



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 16, 2017

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE THIRD AMENDMENT
TO PERMIT NO. 897 WITH CATALINA CHANNEL EXPRESS, INC.**

SUMMARY:

Staff requests approval of the Third Amendment to Permit No. 897 (Permit) with Catalina Channel Express, Inc. (Catalina Express), which will increase the premises by 32,881 square feet (s.f.) to accommodate the larger footprint needed for freight operations of the sublease with Avalon Freight Services, LLC (AFS). The increase in area will result in an 18.9 percent increase in minimum annual rent from \$259,073.40 to \$308,047.90, which is the financial responsibility of Catalina Express.

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 Section 2(i) and Article III Classes 1(12) and 1(14) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the proposed Third Amendment to Permit No. 897 with Catalina Channel Express, Inc.;
3. Direct the Board Secretary to transmit the Third Amendment to Permit No. 897 to the City Council for approval pursuant to Charter Section 606 of the City Charter;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the Third Amendment to Permit No. 897 upon approval by City Council; and
5. Adopt Resolution No. _____.

SUBJECT: THIRD AMENDMENT TO PERMIT NO. 897 WITH CATALINA CHANNEL EXPRESS, INC.

DISCUSSION:

Background – The Permit was issued to Catalina Express for premises at Berth 95 (Premises) for the construction of a public passenger facility for transportation to and from Catalina Island for a 25-year term beginning March 30, 2012. The First Amendment to Permit No. 897 amended the size of the premises and the compensation upon completion of the facility to properly reflect the actual area occupied and the corresponding compensation. The First Amendment took into account negotiated rates for all parcels, forgoing percentage rent and Consumer Price Index for an additional period of time, as a condition of the Settlement Agreement (Agreement No. 14-3274) which was approved concurrently.

On April 9, 2015, the Board approved the Second Amendment to the Permit, which permitted freight services; increased the Premises in order to accommodate the construction of a two-story facility for freight warehousing, administrative and call center offices, and accompanying work area and parking needs; and increased compensation accordingly. On August 20, 2015, the Board approved a one-time sublease of over 20 percent of the Permit premises to Avalon Freight Services, LLC for an administrative office and freight facility for the processing and transport of freight to and from Catalina Island.

Third Amendment Summary – On April 1, 2016, freight operations to Catalina Island commenced. Soon thereafter, it became evident that additional space was required to accommodate the freight operations within the adjacent World Cruise Center parking lot. The Third Amendment (Transmittal 1) will add 32,881 s.f. and increase the compensation accordingly effective April 1, 2016. CPI adjustments will apply to the additional premises based on the existing Permit language.

These additional areas (Transmittal 2) are primarily under the span of the Vincent Thomas Bridge and are encumbered by a Caltrans easement. The Caltrans easement allows for bridge repair, maintenance, or inspections. As such, it is possible that Catalina Express may temporarily be denied access should a bridge repair have a prolonged duration. Catalina Express has acknowledged this possibility and the reduced rent is reflective of this possible restriction.

The Third Amendment also corrects a typographical error on the First Amendment for the compensation period covering the Fifth Year through the Seventh year. During that period, the start and end dates were each incorrect by one day.

Compensation - The compensation for the additional premises is structured as follows:

| Designated Area | Area (s.f.) | Rate per s.f. per year | Annual Rate | Monthly Rate |
|-----------------|---------------|------------------------|---------------------|--------------------|
| Parcel 10 | 15,030 | \$ 1.00 | \$ 15,030.00 | \$ 1,252.50 |
| Parcel 11 | 6,437 | \$ 3.50 | \$ 22,529.50 | \$ 1,877.46 |
| Parcel 12 | 7,159 | \$ 1.00 | \$ 7,159.00 | \$ 596.58 |
| Parcel 13 | 4,255 | \$ 1.00 | \$ 4,255.00 | \$ 354.58 |
| TOTALS: | 32,881 | | \$ 48,973.50 | \$ 4,081.13 |

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ENVIRONMENTAL ASSESSMENT:

On January 22, 2015, the Board approved a Final Initial Study/Negative Declaration (IS/ND) for the Avalon Freight Services Project (Project). The Project involved the construction and operation of a facility at Berth 95 in San Pedro to transport freight to and from Catalina Island. The Project has been constructed and has been operating since April 1, 2016. The Project included a Lease Amendment with Catalina Express, to whom Avalon Freight Services is a sublessee, to add 52,555 square feet to accommodate the freight operation. Since operations began, it has become clear that Avalon Freight Services underestimated the amount of outdoor space necessary to conduct the operation. As such, Catalina Express is seeking a new Lease Amendment to increase the lease premises by 34,794 square feet to accommodate additional truck and trailer maneuvering and parking areas for Avalon Freight Services' operation. The additional square footage would not facilitate an expansion of the freight operation beyond what was assessed in the IS/ND but rather would allow for the operation as assessed to occur. Improvements associated with the expansion would be limited to a minor addition of fencing. Therefore, as an activity for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of the City of Los Angeles CEQA Guidelines, an activity involving outdoor fencing for security and operations and an activity involving an amendment of a permit to use an existing facility involving 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 II Section 2(i) and Article III Classes 1(12) and 1(14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Based on a target 10 percent rate of return on the 2016 estimated land values of \$35 per s.f. for the general area, and \$10 per s.f. for areas encumbered by the Caltrans easement, the total compensation meets the Board's 10 percent target rate of return on land.

No lost parking revenues are anticipated since the Catalina Express and cruise ship peak business season are complementary and all parking needs can be accommodated in spite the decrease in the overall parking lot area.

The Third Amendment increases City of Los Angeles Harbor Department annual revenue by \$48,973.50, which represents an 18.9 percent increase from its current minimum annual rent of \$259,073.40 to \$308,046.90 per year.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Third Amendment
2. Site Map

FIS Approval: MB (initials)
CA Approval: gm (initials)



MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate



For MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

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