

SAN DIEGO BUSINESS JOURNAL

Volume 34, Number 2

THE COMMUNITY OF BUSINESS™

January 14-20, 2013

\$2.00



Property

Marc Bruten of Westcore Properties reflects on a company record \$885 million in acquisitions in 2012. **Page 3**



Urban Planning

Kris Michell of Downtown San Diego Partnership says accommodating urban growth is a team effort. **Page 39**

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Meeting and Convention Facilities **Page 17**
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Economic Trends Make Upward Swing in 2013

FORECAST: Experts See Bright Spots Amid Challenges

■ By TOM YORK

The San Diego Business Journal's 2013 Economic Trends event held at the Hilton San Diego Resort & Spa drew several hundred attendees looking for insights into how the year will play out for the business world.

They were not disappointed.

The economy should continue to improve, especially in San Diego; health care will continue its transition toward reform; workers' compensation premiums will continue to rise; and finding large Class A spaces will become much tougher.

Those were but a few of the messages delivered by the panel of five experts: com-



Photo courtesy of Fotowerks

The San Diego Business Journal's Economic Trends event drew several hundred attendees. Some experts predict that the slow growing economy should pick up steam as the year progresses, and there are fewer uncertainties over government policies.

mercial real estate broker Tom van Betten, a tenant representation specialist at commercial broker Cassidy Turley San Diego; Trindl

➔ *Economy 31*

Financing Closes on Desalination Plant

RESOURCES: Nearly \$1B Deal Involved 60 Parties

■ By MIKE ALLEN

Financing on the largest water desalination project in the nation closed late last month, triggering actual construction of the nearly \$1 billion project in Carlsbad.

"Closing the financing on an approximately \$1 billion project is no small feat, and to do so just three and a half weeks after the water purchase agreement was approved required a monumental effort by all involved," said Tom Wornham, chairman of the San Diego County Water Authority's board of directors.

Poseidon Resources, based in Connecticut,

➔ *Poseidon page 30*



Melissa Jacobs

Cookie Wirtz, from left, John Wirtz and Amber Fox are part of the family business Wirtz Quality Installations Inc. Wirtz did the tile work in most of the common areas and patient bathrooms, and much of the exterior stone work at the new Palomar Medical Center.

BUILDING: Family Firms Know the Importance of Good Customer Relations

■ By LOU HIRSH

John Wirtz remembers visiting work sites when he was three years old, learning the construction business from his father, John Q., in the 1950s.

Wirtz and his family have since seen plenty of ebbs and flows in San Diego County construction, and remain together running Wirtz Quality Installations Inc. The San Diego firm, which has been doing tile and stone work since 1972, was started by John Wirtz and his parents, along with his wife Cookie.

It is now led by Wirtz's daughter, company President Amber Fox, with Cookie

29,000 The approximate number of companies in the U.S. commercial building industry.

and one of Wirtz's nephews still helping out with office duties. John Wirtz, now the company's vice president, notes at least one thing that's never changed about the family business — the need to stay keenly focused on work opportunities regardless of the condition of the local economy.

"Even in relatively good times, projects are tough to get in San Diego," Wirtz said. "You have to work hard all the time to compete."

The research firm IBISWorld Inc. reports that the U.S. commercial building industry employs more than 350,000 people at more than 29,000 companies. Most of those firms

➔ *Family page 32*

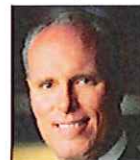
Medicare Cuts Have Hospitals Hurting

MEDICINE: Institutions Say Staffing, Services Could Suffer

■ By MEGHANA KESHAVAN

Another cut to government health care subsidies has San Diego hospital executives less than thrilled. The fiscal cliff deal helped stave off a 26.5 percent cut to Medicare reimbursements for physicians for a year. But to compensate for the \$25-30 billion "doc fix," hospitals will have to pick up about half the tab.

"Hospitals are the big losers in this round of cuts," said Chris Van Gorder, president and CEO of Scripps Health.



Chris Van Gorder

➔ *Medicare page 32*

Military Contracts Take Poway Firm on Tour

DEFENSE: PKL Services Lands \$95M Support Deal For Royal Saudi Air Force

■ By BRAD GRAVES

The longer Sam Flores Jr. sticks with the military, the more of the world he sees. A 30-year stint in the U.S. Marine Corps showed him Southeast Asia.

As a Pentagon contractor in the Poway business park, he continues to widen his horizons.

