



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

DATE: FEBRUARY 19, 2013

FROM: REAL ESTATE

SUBJECT: ORDER NO. _____ - PROPOSED EIGHTH AMENDMENT TO PERMIT NO. 520 WITH LA SKY HARBOR, LLC.

SUMMARY:

Permit No. 520 grants use of City of Los Angeles Harbor Department (Harbor Department) land at Cabrillo Marina for constructing, operating and maintaining facilities for hotel, dinner and convenience restaurants, banquet facilities, rental of office space, general retail sales, and for purposes incidental thereto.

Pending consent by the Board of Harbor Commissioners (Board) to the "Assignment and Assumption of Permit No. 520 from San Pedro Ownership, Inc., DBA Doubletree Hotel San Pedro (SP Ownership) to LA Sky Harbor, LLC.," concurrently being proposed in a separate Board report, LA Sky Harbor, LLC. (LASH) will become the Tenant of record for Permit No. 520.

The Proposed Eighth Amendment to Permit No. 520 will require the Tenant to complete all obligations, including the scope of work in the Product Improvement Plan, as required by Hilton Worldwide Corporation for licensing to operate the property as a Doubletree by Hilton hotel and to continue operating the hotel on the premises as a Doubletree by Hilton or a hotel of similar or better quality, as determined by the Harbor Department's Executive Director. Except as amended by the proposed Eighth Amendment, all terms and conditions of Permit No. 520 shall remain in full force and effect.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the proposed Eighth Amendment to Permit No. 520;
2. Direct the Board Secretary to transmit the proposed Eighth Amendment to Permit No. 520 to the City Council for approval pursuant to Section 606 of the City Charter;

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3. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Eighth Amendment for and on behalf of the Board of Harbor Commissioners upon approval by the City Council; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – The Board adopted Order No. 5046 on June 19, 1985 approving 50-year Permit No. 520 covering approximately seven acres of land for the purpose of constructing, operating and maintaining facilities for hotel, dinner and convenience restaurants, vessel brokerage, insurance brokerage, banquet facilities, sale of marine hardware, supplies and equipment, rental of office space, general retail sales and for purposes incidental thereto. The premises (Transmittal 1), located at 2800 Villa Cabrillo Marina, San Pedro, is improved with a 226-room hotel, restaurant, swimming pool, tennis courts, non-exclusive parking and related commercial facilities. All improvements are owned and maintained by the tenant.

Permit No. 520 has been amended and assigned on numerous occasions, whereby the most recent Board action occurring on December 6, 2012, wherein the Board adopted Order No. 12-7117 resetting compensation for the period January 24, 2012 through January 23, 2017. Rental compensation terms will remain as agreed upon for the proposed new tenant.

Consistent with the Seventh Amendment to Permit No. 520 which, in part, permitted the assignment of Permit No. 520 to SP Ownership and required SP Ownership to complete the scope of work identified in their Product Improvement Plan and obtain licensing to operate the hotel as a Doubletree by Hilton. Staff proposes and recommends approval of the Eighth Amendment to Permit No. 520 (Transmittal 2), which will require LASH to perform all obligations as required by Hilton Worldwide Corporation to maintain licensing including, but not limited to completing, all the property improvements as identified in the attached Product Improvement Plan (Transmittal 3); The Eighth Amendment also updates the Use provision of the Permit (Section 5(b)) to reflect the current use of the Premises. Tenant will be required to operate the facility as a Doubletree by Hilton or other hotel of similar or better quality as determined by the Harbor Department's Executive Director. If the permit is terminated, all improvements to the Premises shall remain part of the Premises without any reimbursement.

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LASH has received conditional approval (Transmittal 4) from Hilton Worldwide to continue operating the hotel as a Doubletree by Hilton branded property. Additionally, LASH has committed, over the next two years, to invest at least two million dollars in renovations and upgrades which are identified in the Product Improvement Plan (Transmittal 4). The proposed renovations and upgrades may include, but are not limited to exterior repair; landscaping; parking lot repair and resurfacing; building repair; complete guest room renovation, including new furniture, carpet, wall coverings, bedding and guestroom bathroom upgrades; dining and lounge area renovations; upgrading the tennis courts and pool area; and refinishing of the ballroom and meeting rooms. It is anticipated that these renovations and upgrades will significantly improve the appearance, operating performance and profitability of the hotel.

ENVIRONMENTAL ASSESSMENT:

The proposed action is an Amendment to Permit No. 520 which will require the tenant to complete approximately \$2,000,000 of interior and exterior improvements, as detailed in a Product Improvement Plan, over a period of two years. These improvements may include, but are not limited to, exterior repair, landscaping, parking lot repair and resurfacing, building repair, guest room renovation, dining and lounge area renovations, upgrading the tennis courts and pool area, and refinishing of the ballroom and meeting rooms. As an activity involving interior and exterior alterations involving remodeling and minor construction where there be negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III Class 1 (1) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed Amendment will have no employment impact. Renovations and upgrades associated with this Amendment are anticipated to support to approximately 18 construction jobs.

FINANCIAL IMPACT:

Approval of the Eighth Amendment will have no impact on Harbor Department spending. The cost of the required hotel renovations will be funded with debt and equity provided through LASH. It is expected that the completion of the PIP will increase the value of the improvements and result in greater revenue to the Harbor Department. Compensation payable to the Harbor Department will not change as a result of the proposed Eight Amendment. Annual minimum rent payable to the Harbor Department is \$170,724. Ongoing operating and maintenance costs associated with the subject property will continue to be fully borne by the permit holder.

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CITY ATTORNEY:

The Office of the City Attorney has approved the Eighth Amendment and Board Order (Transmittal 5) as to form and legality.

TRANSMITTALS:

1. Site Map
2. Eighth Amendment to Permit No. 520
3. Product Improvement Plan
4. Hilton Worldwide Letter
5. Order

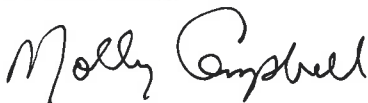
FIS Approval: *ef* (initials)
City Attorney: *gmc* (initials)

for

JACK C. HEDGE
Director of Real Estate


KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:

for

GERALDINE KNATZ, Ph.D.
Executive Director

JCH:CW:KS:mnm
Author: K. STANBERRY
BL434mnm LA Sky Harbor 8th Amend