

DATE: SEPTEMBER 15, 2020

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ – APPROVE SECOND AMENDMENT TO THE AMENDED AND RESTATED LEASE NO. 904A WITH ALTA SEA AT THE PORT OF LOS ANGELES

SUMMARY:

Staff requests approval of the Second Amendment to the Amended and Restated Lease No. 904A (Lease) with AltaSea at the Port of Los Angeles (AltaSea). The premises, located at City Dock No. 1 and consisting of 32.73 acres, is for water-dependent, academic, and governmental uses, and a non-profit and for-profit marine research facility.

The proposed Second Amendment will include required revisions to various development milestones including parcel acceptance and construction completion milestones for various parcels, amend and update various scopes of work and scheduling, as well as reflect changes in AltaSea's monetary commitments.

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is generally and administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 1 and Article II, Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Second Amendment to Amended and Restated Lease No. 904A with AltaSea at the Port of Los Angeles;
3. Direct the Board Secretary to transmit the Second Amendment to Amended and Restated Lease No. 904A to the City Council for approval pursuant to Section 606 of the City Charter;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the Second Amendment to Amended and Restated Lease No. 904A upon approval by City Council; and
5. Adopt Resolution No. _____.

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DISCUSSION:

Background - On December 23, 2013, AltaSea at the Port of Los Angeles (AltaSea) was granted Lease No. 904 (Lease) for the construction, operation, and maintenance of an urban marine research facility with a term of 50 years at City Dock No. 1. The Lease provides conditions under which AltaSea may occupy 11 parcels totaling 32.73 acres.

In August 2017, Lease No. 904 was amended and restated (Lease No. 904A) in order to expedite activation and development of the premises; reduce each party's financial obligation without compromising the original mission and goals including providing comparable public access infrastructure, educational and public programming, job creation and economic activity.

In November 2018, First Amendment to Lease No. 904A waived required monetary compensation from AltaSea in the amount of \$136,222 for certain portions of the Business Innovation Hub (generally Parcels B58 to B61A and B61C) in consideration of unforeseen and significant delays to secure the necessary electrical power for the site and receive revenues from prospective tenants.

Proposed Second Amendment (Transmittal 1) - Various milestones and tenant obligations under Lease No. 904A will not be met due to a combination of factors. Continued delays from the Los Angeles Department of Water and Power, project cost increases, revisions to project scope, schedule and investment, project development sequencing related to a partnership with UCLA and most recently COVID-19 pandemic effects have hindered AltaSea from meeting certain deliverables required by the Lease.

The proposed Second Amendment will include required adjustments to keep AltaSea in good standing and will address the parcel acceptance and development milestones for various parcels. The Second Amendment will include:

- Adjustment of parcel acceptance dates;
- Allow Board, at its sole option, to extend any timeline established in Section 3.2.1.3 of the Lease up to one year for Tenant acceptance of future individual parcels upon written notice by Tenant within 60 days of acceptance date;
- Various updates to schedule and scope including combining certain scope of work and schedules;
- Reflect changes in AltaSea's monetary commitments for Berths 57.5-60 which will increase from \$19.6 million to \$35 million;
- Provide interim use of certain parcels or portions thereof before acceptance date;
- Removal of approximately 100,000 square feet (sf) of Premises from southerly edge of Berth 70 Parcel for Harbor Department use. The Exhibit Map is revised accordingly;
- Revision to Final Compensation Periods;
- Amending Rent Credit amounts;
- Provide revised sublease rights regarding SCMI and solar efficiency uses; and

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- Future consideration to amend the term of the Master Lease from 50 years to 66 years, conditioned upon the presentation of a proposed, binding sublease with a major research university and sufficient funding for the renovation and/or reconstruction of the academic research and development center at Berth 57 to the requirements of the Agreement.

The Second Amendment details all sections of the Agreement to be revised. The proposed Second Amendment does not increase or expedite the Harbor Department's financial obligations regarding remediation reimbursements or capital expenditures that are conditioned on AltaSea reaching various development milestones.

Staff recommends the Board approve the Second Amendment to Lease No. 904A to amend lease terms required to keep AltaSea in good standing and address parcel acceptance and development milestones for various parcels, various scopes of work and scheduling, as well as reflect changes in AltaSea's monetary commitments.

ENVIRONMENTAL ASSESSMENT:

The Second Amendment to Lease No. 904A is an administrative action where it can be seen with certainty that the action will not have a significant effect on the environment. Therefore, the Director of Environmental Management has determined that the proposed action is generally and administratively exempt from the requirements of CEQA in accordance with Article II, Section 1 and Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed amendment will: (i) revise various department milestones including parcel acceptance and construction completion milestones for various parcels, (ii) amend and update various scopes of work and scheduling, as well as (iii) reflect changes in AltaSea's monetary commitments. While many provisions of the proposed amendment are administrative in nature, certain provisions do have monetary implications. Those non-administrative components with monetary implications and a discussion of any financial impact to the Harbor Department are as follows:

- Increase to AltaSea's monetary commitments: While AltaSea's monetary commitments for Berths 57.5 to 60 will increase by \$15.4 million from \$19.6 million to \$35.0 million, the Harbor Department's obligations will remain the same;
- Pre-acceptance use of certain parcels free-of-charge: While AltaSea will not be charged for certain parcels or portions thereof on an interim basis, these parcels are largely unimproved and would be difficult to market given land use restrictions and AltaSea's long-term development rights. AltaSea intends to utilize these parcels to provide the non-monetary benefits required under Lease No. 904A until Berths 58-60 are operational, and construction is complete. Staff has estimated the amount of foregone rent associated with these parcels to be \$5,100 per year while this provision is in effect.

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- Removal of approximately 100,000 sf of premises: Despite the removal of this parcel, the Harbor Department's investment requirement in the lease will remain constant, and no change in financial benefits are expected due to this parcel's removal. Effectively, financial benefits are anticipated to be unchanged while the Harbor Department's land contribution will now be reduced.
- Revision of acceptance and construction completion schedules: AltaSea currently does not have adequate electrical service to generate rental income at the Berths 58-60 warehouse. Therefore, construction completion schedules need to now be revised to account for the existing lack of electrical service and the updated timeline to provide adequate power to the site.
- Amended rent credit amounts: Rent credit amounts will be amended from \$70.6 million currently to \$86 million under the proposed amendment.
- Sublease provisions: With this revision, AltaSea will have a broadened ability to sublet space to a major university member of SCMI with the ultimate goal of accomplishing \$50 million of improvements at Berth 57.

CITY ATTORNEY:

The Office of the City Attorney has prepared and approved the Second Amendment as to form and legality.

TRANSMITTAL:

1. Second Amendment

FIS Approval: 
CA Approval: 

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MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate

Michael DiBernardo
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Deputy Executive Director

APPROVED:

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