



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: OCTOBER 30, 2013

FROM: EXECUTIVE OFFICE

**SUBJECT: ORDER NO. _____ - APPROVE LEASE WITH ROCKEFELLER
PHILANTHROPY ADVISORS, INC. WITH SUBSEQUENT LEASE
ASSIGNMENT TO THE CALIFORNIA NONPROFIT PUBLIC BENEFIT
CORPORATION KNOWN AS ALTASEA AT THE PORT OF LOS
ANGELES FOR DEVELOPMENT OF AN URBAN MARINE RESEARCH
CENTER AT CITY DOCK NO. 1**

SUMMARY:

In May 2012, the Board of Harbor Commissioners (Board) acted to support the development of an independent California nonprofit corporation with the capabilities to develop and implement an urban marine research center at the Port of Los Angeles (Port) City Dock No. 1 site and authorized the Executive Director to initiate lease discussions with such entity.

It is recommended that the Board approve Lease No. 904 (Lease) with Rockefeller Philanthropy Advisors, Inc. (RPA), with subsequent Lease assignment to AltaSea at the Port of Los Angeles (RPA/AltaSea or Tenant) required, which grants use of up to 35.62 acres of City of Los Angeles Harbor Department (Harbor Department) property, including 4,510 linear feet of water frontage, for development and use as an urban marine research center (Research Center), including a public promenade and interpretive center. The proposed Lease has a 50-year term. The Lease requires RPA/AltaSea to develop each major property parcel, with an RPA/AltaSea preliminary conceptual design total for all parcels currently estimated at \$549 million and a minimum investment requirement for all parcels of \$408 million. The Lease requires the Harbor Department to perform Berth 57 wharf and ground improvements at an estimated cost of \$57 million. Similar Harbor Department improvements to Berths 58-60, estimated to cost \$152 million, are contemplated in approximately 10-14 years, but are subject to Board approval in the future. The Lease provides for rent credits for Tenant costs of redevelopment of the historic Berths 57-60 warehouses and development of the public promenade, which the Tenant can use to offset rental payments. The Lease also establishes requirements for public access and programming free of charge, educational opportunities, and economic development. Due to the unique public/philanthropic/private partnership necessary to redevelop the City Dock No. 1 site into a Research Center, the Lease deviates from the Harbor Department's Leasing Policy in five aspects, including rate of return goals.

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RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find, pursuant to City Charter Section 371(e)(10), that competitive bidding is undesirable for the planned redevelopment of the City Dock No. 1 site due to the public/philanthropic/private partnership that must be developed and sustained over the 15-20 year development period to raise funds required for redevelopment activities and the partnerships that have already been established that are important for creating the collaborative environment important to the success of the Research Center;
2. Find, pursuant to City Charter Section 654(a)(1), that leasing 4,510 linear feet of waterfront to Rockefeller Philanthropy Advisors, Inc., with subsequent Lease assignment to AltaSea at the Port of Los Angeles, is in the best interest of the City of Los Angeles Harbor Department and the City of Los Angeles, due to the development of approximately 625 linear feet of new public waterfront access and the access that will be provided to the government, academic, and business Research Center subtenants;
3. Find, pursuant to City Charter Section 607(a), that a 50-year term for the Lease with Rockefeller Philanthropy Advisors, Inc., with subsequent Lease assignment to AltaSea at the Port of Los Angeles, for redevelopment of the City Dock No. 1 site is in the best interest of the City of Los Angeles Harbor Department and the City of Los Angeles, in consideration of the need to raise substantial capital from many diverse sources and organizations, demonstrate to such sources and organizations the long-term commitment and viability of the facility, and allow the Research Center sufficient time to realize the local, state, and national economic benefits and the other public benefits provided by the Research Center;
4. Find that, in accordance with Section I (15) of the Harbor Department Leasing Policy, it is in the best interest of the City of Los Angeles Harbor Department to charge no rent for the public areas on City Dock No. 1 that will be open free of charge, and developed and operated in conformance with the requirements of Lease No. 904 in consideration of the public and economic benefits associated with such waterfront promenade, interpretive center, and other public areas;

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5. Find that it is in the best interest of the City of Los Angeles Harbor Department to deviate from the following provisions of the Harbor Department Leasing Policy in Lease No. 904 due to the partnership required to redevelop the City Dock No. 1 site into a Research Center and the local, state, and national economic benefits and the other public benefits provided by the Research Center;
 - a. Section II (i): Solicit competitive proposals.
 - b. Section VII, (b): Assignment shall not release the tenant from its obligation under the Lease Agreement.
 - c. Section VIII (1) and (2): Rate-of-Return targets.
 - d. Section XI (1)(a): Security Deposit.
 - e. Section XIV (2): Tenant required to demolish Tenant improvements.
6. Consider the Addendum to the certified Environmental Impact Report prepared for the City Dock No. 1 Marine Research Center Project;
7. Find that, in accordance with the provisions of the California Environmental Quality Act Guidelines Section 15164, the proposed 50-year Lease will not result in any new significant environmental effects or any substantially more severe effects than previously analyzed in the certified Environmental Impact Report;
8. Approve Lease No. 904 with Rockefeller Philanthropy Advisors, Inc., with subsequent Lease assignment to AltaSea at the Port of Los Angeles, as substantially attached;
9. Direct the Board Secretary to transmit Lease No. 904 to the City Council for approval pursuant to Charter Sections 654(a)(1), 606, and 607(a);
10. Authorize the Executive Director to execute and the Board Secretary to attest to Lease No. 904 upon approval by the City Council;
11. Authorize the Environmental Management Division to file a Notice of Determination with the Los Angeles County Clerk, the Los Angeles City Clerk, and the State Secretary of Resources; and
12. Adopt Order No. _____.

