



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: APRIL 25, 2012

FROM: EXECUTIVE OFFICE

**SUBJECT: PROPOSED SUPPORT FOR AN INDEPENDENT CALIFORNIA
NONPROFIT CORPORATION FOR DEVELOPMENT AND OPERATION
OF THE PROPOSED CITY DOCK NO. 1 URBAN MARINE RESEARCH
CENTER**

SUMMARY:

Development of the proposed City Dock No. 1 Urban Marine Research Center (Research Center) project, currently under environmental review, is estimated to cost approximately \$63 million for Phase 1 and an additional \$353 million for Phase 2. In consideration of the substantial capital development fundraising needs for construction of the proposed Research Center, the on-going need to coordinate and maintain joint infrastructure for the Research Center users and tenants, and the anticipated benefits of the Research Center to the communities adjacent to the Port of Los Angeles and the region, support for the establishment of an independent California Nonprofit Corporation (Nonprofit) to develop and oversee the proposed 28-acre Research Center is recommended. The City of Los Angeles Harbor Department (Harbor Department) would establish terms with the Nonprofit to ensure appropriate Harbor Department control over the property.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board) adopt Resolution No. _____, which:

1. Supports the development of an independent California Nonprofit Corporation by a third party or parties as yet to be identified, with the capabilities to implement the proposed Research Center in collaboration with potential Project users and tenants, in order to enter into a lease with the City of Los Angeles Harbor Department to develop, operate and maintain the proposed Project, if approved by the Board;
2. Supports the Executive Director working with the Nonprofit, pending completion of environmental analyses of the proposed Research Center project pursuant to California Environmental Quality Act and the National Environmental Policy Act and project approval, to discuss preliminary general lease terms for the future development, operation, and maintenance of the proposed Research Center, including but not limited to, expectations related to capital fundraising, user/tenant cooperative agreements and sub-leases, compensation, entitlement term, operations and maintenance responsibilities, and plans for the proposed Research Center to be self-sufficient; and

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3. Reserves the right to consider and act on the proposed City Dock No. 1 Urban Marine Research Center project, as well as the right to consider and act on any entitlement proposed with the Nonprofit.

DISCUSSION:

Background – The Board of Harbor Commissioners programmatically approved the use of City Dock No.1 for institutional/research and commercial purposes as part of the San Pedro Waterfront Project approval on September 29, 2009. Concurrent with the environmental review of the San Pedro Waterfront Project, the City of Los Angeles Harbor Department (Harbor Department) and the Southern California Marine Institute (SCMI) (a consortium of the eight California State University (CSU) campuses, the University of Southern California (USC), Occidental College, and the University of California at Los Angeles (UCLA)), with support from the Annenberg Foundation, and advice and input from area academic and research institutions, the local aquariums, business leaders, environmental organizations and community groups in San Pedro and Wilmington, joined together to develop a City Dock No. 1 vision. The proposed 28-acre City Dock No. 1 Urban Marine Research Center project is a result of that effort.

The proposed Research Center would provide facilities for SCMI, government research agencies, such as the National Oceanic and Atmospheric Administration (NOAA), and businesses to conduct cutting-edge research and education, and develop technologies to address the most pressing problems of the day: climate change, sea-level rise, the depletion of the world's fisheries, technologies to reduce air and water pollution, and exploration of new green energy production in the marine environment (Transmittal 1). The proposed Research Center would offer on-the-water research facilities with extensive wharf space and water depth to accommodate large research vessels, extensive storage space for the latest ocean-study robotics, and enough space to bring together leading researchers and entrepreneurs. The proposed development of the largest wave-tank in the world, and the only one using natural sea water, could attract researchers from all over the world to California to study the behavior of ocean waves. The Research Center is proposed to be constructed in two phases, with Phase 1 currently estimated to extend from approximately 2012-2016, and Phase 2 currently estimated to extend from approximately 2013-2024. The proposed Research Center project is currently under project specific environmental review and the draft Environmental Impact Report is anticipated to be released for public review in late May 2012.

Construction of the proposed Research Center (Phase 1 and 2) is currently estimated to create 4,100 direct and indirect construction related jobs, with an economic impact estimated at \$192 million in income and \$86 million in local, state, and federal taxes. For every \$1 million invested in research at the proposed Research Center, an average of 9 direct jobs are estimated to be created. Further, for every \$1 invested in education, an estimated \$5.43 is generated for the state economy.

