



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

Board of Harbor Commissioners

DATE: DECEMBER 28, 2011

FROM: REAL ESTATE DIVISION

**SUBJECT: RESOLUTION NO. _____ - PROPOSED PERMIT NO. 897
WITH CATALINA CHANNEL EXPRESS, INC. FOR PREMISES IN SAN
PEDRO, AT BERTHS 94 AND 95**

SUMMARY:

Catalina Channel Express, Inc. (Catalina) currently occupies 170,678 square feet (s.f.) of land in San Pedro, at Berths 95/96 under Permit No. 768. Proposed Permit No. 897 (Permit), a successor to Catalina's current Permit No. 768, would authorize Catalina to undertake construction, operation, and maintenance of a public passenger facility for a 25-year term at the proposed Premises, Berths 94/95. Catalina is making a substantial investment of approximately \$2.8 million for the relocation.

It is necessary to relocate Catalina, and its associated ancillary operations, from Berth 96 to accommodate the expansion of the China Shipping terminal. Failure to have Berth 96 available for the China Shipping Expansion in a timely fashion could subject the City of Los Angeles Harbor Department (Harbor Department) to penalties if the failure results in delaying the China Shipping expansion project. Thus, it is necessary to relocate Catalina to a new site and complete facility improvements essential to the relocation as quickly as possible.

RECOMMENDATION:

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

1. Approve Permit No. 897 with Catalina Channel Express, Inc.;
2. Direct the Board Secretary to transmit the Permit to the City Council for approval pursuant to Charter Section 606;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the Permit upon Board approval contingent upon approval by the City Council; and
4. Adopt Resolution No. _____.

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DISCUSSION:

Background – The current Catalina relocation strategy is to provide space for passenger staging and vessel berthing at the Berth 94 cruise terminal facility, which is an area already suitable for passenger use, requires relatively minimal improvements, and little, if any, impact on current cruise passenger operations. Catalina will continue to occupy and utilize its existing maintenance building and adjacent water area at Berth 95 and will be making an investment of approximately \$2.8 million to accomplish the relocation by making the improvements described below, including the adaptive re-use of the existing maintenance building to accommodate passenger needs.

Proposed Permit Summary

Effective Date: The Permit shall become effective following execution by the Harbor Department and Catalina, and upon the last approval required by City's Charter and Administrative Code (Effective Date).

Premises: On the Effective Date, the Permit shall entitle Catalina to use and occupy Premises consisting of:

- a. Use of Parcel 1 - consisting of approximately 7,620 s.f. which includes approximately 7,400 usable s.f. of improved warehouse building;
- b. Use of Parcel 2 - consisting of approximately 27,768 s.f. of unimproved space;
- c. Preferential use of Parcel 3 – consisting of approximately 36,137 s.f. of water area and 5,680 s.f. of improved wharf area at Berth 94;
- d. Use of Parcel 4 – consisting of approximately 23,091 s.f. of berth and water area at Berth 95;
- e. Use of Parcel 5 – consisting of approximately 1,449 s.f. of land area at Berth 95;
- f. Preferential use of Parcel 6 – consisting of approximately 17,230 s.f. of water area at Berths 94/95; and
- g. Preferential use of Parcel 7 – consisting of approximately 15,923 s.f. of paved land area.

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Use: The purpose of the proposed Permit is for the construction, operation, and maintenance of a public passenger facility primarily for transporting passenger to and from Catalina Island for:

- a. The berthing/mooring of charter vessels and passenger operations;
- b. The fueling of vessels, lube and oil service, minor engine repair and minor cosmetic repair of Catalina vessels which include only those vessels owned and operated by Catalina in connection with the Permitted Uses for the Premises, and no other vessels. For all other major services, especially major engine overhaul and or replacement(s), vessel painting, dry-docking, etc., Catalina shall have such major services conducted away from the Premises, and if conducted in the Harbor District, they shall be conducted at properly permitted shipyard facilities.
- c. Business offices, ticket sales, tour sales, food and beverage, including alcoholic beverages, tour-related businesses, and tourism related business, within the Premises, by vendors, concessionaires, licensees, or otherwise.
- d. Special events, private parties and commercial filming purposes.

Term: 25 years

Improvements:

Tenant Improvements

Catalina shall be responsible for all tenant improvements constructed on the Premises. The Premises will be granted on an "as is" condition, with exception of the improvements to be provided by the Harbor Department as described below.

The tenant improvements include the adaptive re-use of an existing building remodeled to accommodate new offices, ticketing, café, cocktail bar and passenger waiting areas, and updating the building with new energy efficient systems and materials, as well as the installation of new low maintenance landscaping and hardscaping for exterior passenger waiting areas.

Catalina shall be responsible for submission and approvals of all plans, permits and associated documents for the construction of all tenant improvements, as required by any and all regulatory agencies, including, but not limited to, obtaining a General Permit

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from the Chief Harbor Engineer and permits from the Los Angeles Department of Building and Safety. Following termination of the proposed Permit, all improvements constructed by Catalina on the Premises shall become, at the Harbor Department's option, property of the Harbor Department.

Harbor Department Improvements

The Harbor Department shall be responsible for the following:

- a. Reconfiguration, paving, asphalt slurry seal and re-striping of parking area with special attention to the appropriate resolution of traffic flow for passenger drop-off and bus areas; and
- b. Wharf improvements (Parcel 3) as determined to be necessary after inspection by Harbor Department personnel; with pilings to be replaced, as deemed appropriate, for the safe berthing and mooring of Catalina passenger vessels.