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DISCUSSION:

Background/Context

In the early 1900's, in anticipation of increased shipping resulting from construction of the Panama Canal, the Harbor Department completed development of Municipal Pier No. 1, bounded by the Main Channel on the east and the East Channel on the west. Today this site is known as City Dock No. 1 (Transmittal 1). Construction of Warehouses 57-60, which straddle the wharf structure, shortly followed. In the 1920's, the Pan American Petroleum Company initiated development of an oil loading station along the Main Channel side of Municipal Pier No. 1 (Berths 69-71).

Warehouses 57-60 and the associated Berths 57-60 have served many purposes over the past century. However, with the increase in containerized cargo, the need for waterside warehouse space diminished and the facilities became underutilized and were not well maintained. The wharf conditions at Berths 57-60 have degraded such that the load limits for the wharf and the portion of the warehouses that sit on the wharf have been reduced to 100 pounds/square foot and berthing of vessels is largely prohibited due to lateral load concerns.

Berths 69-71 also served many purposes over the intervening years, resulting in contamination of both the soil and groundwater. It is anticipated that remediation of that area will take approximately ten years.

Consistent with the Harbor Department's intent to de-industrialize the San Pedro waterfront area and to create new innovative and sustainable job opportunities, and in consideration of the City Dock No. 1 Historic District and Warehouses 57-60, the Board programmatically approved the use of the City Dock No. 1 site for institutional/research and commercial purposes as part of the San Pedro Waterfront Project Environmental Impact Report (EIR) certification on September 29, 2009. Concurrent with the environmental review of the San Pedro Waterfront Project, the Harbor Department and the Southern California Marine Institute (SCMI) (a consortium of the eight California State University (CSU) campuses, the University of Southern California (USC), Occidental College, and the University of California at Los Angeles (UCLA)), with support from the Annenberg Foundation, and advice and input from area academic and research institutions, local aquariums, business leaders, environmental organizations and community groups in San Pedro and Wilmington, joined together to develop a City Dock No. 1 vision. The City Dock No. 1 urban marine research center project is a result of that effort. A project-level EIR was subsequently prepared in accordance with the requirements of the California Environmental Quality Act (CEQA) for the development and operation of an urban marine research center for a period of 30 years. On October 18, 2012, the Board certified the EIR and approved the City Dock No.1 Marine Research Center Project (ADP#100114-003/SCH#2010121013). As discussed in the Lease Term section below, since Board certification, lease negotiations resulted in a 50-

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year Lease term. This project change was analyzed in an EIR Addendum attached hereto as Transmittal 2 for your consideration.

While there was general excitement about the Research Center, there were concerns regarding the lack of an overarching organizational structure necessary to raise the funds required to develop the project and to fund long-term operational and maintenance needs. The Harbor Department established a Workgroup in early 2012, including Geraldine Knatz, Executive Director, Leonard Aube, Executive Director of the Annenberg Foundation, then Board President Cindy Miscikowski, then Board member Robin Kramer, and then Deputy Mayor Aileen Adams, Office of Strategic Partnerships, to brainstorm on strategies to address the organizational structure concerns. The need to establish a California nonprofit corporation was identified. The nonprofit would be independent from both the Harbor Department and the potential Research Center users and tenants. The nonprofit would raise the significant capital funding required for the Research Center project, coordinate efforts among various users, tenants, and stakeholders, and manage the ongoing Research Center operations. In May 2012, the Board acted to support the development of such an independent California nonprofit corporation, and to initiate lease discussions with such nonprofit corporation. Proposed Lease No. 904 with RPA/AltaSea is a result of that effort.

Tenant RPA/AltaSea

On January 15, 2013, an AltaSea Nonprofit Advisory Cabinet (Advisory Cabinet) was established. The Advisory Cabinet is a precursor to establishment of the AltaSea Board of Trustees. In August 2013, the Advisory Cabinet authorized the filing of the Articles of Incorporation for "AltaSea at the Port of Los Angeles" (filed on August 23rd), and the preparation of applications for nonprofit tax exempt status within the meaning of Section 501(c)(3) of the Internal Revenue Code. The process to achieve full Section 501(c)(3) nonprofit tax exempt status can require up to 18 months. It is currently anticipated that the AltaSea Board of Trustees will be established in late 2013 and that a chief operating officer for the entity will be selected in early 2014.

The Advisory Cabinet has initiated discussions with SCMI, entrepreneurial marine related businesses, and philanthropic entities to participate in the Research Center. In addition, Advisory Cabinet members have met with local and federal legislators to introduce the Research Center project and generate interest related to the various aspects of the project, including adaptive reuse of historic structures, redevelopment, economic development, primary/secondary/graduate/post-graduate education, public education and recreational opportunities, development of sustainable job opportunities, and marine research benefits. The Annenberg Foundation has committed \$25 million to the Research Center project, and it is currently anticipated that the Advisory Cabinet will initiate a capital campaign for the Research Center in early 2014.

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The Advisory Cabinet has engaged RPA as its fiscal sponsor. Therefore, the Lease is initially with RPA, but requires that RPA assign the Lease within the first 12-months of the Lease to AltaSea, which was incorporated for the sole purpose of implementing the Research Center (e.g. leasing, owning, building, managing, programming, operating, marketing, etc.) (see Lease Section 13.9). RPA is an Internal Revenue Service (IRS) 501(c)(3) tax exempt nonprofit and AltaSea can operate as a tax exempt nonprofit upon filing appropriate applications with the IRS, allowing for fund raising, planning, design, and engagement of subtenant activities to proceed immediately. However, the Lease requires that AltaSea must achieve full nonprofit tax exempt status within the meaning of Section 501(c)(3) of the Internal Revenue Code prior to initiation of Tenant or Harbor Department construction responsibilities required under the Lease.

