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BY ELECTRONIC MAIL

December 13, 2023

Mr. Joel Pizá Batiz
Executive Director
Local Redevelopment Authority for Roosevelt Roads

Re: Loopland Development LLC

Dear Mr. Pizá Batiz,

In accordance with the Contract Review Policy (the “Policy”) of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), established pursuant to Section 204(b)(2) of PROMESA, we have reviewed Contract No. 2020-000022 (the “Lease Agreement”) between the Local Redevelopment Authority for Roosevelt Roads (the “LRA”) and Loopland Development LLC (“Loopland”); the Amended and Restated Lease Agreement, Contract No. 2020-000022A (the “First Amendment”); and the proposed Second Amended and Restated Lease Agreement (the “Proposed Second Amendment”) (together, the “Contracts”).

After review of the documentation and information provided by LRA, the Oversight Board has determined not to approve the Contracts. In issuing its determination, the Oversight Board considered the procedure followed to award the Contracts. Such procedure did not promote market competition, as required by PROMESA and the Policy. Specifically, the Lease Agreement was awarded after receipt of an unsolicited proposal and involved direct negotiations with the LRA as the single proponent. Further, the LRA did not submit the Lease Agreement nor the First Amendment to the Oversight Board for review and approval prior to execution, as required by the Policy. Accordingly, the LRA must terminate the Lease Agreement and the First Amendment, and conduct a new procurement process that ensures transparency and promotes market competition. As you know, the proposed contract resulting from a new procurement process must be submitted for the Oversight Board’s review and approval prior to execution. Observations related to the Contracts are set forth in Appendix A attached hereto.

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Recipient: Mr. Pizá Batiz

Our review is solely limited to compliance of the Contracts with Section 204(b)(2) of PROMESA, which seeks to ensure proposed contracts promote market competition and are not inconsistent with approved Fiscal Plans. For the avoidance of doubt, the review performed by the Oversight Board does not constitute a legal review of the contractual documentation or the contracting process, including without limitation: (i) compliance with contracting requirements under applicable laws, rules, and regulations, both federal and local; and (ii) compliance with applicable laws, rules, and regulations governing procurement activities, both federal and local.

In addition, the Oversight Board has not engaged in any due diligence or background check with respect to the contracting parties nor whether the contracting parties comply with the requirements under the applicable contract.

This letter is delivered as of the date hereof and we reserve the right to provide additional observations and modify this letter based on information the Oversight Board was not directed to when the review was conducted. In addition, during our review, we may receive information that we may refer to the relevant authorities.

This letter is issued only to the LRA and solely with respect to the Contracts.

Sincerely,



Jaime A. El Koury
General Counsel

APPENDIX A

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LOCAL REDEVELOPMENT AUTHORITY FOR ROOSEVELT ROADS – LOOPLAND DEVELOPMENT LLC

PROMESA Alignment

This review covers the Contracts, which include the Lease Agreement, the First Amendment, and the Proposed Second Amendment.

The Lease Agreement, executed on July 10, 2019, contemplated the lease of 493.21 acres located at the former Roosevelt Roads Naval Base in the Municipality of Ceiba, Puerto Rico (the “Leased Premises”) for a **50-year term** (with the option to extend for another 50 years). It also provides for Loopland’s construction and operation of 700 high-end residential units, 50 condo hotel units, a private golf course, and other luxury recreational amenities, including marine docks, sports facilities, a water park, restaurants, and retail shops (the “Project”). The Project is aimed at developing the Leased Premises and promoting job creation in the area, with an 11-phase development spanning 15 years. The initial rent for the Leased Premises amounted to \$330,000 annually and an additional 2% of gross sales revenue from various activities.

The First Amendment, executed on January 9, 2023, allows for the purchase of the Leased Premises by Loopland at any time, subject to certain approvals established therein. The First Amendment also increases the Leased Premises to 858 acres and reduces the number of residential units to be constructed from 700 to 500. It decreases the Project’s minimum required permanent job creation of one employee per household by 200 positions, thereby significantly impacting the potential economic benefits to the region.

The Lease Agreement and the First Amendment were not submitted to the Oversight Board for review and approval prior to their execution on July 10, 2019 and January 9, 2023, respectively. Instead, they were submitted to the Oversight Board for review and approval on February 17, 2023 in violation of PROMESA and the Policy. On August 16, 2023, LRA submitted the Proposed Second Amendment to the Oversight Board for review and approval prior to its execution. The Proposed Second Amendment authorizes the lease of 300 additional acres for a total of 1,158 acres, while increasing rent by \$335 per month in total. Further, with its submission of the Proposed Second Amendment, LRA explained that Discovery Land Company Puerto Rico, LLC recently became Loopland’s parent company pursuant to a Contribution Agreement executed earlier this year, on February 28, 2023.¹

Upon receipt of the LRA’s submission of the Contracts, the Oversight Board sent several requests for information to LRA, containing various questions and concerns in connection with the Contracts. According to the information and documentation submitted by the LRA, the LRA did not conduct a competitive procurement process to award the Lease Agreement. Instead, the Lease Agreement stems from an unsolicited proposal submitted by Loopland to LRA in 2018 and certain negotiations conducted between them pursuant to an Exclusive Negotiation Agreement executed on December 5, 2018.

¹ Discovery Land Company Puerto Rico, LLC is a joint venture comprised of LL DLC Partners, LLC and Discovery Puerto Rico, LLC.

APPENDIX A

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Section 204 (b)(2) of PROMESA grants the Oversight Board the authority to establish policies to require prior Oversight Board approval of certain contracts **to ensure such contracts promote market competition** and are not inconsistent with the approved Fiscal Plan. Pursuant to this authority, the Oversight Board adopted the Policy, which requires government entities to submit all contracts or series of related contracts, inclusive of any amendments, modifications, or extensions, with an aggregate expected value of \$10 million or more, to the Oversight Board for review and approval prior to execution.

As mentioned above, the LRA failed to submit the Lease Agreement and the First Amendment for the Oversight Board's review and approval prior to execution, even though their value surpassed the \$10 million threshold established in the Policy. Further, the LRA executed the Lease Agreement and the First Amendment, which provide for a lease of over 1,100 acres for up to 100 years (with an option to purchase), without conducting a competitive procurement process. Certainly, these facts unmistakably show that the award of the Contracts contravened the basic tenets of market competition which, in accordance with the Policy, require open and transparent competitive procurement processes, especially for projects of this magnitude. Accordingly, the Oversight Board rejects the Contracts and requests the LRA to terminate the Lease Agreement and the First Amendment for not complying with the requirements of the Policy and PROMESA.

The Oversight Board urges the LRA to conduct a competitive procurement process for the Project that ensures transparency and promotes market competition. The lease agreement resulting from such competitive process must be submitted to the Oversight Board for review and approval prior to its execution.

This review was conducted on the basis of information submitted by the LRA. The Oversight Board has not independently verified the information included in the submission. Should the Oversight Board become aware of any inaccuracies or misrepresentations – whether intentional or not – it would re-evaluate its assessment.