



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

Board of Harbor Commissioners

DATE: JANUARY 15, 2014

FROM: REAL ESTATE

**SUBJECT: ORDER NO. _____ - PROPOSED PERMIT FOR FISHERMAN'S
PRIDE PROCESSORS, INC. DBA NEPTUNE FOODS**

SUMMARY:

The proposed action will grant a ten-year permit, with two five-year options, to Fisherman's Pride Processors, Inc., dba Neptune Foods (Neptune) to establish a seafood processing facility at 338 Cannery Street in Fish Harbor on Terminal Island.

RECOMMENDATION:

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

1. Approve the proposed permit with Fisherman's Pride Processors, Inc. dba Neptune Foods;
2. Direct the Board Secretary to transmit the proposed permit to the City Council for approval pursuant to Section 606 of the City Charter;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the permit upon approval by the Board and City Council; and
4. Adopt Order No. _____.

DISCUSSION:

Background – On August 31, 2012, the City of Los Angeles Harbor Department (Harbor Department) released the 338 Cannery Street Request for Proposals (RFP) to solicit a qualified entity for the redevelopment of the historic fish processing and cannery facility on Terminal Island. The site is an approximate 9-acre, waterside facility comprised of 14 buildings that the Harbor Department was seeking to adaptively reuse for the purposes of commercial fishing (Transmittal 1). The facility has been vacant since Tri-Union Seafoods, LLC dba Chicken of the Sea International vacated in late 2011. The RFP scope of work was prepared through a joint effort with staff from Real Estate, Financial Management, Environmental Management, Planning and Economic Development, and Engineering Divisions.

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One proposal, from Neptune, was received in response to the RFP. The proposal received contains two phases. Phase I is to immediately take over the freezer, cold storage, and wet fish processing facilities housed in three buildings (Buildings 9, 10, and 12) for the purposes of seafood processing. Phase II would utilize the remainder of the facility as a wholesale fish auction facility, retail fish market, and bonded warehouse. The proposal states that Phase II would commence after Phase I is fully implemented. However, there is no discussion of how or when such development would be implemented. Additionally, the proposed rent for Phase II was only \$1.00 per year plus 50 percent of all net revenue derived from the phase, and the Harbor Department anticipates potential challenges with construction on the historical portions of the facility, which may take time to resolve. Therefore, the Harbor Department decided to enter into exclusive negotiations with Neptune for Phase I of their proposal only.

Proposed Permit

Based on the proposed terms and conditions, Harbor Department staff recommends entering into a new ten-year permit with two five-year options with Neptune Foods (Transmittal 2).

Term: Based on the consistency with the Harbor Department's long-term land use plan, the Board's Leasing Policy adopted on August 8, 2013, and Neptune's importance to the revival of commercial fishing, a ten-year term with up to two five-year renewable options is justifiable. This will allow Neptune adequate time to amortize their proposed investment in the facilities and establish their business while commercial fishing in the Fish Harbor area is revived.

Effective Date: The permit will be effective following execution by the Harbor Department and Neptune, and upon the last approval required by the City Charter and Administrative Code.

Premises: Area 1, comprised of Buildings 9, 10, and 12, totaling approximately 100,000 square feet; Area 2, comprised of the southern lot totaling approximately 56,700 square feet; Area 3, comprised of a paved area totaling approximately 31,370 square feet; and Area 4, comprised of approximately 150 square feet of non-exclusive wharf, as shown in Exhibit A of the Permit.

It is recommended that only a lease for the premises noted above be approved at this time. A decision regarding the balance of the property will be deferred into the future.

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Compensation: Minimum Annual Rent (MAR) shall be \$264,000, paid in twelve equal installments of \$22,000 per month. MAR is based on a 12 percent annual rate of return on an estimated value of \$22.00 per square foot for buildings and non-exclusive wharf, and a 10 percent annual rate of return on an estimated value of \$22.00 per square foot for improved, paved land area. Rent for Area 3 is included in the rent for Area 1 and therefore Area 3 is not being assessed a separate charge. This amount is then discounted 32 percent for Neptune's participation in percentage rent. Neptune will be responsible for all maintenance of the entire premises, except the wharf as defined in the permit.