The Lease provides that RPA is released of all liability upon assignment of the Lease to AltaSea. This deviation from the Harbor Department's Leasing Policy and standard practice is recommended in consideration of AltaSea accepting all liability retroactively to the effective date of the Lease upon Lease assignment and the fact that only planning and design activities may take place prior to RPA assigning the Lease to AltaSea.

Since AltaSea is a new entity, the normal Harbor Department due diligence procedures to determine a tenant's ability to comply with the Lease terms, requirements, and conditions, are not applicable. Further, a security deposit, a standby letter of credit, or equivalent is not required in the proposed Lease, which is a deviation from the Harbor Department's Leasing Policy. The Lease addresses the potential risk of AltaSea's yet to be established financial capacity by providing for the phasing of property parcels, with minimum criteria that must be met by AltaSea prior to taking possession of any property parcel(s), including but not limited to, completing development of previous parcels obtained. As a nonprofit focused solely on implementing the Research Center, AltaSea has the unique capacity to raise the capital and operational funding necessary to implement and sustain the Research Center. Further, AltaSea has established partnerships that are important to creating the collaborative environment essential to developing and sustaining a world-class urban marine research facility serving Southern California universities and community colleges, as well as to drawing researchers from around the world and new entrepreneurial businesses. Therefore, consistent with the Board's May 2012 Resolution, it is recommended that the Board find it is in the best interest of the Harbor Department and City of Los Angeles to directly enter into a Lease with RPA/AltaSea, without a competitive process, for the redevelopment of City Dock No. 1 site into a Research Center. It is further recommended that the Board approve the proposed Lease deviations from the Harbor Department's Leasing Policy Section VII (b) (Assignment shall not release the tenant from its obligation under the Lease Agreement) and Section XI (1)(a) (Security Deposit).

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Lease Premises

The proposed Lease premises encompasses Berths 56-60 and 69-71 for a total of 35.62 acres of Harbor Department property, including 24.12 acres of land/wharf/warehouse area, 11.5 acres of water area, and approximately 4,510 linear feet of water frontage. A total of 11 property parcels (Transmittals 3 and 4) can be phased in, at the sole option of the Tenant, over an approximately 30-year period, provided that minimum criteria established in the Lease for each parcel is met. The Harbor Department has control and use of the parcels prior to the Tenant accepting the parcels.

Acceptance of a property parcel requires the Tenant to demonstrate ability to develop and operate the parcel, including demonstration of funding required for construction (for parcels with only Tenant development responsibilities, 50 percent of capital required to complete Tenant development responsibilities is required; for parcels that require Harbor Department development, 75 percent of capital required to complete Tenant development responsibilities is required), operational plans, compliance with non-monetary compensation services and public benefits to be provided by the Tenant, and completion of development of previously accepted property parcels. After accepting a parcel, the Tenant has six years (including the time for construction of any Harbor Department improvements) to complete development. If the Tenant has not accepted any parcels within five years of Lease execution, the Lease automatically terminates. The major property options, timeframes, and Harbor Department and Tenant capital improvement responsibilities are summarized in Transmittal 4.

City Charter Section 654(a)(1), requires that leasing greater than 3,000 linear feet of waterfront to a single entity requires approval by a four-fifths vote of the Board and a two-thirds vote of City Council. Although the Tenant will hold the overarching Lease for the approximately 4,510 linear feet of water frontage, approximately 625 linear feet will be dedicated to a waterfront public promenade area, open to the public free of charge. Further, while the overarching Lease will be with the Tenant, many other entities will have access and use of the property. During the operational phase of the Research Center, other than fundraising and managing the public spaces and joint infrastructure facilities, such as the saltwater system, the Tenant will largely act as a property manager, entering into subleases with: 1) academic, governmental, nonprofit and for profit marine research and educational entities; 2) marine-related, water-dependent business incubator and/or accelerator businesses; and 3) marine-related, water-dependent businesses testing or developing new technologies and products or performing ocean, weather and greenhouse gas monitoring and research activities. Accordingly, the waterfront frontage included in the Lease will effectively be accessible to many entities, with the Tenant filling the role of managing the important water frontage resources within the City Dock No. 1 redevelopment site in the most efficient and collaborative manner feasible. Therefore, it is recommended that the Board find

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that the leasing of approximately 4,510 linear feet of water frontage for the Research Center is in the best interest of the Harbor Department and the City of Los Angeles.

Lease Term

The proposed Lease Term is for 50 years. City Charter Section 607(a) requires that City Council approve, by a two thirds-vote, lease terms that exceed 30 years. The proposed 50-year Lease term is fundamental to the ability of Tenant to successfully obtain the significant philanthropic donations necessary for redevelopment of the site. As discussed above, the Tenant will largely be acting as a property manager, thus the premises will be available to many users over the proposed 50-year Lease term. Further, the Harbor Department retains control and use of the parcels prior to the Tenant accepting the parcels. Therefore, it is recommended that the Board find that a lease term of 50 years is in the best interest of the Harbor Department and the City of Los Angeles.

Subleasing

The Lease allows, without any further Board review, the Tenant to sublease to SCMI, California colleges or universities, or any state or federal agency for a maximum of a ten-year period. The Tenant may submit a five-year sublease template for Board consideration for use at all facilities for other types of subtenants. Further, the Tenant may also submit a business incubator/accelerator plan for Board consideration that provides for subleases with various terms based upon business type.