The Harbor Department shall not be responsible for stubbing of electrical, water, gas, sewer, or any other utility lines.

Compensation: Catalina shall pay the higher of one of two forms of compensation for the use of the Premises, (1) a fixed minimum compensation and (2) a percentage compensation. The percentage compensation described below is waived in the first five years of the term, and adjusted in the second five years of the term, to compensate Catalina for the approximately \$2.8 million investment that it will put into improving the Premises. Catalina has applied for a grant to assist with the cost of improving the Premises; should it receive all or a portion of the request grant funds, the waiver and adjustment of the percentage rent during the first ten years would be eliminated or reduced in rough proportion to the amount of the grant funds it receives.

1. Fixed Monthly Compensation

Years 1-5 Compensation

The minimum compensation schedule for first five years is:

Period	Annual Minimum	Monthly Minimum
Year 1	\$60,324	\$5,027
Year 2	\$70,380	\$5,865
Year 3	\$80,436	\$6,703
Year 4	\$90,492	\$7,541
Year 5	\$100,543	\$8,379

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Years 6-25 Compensation

The minimum compensation for each remaining five-year period shall be reset based on the estimated rental value of the Premises, as may be determined by a third party appraiser, pursuant to Order of the Board.

Consumer Price Index (CPI) Adjustments

Following Year Six, the Fixed Minimum Compensation will be subject to annual adjustments pursuant to a CPI index.

2. Percentage Compensation

Years 1-5 of Permit term: Percentage rent compensation shall be waived for the first five years of the Permit term.

However, if Catalina receives at least \$1 million in grant monies as reimbursement for their improvement costs, then the Percentage Compensation for Years 1-5 shall be 2.5 percent; and if Catalina receives \$2 million or more in grant monies as reimbursement for their improvement costs, then the Percentage Compensation for Years 1-5 shall be 5 percent.

Years 6-10 of Permit term: Harbor Department will receive the monthly minimum rent or 4 percent of all gross receipts per month, whichever is the greater.

However, if Catalina receives \$1 million or more in grant monies as reimbursement for their improvement costs, then the Percentage Compensation for Years 6-10 shall be 5 percent.

Years 11-15 of Permit term: Harbor Department will receive the monthly minimum rent or 5 percent of all gross receipts per month, whichever is the greater.

Years 16 – 25 of Permit term: Percentage Compensation for each remaining five-year period shall be reset, as may be determined by a third party appraiser, pursuant to Order of the Board.

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Environmental:

Catalina shall agree to the following:

- a. Compliance with all applicable environmental provisions of the Harbor Department's Leasing Policy, City's Environmental Management Policy, and applicable measures of the San Pedro Bay Clean Air Action Plan (CAAP), and the Water Resources Action Plan (WRAP). To include obligations of the Vessel Speed Reduction Program and low sulfur fuel, as applicable.
- b. Compliance with all California Environmental Quality Act requirements and the final mitigation measures identified and adopted by the Board in the San Pedro Waterfront FEIS/FEIR and the China Shipping FEIS/FEIR, as applicable.

Maintenance:

Catalina shall be responsible for the repair and maintenance of all structures and improvements within the Premises except for the following structural maintenance and repairs which shall be performed by the Harbor Department at Harbor Department's expense:

- a. Wharf structure, meaning the beams, girders, subsurface support slabs, cones, decks, bulkheads and pre-stressed concrete piling, pile caps, mooring bollards, and any and all mooring dolphins, but not including paving or the fendering system;
- b. Boat launch ramp within Parcel 6, and adjacent paved slope in Parcel 4, of the Site Plan depicted on Exhibit A of the Permit;
- c. Rock slopes; and
- d. Underground sewer and storm drain lines, excluding damage, if any, caused by Catalina's operations.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of Permit No. 897 for construction, operation, and maintenance of a public passenger facility at Berths 94/95 including the adaptive reuse of an existing building for terminal operations. Catalina will be relocating from Berth 96 as required by the China Shipping expansion. The relocation of Catalina was included and analyzed in the China Shipping FEIS/FEIR and the San Pedro Waterfront FEIS/FEIR which were certified on December 8, 2008 and September 29, 2009, respectively. As an activity for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of the California Environmental Quality Act (CEQA), the Director of Environmental Management has determined that the proposed action is exempt from CEQA in accordance with Article II Section 2(i) of the City of Los Angeles CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action to approve a permit will have no direct employment effect; the one-time expenditure of \$2.8 million on improvements by Catalina Express is estimated to support the equivalent of 39 one-year jobs (direct and secondary) through the construction period.

FINANCIAL IMPACT:

The expected rate of return projected for the proposed 25-year permit with Catalina is 12.1% whereas under the Minimum Annual Guarantee (MAG) scenario the projected rate of return is 5.3% versus blended targets of 10.6% and 7.9%, respectively. Total construction costs (construction only – doesn't include design or materials/equipment) have been budgeted at \$800K in FY11/12 for the temporary relocation of Catalina Express. Funds are budgeted under Account 54510, Cost Center 1042, Program Number 000.

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INC.

CITY ATTORNEY:

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

TRANSMITTAL:

1. Proposed Permit No. 897

FIS Approval:  (initials)
CA Approval:  (initials)


KARL K.Y. PAN
Interim Director of Real Estate


KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

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