



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 24, 2022

FROM: CARGO & INDUSTRIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE PERMIT NO. 957 WITH INNOVATIVE TERMINAL SERVICES, INC.

SUMMARY:

Staff requests approval of Permit No. 957 (Permit) with Innovative Terminal Services, Inc. (Innovative) for use of 337,538 square feet (7.75 acres) comprised of paved land, unpaved land, and a maintenance shed building located at 916 Barracuda Street, Terminal Island. The proposed Permit will yield \$732,887 in revenue the first year, including rent credits (net of applicable rent credits). Further increases will be applied on July 1, 2023, and annually thereafter based on the greater of Consumer Price Index (CPI-U) or two percent. The term of the Permit is three years, plus (2) two one-year extension options exercisable by the City of Los Angeles Harbor Department.

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. Find that entering into this Permit No. 957 is in the best interest of the City of Los Angeles, despite certain exceptions to the City of Los Angeles Harbor Department's Leasing Policy, Section XI, concerning a 2 percent holdback on security instruments for a maintenance fund and Section VIII concerning the rate of return policy;
3. Approve Permit No. 957 with Innovative Terminal Services, Inc.;
4. Authorize the Executive Director to Execute and the Board Secretary to attest to Permit No. 957; and
5. Adopt Resolution No. _____.

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DISCUSSION:

Background – Innovative is operating a cargo support yard (e.g. container storage, chassis depot, etc.) at 916 Barracuda Street, Terminal Island (see Transmittal 1). In connection with these operations, Innovative occupies a maintenance shed totaling 20,051 square feet, paved land totaling 201,414 square feet, and unpaved (gravel covered) land totaling in aggregate 116,073 square feet under the following real estate entitlements: Revocable Permit No. 15-09 and Revocable Permit No. 16-39, and Space Assignments No. 21-11 and No. 21-14. Staff is recommending that the Revocable Permits and Space Assignments be terminated in favor of the proposed Permit described herein. The proposed Permit would: 1) replace and consolidate the existing Revocable Permits and Space Assignments; 2) enable valuable improvements to the site which previously did not exist; and 3) bring rental rates to fair market value.

As a result of the increase to rates, rent would increase from the current \$1,463,195 per year to an estimated \$1,630,606 in the first year of the Permit (not including the application of 1st year rent credits), assuming a July 1, 2022, effective date.

Material terms of the Permit (Transmittal 2) are as follows:

<u>Provision</u>	<u>Description</u>
Real Estate Entitlement	Term Permit
Permitted Use	Cargo support, including but not limited to operation of an off marine terminal chassis depot, including storage maintenance, repairs, staging, start/stop and other incidental purposes to the operation of a chassis depot.
Term	Three years
Extension Options	Two one-year options exercisable solely by the Executive Director.
Premises	337,538 square feet (7.75 acres) of total entitlement, composed of: Maintenance Shed: 20,051 SF Paved Land: 201,414 SF Unpaved Land* 116,073 SF *Gravel covered land combined with asphalt covered land in poor condition, all to be replaced.
Initial Monthly Rent	\$135,883.82
Rent Adjustments	Rent would be adjusted per the schedule below.

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<p>Rate Schedule</p>	<p style="text-align: right;">Per Square Foot/Month*</p> <p>Effective Date Land \$0.35 Shed \$0.70</p> <p>July 1, 2022 + 2% or actual CPI*</p> <p>July 1, 2023, and thereafter + 2% or actual CPI*</p> <p style="text-align: right;">* CPI may change no less than \$0.01/sf per year</p> <p style="text-align: right;">* Initial effective rental rate subject to retroactive change based upon March 2022 CPI-U</p>
<p>Rent Credits</p>	<p><i>Initial Rent Credit:</i> \$157,749 for site work provided by Innovative at risk under Space Assignment No. 21-14 (Grading, Debris removal and Gravel Cover).</p> <p><i>Credit for New Construction:</i> \$739,970 for grading LIDS drainage, paving and hauling off old gravel.</p> <p><i>Total Rent Credit:</i> \$897,719 to be applied to the first years monthly rent until exhausted.</p>
<p>Prevailing Wage</p>	<p>Innovative must pay and require all of its construction contractors and subcontractors to pay prevailing wage as set forth in California Labor Code sections 1720, et seq, to all contractors and subcontractors performing construction, alteration, demolition, installation, or repair work at or on the premises.</p>
<p>Maintenance</p>	<p>Innovative is responsible for maintenance of all premises and compliance with all applicable laws, rules, and regulations.</p>
<p>Insurance</p>	<p>Standard insurance requirements would apply.</p>
<p>Security Deposit</p>	<p>Three times the monthly rent.</p>
<p>Environmental Requirements</p>	<p>Innovative will comply with all Environmental conditions including but not limited to:</p> <ul style="list-style-type: none"> • Lease Measure (LM) AQ-1 Cleanest Available Cargo Handling Equipment. • Innovative shall notify LAHD prior to the purchase of new Cargo Handling Equipment. • Environmental Best Management Practices (BMP).

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Other Terms	<p>The following items from the Leasing Policy are excluded from the Permit; staff determined the commercial terms described herein provide sufficient coverage in lieu of these policy items:</p> <ul style="list-style-type: none"> • 2% holdback on security deposit for port maintenance fund. • Additional \$100,000 security deposit for environmental fund.
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ENVIRONMENTAL ASSESSMENT:

The proposed action is for the approval of a Permit with Innovative for use of 7.75 acres of paved and unpaved land and a maintenance shed located at 916 Barracuda Street in Terminal Island, which is an activity for which the underlying project has been previously assessed in the Final Initial Study/Negative Declaration for the Innovative Barracuda Chassis Depot (SCH# 202008036), certified by the Board on October 15, 2020, and the Addendum to the Innovative Barracuda Chassis Depot Final Initial Study and Negative Declaration, considered by the Board on March 18, 2021. Therefore, the Director of Environmental Management has determined that the proposed action has been previously evaluated pursuant to CEQA in accordance with Article II Section 2(i) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the Permit will enable Innovative to occupy 337,538 square feet (7.75 acres) composed of a maintenance shed, paved land and unpaved land located at 916 Barracuda Street, Terminal Island, over a three-year term with two one-year extension options exercisable solely by the Harbor Department. The proposed Permit will generate revenue of \$732,887 (net of rent credits) in Year 1 and \$1,672,362 in Year 2 with annual CPI increases beginning July 1, 2023, and annually thereafter. Total revenue over five years is estimated to be no less than \$7,673,607.

The proposed Year 1 rent of \$1,630,606 represents a \$167,410, or 11.4 percent, increase relative to the \$1,463,195 in rent that was paid by Innovative under Revocable Permit 15-09, Revocable Permit 16-39, Space Assignment 21-11 and Space Assignment 21-14 in calendar year 2021.

Under the proposed Permit, Innovative would be eligible to receive up to no more than \$897,719 as a one-time credit to offset Tenant costs for improvements constructed on the premises.

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CITY ATTORNEY:

Proposed Permit No. 957 was reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Permit Site Map
2. Permit No. 957

FIS Approval: MB
CA Approval: SO

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Director, Cargo & Industrial Real Estate

Michael DiBernardo
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APPROVED:

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