Naming Rights

In consideration of the Harbor Department's direct investment in the premises, the "Port of Los Angeles" must be included in overall City Dock No. 1 facility name. (e.g. AltaSea at the Port of Los Angeles). The Tenant is required to follow City of Los Angeles policy/practice for naming rights on behalf of large donors. Naming of the public promenade is prohibited, unless approved by Board.

Redevelopment and Investment Requirements

The proposed Lease provides the ability to leverage Harbor Department funding capabilities with those of the Tenant to develop a Research Center, extend the waterfront public promenade, and redevelop the historic Warehouses 57-60. The proposed Lease requires that the Harbor Department construct certain improvements and provide rent credits to the Tenant for development that is typically the responsibility of the Harbor Department, such as the redevelopment of historic Warehouses 57-60 and public promenade areas. The Lease also requires the Tenant to construct certain improvements and establishes minimum Tenant capital investment requirements. The Tenant's current preliminary conceptual plans have cost estimates that exceed the minimum investments required in the Lease. Listed in the order of redevelopment, Table 1 presents the minimum Tenant capital investment requirements included in the Lease, current Tenant preliminary conceptual project cost estimates, and Harbor

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Department cost estimates for Harbor Department capital development responsibilities. All costs are presented in 2013 for consistency in comparison purposes.

Table 1: Lease Capital Investment Summary in 2013 Dollars

Project Element	Harbor Department	Tenant Development Cost Range	
	Development Costs	Minimum Capital Investment Required	Preliminary Conceptual Plan Development Costs
Berth 56 (Parcel 1A)			
Interpretive Center/Public Promenade	\$0	\$34,000,000	\$46,222,359
Berth 57 (Parcel 2A)			
Wharf Repairs/Ground Improvements	\$28,027,189	\$0	\$0
Signal Street Improvements	\$8,251,968	\$0	\$0
Remediation Soil/Groundwater/Building Material*	\$6,000,000	\$0	\$0
Post 2013 Building Code Requirements Contingency**	\$15,000,000	unknown	unknown
Warehouse 57 Redevelopment to Research Center/Public Promenade	\$0	\$48,000,000	\$64,963,053
Total Berths 56-57 "Cash" Capital Expenditures	\$57,279,157	\$82,000,000	\$111,185,412
Berths 58-60 (Parcel 3 & 4)			
Wharf Repairs/Ground Improvements	\$143,395,000	\$0	\$0
Signal Street Improvements	\$2,941,000	\$0	\$0
Remediation Soil/Groundwater/Building Material*	\$6,000,000	\$0	\$0
Warehouses 58-60 Redevelopment to Research Center/Public Promenade	\$0	\$130,000,000	\$174,198,199
Total Berths 58-60 "Cash" Capital Expenditures	\$152,336,000	\$130,000,000	\$174,198,199
Berths 69-70 (Parcels 5 & 7)			
New Buildings/Other Site Improvements/ Remediation of Building Materials	\$0	\$67,000,000	\$90,434,514
Total Berths 69-70 "Cash" Capital Expenditures	\$0	\$67,000,000	\$90,434,514
Berths 70-71 (Parcels 6)			
New Buildings/Other Site Improvements/ Remediation of Building Materials	\$0	\$129,000,000	\$173,191,748
Total Berths 70-71 "Cash" Capital Expenditures	\$0	\$129,000,000	\$173,191,748
Total "Cash" Capital Expenditures	\$209,615,157	\$408,000,000	\$549,009,873
HARBOR DEPT. + TENANT TOTAL CASH CAPITAL COSTS	\$617,615,157 - \$758,625,030		

* Remediation needs, if any, are unknown. Harbor Department remediation costs capped at \$6 million.

**Post -2013 Building Code requirement costs capped at \$15 million.

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It should be noted that the Harbor Department project development cost estimates are based upon conceptual designs, are presented in 2013 dollars, and will need to be updated in the future as the design efforts proceed and to reflect construction and material costs escalation based upon the actual construction start date (a maximum of seven years after Lease execution for Berth 57 improvements).

In approximately mid-2014, the City of Los Angeles will be adopting the updated California Building Code which includes a new seismic code applicable to structures in liquefaction areas and accessible to the public. That new Building Code will be applicable to the Berth 57 wharf and ground improvements, since Berth 57 improvements include a waterfront public promenade and other public areas. The Harbor Department has included \$15 million in contingency funds for the Berth 57 wharf and ground improvements related to implementation of the new City of Los Angeles Building Code. However, due to the current conceptual nature of the design, designing to a new code not previously utilized in the harbor area, the complexities of implementing the new code to the retrofit of an existing historic structure, and the currently unknown load requirements of AltaSea, a level of additional uncertainty to the current construction cost estimates exists. Therefore, the Lease caps the Harbor Department's costs for post-2013 Building Code changes at \$15 million. Hazardous material remediation costs for Berths 56-60 are also capped for similar reasons. In the event Harbor Department costs exceed the established amounts for new Building Code and hazardous materials remediation activities, the Harbor Department and Tenant are required to work together to identify other opportunities and strategies to move the Research Center forward.

Tenant minimum investment Lease requirements are largely based upon conceptual design of elements as described and analyzed in the EIR certified by the Board in October 2012. It is important to note that AltaSea has publicly released a "preliminary conceptual" rendering of an interpretive center at Berth 56 as one potential building idea. AltaSea continues to develop, review, evaluate, and consider various interpretive building concepts, including the concept analyzed in the October 2012 certified EIR, and associated funding feasibility and constructability. AltaSea has not initiated design of any Research Center elements. Further, all development proposals would need to be processed through and approved by the AltaSea chief executive officer and Board of Trustees, which as indicated above are yet-to-be designated.

