



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JANUARY 31, 2017

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - ORDER RESETTING
COMPENSATION UNDER CONCESSION AGREEMENT NO. 517 WITH
CABRILLO BEACH YACHT CLUB**

SUMMARY:

Staff requests approval of the Order resetting compensation for the five-year period effective May 21, 2016 and adjusted annually thereafter through May 20, 2021 to reflect increases in the Consumer Price Index (CPI) for Concession Agreement No. 517 (CA 517) with Cabrillo Beach Yacht Club (CBYC). CA 517 is for the operation and maintenance of a yacht club center with small vessel dry storage and is located in San Pedro. The proposed Order recommends fixed minimum rent to be reset at \$19,215 per month, with percentage rents for income from various categories remaining the same.

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(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Order resetting compensation with Cabrillo Beach Yacht Club for the period of May 21, 2016 through May 20, 2021;
3. Authorize the Board Secretary to attest to the Order resetting compensation; and
4. Adopt Resolution No. _____ and Order No. _____.

DISCUSSION:

Background – CBYC was originally granted CA 517 for a 30-year term, commencing May 21, 1986 through May 20, 2016. The Third Amendment to CA 517, approved by City Council at its meeting of August 19, 1998, granted an increase in land and water area for the purposes of constructing a dry recreational boat storage, youth sailing program and boat launch/retrieval facility with a corresponding extension of the term to September 23, 2028. The additional 12 years was granted upon the effective date of the amendment in recognition of the project construction costs that were financed by CBYC, and for the activities and services provided by the yacht club to Cabrillo Marina and the boating community.

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The current leasehold premises (Transmittal 1) consist of 133,326 square feet (s.f.) of land area (3.06 acres) and 270,583 s.f. of water area (6.21 acres). As required by the terms and conditions of CA 517, and in compliance with Section 607 of the City Charter, it is necessary to reset compensation for the five-year period from May 21, 2016 through May 20, 2021. The delay in resetting the compensation was due to City of Los Angeles Harbor Department (Harbor Department) staff changes, and ongoing discussions with the tenant about their future business objectives.

The proposed fixed minimum rent is the greater of two amounts:

1. The prior year's fixed minimum rent adjusted by CPI; or
2. The amount derived using the Economic Performance Methodology (EPM) which is 75 percent of the three most recent years' total percentage rent.

CPI is the Consumer Price Index for All Items, All Urban Consumers (CPI-U) for the Los Angeles-Riverside and Orange Counties. The annual adjustment is calculated by multiplying the prior year's annual fixed minimum rent by the CPI of the current year, and then dividing it by the CPI of the prior year (adjusted annual Fixed Minimum Rent = annual Fixed Minimum Rent x (CPI March 20CY (CY=Current Year) / CPI March 20PY (PY=Prior Year)). The EPM is widely used as the standard for establishing minimum rent among several Southern California marinas within municipal harbors, including the Harbor Department's marinas.

Current Compensation – On June 24, 2010, the Board approved Order No. 11-7078 establishing the compensation for the three five-year periods from May 21, 2001 to May 20, 2016. Compensation under CA 517 is based upon both a fixed minimum rent, plus any percentage of gross receipts (percentage rent) that exceeds the fixed minimum rent. Percentages of gross receipts comprise the cumulative percentage revenue totals from various CBYC operations.

Fixed minimum rent is currently \$18,894 per month (\$226,730 annually), based on the May 21, 2011 monthly amount of \$18,098 (\$217,173 annually), set in Order No. 11-7078, and increased by CPI each year thereafter. During the last three years, CBYC consistently exceeded its fixed minimum rent, averaging \$24,751 per month, or \$297,011 annually.

Proposed Compensation – Beginning May 21, 2016, it is proposed that the fixed minimum rent be set at \$19,215 per month, derived by adjusting last year's fixed minimum rent by the applicable CPI of 1.7 percent. Percentage rent is proposed to remain the same for all categories. The fixed minimum rent shall be adjusted annually, for inflation using the March CPI, beginning on May 21, 2017.

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	Prior Year's Fixed Minimum Rent	Fixed Minimum Rent Comparison		Proposed Fixed Minimum Rent starting May 21, 2016
		Prior Year's Fixed Minimum Rent adjusted by CPI (1.7 %)	75% of Average Annual Rent (\$297,011) paid during last Three Years	
Annual	\$ 226,728	\$ 230,580	\$ 222,758	\$ 230,580
Monthly	\$ 18,894	\$ 19,215	\$ 18,563	\$ 19,215

Proposed 2016 Percentage Rent (No Change)			
Slips & Mooring	25%	Bait & Tackle Sales	3.5%
Dry Boat Storage	20%	Rental Office Space	10%
Room Rentals	7%	Retail sales	3%
Food & Beverages	5%	Commission	25%
Boat Sales	1%	Vending Machines	5%
Insurance Brokerage	10%	Other	5%

Staff requests that the Board approve the proposed Order (Transmittal 2) to set compensation under CA 517 for the period of May 21, 2016 through May 20, 2021.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order resetting compensation under CA No. 517 with CBYC, which is an administrative activity. As such, 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(f), of the City of Los Angeles CEQA Guidelines.

FINANCIAL IMPACT:

The proposed Order resetting the fixed minimum rent is effective May 21, 2016 through May 20, 2021. Starting on May 21, 2016, the minimum annual amount will increase by 1.7 percent from \$226,730 to \$230,580, and will adjust annually in line with CPI with a floor of zero and no ceiling on CPI escalations. Because the tenant's total compensation paid based on percentage of gross receipts has consistently exceeded the fixed minimum amount due, the proposed increase in the fixed minimum compensation is not expected to have a financial impact on the Harbor Department assuming the tenant's business operations continues to perform at least as well as it has in the recent past.

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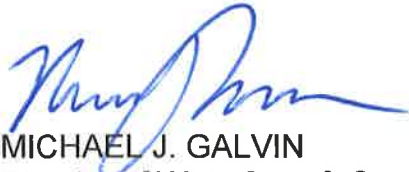
CITY ATTORNEY:

The Order resetting compensation under CA 517 has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Site Map
- 2. Proposed Order

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



MICHAEL J. GALVIN
 Director of Waterfront & Commercial Real Estate



MICHAEL DiBERNARDO
 Deputy Executive Director

APPROVED:

For 
 EUGENE D. SEROKA
 Executive Director

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