



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MARCH 17, 2020

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - ORDER RESETTING
COMPENSATION UNDER PERMIT NO. 897 WITH CATALINA CHANNEL
EXPRESS INC.**

SUMMARY:

Staff requests approval of an Order resetting compensation under Permit No. 897 (P897) with Catalina Channel Express, Inc. (CCE). P897 grants CCE use of 276,264 square feet (s.f.) of City of Los Angeles Harbor Department (Harbor Department) property. P897 is a 25-year permit, effective March 30, 2012 through March 29, 2037, for operation of passenger and freight service to and from Catalina Island.

The proposed compensation reset is for the period of July 25, 2019 through July 24, 2024. The proposed fixed minimum rent will be \$512,851 per year (\$42,738 per month). Current annual rent is \$322,446. The proposed increase in fixed minimum rent effective July 25, 2019 equates to a 59 percent increase from the current rates. This compensation reset was delayed due to separate, but related, negotiations with CCE regarding P897. In order to not delay this compensation reset any longer, these negotiations were separated.

This is the first compensation reset due under P897 and applies to fixed minimum rent only. Pursuant to the terms of P897, percentage rent payments and Consumer Price Index (CPI) increases for all parcels will commence in 2023.

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. 897 with Catalina Channel Express, Inc.;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 897; and
4. Adopt Resolution No. _____ and Order No. _____.

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DISCUSSION:

Background: Permit No. 897 grants CCE use of 276,264 s.f. of Harbor Department property. The Premises consist of 110,571 s.f. of land, 113,094 s.f. of submerged land, and 52,599 s.f. of CalTrans easement land located at Berth 95 (Transmittal 1). P897 allows the following uses:

- Construction, operation and maintenance of a public passenger facility for transporting passengers to and from Catalina Island; and
- Construction, operation, and maintenance of an office and warehouse facility for freight services to and from Catalina Island and house and operate administrative offices and a call center serving both passenger and freight operations.

Collectively, the two businesses provide approximately 141 jobs in San Pedro. CCE has been operating passenger ferry services to Catalina Island from the Port of Los Angeles since 1981 and was originally located at B96, most recently under the prior Permit No. 768 (P768). CCE was placed on holdover when P768 expired in 2005 while the Harbor Department assessed plans for expanding the adjoining property to the north, held by China Shipping Holding Company, Ltd. (China Shipping). In 2012, China Shipping underwent redevelopment and expansion of its Berth 100 wharf and backlands, which necessitated CCE's relocation and redevelopment of its facility into premises at Berth 96. Under P897, effective March 30, 2012, CCE was responsible for building all improvements at the new location, investing approximately \$5,000,000, with final premises area and other terms to be determined once construction was completed.

P897 has since been amended three times and is subject to a settlement agreement:

- Agreement No. 14-3274 (Settlement Agreement), processed simultaneously with the First Amendment, represented CCE's waiver of all claims resulting from the prior P768 (overpayment of percentage rent) and the Harbor Department's requirement for CCE to relocate and redevelop new facilities within the short timeframes required by the China Shipping expansion.
- The First Amendment, effective October 13, 2014, updated the premises area upon completion of the CCE facility (Parcels 1-7), and reflected the negotiated fixed minimum rental rates and forgone percentage rent and CPI increases which resulted from the Settlement Agreement. Payment of percentage rent for all parcels, and CPI increases for parcels 1 through 7, will commence on July 25, 2023. Parcels 1-7 will have a one-time catch-up CPI increase on July 25, 2023 for the period from July 25, 2019, with annual CPI increases thereafter.
- The Second Amendment, effective May 13, 2015, increased the premises (adding Parcels 8, 9A & 9B) and expanded the permitted uses to allow freight services and accommodate construction of a two-story warehouse and administrative office. Freight service operations to/from Catalina Island were previously handled at Berth 184, site of the former Catalina Freight Company (separate ownership) terminal.

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- Order No 15-7180, effective September 22, 2015, allowed a sublease by CCE to Avalon Freight Services, LLC (AFS), for the portion of the premises used for freight operations. The AFS LLC members consist of CCE President Greg Bombard and Franco Harley.
- The Third Amendment, effective April 1, 2016, added Parcels 10-13 for use by the AFS freight business.

Under Section 5.3.2, a five-year compensation reset for fixed minimum compensation on all parcels is due as of July 25, 2019 for the five-year period through July 24, 2024.

P897 Area Totals (s.f.)	Land	Water	Easement	Total Area
CCE Parcels 1-7	74,847	113,094	-	187,941
AFS Parcels 8-9B	29,287	-	26,155	
AFS Parcels 10-13	6,437	-	26,444	
Avalon Freight	35,724	-	52,599	88,323
Total Permit Area	110,571	113,094	52,599	276,264
(Acres)	2.54	2.60	1.21	6.34

Current Compensation: Current annual rent for all parcels totals \$322,446 (\$26,870 monthly). Payment of percentage rent for all parcels, and CPI increases for parcels 1 through 7, are not effective until July 25, 2023, pursuant to the First, Second, and Third Amendments. Parcels 8-13 are subject to annual CPI increases.

Proposed Compensation: Under the proposed Order (Transmittal 3), the negotiated annual fixed minimum rent is calculated based upon a starting land value of \$42.00/s.f. prior to discounts and impairments, (b) the Board's 10 percent rate of return requirement; and (c) comparable adjustment methodology per parcel as negotiated in P897 and its amendments. Rent for Parcel Numbers 3 and 6 (submerged) was not charged until this compensation reset (see attached Transmittal 2 - P897 Compensation Reset Methodology for a breakdown of both the original and proposed rents per parcel). The proposed fixed minimum rent will be \$512,851 per year (\$42,738 per month).

P897 Totals	Current Annual Rent	Proposed Annual Rent	Annual Increase	Percent Increase
Total CCE Parcels 1-7	\$ 128,484.00	\$ 299,691.00	\$ 171,207.00	133.3%
AFS Parcels 8-9B	\$ 142,005.84	\$ 154,391.40	\$ 12,385.56	8.7%
AFS Parcels 10-13	\$ 51,955.92	\$ 58,768.20	\$ 6,812.28	13.1%
Total AFS Parcels 8-13	\$ 193,961.76	\$ 213,159.60	\$ 19,197.84	9.9%
Total P897 Parcels 1-13	\$ 322,445.76	\$ 512,850.60	\$ 190,404.84	59.1%

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ENVIRONMENTAL ASSESSMENT:

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

FINANCIAL IMPACT:

Approval of this Order setting compensation under Permit No. 897 for the five-year period of July 25, 2019 through July 24, 2024 will increase compensation to \$512,851 per year (\$42,738 per month), an increase of \$190,405 per year from current rent of \$322,446 per year. Proposed compensation will meet the Board's policy rate of return for land.

CITY ATTORNEY:


The proposed Order was prepared and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Site Map
2. Compensation Reset Methodology
3. Order


MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate

FIS Approval: MB
CA Approval: MB


MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:


FOR

EUGENE D. SEROKA
Executive Director

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