The Lease requires that all Tenant development plans over the 50-year Lease term be submitted to the Harbor Department. Once submitted, the Harbor Department will review such plans for consistency with the October 2012 certified EIR. In the event that conceptual design elements in the development plan are inconsistent with the October 2012 certified EIR, additional environmental analysis in accordance with CEQA and the National Environmental Policy Act (NEPA), as appropriate, would be required and the Tenant must pay for such additional environmental analyses. Further, the Lease

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preserves the Board's discretionary authority to approve, disapprove, or add mitigation measures to any such development proposal. The Lease also provides that the Tenant must not only submit its public promenade design proposal for consistency review with the October 2012 certified EIR, but also for review for conformance with the Harbor Department's LA Waterfront Design Standards. Further, upon the Harbor Department's concurrence that the Tenant's public promenade design proposal is consistent with the October 2012 certified EIR and LA Waterfront Design Standards, the Tenant must hold public workshops, consistent with the procedures established in the Harbor Department's LA Waterfront Implementation Guidelines, regarding its design proposal. Therefore, although the Tenant's design of the various Tenant Research Center elements remains pending, the Lease ensures compliance with CEQA, NEPA, related environmental review laws, and Harbor Department LA Waterfront implementation guidelines and standards.

Berths 56-57 - For Berths 56-57 (Parcels 1A & 2A), the Lease leverages the Harbor Department's capital investment of approximately \$57 million, with a Tenant capital investment of \$82-\$111 million (2013 dollars). The Tenant's capital investment is eligible for \$25.7 million in rent credits (2013 dollars). The Harbor Department investments are limited to improving the Berth 57 wharf and ground improvements, consistent with Secretary of Interior's Standards for treatment of historic properties. Such improvements would be required to address the many years of deferred maintenance of those facilities for uses other than those limited uses that can be accommodated in the current degraded condition of the facilities and to upgrade the wharf and warehouse foundation to meet the new Building Codes required for public access at the site. The Harbor Department's provision of \$25.7 million in rent credits for the redevelopment Warehouse 57, rather than performing the development directly, precludes the need to identify additional Harbor Department capital funding for those improvements, including avoiding interest payments on such capital funding, and thus facilitates redevelopment of Berths 56 and 57 in the coming few years, which would not otherwise occur.

Berths 58-60 - For Berths 58-60 (Parcels 3 & 4), the Harbor Department's capital investment requirement would be significantly higher and would occur several years in the future. Therefore, the Lease provides that the approximately \$152 million Harbor Department capital expenditures needed for Berths 58-60 wharf redevelopment and ground improvements are subject to Board consideration and approval at the time Tenant requests access to Parcels 3 and 4 (Agreement Sections 3.2.1.3(e), 7.1.1 and Exhibit L, Section 3(a)). Cost estimates for these improvements, including the costs of any new Los Angeles Building Code requirements, information obtained from construction of the Berth 57 improvements, and updated construction service and material cost, would be updated at that time. In the event funding is not approved by the Board, the Harbor Department and Tenant are required to work together to identify other opportunities and strategies to move the Research Center forward. Further, the

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Tenant, at its sole option, can accept Berths 58-60 without such improvements and directly proceed with the development of Berths 58-60 at its own cost.

As indicated above, the Lease does not mandate that the Harbor Department fund Berths 58-60 improvements. However, if funding is approved by the Board in the future for Berth 58-60 improvements, the Lease would leverage the Harbor Department's proposed investment of approximately \$152 million, with a Tenant investment of \$130-\$174 million (2013 dollars). The Tenant's capital investment is eligible for \$101.5 million in rent credits (2013 dollars). Similar to Berth 57 wharf and warehouse improvements, the Harbor Department investment would be spent on improvements that would be required to address the degraded condition of the facilities. The Harbor Department's provision of \$101.5 million in rent credits would serve to minimize the Harbor Department capital funding required at the time for redevelopment of Berths 58-60.

The Lease provides that the Tenant may request interim use of Berths 58-60, in its "as-is" condition for the initial 10-years of the Lease, unless earlier terminated.

Berths 69-71 - The proposed Lease includes no capital investment requirements for the Harbor Department related to Berths 69-71 (Parcels 5, 6, 7, and 8). The Tenant's investment would be \$196-\$264 million (2013 dollars).

The Harbor Department is responsible for the costs of soil, groundwater, and sediment remediation of Berths 69-71 regardless of the City Dock No. 1 redevelopment project, and therefore, such costs are not included in the Harbor Department Lease financial responsibility cost estimates. In order to implement the San Pedro Waterfront Development Plan, de-industrializing the San Pedro waterfront area, the Harbor Department terminated the Westways permit early, accepting the obligation to remediate the property in exchange for a reduced permit buy-out price. Information regarding the remediation costs is being provided however, since there are budget implications that should be considered within the context of the requested City Dock No. 1 redevelopment funding allocations.

Berths 69-71 are under a Los Angeles Regional Water Quality Control Board Clean-Up and Abatement Order. The landside remediation costs are currently estimated at \$45 million. Testing of sediments off of Berths 69-71 remains pending. Therefore, waterside sediment remediation costs, if any, are unknown at this time. A Remedial Action Plan is currently being developed for review and approval by the Regional Water Quality Control Board. Remediation costs will be updated based upon the approved Plan. Currently, \$35 million in liability costs for remediation of Berths 69-71 are accounted for in the Harbor Department's financial plans.

