

DATE: AUGUST 5, 2021

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE PERMIT NO. 954 WITH
PACIFIC CRANE MAINTENANCE COMPANY, LLC**

SUMMARY:

Staff requests approval of Permit No. 954 (Permit) between Pacific Crane Maintenance Company, LLC (PCMC) and the City of Los Angeles Harbor Department (Harbor Department). The Permit allows PCMC to occupy 534,913 square feet (12.28 acres) of unpaved land and 15,083 square feet of garage/office area (549,996 square feet in total) at 895 Reeves Avenue, Terminal Island, to operate a chassis depot facility.

The term of the proposed Permit would commence on the effective date, and expire on July 31, 2027, subject to three successive five-year extensions exercisable by PCMC. Assuming an effective date of November 1, 2021, the Permit will yield \$2,019,995.44 in the first year, followed by a step increase of 10.1 percent effective July 1, 2022. Annual Consumer Price Index (CPI-U) adjustments of no less than 2 percent would be effective July 1, 2023, and every July 1 thereafter.

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 has been previously evaluated pursuant to the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(i) of the Los Angeles City CEQA Guidelines;
2. Authorize the Environmental Management Division to file a Notice of Determination with the Los Angeles County Clerk and the Los Angeles City Clerk;
3. Approve Permit No. 954 with Pacific Crane Maintenance Company, LLC;
4. Direct the Board Secretary to transmit Permit No. 954 to the City Council for approval pursuant to Section 606 of the Charter;

DATE: AUGUST 5, 2021

PAGE 2 OF 6

SUBJECT: APPROVE PERMIT NO. 954 WITH PACIFIC CRANE MAINTENANCE COMPANY, LLC.

5. Authorize the Executive Director to execute and the Board Secretary to attest to Permit No. 954 upon approval by City Council; and
6. Adopt Resolution No. _____.

DISCUSSION:

Background - The proposed Permit arises from a December 2017 Request for Proposal for the operation of a chassis depot and/or chassis repair/maintenance facilities for four separate sites. In April 2018, the Harbor Department selected PCMC as the successful proposer for two sites: (1) Former Naval Reserve Site located at 895 Reeves Avenue, Terminal Island, and (2) Berths 206-209 Container Freight Station (CFS) Warehouse located at 849 New Dock Street, Terminal Island. The proposed Permit is for the premises located at 895 Reeves Avenue, also known as the former Naval Reserve training site.

The chassis depot operation contemplated under the proposed Permit will support operations at container terminals on Terminal Island.

Proposed Site Improvements: The proposed premises were formally owned by the Federal government for use as a Naval Reserve Training Center site and have limited utility for industrial use. The current configuration of landscaped islands, curbs, and the former commissary foundation create restrictions to the efficient use of the site. Paving is severely eroded in most areas and has exceeded its useful life due to its prior uses as a drayage yard and/or chassis repair facilities. Further, the infrastructure supporting the site is over 30 years old. As such, extensive improvements are required to configure the site for an efficient maritime-related operation that will assist in accelerating cargo movement.

The proposed improvements, which were cost audited by Harbor Department Engineering staff for reasonableness, contemplate removal of specific planters and curbs to allow for more efficient use of the land, as well as improving circulation and throughput in and out of the site. Paving will be resurfaced, and failures repaired. Additionally, improvements include yard electrical distribution upgrades, replacement of damaged/inoperative and obsolete on-site lighting, and installation of perimeter fencing and pavement striping to enhance tractor trailer movement within the premises for overall efficiency.

SUBJECT: APPROVE PERMIT NO. 954 WITH PACIFIC CRANE MAINTENANCE COMPANY, LLC.

The lapse of time between 2018 selection process and today’s action is primarily due to two key factors. First, the Harbor Department required a reduction in the premises following selection of PCMC in order to accommodate the Pier 400 railway expansion project, i.e., removing approximately sixty feet from the entire eastern edge of the site for track (1.1 acres), and removal of 1.25 acres for the project’s laydown area. Second, during initial negotiations, PCMC designed the project under a larger scope that included demolition of all but one of the remaining structures on the site, grading, complete repaving, new drainage, and replacement of all site lighting which would have cost approximately \$19 million. To minimize costs and potential rent credits, staff later requested that the project be scaled back and the property be used mostly in its current state to the extent possible. PCMC subsequently redesigned the project which reduced the project cost from \$19 million to \$1.725 million . An additional rent credit in the amount of \$241,908.26 will be made available to PCMC for the initial design costs associated with the larger redevelopment project, for a total aggregate rent credit of \$1,966,908.26.

Material terms of the Permit (Transmittal 1) are as follows:

<u>Provisions</u>	<u>Description</u>
Real Estate Entitlement	Permit
Permitted Use	Chassis support activities (i.e. receive, dispatch, store, repair and maintain chassis in conformance with Federal Motor Carrier Safety Administration’s road ability rules and regulations)
Term Extension Options	<ul style="list-style-type: none"> - <u>Initial Term</u>: Initial term would commence on the effective date and terminate on July 31, 2027, unless otherwise 1) terminated early per the terms of the Permit, or 2) extended, pursuant to the terms of the Permit. - <u>Extension Term</u>: PCMC would have three successive options to extend the term of the Permit. Each option is for a five-year period and must be exercised, if at all, by written notice delivered to Harbor Department by PCMC not later than 30 months prior to the expiration of the then current term of the Permit (Exercise Date). <p>Tenant may exercise such options provided (a) PCMC has made a payment to the Harbor Department of ten percent (10%) of the estimated annual base rent of the first year of each option period on the Exercise Date and (b) the Harbor Department determines that PCMC is in good-standing, as defined in the Leasing Policy of the Harbor Department.</p>

SUBJECT: APPROVE PERMIT NO. 954 WITH PACIFIC CRANE MAINTENANCE COMPANY, LLC.

