



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

DATE: APRIL 3, 2015

FROM: REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - SECOND AMENDMENT TO PERMIT NO. 897 WITH CATALINA CHANNEL EXPRESS, INC.

SUMMARY:

This proposed Second Amendment to Permit No. 897 adds premises in order for Catalina Channel Express, Inc. (Catalina) to construct, at their own cost, an administrative office and freight facility for the processing and transport of freight to and from Catalina Island. The office space will allow for the relocation of their reservations center, and approximately 35 jobs from Long Beach to San Pedro.

RECOMMENDATION:

Staff recommends that the Board of Harbor Commissioners:

1. Approve the proposed Second Amendment to Permit No. 897 with Catalina Channel Express, Inc.;
2. Direct the Board Secretary to transmit the Second Amendment to Permit No. 897 to the City Council for approval pursuant to Charter Section 606 of the City Charter;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the Second Amendment to Permit No. 897 upon approval by City Council; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – Since July 1, 1981, Catalina has been operating the Berth 96 passenger ferry to Catalina Island (Transmittal 1) under various entitlements, including a 30-day month-to-month revocable permit from 1981 to 1990 (RP 1467), a five-year permit from 1990-1995 (Permit No. 639), and a ten-year permit from 1995-2005 (Permit No. 768). Catalina was granted holdover status thereafter and continued its occupancy under the terms and conditions of Permit No. 768.

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During the years prior to and after the expiration of Permit No. 768, the adjoining property to the north, held by China Shipping Holding Company, LTD. (China Shipping), began undergoing redevelopment that included expansion of its Berth 100 wharf and to backlands to encompass the premises at Berth 96. This expansion required relocation of Catalina from its previous facilities at Berth 96 to the new premises at Berth 95. Catalina relocated, at its own expense, to the new location at Berth 95 that included adaptive reuse of an existing City of Los Angeles Harbor Department (Harbor Department) building. Catalina invested approximately \$5,000,000 in effecting its relocation.

Permit No. 897 - Permit No. 897, approved by the Board in 2012 and expiring in 2037, was necessary to account for the change in premises and adjust the rent accordingly. Permit No. 897 authorized Catalina to undertake the construction, operation, and maintenance of a public passenger facility for a 25-year term.

First Amendment - Subsequently, the First Amendment to Permit No. 897 addressed the need to clarify the permit premises and adjust the compensation accordingly. Also, a Settlement Agreement and Release of Claims was presented to settle all claims associated with the relocation of Catalina and the overpayment of percentage rent under the prior Permit (Permit No. 768). The First Amendment compensation schedule took into account negotiated rates for all parcels, and forgoing percentage rent and Consumer Price Index (CPI) adjustments for an additional period of time, as a condition of the Settlement Agreement (Agreement No. 14-3274).

Since that time, Catalina and Harbor Department staff have negotiated a Second Amendment regarding a proposed warehouse from which Catalina will transport freight to and from Catalina Island.

Proposed Second Amendment Summary

Term: The proposed Second Amendment (Transmittal 2) does not extend the current permit, which expires on March 29, 2037.

Premises: The proposed additional premises are presently used as paved parking under an operating agreement with Parking Concepts, Inc. The land involved is divided into three areas, not including an "option area" for potential tenant premises expansion. This parking location has had sporadic occupancy, and when it has been utilized, it has been a result of Catalina's summer ferry service to Avalon. Since Catalina and cruise ship peak business occur in different seasons, no lost parking revenue is anticipated as a result of this amendment.

The proposed additional premises are as follows:

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DESIGNATED AREA	AREA (SF)	PROPOSED USES
PARCEL 8	26,155	TRUCK OPERATIONS
PARCEL 9A	22,151	NEW WAREHOUSE/OFFICES
PARCEL 9B	<u>7,136</u>	EMPLOYEE PARKING
TOTAL: 55,442 SF (1.2728 ACRES)		
OPTION AREA	8,883	POTENTIAL FUTURE PREMISES EXPANSION FOR PARKING
TOTAL PREMISES: (IF OPTION AREA IS ADDED)	64,325 SF (1.4767 ACRES)	

Parcel 8 lies underneath the span of the Vincent Thomas Bridge and 30 feet beyond the bridge's edge, encumbered by a Caltrans access easement. The Caltrans easement allows for bridge repair, maintenance, or inspections by Caltrans employees and their contractors. Due to this easement, it is possible that at some point during the term of the permit that Catalina may temporarily be denied access to premises should a bridge repair be prolonged for an extended duration. Catalina has acknowledged this possibility and is accepting the risk involved, should Caltrans require access during the remaining term of their permit.