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Site Restoration Upon Lease Expiration - In consideration of the Tenant's capital campaign seeking donations from philanthropic entities based upon the economic benefits associated with the Research Center, the Tenant is not required to demolish the buildings it constructs upon Lease expiration or earlier termination. This is a deviation from the Harbor Department's Leasing Policy, which requires that the Board have discretion to require the Tenant to demolish and remove structures that have been modified or built by the Tenant. The proposed Lease requires that ten years following Lease execution the Tenant must establish, and annually fund, a Renovation Fund to be used to update the facility at a minimum of ten-year increments. This renovation requirement is over and beyond regular maintenance required under the Lease and is intended to ensure that all buildings are in good condition and contemporary at the time of Lease expiration. It is recommended that the Board approve the deviation from the Harbor Department's Leasing Policy Section XIV (2).

Rent Credits

The proposed Lease provides that the Tenant will receive rent credits for the redevelopment costs of the historic warehouses and development of the public promenade. The Tenant can apply the rent credits to pay Annual Minimum Rent for all parcels. Rent credits cannot be used to pay percentage rent, rent due prior to rent credits, or any holdover rent. Rent credits expire with lease expiration or termination. The Harbor Department has no obligation to reimburse Tenant for any unused rent credits.

Rent credits will be based upon the lesser of the actual Tenant construction costs of qualifying elements or the maximum rent credits established based upon Harbor Department's estimated costs to complete the work. Maximum rent credits are:

- Berth 56-57: \$35.2 million (\$25.7 million in 2013 dollars, escalated to 2019 Tenant construction start date).
- Berth 58-60: \$191.4 million (\$101.5 in 2013 dollars, escalated to 2026 Tenant construction start date).

Compensation

Compensation is comprised of four major elements:

- 1) Minimum Annual Rent: Tenant will start to pay Annual Minimum Rent, with annual consumer price index (CPI) increases, six years following Tenant acceptance of a property parcel or property occupancy, whichever occurs first. The six-year rent deferral period is based upon the construction period required to develop the parcels. Assuming that the Tenant accepts all Berths 56-60 parcels, Minimum Annual Rent would be \$1,439,396. It is likely that all Minimum Annual Rent payments for Berths 56-60 for the 50-year term of the Lease could

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be offset by the Tenant with the rent credits (\$127.2 million in 2013 dollars). However, rent credits would not be applicable to initial Berths 57-58 interim use rent, since no improvements eligible for rent credits would be completed for several years.

- 2) Percentage Rent: Tenant is required to pay the Harbor Department 50 percent of equity or royalty income the Tenant receives from incubator subtenants.
- 3) Non-Monetary Compensation: Tenant is required to provide services and public benefits specified in proposed Lease Exhibit F, "Non- Monetary Compensation Services and Public Benefits to be provided by Tenant," including:
 - In-kind services (such as use of vessel for water quality sampling)
 - Marine Research
 - Job Creation
 - Public Programming
 - Public Access
 - General Economic Development
 - Maintenance of all facilities (except the wharf structure), including public promenade and public restrooms
- 4) Reinvestment of All Gross Receipts: Tenant is required to reinvest all gross receipts generated on the premises into Research Center specific programs, including Tenant Improvements, operations, maintenance, outreach, public education, public programming, and marketing.

For reference, rent calculations for the proposed Lease based upon the Harbor Department's rate-of-return (ROR) targets of 10 percent on current land value and 12 percent on improvements are presented in Transmittal 5. No rent is established for the public promenade areas, including the promenade area that would encompass the approximately \$57 million Berth 57 wharf upgrades required to be constructed by the Harbor Department, since those areas are extensions of the LA Waterfront public promenade planned by the Harbor Department. It is unlikely that a use or tenant could be identified for Berths 58-60 that could pay the annual \$14 million/year rental rate needed to achieve a 12 percent ROR on the \$152 million Berths 58-60 wharf improvements, especially considering the uses contemplated for the area in the San Pedro Waterfront Development Plan. Therefore, the market rent calculated based upon the Leasing Policy ROR is considered very aggressive for the City Dock No. 1 redevelopment site. It should be noted that Harbor Department permits and leases for other commercial businesses located in the Cabrillo area of the Port do not have a 10 percent ROR.

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The proposed Lease establishes Minimum Annual Rent for Berths 56-60 (Parcels 1A, 1B, 2A, 2B, 3, 4, and 4A (Transmittal 5) based upon the following reductions in the market rent: 1) a 100 percent discount for public facilities; and 2) a 90 percent discount for all other areas in consideration of the economic benefits and other factors, for which benchmarks are included in Exhibit F of the proposed Lease. During the five-year compensation reset process, the Tenant's compliance with the economic, public, and other benefits established in the Lease may be reviewed, along with other factors, and the rental discount levels may be adjusted as appropriate.

Providing free rent for facilities that are open to the public free of charge, such as the Research Center's interpretive center and public restrooms, for a minimum of 40 hours at least five days a week (at least two of which must be Saturday and Sunday), and which the Tenant maintains, is consistent with existing Harbor Department practice. Further, as indicated above, public promenade areas to be developed by the Tenant are extensions to LA Waterfront public promenade planned by the Harbor Department and therefore no rent is proposed to be charged for those public areas.

The 90 percent discount from market rent for all other areas of the Research Center is recommended in consideration of several factors:

- Requirement that Tenant reinvest all gross receipts into the Research Center.
- Percentage Rent requirement (while the income associated with royalties is uncertain, there is the potential for a large payback).
- Expansion of the LA Waterfront public promenade, with direct waterfront access in certain areas, on an expedited schedule.
- Re-purposing of currently degraded historic warehouses, into a new Port industry – marine research.
- Numerous public programming, services, and job development requirements (benchmarks established in proposed Lease Exhibit F).
- Benefits to the Harbor Department, its tenants, the City, state and nation from the marine research conducted at the Research Center.
- Benefits to the City and Port communities from development of a new sustainable job cluster within the Port boundaries.
- Economic and job benefits created by the Research Center.