A few years ago, Flores' business established a foothold in Singapore. Today PKL Services Inc. is preparing to enter the Middle East.

➔ *Military page 30*

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Military:

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The U.S. Air Force recently awarded PKL a two-year, \$95 million contract to provide aircraft maintenance upgrade training to the Royal Saudi Air Force.

The training is for the Saudi government's recently acquired F-15 fighter aircraft.

PKL will employ 93 people under the Saudi contract, Flores said, adding that those employees will train Saudi enlisted personnel in the classroom as well as with hands-on work.

The Pentagon said that work will be performed at two widely separated Saudi bases. King Khalid Air Base is in the southwest corner of the country, near the Red Sea and the border to Yemen, while King Abdul Aziz Air Base is in the eastern city of Dhahran, a short distance from the Persian Gulf.

Work Orders Flowing

Flores said the contract mirrors a \$52 million deal that PKL received to help the Singapore air force fly its F-15 fleet.

The F-15 was originally a McDonnell Douglas aircraft which is now produced by Boeing.

In unrelated news, PKL recently received work as a subcontractor to BAE Systems to maintain U.S. Navy training aircraft at Naval Air Station Corpus Christi in Texas. PKL will hire 77 employees who previously worked for another contractor. The one-year deal could stretch to five if the Navy exercises all of the options in its contract.

PKL also has contracts to repair Marine Corps helicopters and maintain the Marines' F/A-18 Hornets.

PKL offers logistics services in addition to maintenance and training. Its revenue has grown, then plateaued at \$48 million for 2011 and 2012 — though it ought to grow into the \$50 million range this year, Flores and his staff said.

Flores, a retired U.S. Marine Corps lieutenant colonel who recalls serving in Vietnam as a helicopter door gunner, founded his business in 2003.



Photo courtesy of PKL Services
Marine Corps experience helps CEO Sam Flores Jr. navigate military contract work for PKL Services in Poway. The firm recently arranged a two-year, \$95 million deal with the U.S. Air Force to provide aircraft maintenance upgrade training to the Royal Saudi Air Force.

Since then it has gone from two employees to 600. Most are at far-flung bases, though some are as close as Miramar and Camp Pendleton.

Expansion Opportunities

Seated in his office on a recent Monday, Flores said the Saudi Arabian work may open doors to other work in the Middle East, perhaps in neighboring Qatar or the United Arab Emirates. Both fly U.S. aircraft.

And there might be other future projects. Flores acknowledged "other things in the fire" but he would not give specifics.

PKL is a service disabled, veteran-owned company. It graduated from the U.S. Small Business Administration's 8(a) program in 2011. Today, Flores said he is mentoring other companies, helping them through the 8(a) program.

Flores has an informal mentoring arrangement with AVMAC LLC of Virginia, which is a PKL subcontractor on some F/A-18 work.

Bert Ortiz, AVMAC's chief executive, has nine employees in his still-young

business. He said he would like to follow PKL's trajectory, noting that Sam Flores "started out of a van" and built his company to the size it is now.

"I really enjoy working with Sam," Ortiz added. "He makes it easy."

PKL recently went through the extensive work to make the business employee owned. Employees now have a 30 percent stake. Flores exhibits a 6-inch-high set of documents that helped the business accomplish the task.

The business cites an excellent work record, noting that its contracts have stayed on time and on-budget, and meet quality standards.

Mulling over his success, Flores is reluctant to take credit. He says he feels that everything he has is from Yahweh.

Credit also goes to the team. PKL puts an emphasis on team rather than the individual.

Though rooted in aircraft services work, PKL's business is branching out in several directions.

As a subcontractor to SAIC, PKL is helping the U.S. Army repair its M1 tanks and Stryker fighting vehicles.

PKL SERVICES INC.

CEO: Sam Flores Jr.

Revenue: \$48 million in 2012; \$48 million in 2011.

No. of local employees: 20 at PKL's main office in Poway. The number excludes staff at MCAS Miramar and MCAS Camp Pendleton.

Investors: Sam Flores Jr. and employees.

Headquarters: Poway.

Year founded: 2003.

Company description: Defense contractor concentrating mainly on aerospace services.

Key factors for success: Flores said that it comes down to people. It is employing proven leaders and "having the right people to do the right job."

Leadership Training

Meanwhile, a leadership training business headed by PKL's executive vice president, Paul Callan, has its office under PKL's roof.

