks.

We have also consulted with Jim Rabe, our outside financial consultant with Keyser Marston, who participated in the lease negotiations and has reviewed the leases and financial deal points for the County. In addition, Mr. Rabe has also reviewed other harbor and marina projects throughout California, including small to medium sized marinas in

Alameda and Emeryville. He reported that there are no directly comparable projects of the scope of Dana Point Harbor. Typically, when marina operations are publicly owned and operated, the landside uses are on their own individual ground leases from the waterside improvements, resulting in multiple disconnected management operations similar to what exists in the Harbor (and also Long Beach) today. Thus a primary reason for the County's selection of DPHP was that the partnership offered the best combination of rent, development plan, past performance, development guarantees, joint ownership and cross collateralization, and would result in a single cohesive master operator.

During the negotiations of the master lease, the developer agreed to take on numerous obligations and responsibilities that the County currently has that were above and beyond those in their original proposal, including: dredging, seawall maintenance, pier and slip maintenance, Dana Cove Fishing Pier maintenance, pump-out replacement, buoys and navigational aids, derelict vessel abatement, tree maintenance, parking lot maintenance, and shelter, restroom and parkscape maintenance. Mr. Rabe stated that he had not seen any other examples of this in California, and that the proposed lease structure was unique in this regard. In return for DPHP's acceptance of these obligations, the parties renegotiated the percentage rents from those that were in DPHP's proposal. In return for a potential decrease of approximately \$250,000,000 in potential rent, as stated above DPHP has agreed to take on approximately \$410,000,000 in obligations that the County currently performs. During these negotiations, the County and its outside consultants also focused on keeping the County's return within a reasonable market range. Generally, the long term yield has ranged between 10% and 12% in other comparable public marina projects, depending on the project and risk retained by the public entity lessor. According to Mr. Rabe's assessment, the proposed lease transaction begin presented to the Board has a projected yield slightly under 11% for the County. His conclusion is that the financial deal negotiated by the County falls within the market range, particularly since marinas and hotels are at the upper end of the risk profile and the County has been able to divest itself of much that risk based on the obligations that have been assumed by DPHP.

The proposed options, leases and current revitalization plan are the result of nearly twenty years of effort by County officials, staff, consultants, stakeholders, with leadership by the Board. The structure will result in a project advantageous to the County that provides streamlined lease administration and management as well as a revitalized first class small boat marina for the use and enjoyment of the citizen of Orange County.

cc: Frank Kim, CEO  
Robin Stieler, Clerk of the Board

Dana Point Harbor Redevelopment Options - 66 Year Comparison

<b>Component At 66 Years</b>	<b>No Redevelopment</b>	<b>Pay As You Go</b>	<b>Public Project Structure</b>	<b>P3 Structure (current)</b>
<b>Methodology</b>	1. Shutdown components as their useful life ceases. 2. Subsidize from the general fund during shutdown.	1. Keep things as is and begin reserving for Harbor Reconstruction. 2. Harbor reconstruction happens over time.	1. Redevelop the Harbor privately all at once. 2. Harbor reconstruction begins immediately.	1. Redevelop the Harbor with a Public Partner. 2. Harbor Reconstruction begins immediately.
<b>Capital Projects Reserve</b>	None	Reserve includes: Dredging, Seawall, Breakwater, Pier and Slip Maintenance, Pier and Slip Re-build, Marina Inn Reconstruction, Commercial and Other Building Reconstruction	Reserve includes: Dredging, Seawall, Breakwater, Pier and Slip Maintenance	Reserve Liabilities have been shifted to the Developer.
<b>County Revenue</b>	<b>\$591,580,968</b>	<b>\$4,551,008,396</b>	<b>\$4,025,055,196</b>	<b>\$716,903,155</b>
County Expenses	\$358,681,832	\$4,945,695,086	\$4,945,695,086	\$925,029,587
County Capital Projects Reserves		\$1,377,539,547	\$355,634,892	
Debt Service			\$549,411,386	
<b>Total Expenses/Capital Reserve/Debt Service</b>	<b>\$358,681,832</b>	<b>\$6,323,234,633</b>	<b>\$5,850,741,364</b>	<b>\$925,029,587</b>
<b>Net Cash Flow</b>	<b>\$232,899,136</b>	<b>(\$1,772,226,238)</b>	<b>(\$1,825,686,168)</b>	<b>(\$208,126,432)</b>
<b>Fund 108 Ending Balance</b>	<b>(\$187,899,136)</b>	<b>(\$1,727,226,238)</b>	<b>(\$2,094,810,078)</b>	<b>(\$163,126,432)</b>