Annual Minimum Rent for Berths 69-71 (Parcels 5-8) could not be developed due to the lack of detail regarding the proposed Research Center uses and related benefits. Further, those parcels will be unavailable for development for at least ten years due to soil and groundwater remediation issues. Therefore, the Lease provides that Annual Minimum Rent for Berths 69-71 will be developed in the future and will require approval by both the Board and City Council.

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It is recommended that the Board, in consideration of the other compensation included in the Lease and the economic and public benefits of the redevelopment of the site into a Research Center approve: 1) the deviations from the Harbor Department's Leasing Policy Section VIII ROR targets of 10 percent on current land value and 12 percent on improvements for the proposed Lease; and 2) the charging of no rent for areas accessible to the public, free of charge, and operated in conformance with the requirements of the Lease.

ENVIRONMENTAL ASSESSMENT:

The proposed action is for approval of a 50-year Lease between the Harbor Department and RPA/AltaSea for the redevelopment of Berths 56-60 and 69-71 into an urban marine research center, and related operations. The development and operation of the Research Center for a 30-year lease term were assessed in the City Dock No. 1 Marine Research Center Project EIR, certified by the Board on October 18, 2012 (ADP#100114-003/SCH#2010121013). Since Board certification, lease negotiations resulted in a proposed 50-year Lease term. This project change was analyzed in the EIR Addendum attached hereto as Transmittal 2 for the Board's consideration. According to Section 15164(a) of the State CEQA Guidelines, the lead agency will prepare an addendum to a previously certified EIR if changes or additions are necessary, but none of the conditions described in Section 15162 calling for the preparation of a subsequent or supplemental EIR have occurred. An addendum does not need to be circulated for public review but can be included in or attached to the EIR. Based on the findings of the Addendum, the proposed action will not result in any new significant environmental effects or any substantially more severe effects than previously analyzed in the certified EIR and therefore, does not trigger any of the conditions described in CEQA Guidelines Section 15162 calling for the preparation of a subsequent or supplemental EIR. All previously approved mitigation measures and project conditions would not change and are incorporated in proposed Lease No. 904. The Addendum has been made publicly available and is posted on the Harbor Department's website.

ECONOMIC BENEFITS:

The proposed Lease requires the Tenant to invest in the redevelopment of the currently degraded City Dock No. 1 facilities into a Research Center, which is planned to provide facilities for SCMI, universities, community colleges, government research agencies, such as the National Oceanic and Atmospheric Administration (NOAA), and businesses to conduct cutting-edge marine research and education, and develop technologies to address the most pressing problems of the day: climate change, sea-level rise, the depletion of the world's fisheries, technologies to reduce air and water pollution, and exploration of new green energy production in the marine environment. The Research Center would offer on-the-water research facilities with extensive wharf space and water

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depth to accommodate large research vessels, extensive storage space for the latest ocean-study robotics, and enough space to bring together leading researchers and entrepreneurs. The Research Center can also accommodate development of the largest wave-tank in the world, and the only one utilizing natural seawater, which could attract researchers from all over the world to California to study the behavior of ocean waves.

The Research Center is conceived to be a thriving cluster of academic and government marine researchers, educational facilities, and related commercial marine ventures seeking to capitalize on technical discoveries and create jobs. The synergies of co-location of scientists who study the ocean with people who derive their livelihood from the ocean provide significant opportunities for collaboration on maritime industry research needs. The urban context of the Port also provides a unique laboratory setting to explore, study, and solve some of the most pressing environmental problems facing mankind today. The co-location of scientists from numerous academic institutions within the Port complex will bring the scientists even closer to ocean-related problems. A direct connection to the maritime industry, which is ready at hand, would provide opportunities for financial participation by industries in funding research relevant to their problems. Ships that traverse the Pacific can serve as research platforms, collecting data as part of their routine journeys.

The Research Center will be transformational for the San Pedro and Wilmington communities by bringing white collar jobs to primarily blue color communities. The Research Center will also increase the critical mass of Port visitors and workers to further support Ports O' Call commercial enterprises and rejuvenation of the San Pedro downtown business district.

Entrepreneurial businesses would be co-located at and near the Research Center facility to foster collaboration among academic researchers, the maritime industry, and private ventures. This collaboration would develop research into practical, pollution-reducing, job-generating, sustainable technologies, such as aquaculture, sustainable energy production, marine exploration, robotics, and remote ocean sensors. Academic marine research and green technology development activities also provide opportunities to attract federal and state governmental entities to locate directly within the Port.

Investment in marine science and engineering facilities can be a redevelopment strategy of its own, as well as a catalyst to attract more traditional redevelopment opportunities. The City Dock No. 1 redevelopment site provides the right mix of factors that make an investment in science a sensible economic development strategy.

Creating a facility where research from the various universities comes together with each other and then intersect with marine start-up businesses is just the recipe for something akin to how "Silicon Valley" got started. The co-location of Harbor

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Department tenants, universities, businesses, and governmental agencies, creates the opportunity for an innovate spark that transcends the entrepreneurial spirit from research to commercialization.

The Research Center model is what economists call an agglomeration economy, where mutual interest between firms and the sources of technology embodied in university research create positive effects on one another. Agglomeration economies are very difficult to plan, but they happen because there is synergy between co-located parties. The Research Center will facilitate that kind of synergy because it can offer space at a price that is acceptable to start up industries and universities that do not have the economic power of an established business.