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The proposed co-location of researchers from various institutions, governmental agencies, and entrepreneurial marine related businesses is anticipated to create synergies in research and approaches to real world problems, increasing the benefits of the Research Center. Further, shared infrastructure, such as a saltwater system, storage areas, and vessel berthing facilities, could benefit all users/tenants of the Research Center by avoiding costs of duplicative infrastructure and by minimizing on-going operational and maintenance costs, providing investment of more funds into research efforts.

The cost of development of Phase 1 of the proposed Research Center is currently estimated at \$63 million, with Phase 2 development costs estimated at an additional \$353 million. The Harbor Department is not proposing to significantly fund the capital costs of the proposed Research Center or on-going operational costs. While there has been general excitement about the proposed Research Center, concerns have been expressed regarding the lack of an overarching organizational structure necessary to achieve the fundraising requirements for development of the proposed Research Center and the long-term operational and maintenance needs of the Research Center.

Organizational Structural Assessment – The Harbor Department held meetings in spring 2012 with Leonard Aube, Executive Director of the Annenberg Foundation, Commission President Miscikowski, Commissioner Kramer, Deputy Mayor Aileen Adams, Office of Strategic Partnerships, and Dr. Knatz to brainstorm on ideas to address the organizational structure concerns.

Many issues and considerations were discussed, with some major areas of concern being identified, including but not limited to:

- Philanthropic organizations generally do not provide funding to municipal agencies for major projects, especially for subsequent distribution to other entities, such as SCMI and regional universities, for facility improvements and construction.
- Federal grants for research facility development and improvements are generally limited to universities and nonprofit research organizations.
- One of the major benefits of the proposed multi-tenant Research Center is the ability to maximize resources through the development of common facilities, such as a seawater system, life support system, public interpretive center, classroom space, and perhaps even research vessels. The Harbor Department does not have the expertise or resources to effectively manage such common facilities, so fundamental to the operations of a research center.

In consideration of these issues, the concept of a Nonprofit to develop and oversee the Research Center emerged.

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As a result of the workgroup discussions, the Annenberg Foundation engaged Phillips & Associates to perform an institutional assessment for the proposed Research Center. As part of that effort, Phillips & Associates:

- Developed a case facts document, describing the proposed City Dock No. 1 Urban Marine Research Center project, which was provided to prospective Research Center users/tenants, such as SCMI, USC, Los Angeles Community College, and PortTech LA, for review and comment.
- Interviewed prospective users and tenants.

Through that process, Phillips & Associates found that:

- Stakeholders had widespread enthusiasm and dedication for the proposed Research Center project.
- Formal communication processes were needed to facilitate collaboration and provide opportunities for leadership and ownership among all stakeholders.
- Stakeholders are at the pre-development stage of projecting operations and financing. Some capacity issues exist.
- Stakeholders are unclear of their roles, expectations and the proposed Research Center project timeline.
- An independent nonprofit was needed to manage the proposed Research Center.

As result of the review, the establishment of a Nonprofit, independent from both the Harbor Department and the potential Research Center users and tenants, to raise capital funding for the proposed Research Center project, to coordinate efforts among various users, tenants, and stakeholders, and to manage the 28-acre Research Center is recommended. The Harbor Department and potential Research Center users and tenants would have a role in advising the Nonprofit, including potentially participating on an operations committee, as well as have a contractual relationship with the Nonprofit.

Full establishment of a nonprofit can take several years. Obtaining "official" 501(c)(3) nonprofit status can take up to 1-year after the appropriate papers are filed. However, the Nonprofit could partner with a fiscal agent, another nonprofit organization, allowing fundraising and project expenditures to proceed while formal nonprofit status is sought.

