



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 4, 2017

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: ORDER NO. _____ - RESETTING OF COMPENSATION
UNDER PERMIT NO. 899 WITH PACIFIC BATTLESHIP CENTER**

SUMMARY:

Staff requests approval of the Order resetting compensation for Permit No. 899 (P899) with Pacific Battleship Center (PBC). P899 was granted on May 25, 2012, and has a term of ten years with two, five-year options to renew. As required in P899, the annual fixed minimum compensation shall be reset each successive five-year period. Currently, annual rent is the greater of \$100,000 or four percent of gross receipts. PBC's average annual compensation paid in the last three years was \$111,622. During the initial year of the second five-year period of May 25, 2017 to May 24, 2022, the fixed minimum compensation is proposed to remain unchanged at \$100,000 per year. Beginning the second year of the second five-year period, the fixed minimum compensation shall be adjusted based on the Consumer Price Index (CPI). Percentage rent is proposed to remain at four percent of gross receipts.

RECOMMENDATION:

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

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Class or Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Order resetting compensation under Permit No. 899 with Pacific Battleship Center for the five-year period of May 25, 2017 to May 24, 2022;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 899 with Pacific Battleship Center; and
4. Adopt Order No. _____.

DISCUSSION:

Background – P899 between the City of Los Angeles Harbor Department (Harbor Department) and PBC grants use of approximately 4.43 acres of property at Berths 88-89 for the berthing, maintenance, and operation of the USS Iowa as a museum and educational facility; venue for maritime- and military-related events; filming; special events with prior Harbor Department approval; and storage of associated equipment, material, and supplies.

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PACIFIC BATTLESHIP CENTER**

Reset of Compensation - As required in P899, fixed minimum compensation shall be reset each successive five-year period (Transmittal 1). It is now necessary to reset the compensation for the second five-year period of May 25, 2017 to May 24, 2022.

PBC's compensation for the premises at Berth 88-89 (Transmittal 2) is based on a tiered structure in recognition of the significant costs associated with establishing the USS Iowa as a military museum and educational center, as well as a visitor attraction. For years one and two, compensation was the greater of the fixed minimum compensation of \$50,000 or two percent of gross receipts; and for years three to five, the greater of the fixed minimum compensation of \$100,000 or four percent of gross receipts. As established in the Waterfront & Commercial Leasing Guidelines, the Economic Performance Methodology (EPM) is the preferred method used for resetting compensation for percentage rent based leases such as P899.

PBC's number of visitors and gross receipts remained steady throughout the last five years, with the popularity as a special events venue increasing in the last two years. In the last 36 months, PBC grossed an average of \$2.76M a year, with an average of 210,000 visitors a year. The resulting annual average compensation to the Harbor Department for the last 36 months amounted to \$111,622. The EPM sets the minimum annual compensation by applying a 25 percent discount to the annual average of past three years' compensation. Based on the EPM, the minimum rent would be set at \$83,716 per year which is lower than the current minimum rent of \$100,000 per year. Therefore, it is recommended that the fixed minimum compensation for years six through ten remain at \$100,000 and percentage rent at four percent of gross receipts. Starting May 25, 2018, the minimum annual rent will increase annually based on the CPI.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order resetting compensation under P899 with PBC, which is an administrative activity. As such, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II, Section 2(f), of the City of Los Angeles CEQA Guidelines.

FINANCIAL IMPACT:

Starting on May 25, 2018, and every year until the next reset, the fixed minimum compensation of \$100,000 will be adjusted based on the CPI year but no more than three percent for each adjustment.

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CITY ATTORNEY:

The Order has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTAL:

1. Order
2. Site Map

FIS Approval: MR (initials)

CA Approval: JM (initials)



MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA *FOR*
Executive Director

ES:MD:MG:ER:RV:cb
Author: R. Viola
BL657cb Comp Reset Order for Pacific Battleship Center