With respect to the research potential of the site, there are things that cannot be done on university campuses that could be done at the Research Center, many of which are space intensive:

- Aquaculture for larger finfish species
- Algae biofuel technologies
- Marine robotics and "integrated observational networks" of robots, buoys and sensors for oil industry exploration and disaster response
- Robotics for maritime security (a complement to the Harbor Department's Maritime Law Enforcement Training Center)
- Mitigation of water pollution.
- Wave energy research, development, deployment and monitoring
- Biotech research

Under contract to RPA/AltaSea, Kosmont Companies performed a fiscal benefit analysis of the Research Center (Transmittal 6). Based upon RPA/AltaSea's most recent development cost estimates, construction of Berths 56-60 improvements is estimated to create 4,190 direct, indirect, and induced construction-related jobs, with a direct economic impact estimated at \$463 million. Construction of Berths 69-71 improvements is estimated to create 2,384 direct, indirect, and induced construction related jobs, with a direct economic impact estimated at approximately \$263 million.

Operational economic benefits are generally estimated at nine direct jobs for every \$1 million invested in research. Further, for every \$1 invested in education, an estimated \$5.43 is generated for the state economy.

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Based upon the estimated schedule for Berths 56-60 facilities becoming operational, Kosmont Companies estimates approximately 386 direct new jobs to be generated by the Research Center, with a direct economic impact of approximately \$98 million. Build-out of all Lease parcels is estimated to result in 1,348 direct, indirect, and induced operational jobs, with a direct economic impact of approximately \$168 million.

FINANCIAL IMPACT:

As of October 2013, the Harbor Department has expended approximately \$2 million on environmental review and preliminary engineering studies and conceptual design work related the Research Center. Assuming all parcels are accepted by the Tenant, and that future Board action approves Harbor Department funding to redevelop the wharf at Berths 58-60 and the adjacent Signal Street, the Harbor Department would spend an additional estimated \$209,615,157 (in 2013 dollars) to redevelop and improve facilities in the Berths 56-60 area. A significant portion of the Harbor Department's \$209,615,157 capital investment relate to wharf and ground improvements required to address the degraded condition of the wharf and warehouse foundation and the new Building Code requirements related to public use in the area. It should be noted that there could be different levels of costs of wharf and ground improvements than those required for this project, either higher or lower, for different uses at the site. In addition, the proposed Lease requires the Harbor Department to provide up to \$127,200,000 (in 2013 dollars) in rent credits to offset the Tenant capital commitment for redevelopment of the historic warehouses and the public promenade.

The costs of Tenant improvements range from a required minimum investment of \$408,000,000 to a potential of \$549,009,873 (before application of the \$127,200,000 Harbor Department rent credit offset). Total combined estimated capital spending by the Harbor Department and Tenant, again assuming acceptance of all parcels, ranges from \$617,615,157 to \$758,625,030.

The Tenant's access to parcels under the Lease is financially contingent upon the Tenant providing evidence of committed capital to fund Tenant improvements as follows: 1) for parcels not requiring Harbor Department improvement capital, 50 percent of Tenant improvement cost estimates; and 2) for parcels requiring Harbor Department improvement capital, 75 percent of Tenant improvement cost estimates.

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Of the potential \$209,615,157 Harbor Department expenditures, the estimated \$57,279,157 to redevelop and improve the wharf at Berth 57 and the adjacent Signal Street is required in the proposed Lease. It is anticipated that funds for the required improvements would be expended as follows:

Fiscal Year 2013/2014: \$1,370,611
Fiscal Year 2014/2015: \$1,478,395
Fiscal Year 2015/2016: \$6,920,706
Fiscal Year 2016/2017: \$32,405,330
Fiscal Year 2017/2018: \$15,104,115

Funds for Fiscal Year 2013/2014 in the amount of \$1,370,611 are available in the Capital Improvement Plan budget (Work Order 25006, Center No. 1182, Program 624, Job Facility No. 635-00). The funds for Fiscal Years 2014/2015 through 2017/18 will be requested as part of future years' budget process.

The Lease provides that Harbor Department funding of the remaining \$152,336,000 redevelopment improvement capital for Berths 58-60 depends on future Board approval and would be addressed in the appropriate future budget processes if approved by the Board. The Lease does not require the Harbor Department to fund Berths 58-60 improvements.

Assuming that the Tenant accepts all Berths 56-60 parcels, Minimum Annual Rent would be \$1,439,396; however, all Minimum Annual Rent Payments for Berths 56-60 for the 50-year term of the proposed Lease are likely to be offset by the Tenant with the rent credits (\$127,200,000 million in 2013 dollars). Percentage Rent, based upon royalties, would be paid by the Tenant; however, the financial return from such payments is uncertain. Therefore, no direct financial return on the Harbor Department's investment is assumed, resulting in a rate of return of zero. However, the Harbor Department will benefit from the Tenant reinvestment of gross receipts into the site, Tenant's capital investment in redevelopment of the site, and the public and economic benefits provided by the project. Further, the Lease requires the Tenant to maintain and operate the public facilities, including the public promenade and restrooms; thus, the Harbor Department will avoid on-going maintenance costs it would otherwise incur for such activities.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved proposed Lease No. 904 (Transmittal 7) and the Order (Transmittal 8) as to form and legality.

TRANSMITTALS:

1. Aerial City Dock No. 1 Location Map
2. EIR Addendum
3. Lease Map
4. Parcel Phasing
5. Minimum Annual Rent Calculations
6. Kosmont Companies Summary Fiscal Benefit Analysis
7. Lease No. 904
8. Order

FIS Approval: WJ (initials)

CA Approval: [Signature] (initials)

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

GK:KM:bg
Author: B. Garrett
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