The Callan Course is ramping up marketing for its program. Callan has reported interest among hospitals, universities, law enforcement and the military.

Some leadership training can be very scientific, focusing on process improvement, Callan said. Yet getting a person to say "I will follow you" is also an art, the executive said. The course aims to "bring art and science together in an effective package," Callan said. Company officials also said they plan a significant, ongoing coaching program.

Like Flores, Callan was a high ranking officer in the Marines, which touches on two more factors that work in PKL's favor.

Like many at the business, Flores and Callan have known each other for a long time. "Since he was a second lieutenant," the CEO said.

And a shared military background creates a crucial element of trust among the staff, Flores said.

Poseidon:

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said it began construction work on the long-planned desalination plant soon after it obtained \$733 million in bond financing that closed Dec. 24. In addition to the bonds, the project funding also includes about \$170 million in equity from Stonepeak Infrastructure Partners, a New York institutional investment firm.

The deal, structured as a public-private partnership by Washington, D.C. law firm Dickstein Shapito LLP, involved 60 parties, with the primary ones being two government agencies, the California Pollution Control Financing Authority, which issued the bonds, and the County Water Authority, which provided the key purchase agreement. Other key parties are Stonepeak and JP Morgan Securities, which served as lead underwriter.

The CWA's 30-year purchase agreement with Poseidon calls for the agency to buy about 50 million gallons of treated drinking water daily when the plant is completed and fully operational in 2016.

Push for Additional Water Source

The water authority serves as the wholesale supplier of water it imports from the Metropolitan Water District of Southern California. But with the cost of MWD's water escalating in recent years,

the CWA has been pushing to get the desalination plant built for about 14 years.

According to the CWA, the Poseidon plant will provide about 7 percent of the region's water demand by 2020.

The law firm that acted as Poseidon's legal adviser and led the financing plan called it one of the most difficult transactions it was ever involved in.

"We led the entire debt and equity financing for the \$922 million project, which is structured as a truly public-private partnership. Negotiations involved 60 parties to the transaction," said Fredrick Lowther, Dickstein Shapito Energy partner. "In addition to leading the complex, multi-party financing arrangements, we handled the 33-year water purchase and related agreements."

The project was also saddled with a slew of litigation (14 lawsuits according to Lowther) which likely increased its cost to both the developers and the public.

With the deck cleared of lawsuits and the long-term purchase agreement in hand, the project developers and CWA backers took their case to Wall Street and found plenty of investors.

Although the bonds were rated as investment grade, the issue was clearly risky. Moody's Investors Service assigned a rating of Baa3, while Fitch Ratings gave it BBB-. Both credit ratings are just above the noninvestment grade, or junk bond status.



Rendering courtesy of Poseidon Resources
A rendering of the Carlsbad Desalination Project shows the plant that is expected to provide 50 million gallons of water per day to the region. Financing for the project was closed last month.

CWA officials were expecting an interest rate in the 5 to 6 point range but at its pricing, the bonds went out at 4.78 percent.

"We worked very hard to get that," said Sandy Kerl, CWA's deputy general manager. "That (interest) rate is low. Most projects like this get BBB- credit rating which is investment grade but at the lowest level, and get a much higher interest rate."

Long-Term Savings

By achieving the lower interest rate, CWA said it will save about \$200 million over the 30 years in debt service.

"This is a great start to the project

because it means ratepayers will spend less to secure this drought-proof water supply," said Maureen Stapleton, CWA's general manager.

Kerl and Andrew Kingman, Poseidon's chief financial officer, noted the project benefited from clearly outlined financial contracts, and investors (primarily large mutual funds) being comfortable with the assembled development and operating team.

"There was extreme interest in this project," Kerl said. "People are looking at the horizon and thinking that this may be the start of things to come."

The costs will be initially higher than what the CWA pays for water today from MWD. The desalination project will add from \$5 to \$7 a month to customers' water bills, according to the CWA.

"It's an insurance policy," said Peter MacLaggan, Poseidon vice president. "You're going to pay a premium for this highly reliable supply of water from the ocean."

Construction on the desalination plant and a 10-mile pipeline connecting to CWA's pipes in San Marcos is being done by a joint venture of Kiewit Infrastructure West Co. and J.F. Shea Construction. Israel-based IDE Technologies is providing the reverse osmosis equipment and operating the plant that sits adjacent to the Encina Power Plant on the coast.