



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 16, 2017

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE FIRST AMENDMENT
TO PERMIT NO. 892 WITH TRI-MARINE FISH COMPANY, LLC**

SUMMARY:

Staff requests approval of the First Amendment to Permit No. 892 (P892) between the City of Los Angeles Harbor Department (Harbor Department) and Tri-Marine Fish Company, LLC (Tri-Marine). The proposed amendment will (1) modify the existing premises by combining parcels and adding additional areas (as depicted on Exhibit A-2); (2) provide a First Right of Refusal option for Parcel 6 (as depicted on Exhibit A-2); (3) replace the existing term with a new fixed 20-year term; (4) revise the rental structure to include a Minimum Annual Rent (MAR) and percentage rent provision; (5) include five-year rental resets based upon the market, and annual rental resets based upon the movement of the Consumer Price Index (CPI) capped at 5 percent; and (6) provide a one-time rental credit for improvements to the premises installed by the tenant. In Fiscal Year 2016/2017, Tri-Marine paid the Harbor Department \$299,883.60. Under this amendment, Tri-Marine will be financially responsible for paying an estimated annual compensation of \$562,792.00. Tri-Marine's total employment is between 50-100 jobs per year in the peak season.

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 III Class 1(14) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Find that, while the Rate of Return does not meet the current Leasing Policy Section VIII Rates, Fees and Charges, by approving the First Amendment the Rate of Return is expected to increase from its current level;
3. Approve the proposed First Amendment to Permit No. 892 with Tri-Marine Fish Company, LLC;
4. Direct the Board Secretary to transmit the First Amendment to Permit No. 892 to the City Council for approval pursuant to Charter Section 606 of the City Charter;
5. Authorize the Executive Director to execute and the Board Secretary attest to the First Amendment to Permit No. 892 upon approval by City Council; and
6. Adopt Resolution No. _____.

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DISCUSSION:

Background – On January 6, 2011, the Board granted P892 to Tri-Marine for use of waterfront property at Berth 264 on Terminal Island for a wet fish processing operation. P892 had for an initial five-year term, with three additional five year options, for a total of 20 years. Currently, rent paid under P892 is \$24,990.30 per month, or \$299,883.60 on an annual basis with a Rate of Return (ROR) of 5 percent. Currently, P892 does not have any provision for five-year adjustments to rental rates.

In recent years, the Harbor Department has been actively working with the industry to revive commercial fishing in the area. Tri-Marine's continued occupancy within the Fish Harbor area supports the Port of Los Angeles Land Use Plan and recognizes the Harbor Department's commitment to the commercial fishing industry. To further that commitment, a 20-year term has been incorporated into the First Amendment (Transmittal 1).

The First Amendment also provides for a market-based rental reset every five years, as well as annual CPI-based rental adjustments capped at 5 percent per year. As such, the Harbor Department will realize a continued positively trending income stream and the ROR is expected to increase from its current level.

Major Provisions within the First Amendment to Permit No. 892

Term: A new 20-year term, commencing upon the effective date of the First Amendment.

Premises and Minimum Annual Rent: The proposed MAR is \$426,474. The MAR is calculated using a land value of \$22 per square foot based upon the Board's 10 and 12 percent annual ROR on land and buildings respectively, discounted by 28 percent for the participation in percentage rent. The rental rate for the office space is based upon competitive transactions within the market and not subject to the above discount.

Table 2 below provides a detailed review of the MAR, as well as the estimated amount of percentage rent and/or profit sharing.