Normally, the Harbor Department grants a discount of 25 percent for participation in percentage rent. However, since this proposal will help to rejuvenate an underutilized area, a larger than average discount is warranted and the parties agreed to a discount of 32 percent. Section 30234.5 of the California Coastal Act titled, Economic, Commercial, and Recreational Importance of Fishing, states that the economic, commercial, and recreational importance of fishing activities shall be recognized and protected. Granting this permit helps to comply with this provision.

In addition to the MAR, each month, Neptune will pay percentage rent comprised of one-half of one cent (\$0.005) per pound of fish products offloaded across the wharf ("wet fish") and one-tenth of one cent (\$0.001) per pound of any other protein product processed and brought into the facility by other means. These rates are comparable to similar facilities competing with the proposed facility. Granting a lower rate for seafood products brought in by other means will allow Neptune to shift production from their facility in Vernon, CA, to keep staff working on Terminal Island when local fishing is off-season or off-peak. Once Phase I is fully built out, it is anticipated that Neptune will process 30,000,000 pounds of "wet" fish products per year at the \$0.005 rate and 6,000,000 pounds of fish products per year at the \$0.001 rate. This translates into an estimate of \$13,000 per month for percentage rent. The total annual compensation to the Harbor Department, including both the MAR and the percentage rent, is estimated to be \$420,000.

Both the MAR and the variable percentage rent components will be subject to reset every five years, and the MAR will be subject to annual Consumer Price Index (CPI) adjustments in addition to the five year reset.

Improvements: Neptune will be responsible for all upgrades and improvements to the facility, currently estimated at \$7.5 million, subject to a \$1.5 million dollar credit reimbursement from the Harbor Department. This amount will only be applied to improvements to the Harbor Department owned real property assets and will not be used for any equipment, fixtures or other items that are specific to the tenant's business.

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Maintenance and Repair: The proposed permit is a “triple-net” lease, where Neptune is responsible for possessory interest tax, insurance, and all maintenance of the premises. The Harbor Department will only be responsible to maintain the wharf, as defined in the permit, and to demarcate an area on the public wharf where Neptune can install a fish pump which will be maintained by Neptune.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the granting of a ten-year permit with two five-year renewal options to Neptune for establishment of a seafood processing facility at 338 Cannery Street in Fish Harbor (proposed project). The environmental impacts of the proposed project were assessed in a Mitigated Negative Declaration (MND) prepared pursuant to the requirements of the California Environmental Quality Act (CEQA). The MND is being considered for adoption by the Board on January 23, 2014. Upon adoption of the MND by the Board, the Director of Environmental Management has determined that the granting of a ten-year permit, as an activity for which the underlying project has been previously assessed, is exempt from the requirements of CEQA in accordance with Article II Section 2(i) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

The redevelopment associated with the proposed permit is anticipated to support 114 one-year full-time-equivalent jobs (66 direct, 48 secondary) in the five-county region during construction. It is estimated that ongoing operations will support 30 to 40 year-round jobs, and at least 100 jobs during seasonal peaks.

FINANCIAL IMPACT:

The financial impact of the proposed permit is that the Harbor Department will receive an estimate annual rent of \$264,000, including a percent of tenant's gross receipts. The fixed component will be escalated by CPI each year. At full build out of Phase I, the estimated rate of return to the Harbor Department is 10.34 percent.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the permit as to form and legality.

TRANSMITTALS:

1. Site Map
2. Permit
3. Order




JACK C. HEDGE
Director of Real Estate

FIS Approval:  (initials)
CA Approval:  (initials)



DAVID L. MATHEWSON
Interim Deputy Executive Director

APPROVED:



GARY LEE MOORE, P.E.
Interim Executive Director

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