<p>Premises (See Transmittal No. 1)</p>	<p>Total Land Area: 534,913 sf (12.28 Acres) Total Office/Garage Area: 15,083 sf Total Premises Area: 549,996 sf (12.62 acres)</p>																	
<p>Tenant Improvement Scope</p>	<p>The scope of tenant improvements (Approved Tenant Improvements) includes the following:</p> <ol style="list-style-type: none"> 1. Asphalt paving 2. Electrical distribution 3. Lighting replacement/improvements 4. Removal of curbs, and other improvements obstructing circulation 5. Installation of perimeter fencing 																	
<p>Rent for Initial Five Years of Term (Assumes November 1 Effective Date)</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Period</u></th> <th style="text-align: right;"><u>Rent</u></th> </tr> </thead> <tbody> <tr> <td>Nov 1, 2021 to June 30, 2022</td> <td style="text-align: right;">\$1,302,754.32</td> </tr> <tr> <td>July 1, 2022 to June 30, 2023</td> <td style="text-align: right;">\$2,151,723.36</td> </tr> <tr> <td>July 1, 2023 to June 30, 2024¹</td> <td style="text-align: right;">\$2,218,087.73</td> </tr> <tr> <td>July 1, 2024 to June 30, 2025¹</td> <td style="text-align: right;">\$2,284,473.44</td> </tr> <tr> <td>July 1, 2025 to June 30, 2026¹</td> <td style="text-align: right;">\$2,350,880.89</td> </tr> <tr> <td>July 1, 2026 to October 31, 2026¹</td> <td style="text-align: right;"><u>\$ 805,770.18</u></td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: right;">\$11,113,689.92</td> </tr> </tbody> </table> <p>¹Rent increases by >2% or CPI</p>		<u>Period</u>	<u>Rent</u>	Nov 1, 2021 to June 30, 2022	\$1,302,754.32	July 1, 2022 to June 30, 2023	\$2,151,723.36	July 1, 2023 to June 30, 2024 ¹	\$2,218,087.73	July 1, 2024 to June 30, 2025 ¹	\$2,284,473.44	July 1, 2025 to June 30, 2026 ¹	\$2,350,880.89	July 1, 2026 to October 31, 2026 ¹	<u>\$ 805,770.18</u>	Total	\$11,113,689.92
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<p>Rent Adjustments</p>	<p>Rent adjustments comprise the following:</p> <ul style="list-style-type: none"> - Fixed Rate adjustment effective July 1, 2022. - Annual CPI-U adjustment effective July 1, 2023 and every July 1 thereafter (min. 2%). - Five-year rental rate adjustment in furtherance of City Charter Section 607(b). Compensation resets will take into account that the Harbor Department owns all improvements that were reimbursed through rent credits for the purpose of determining fair market value. 																	

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Tenant Improvement Credit	Tenant will be entitled to an adjustment, in the form of an offset to rent, in the amount equal to the Tenant's actual costs, excluding markup, directly incurred and paid by Tenant only, for Approved Tenant Improvements, in an amount not to exceed \$1,966,908.26.
Maintenance	Tenant is responsible for maintaining the premises and all improvements, at its sole cost and expense.
Insurance	Insurance provision includes all standard insurance requirements.
Security Deposit	Two months' rent in the form of a letter of credit or cash.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a Permit with PCMC to perform site improvements and operate a chassis depot facility at 895 Reeves Avenue, which is an activity for which the underlying project has been previously assessed in the PCMC Chassis Repair and Storage Facility Project Final Initial Study/Negative Declaration (SCH # 2020019025), which was certified by the Board on April 2, 2020. Therefore, the Director of Environmental Management has determined that the proposed action has been previously evaluated pursuant to the requirements of CEQA in accordance with Article II Section 2(i) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the Permit will allow PCMC to occupy 534,913 square feet of land and 15,083 square feet of garage/industrial office over the proposed term and, assuming a November 1, 2021 effective date, will generate rent of \$2,019,995.44 in the first year and \$2,173,844.82 in the second year, with annual CPI increases thereafter. Assuming a minimum CPI of 2 percent in years 3 through 5, total rent is expected to be no less than \$11,113,689.92 before rent credits in the first five years. Net revenue after rent credits would be no less than \$9,146,781.66 in the same five-year period. Staff has determined that the proposed terms meet the Harbor Department's target rates of return on land and improvements, as provided within the Port of Los Angeles Leasing Policy.

Under the proposed Permit, PCMC would be eligible to receive up to \$1,966,908.26 in rent credits for costs incurred by PCMC to replace paving and striping, remove islands and curbs, and replace the site lighting, which will all have a useful life beyond the term of the proposed Permit. Paving and curb/island removal will add value to the land, as the current condition has had a negative effect on the value of the land within the Reeves site.

DATE: AUGUST 5, 2021

PAGE 6 OF 6

SUBJECT: APPROVE PERMIT NO. 954 WITH PACIFIC CRANE MAINTENANCE COMPANY, LLC.

CITY ATTORNEY:

Permit No. 954 has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Site Map
2. Permit No. 954

FIS Approval: *JAS*
CA Approval: *JAS*

Marisa L. Katnich
MARISA L. KATNICH
Director, Cargo & Industrial Real Estate

Michael DiBernardo
MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:

Eugene D. Seroka
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Executive Director

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Author: Tom Patton
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