Compensation: Compensation under the permit for the additional premises is structured as follows:

DESIGNATED AREA	AREA (SF)	COMPENSATION PER SF PER YEAR	ANNUAL RENT
PARCEL 8	26,155	\$ 1.00	\$ 26,155.00
PARCEL 9A	22,151	\$ 3.50	\$ 77,528.50
PARCEL 9B	7,136	\$ 3.50	\$ 24,976.00
TOTAL AREA IN SQUARE FEET:	55,442	TOTAL ANNUAL RENT:	\$ 128,659.50

Additionally, should the Option Area become available and Catalina desires to lease the Option Area, Catalina would pay the fair market rental rate of the land at the time of availability. CPI adjustments will apply to the additional premises based on the existing Permit language.

In addition to the rent above, compensation will reflect that, in addition to the fair market land rent, Catalina will pay as additional compensation two percent of gross receipts from all freight operations occurring within the premises as per the existing permit language.

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Construction of Tenant Improvements: Catalina will design and construct on the amended premises a warehouse and administrative office of between 18,000 to 20,000 square feet not including associated paving, landscaping and lighting. A truck scale will be installed on the premises. The building site will require significant lateral support due to its proximity to the water in order to construct the building. Catalina has also designed ramp and water related improvements at Berth 94 so that barges may be secured there. The cost of constructing the tenant improvements is estimated to exceed \$3,500,000.

Harbor Department Improvements: The Harbor Department will procure and drive 34 piles at Berth 94 to allow barges to safely moor. The procurement and installation of the piles by the Harbor Department is estimated to cost \$280,000.

Compensation Credits: In consideration for the shortened term from which Catalina can amortize the costs of the proposed improvements, Catalina will be provided with \$1,500,000 in compensation credits over the term of the amended permit. Rental credits can be applied to the tenant's annual compensation due at no more than 50 percent of their annual compensation obligation in any given year.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a Second Amendment to Permit No. 897 with Catalina to add premises for the construction and operation of a facility and administrative offices to transport freight between Berth 95 and Catalina Island. The environmental impacts of the project were assessed in the Avalon Freight Services Relocation Project Final Initial Study/Negative Declaration, which was prepared in accordance with the California Environmental Quality Act (CEQA) and adopted by the Board on January 22, 2015. Therefore, as an activity for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of CEQA, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(1) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will result in the relocation of a reservations call center and its 40 employees now located in Long Beach to the Catalina premises once construction is complete. It is estimated that freight activities related to the new building and water/ramp improvements will result in an additional ten (10) employees. Relocation of Catalina Island freight services from Berth 184 to Berth 95 will reduce Main Channel and East Basin Channel marine traffic.

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FINANCIAL IMPACT:

Annual compensation will be comprised of land rent of approximately \$128,659, escalated annually based on the CPI and readjusted every five years consistent with the Board's policy. In addition, and per the terms of Permit No. 897, Catalina will pay two percent of the gross receipts attributable to the freight operations beginning in 2023. The cumulative additional compensation estimated through the end of the term is approximately \$8,500,000. Funds in the amount of \$280,000 for installation of piles are available in Fiscal Year 2015/2016 in Center 1900, Program 000, Account 54040.

Based on a target ten percent rate of return on the 2015 estimated land value of \$35.00 per square foot for the paved land outside the Caltrans easement area and \$10.00 per square foot for land that is subject to the Caltrans easement and underneath the Vincent Thomas Bridge, and the total Harbor Department investment of \$1,780,000 (Rent Credit and Cash), the compensation due and payable under the terms of the Second Amendment will exceed the target rate of return. Not considered in the Financial Impact, it is estimated that when the reversion of ownership in the warehouse-office facility occurs in 2037, there will be at least 23 additional years of remaining useful life from which rent can be collected.

CITY ATTORNEY:

The proposed Second Amendment has been approved as to form and legality by the Office of the City Attorney.

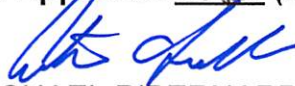
TRANSMITTALS:

- 1. Site Map
- 2. Second Amendment



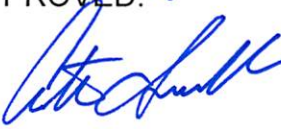
JACK C. HEDGE
Director of Real Estate

FIS Approval: MB (initials)
CA Approval: CSB (initials)



FOR MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



FOR EUGENE D. SEROKA
Executive Director