



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: FEBRUARY 17, 2017

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE FOURTH AMENDMENT TO PERMIT NO. 724 WITH LOS ANGELES YACHT CLUB

SUMMARY:

Staff requests approval of the Fourth Amendment to Permit No. 724 (Permit) between Los Angeles Yacht Club (LAYC) and the City of Los Angeles Harbor Department (Harbor Department) for the operation and maintenance of structures and facilities for a yacht club and small vessel dry storage area located in San Pedro. The Permit has a 30-year term that commenced on March 4, 1993 and will expire on March 3, 2023. The proposed amendment revises the premises, requires that all future rent be subject to annual Consumer Price Index (CPI) increases, incorporates updated permit assignment language into the agreement, and extends the term of the existing Permit by an additional 20 years.

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 III Class 1(14) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Find the Amendment and its terms are in the best interest of the City and approve the Fourth Amendment to Permit No. 724 with Los Angeles Yacht Club;
3. Direct the Board Secretary to transmit the Fourth Amendment to Permit No. 724 to City Council for approval pursuant to Charter Sections 606 and 607 of the City Charter;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the Fourth Amendment to Permit No. 724 upon approval by City Council; and
5. Adopt Resolution No. _____.

SUBJECT: FOURTH AMENDMENT TO PERMIT NO. 724 WITH LAYC

DISCUSSION:

Background – LAYC has a 115-year history in the Port of Los Angeles (Port). As the oldest yacht club and tenant within the Port (operating since 1901), LAYC was originally located on Terminal Island. Due to the location of the yacht club within a heavy industrial area on Terminal Island, and at the Harbor Department's request, LAYC relocated to their current premises in San Pedro in March 1993. The current premises lacks direct water access and boating slips, which significantly impacts LAYC's ability to compete with local yacht clubs and creates an obstacle to continued growth of the club at the current location.

The Permit grants LAYC the use of Harbor Department land consisting of approximately 15,687 square feet (s.f.) for the construction, operation, and maintenance of a yacht club center with small vessel dry storage in San Pedro (Transmittal 1). A small portion of the premises (200 s.f.) is provided at no charge for a flag pole pedestal to display the American flag. All improvements are owned and maintained by the Tenant.

LAYC focuses on cruising and racing sailboats. It also sponsors a series of annual and biannual regattas such as the Harbor Cup, Mercury Regatta, and Opening Day Race. These events attract entrants from all over the Southern California area to the LA Waterfront. Its youth sailing programs are open to the public and have been very successful for many years in providing water access and professional training to youth.

The First Amendment to the Permit allowed LAYC to rent boating slips from neighboring marinas. The Second Amendment, in part, provided an increase in the rentable land area from 12,500 square feet to 28,550 square feet, and added 2,200 square feet of water area. This was done in anticipation of constructing a small boat storage facility, with an adjoining water area for launching and retrieving small boating vessels. The construction and use of the area did not occur as anticipated. An additional 200 s.f. for the installation of a flag pole, which was installed and is currently in use, was added by the Third Amendment.

Summary of Fourth Amendment:

- 1) Accurately identifies the premises leased to LAYC by including Harbor Engineering Drawing No. 2-2418-1 Revision 2 (Revision 2) in the Permit as the current premises map (Transmittal 2). The revised map and amendment acknowledge existing, nonexclusive use and sharing of additional parking areas necessary to comply with legal parking requirements.
- 2) Permanently includes an annual CPI adjustment requirement to the Permit, which requires annual positive adjustments to the Minimum Monthly Rent paid by LAYC. On November 23, 2015, the Board adopted Order No. 15-7182, which established compensation under the Permit for the 2013–2018 compensation period on a graduated annual scale ranging from \$2,455 per month in 2013 to \$2,890 per month in 2015, then adjusted by the CPI annually for the remainder of the compensation period. Adding the annual CPI adjustment provision provides for the permanent inclusion of such adjustments for the remaining term of the

SUBJECT: FOURTH AMENDMENT TO PERMIT NO. 724 WITH LAYC

Permit and all future compensation reset adjustments. The next compensation reset will occur in 2018, and compensation resets will continue to occur every five years thereafter as required by the Permit.

- 3) Add a provision that allows the Board the authority to consent to the Tenant's request to transfer its interest on a case-by-case basis. This proposed language is now a standard provision of current term permits. Currently, the Permit expressly prohibits the transfer of any economic interest the Tenant might have in the Permit or the improvements. Therefore, it is proposed that the Fourth Amendment include the standard provision allowing the tenant to assign or transfer its economic interest upon Board approval and subject to LAYC relocating its yacht club within the Harbor District. Additionally, the updated transfer language includes a condition precedent to a transfer requiring that any consent to transfer is conditioned on LAYC entering into a new permit for premises in the Harbor District for the operation of a yacht club.
- 4) Extend the Permit by an additional 20 years; thus, the entire term will be equal to a total of 50 years. There are approximately seven years remaining on the current term of the Permit. An extension of the Permit recognizes the investment already made by LAYC, and helps to ensure that this existing recreational operation remains a vibrant supporting element to the transformation of the San Pedro Waterfront into a visitor-serving waterfront destination. The proposed extension of term provides LAYC financial security as they plan for the future of the club. The extended term provides security for renewed investment or the financial basis to monetize their current investment in the existing premises in order to construct a new yacht club within the Port. This Fourth Amendment does not authorize any new construction, as any construction will be requested separately.

All other terms and conditions of the Permit remain unchanged.

Use of the subject property as a yacht club is consistent with the Port Master Plan, which emphasizes that preference be given to public recreation and recreational boating facilities within the West Channel/Cabrillo Beach area where the improvement is located.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an amendment to Permit No. 724 between LAYC and the Harbor Department for the operation and maintenance of an existing yacht club, compensation adjustment, and a 20-year permit extension. There are no physical changes or improvements being proposed at this time. As an activity involving the amendment of any lease or 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 the California Environmental Quality Act (CEQA) in accordance with Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

SUBJECT: FOURTH AMENDMENT TO PERMIT NO. 724 WITH LAYC

FINANCIAL IMPACT:

Approval of the Fourth Amendment (Transmittal 3) to the Permit will extend the current 30-year term (with approximately seven years remaining) an additional 20 years to reflect a total of 50 years, the maximum term length allowed under the City Charter. The additional term length will allow LAYC to more equitably amortize its current and any further improvements, subject to Board approval.

The Fourth Amendment permanently memorializes annual CPI increases into the Permit through the end of the lease term, along with compensation resets every five years. The proposed compensation is expected to conform to the Board's ten percent rate of return policy on land.

The current five-year compensation period has one-year remaining. Assuming a 1.02 percent CPI adjustment for March 2017, the monthly compensation is expected to increase by \$29.90, from \$2,949.42 to \$2,979.32.

CITY ATTORNEY:


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

TRANSMITTALS:

- 1. Site Map
- 2. Engineering Drawing 2-2418-1 Revision 2
- 3. Fourth Amendment

FIS Approval: MB (Initials)
CA Approval: JMG (Initials)


 MICHAEL J. GALVIN
 Director of Waterfront & Commercial Real Estate


 MICHAEL DiBERNARDO
 Deputy Executive Director

APPROVED:

 EUGENE D. SEROKA
 Executive Director