



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: AUGUST 10, 2022

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

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

SUMMARY:

Staff requests approval of the Order resetting compensation under Permit No. 899 (P899) with Pacific Battleship Center (PBC). P899 has a ten-year term that commenced May 25, 2012, and two, five-year options to extend the term. PBC has been on holdover since May 25, 2022. Staff is concurrently processing a recommendation to exercise the first option to renew the permit for an additional five-year period based on the terms of the Agreement.

Under the proposed Order, Year 1 minimum annual rent will remain unchanged at \$111,348.89. Effective May 25, 2023, and annually thereafter through and including May 25, 2026, the minimum monthly rental amount will be adjusted by the annual change in the Consumer Price Index (CPI). Annual rent will continue to be the greater of the annual minimum or four percent of gross receipts. The proposed Order would be effective for a five-year period from May 25, 2022 through May 24, 2027.

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 administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order resetting compensation under Permit No. 899 with Pacific Battleship Center for the five-year period of May 25, 2022 through May 24, 2027;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 899 with Pacific Battleship Center; and
4. Adopt Resolution No. _____ and Order No. _____.

DISCUSSION:

Background - P899 between the City of Los Angeles Harbor Department (Harbor Department) and PBC grants approximately 4.43 acres of property at Berths 88-89 to PBC for the berthing, maintenance, and operation of the USS Iowa (Transmittal 1). The USS IOWA functions as a museum and educational facility; venue for maritime and military-related events; special events that promote the LA Waterfront; sleepover programs; filming; special events with prior Harbor Department approval; and storage of associated equipment, material, and supplies.

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PBC rent was initially 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.

Commencing in 2012, annual rent for years one and two were negotiated to be the greater of \$50,000 or two percent of gross receipts; and for years three to five, the greater of \$100,000 or four percent of gross receipts. From 2012 to 2017, PBC paid an average of \$86,664.81 in total annual rent.

Current Compensation - For the period of May 25, 2017, through and including May 24, 2022, the fixed minimum annual rent was set at the existing \$100,000 or four percent of gross receipts, paid monthly in the amount of \$8,333.33 with annual CPI increases. From 2017 to 2022, PBC paid an average of \$ 111,041 in total annual rent.

Staff took into account many factors when resetting PBC's rent such as the USS IOWA'S nonprofit status, significant financial contribution to marketing the LA Waterfront, and required minimum annual reinvestment in the vessel of \$750,000. In comparison to other LA Waterfront nonprofits, the USS Iowa is the only non-profit that pays rent and is not dependent on the Harbor Department for an annual sponsorship.

Proposed Compensation Reset (Transmittal 2)

PBC's annual rent is currently set at the greater of \$111,349 or four percent of gross receipts. The fixed minimum annual compensation is also adjusted annually according to CPI. From 2018 to 2019 (excluding the COVID-restricted period from 2020-2022), PBC paid an average of \$110,827 in annual rent.

The Economic Performance Methodology (EPM) is the preferred method for resetting compensation for percentage rent leases based on the Waterfront and Commercial Leasing Guidelines. The resulting annual average paid to the Harbor Department by PBC for the last three years (2019, 2020, and 2021) amounted to \$112,204. 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 \$84,153 per year which is lower than the current minimum annual rent of \$111,349 per year.

It should be noted that staff also applied the EPM to more typical revenue years 2017, 2018, 2019 to ensure that the COVID-19 Pandemic did not play a role in the annual compensation calculations. For 2017-2019, the annual average paid to the Harbor Department was \$111,249. Based on the EPM, the minimum rent would be set at \$83,436, which is lower than the rent that was determined using COVID-19 calculations.

In consideration of the factors discussed above, staff is recommending maintaining the current minimum annual rent of \$111,349 for PBC's compensation reset from 2022 through 2027. Staff has taken into account PBC's lease performance, permit responsibilities, as well as the positive impacts that the USS IOWA, a 501(c)(3) non-profit, has had on the LA Waterfront and its surrounding community including but not limited to the following factors:

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Harbor Department Partnership and LA Waterfront Promotion:

Provided no-cost space usage to the Harbor Department to hold press conferences, meetings, and events.

Promoted the USS IOWA at the Port of Los Angeles on the LA Waterfront with an average annual marketing expenditure since 2012 of more than \$550,000 per year for a total of \$5,613,768. Additionally, PBC issues regular weekly e-blasts to over 80,000 subscribers, an online reach of more than one million people monthly, and a direct mail spend of over \$300K annually.

Partnership with the Harbor Department and the U.S. Navy has created LA Fleet Week, which brings National level attention to the Harbor Department and the LA Waterfront.

Broke through the standard radius clause that made many concerts cost-prohibitive or impossible to do at the LA Waterfront, which set the stage for future large scale, privately-promoted events to be held on the LA Waterfront.

Increased parking revenue – visitors contribute to the parking revenue in the parking lot adjacent to the ship. PBC does not receive a share of parking revenue as this lot is managed by an unaffiliated third-party.

Educational and Veteran Services:

Provided STEM education opportunities on the LA Waterfront. PBC brings on average 9,818 students annually to onboard programs. PBC budgets and spends roughly \$300,000 annually on education programming.

Offers direct services to veterans on a peer-to-peer basis and has received awards for being the top performing team for the Veteran's Peer Access Network in Los Angeles. PBC, on average, supports 6,780 veterans annually and they budget roughly \$644,000 annually for these services.

Community Give Back:

Donated space and admission tickets to local non-profits. For example, in 2020, PBC waived or reduced event rental fees for 802 community supporting events and donated 757 tickets for other fundraisers.

Hosts on average 50 first responders' trainings on board annually, which result in a safer community.

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Operations and Maintenance:

PBC's permit requires investing the greater of 30 percent of its annual gross receipts or \$750,000 (whichever is greater), per year on maintenance and repair of the premises. These expenditures are reported to the Harbor Department and subject to dive reports, as well as US Navy Inspections. It should be noted that from 2017 to 2021, PBC spent \$5,588,624 on maintenance and repair.

ENVIRONMENTAL ASSESSMENT:

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

FINANCIAL IMPACT:

Approval of the proposed Order would reset compensation under P899 for the five-year period effective May 25, 2022, through and including May 24, 2027. Under the proposed Order, minimum annual rent would remain unchanged at \$111,349 per year. The minimum monthly rental amount will be adjusted annually thereafter by CPI.

CITY ATTORNEY:

The proposed order resetting compensation has been reviewed and approved as to form and legality by the office of the City Attorney.

TRANSMITTALS:

- 1. Site Map
- 2. Order

FIS Approval: MB
 CA Approval: SO

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APPROVED:

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