



**THE PORT  
OF LOS ANGELES**  
Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: MAY 1, 2018**

**FROM: WATERFRONT & COMMERCIAL REAL ESTATE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - ORDER RESETTING  
COMPENSATION UNDER PERMIT NO. 624 WITH TWENTY SECOND  
STREET LANDING PARTNERS, LLC**

**SUMMARY:**

Staff requests approval of the Order resetting compensation for Permit No. 624 (P624) with Twenty Second Street Landing Partners, LLC (Tenant), a sport fishing landing and restaurant. P624 has a 30-year term that commenced November 27, 1987, and will expire on November 26, 2026. The proposed Order recommends compensation be reset for the five-year period effective November 27, 2017 through November 26, 2022 at the minimum monthly rental amount of \$16,703.79, an increase from \$12,409.78, and using the same percentage rates for gross receipts determined in the 2014 appraisal analysis and used the last three years. The minimum monthly rental amount will be adjusted annually thereafter by the Consumer Price Index (CPI) for the remainder of the compensation period.

**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 is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order resetting compensation for the five-year period of November 27, 2017 through November 26, 2022 under Permit No. 624;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 624; and
4. Adopt Resolution No. \_\_\_\_\_ and Order No. \_\_\_\_\_.

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**DISCUSSION:**

Background – P624 grants the Tenant the use of City of Los Angeles Harbor Department (Harbor Department) land consisting of approximately 57,319 square feet (s.f.) and water consisting of approximately 74,035 s.f. in San Pedro. The permitted uses include the construction, operation and maintenance of structures and facilities for berthing of sport fishing and charter vessels, small boat rentals, passenger and cargo transportation and water taxi, restaurant and lounge, seafood market and snack bar, fishing vessel brokerage and insurance sales, and for purposes incidental thereto. All improvements are owned and maintained by the Tenant.

As required by the terms and conditions of P624, it is necessary to reset compensation for each five-year period (Transmittal 1). The last compensation reset was completed in April 2016 for three compensation periods covering the years of 2002-2007, 2007-2012, and 2012-2017. The delay in resetting the compensation for the previous three periods was the result of several factors that included changes to the leased area, development of the neighboring Cabrillo Way Marina, a Harbor Department audit of the Tenant's financial records, and discrepancy in the interpretation of gross receipts provision. The delay in resetting the compensation for this period was caused by prolonged communication and negotiations with individual members of the LLC.

Current Compensation - The Harbor Department solicited the services of a professional real estate appraiser in 2014 to provide an opinion of the rental value of the land and water areas used by the Tenant (Transmittal 2). The appraiser performed a survey of other harbor jurisdictions, which indicated that the most applicable methodology for setting annual minimum rent for the subject's leased land and water areas was the economic performance method. The appraiser used the economic performance method that averaged the total percentage rent paid to the Harbor Department for the most recent three years, then provided an opinion of minimum rent that is 75 percent to 80 percent of the average annual percentage rent. This methodology is considered fair to both lessor and lessee and the most common practice adopted by other harbor jurisdictions. It was used to determine the minimum monthly rent that is in effect today.

On May 5, 2016, the Board approved Order No. 16-7199 which established the minimum annual rent retroactively to the amount paid to the Harbor Department for each year from November 27, 2002 to November 26, 2017.

For the period from November 27, 2015 to November 26, 2016, the fixed minimum annual amount was set at \$146,111.97, paid monthly in the amount of \$12,176 with annual CPI escalations. The percentage rates were adjusted to reflect the 2014 appraisal analysis from 3.5 percent to 5 percent for boat chartering and rentals and for ship chandlery and bait sales, and from 3 percent to 5 percent for general retail sales. Percentage rents for all other categories remained the same and are as follows:

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**Percentage Rates 2015-Present**

Gross %	Description	Gross %	Description
5%	Food & Beverages at Snack Bark	5%	Boat Rentals
3%	Food in Restaurant	25%	Compensation for 3rd Party Vending Machines
5%	Beverages in Restaurant	5%	Tenant Owned Vending Machines
1%	Boat Sales	5%	All Other Activities
10%	Insurance Brokerage Commission		

Currently, the monthly minimum amount is \$12,409.78, which has been annually adjusted for CPI since 2016.

Proposed Compensation Reset: The economic performance methodology for the 2017-2022 compensation period is used to determine the proposed fixed minimum rent. Using gross receipts data from 2014-2016 (see below) to analyze the performance of their operations, the conclusion is that the Tenant had measurable, positive growth each year. Seventy-five percent of the monthly average compensation generates the new monthly minimum of \$16,703.79. Staff recommends using the same percentage rates for gross receipts determined in the 2014 appraisal analysis and used the last three years.

Calendar Year	Total Gross Receipts	Monthly Average
2014	\$225,691.76	\$18,807.65
2015	\$282,452.31	\$23,537.69
2016	\$293,637.77	\$24,469.81
Total		\$66,815.15
Average		<b>\$22,271.72</b>
75%		<b>\$16,703.79</b>

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of an Order resetting compensation, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

**FINANCIAL IMPACT:**

A review of the gross receipts shows that in nine out of the twelve months of the year, the Tenant exceeded the monthly minimum rent for three consecutive years. December through February are the off-season months. The increase in minimum compensation from \$12,409.78 to \$16,703.79 represents a 35 percent increase.

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PARTNERS, LLC

**CITY ATTORNEY:**


The Order resetting compensation under Permit No. 624 has been reviewed and approved as to form and legality by the Office of the City Attorney.

**TRANSMITTALS:**


1. Order
2. Site map

FIS Approval: *MB*  
CA Approval: *CSB*

  
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Director of Waterfront & Commercial Real Estate

  
MICHAEL DiBERNARDO  
Deputy Executive Director

APPROVED:

  
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Executive Director

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