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Table 2

Tri-Marine Fish Co. LLC							
Compensation Calculations First Amendment to Permit No. 892							
Parcel No.	Description	Rentable Sq Ft	Value	RoR	Minimum Annual Rent	Percentage Profit Sharing	Discounted Annual Rent
1	220 Fishpump	85	\$ 22.00	10%	\$ 187	28%	\$ 134.64
2	220 Machinery & Engineering	219,295	\$ 22.00	10%	\$ 482,449	28%	\$ 347,363
4*	338 Warehouse/Land	23,005	\$ 22.00	12%	\$ 38,108	28%	\$ 27,438
5	Office Building	5,965			\$ 51,538		\$ 51,538
6**	Paved Land	47,425	\$22.00	10%	\$ 102,438	0%	\$ 102,438
Total		295,775			\$ 572,282		\$ 426,474 (Monthly)
*Note: Rent calculation of 14,435 SF. Additional area reflects the 2:1 ratio for warehouse operation.							\$ 35,539.50
**Note: Parcel 6 calculations based upon current rates and not included in the minimum annual rent calculation.							
						Profit Sharing	\$ 136,318
						Total	\$ 562,792

Percentage Rent: In addition to the MAR, Tri-Marine will pay an estimated additional rent of \$136,318 per year based on of one-half of one cent (\$0.005) per pound of fish products offloaded across the wharf (wet-fish) and one-tenth of one cent (\$0.001) per pound of any other protein product processed and brought into the facility by other means. These rates are comparable to similar wet-fish operations that compete with Tri-Marine and will allow them to remain competitive with other similar operations while providing full employment at Terminal Island during periods when local fishing is “off-season” or “off-peak,” adding to job creation and the overall revitalization of the area.

The estimated total annual compensation payable to the Harbor Department, including both the MAR and percentage rent, is \$562,792 with ROR of 8.2 percent.

Rental Resets: The First Amendment dictates that the MAR will be subject to a market-based rental reset every five years. Additionally, the document contains a provision for an annual CPI adjustment based upon, All Urban Consumers for the Los Angeles-Riverside-Orange County California, containing a floor of zero and a cap of 5 percent.

Rental Credit: The Rental Credit provision provides that Tri-Marine will receive a one-time rental credit of not more than \$130,000 from the Harbor Department to compensate Tri-Marine for improvements to the office building contained within Parcel 5 and for new fencing to be installed to more fully secure the premises. This credit may only be applied to the MAR payable upon the first full month following the effective date of the First Amendment. Tri-Marine’s initial investment has been more than \$10 million dollars with regular annual Cap Ex sending in excess of \$500,000.

Harbor Department Lighting Obligation: As part of this Amendment, the Harbor Department has agreed to install additional exterior illumination within Parcel 2 of the premises. This will help with safety and security not only of the premises, but also the greater vicinity. Tri-Marine is responsible for all utility charges incurred by and all maintenance costs associated with this new lighting throughout the term of this agreement. The Harbor Department’s lighting obligation is estimated at \$45,000.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a First Amendment to P892 with Tri-Marine to modify the premises (Transmittal 2), extend the term, revise the rental structure, include rental resets and provide a one-time rental credit. As an activity involving amendment of a permit to use an existing facility where there is negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the First Amendment to P892 will result in Tri-Marine's financial obligations increasing to a MAR of \$424,474, as well as an annual projected percentage rent of \$136,318, for a total annual compensation of \$562,792 resulting in an increase in revenue of 88 percent. Upon approval the ROR is expected to increase from 5 percent to 8.2 percent compared to the blended target of 11.09 percent. The MAR will be escalated annually based on the CPI reset provision (including a floor of zero and a cap of 5 percent). In addition, the MAR will be escalated every five years of the term on the anniversary of the effective date pursuant to the market rate adjustment provision.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved this First Amendment as to form and legality.

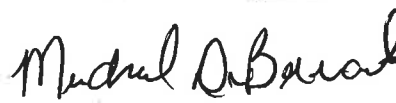
TRANSMITTALS:

- 1. First Amendment
- 2. Site Map



JACK C. HEDGE
Director of Cargo & Industrial Real Estate

FIS Approval: MB (Initials)
CA Approval: CBBS (Initials)



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA ^{FOR}
Executive Director