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The proposed relationship between the Nonprofit, the Harbor Department, and Research Center users and tenants is depicted in Transmittal 2. That structure assumes that an agreement between the Harbor Department and the Nonprofit would establish the minimum requirements that would need to be achieved by the Nonprofit, such as potentially establishing a capital fundraising target, development of cooperative agreements with users and tenants, compensation rates, sub-lease requirements and related Harbor Department oversight, other requirements and procedures to ensure appropriate Harbor Department control over the property, and other performance criteria, which if met would result in a long-term entitlement for the property to the Nonprofit. Compensation could include the Nonprofit providing in-kind services to the Department, similar to the current compensation arrangement with SCMI, where SCMI provides the use of its boats to the Harbor Department for collecting of monthly water samples. The commitment to a potential long-term lease would be fundamental to the Nonprofit's fundraising ability. Property control is essential to fundraising, including federal grant opportunities.

Cooperative agreements with prospective Research Center users and tenants would also be developed by the Nonprofit. Such agreements would establish fundraising responsibilities related to the Research Center as a whole and for common facility operations, as well as establish the responsibilities of individual tenants for funding their individual facilities. Since users and tenants could both seek the same grant funding for marine research laboratory development, agreement on how such competitive grants would be coordinated is also an important consideration. In addition, agreement regarding use and management of common facilities and fee calculation methodologies for use of such facilities would need to be established. The Nonprofit could also charge users and tenants rent to off-set compensation required through the Port-Nonprofit agreement and provide revenues adequate to fund operations and maintenance. The Port-Nonprofit long-term agreement could include requirements that the Nonprofit perform regular reviews of its user and tenant cooperative agreements to ensure that all required tenant programs and commitments are met and the Research Center results in the benefits anticipated.

As the Nonprofit evolves and achieves the commitments established in the short-term agreements with the Harbor Department and the cooperative agreements with users and tenants, those agreements would transition into long-term agreements and subleases. If the commitments are not met by the Nonprofit, then the contractual relationship with the Harbor Department and users and tenants could be terminated.

California Nonprofit Corporation for Proposed Research Center -The establishment of a California Nonprofit Corporation to develop and oversee the Research Center requires the recruitment of volunteer board members. To facilitate such an effort, the support of the Harbor Department for the proposed Nonprofit is essential. In consideration of the benefits of the proposed Research Center and the significant capital fundraising campaign required for development and operation of the proposed Research Center, it is recommended that the Board of Harbor Commissioners adopt the attached

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Resolution (Transmittal 3), supporting the development of an independent California Nonprofit Corporation by a third party or parties as yet to be identified, in collaboration with potential Research Center users and tenants, in order to enter into a lease with the Harbor Department to develop, operate and maintain the proposed Research Center.

It is further recommended that the Board support the Harbor Department in engaging such Nonprofit, pending completion of environmental analyses of the proposed Research Center project pursuant to California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA), to discuss preliminary general lease terms for the future development, operation, and maintenance of the proposed Research Center, including but not limited to, expectations related to capital fundraising, user and tenant cooperative agreements and sub-leases, compensation, entitlement term, operations and maintenance responsibilities, and plans for the proposed Research Center to be self-sufficient. Any proposed entitlement would be subject to Board review and approval.

ENVIRONMENTAL ASSESSMENT:

This action is limited to expressing the Harbor Department's support for the establishment of an independent Nonprofit to develop and oversee a proposed Research Center and is not legally binding nor does it commit the Harbor Department to the approval of any agreement, permit, or lease or any terms or conditions thereof, or any proposed project, including the proposed City Dock No. 1 Urban Marine Research Center project. The proposed Research Center project is subject to CEQA and NEPA, as appropriate, to analyze the potential environmental impacts of the proposed Research Center project and any associated entitlement(s).

ECONOMIC BENEFITS:

This Board action to support establishment of a Nonprofit to develop and oversee a proposed Research Center will have no employment impact.

FINANCIAL IMPACT:

The proposed Board action is to support establishment of a Nonprofit to develop and oversee the Research Center. The intent of establishing a Nonprofit is to facilitate fundraising for capital development and operations of the proposed Dock No. 1 Urban Marine Research Center project, should the proposed project be approved by the Board in the future. The financial impact of any proposed entitlement with the proposed Nonprofit is currently unknown and would be evaluated in the future as part of its submittal to the Board for consideration.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the Resolution as to form and legality.

TRANSMITTALS:

1. Proposed City Dock No. 1 Urban Marine Research Center Project Figure
2. Proposed Nonprofit Relationship
3. Resolution

FIS Approval: ef (initials)

CA Approval: JMC (initials)

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

GK/BG

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