



DATE: DECEMBER 20, 2023

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ – RESETTING OF
COMPENSATION UNDER PERMIT NO. 718 WITH CROWLEY MARINE
SERVICES, INC.

SUMMARY:

Staff requests approval of an Order resetting compensation under Permit No. 718 (P718) with Crowley Marine Services, Inc. (Crowley). P718 grants Crowley approximately 2.79 acres of land, wharf and water space at Berth 86 for an office building, shop facility, warehouse and parking lot to be used in connection with tugboat and barge services. P718 has been on holdover since November 24, 2016, and the proposed compensation reset would cover two successive five-year periods; the first from November 24, 2016 through November 23, 2021 and the second from November 24, 2021 through November 23, 2026 while negotiations for a successor permit to P718 continue.

As of November 23, 2016, Crowley paid compensation of \$6,590 per month. Pursuant to Section 3(b) of P718, once the Permit was placed on holdover, rent was increased to 150% of the compensation for the immediately preceding compensation period. Therefore, as of November 24, 2016, monthly rent was increased to \$9,885 and has remained at that level.

Due to the delays in executing a successor permit to P718, staff recommend executing the proposed Order resetting compensation under P718 while negotiations on a successor permit continue. Under the proposed Order, (i) monthly compensation for the first five-year period from November 24, 2016 through November 23, 2021 would remain at the holdover rate of \$9,885 per month; and (ii) monthly compensation for the second five-year period from November 24, 2021 through November 23, 2026 would increase by \$6,479.64, or 66%, from \$9,885 currently to \$16,364.64 as proposed.

Given the retroactive nature of the proposed increase, Crowley would be required to make a one-time payment of \$168,470.64 to cover the rent differential observed over 26 months from November 24, 2021 through January 23, 2024 as well as any additional amounts which may accrue beyond January 23, 2024 until the proposed Order is executed.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

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1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order resetting compensation under Permit No. 718 with Crowley Marine Services, Inc. for the five-year period of (i) November 24, 2016, through November 23, 2021, and (ii) November 24, 2021, through November 23, 2026;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 718 with Crowley Marine Services, Inc.; and
4. Adopt Resolution No. _____ and Order No. _____.

DISCUSSION:

Background – P718 grants Crowley use of three City of Los Angeles Harbor Department (Harbor Department) parcels consisting of land, a non-exclusive strip, and a wharf and water area for operations in connection with providing tug and barge services in the Port of Los Angeles (Transmittal 2). As required in P718, compensation shall be reset in five-year increments.

Current Compensation – For the period of November 24, 2016, through November 23, 2021, Crowley paid compensation at a rate of \$9,885.00 per month. Pursuant to Section 3(b) of P718, compensation during a holdover period shall be one hundred fifty percent (150%) of the compensation for the immediately preceding compensation period.

For the five-year period of November 24, 2011, through November 23, 2016, Crowley's compensation rate was set at \$6,590 per month, therefore, when Crowley was put on holdover, the 150% was applied to the \$6,590.00 compensation rate and the \$9,885.00 compensation rate was established.

The effects of the COVID-19 Pandemic as well as Harbor Department staffing changes have caused an extended delay in the processing of the November 24, 2016, through November 23, 2021, compensation reset paperwork. The delays in the processing of the compensation reset were no fault of Crowley, therefore, staff recommends the reset remain at the rate of \$9,885.00 per month.

Proposed Compensation Reset –While negotiations for a successor permit to P718 continue, the proposed monthly compensation for the period of November 24, 2021 through November 23, 2026, will be \$16,364.64. This amount is consistent with current market land values in the vicinity and meets the Board's policy of a minimum ten percent rate of return on land.

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If the proposed Order is approved, Crowley's monthly rent would retroactively increase by \$6,479.64, or 66%, from \$9,885 currently to \$16,364.64 as proposed with an effective date of November 24, 2021. Over the 26-month period from November 24, 2021 through January 23, 2024, staff has determined the aggregate rent differential to be \$168,470.64. If the proposed Order is approved, then Crowley would be required to make a one-time payment of \$168,470.64 for rent accrued through January 23, 2024 as well as any additional amounts which may accrue until the proposed Order becomes effective.

ENVIRONMENTAL ASSESSMENT:

The proposed action is limited to the approval of the Order resetting compensation rates for Permit No. 718 with Crowley, which is a continuing administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed Order would reset compensation under P718 over two successive five-year periods from November 24, 2016 through November 23, 2021 as well as November 24, 2021 through November 23, 2026. For the period starting November 24, 2021 monthly compensation would increase by \$6,479.64, or 66%, from \$9,885 currently to \$16,364.64 as proposed.

If the proposed Order is approved, then Crowley would be responsible for making a one-time payment to account for the difference in rent due from November 24, 2021 through the date upon which the proposed Order is executed. Assuming an execution date of January 24, 2024, Crowley would be responsible for making a one-time payment of \$168,470.64 which would cover the rent differential accruing over a 26-month period. The proposed monthly rent conforms to the Harbor Department Leasing Policy's 10% rate of return target on land.

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CITY ATTORNEY:

The proposed Order was prepared and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Order
2. Site Map

FIS Approval: MB
CA Approval: SO

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