



DATE: NOVEMBER 14, 2023

FROM: CARGO & INDUSTRIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE FIRST AMENDMENT TO REVOCABLE PERMIT NO. 21-16 WITH TAYLORED TRANSLOAD, LLC.

SUMMARY:

Staff requests approval of the First Amendment to Revocable Permit No. 21-16 (RP 21-16) with Taylored Transload, LLC (Taylored), to i) extend the expiration date by two years from January 31, 2024 to January 31, 2026, subject to cancellation with 90 days' notice; ii) update the provision for annual rent adjustments; and iii) consent to a one-time change in the upstream ownership and control of Taylored. The consent is conditioned upon Taylored paying a one-time transfer fee in the amount of \$493,560 and furnishing a guaranty from Taylored's new upstream owner, AMG Logistics Group, LLC (AMG) to replace the existing guaranty. All other terms, conditions, and obligations would remain unchanged.

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 categorically exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III, Class 1(14) of the Los Angeles City CEQA Guidelines;
2. Approve the First Amendment to Revocable Permit No. 21-16 with Taylored Transload, LLC;
3. Approve the Guaranty provided by AMG Logistics Group LLC;
4. Approve the termination of the existing guaranty furnished by Taylored Services Parent Co. effective January 31, 2024;
5. Authorize the Executive Director to execute and the Board Secretary to attest to the First Amendment to Revocable Permit 21-16; and
6. Adopt Resolution No. _____.

DISCUSSION:

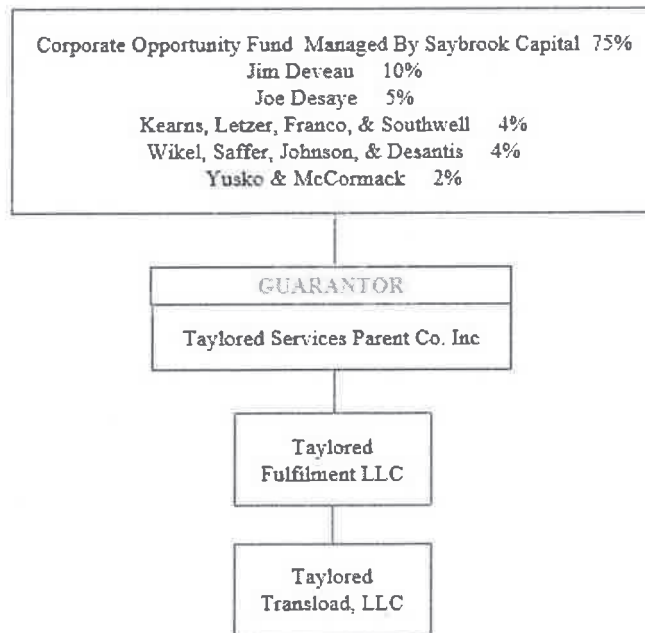
Background – Under RP 21-16, Taylored has the right to use and occupy an 85-acre site

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located at 2401 E. Pacific Coast Highway in Wilmington (Transmittal 1). Taylored has used and occupied this site since February 1, 2022, and is using the site for the purposes of operating a transloading and warehouse facility.

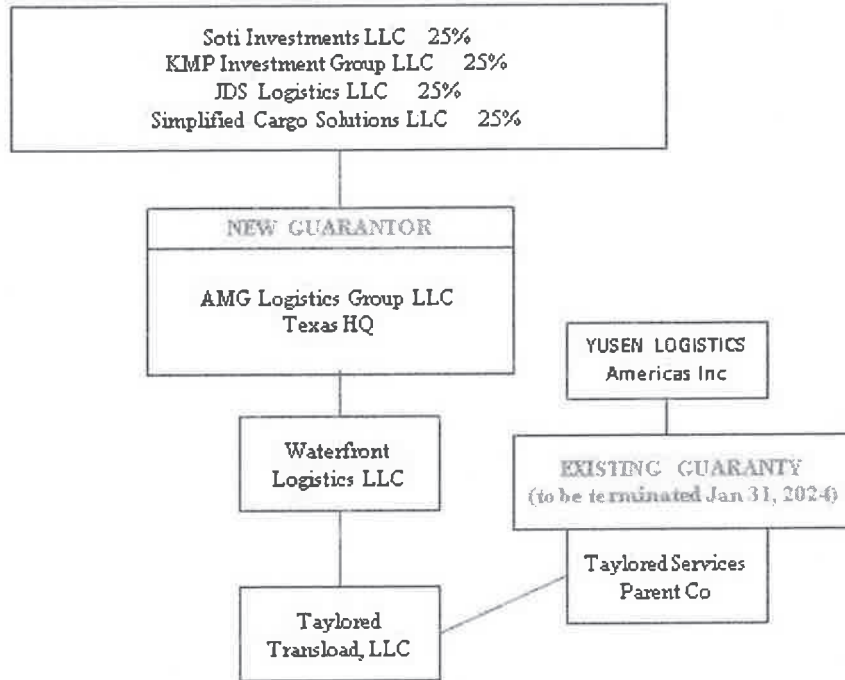
Taylored has requested the following changes: (a) extend the expiration date of the term from January 31, 2024, subject to termination with 90 days' notice, to January 31, 2026; and (b) retroactively approve a change in its upstream ownership structure. Taylored noted that a two-year extension would allow them to provide their existing customers with certainty regarding their continuation of services and increase their presence in the market while ensuring customer confidence in their continued service and support. The additional time frame would also provide a window for Taylored to implement their strategic plan of expanding their contracts for transload services and yard management for steamship lines and Beneficial Cargo Owners. A slightly longer termination window is beneficial to Taylored supply chain customers as it would provide them sufficient time and confidence to secure replacement transit hubs for goods processing should the Port exercise its cancellation right, minimizing risk to supply chain customers operation's and making them more likely to utilize Taylored and the Port of Los Angeles.

Change in Ownership: At the time of the award of RP 21-16, Taylored Transload, LLC. was a subsidiary of Taylored Fulfilment, LLC, a subsidiary of Taylored Services Parent Co. Inc., owned by several shareholders. Taylored Services Parent Co. Inc is the current guarantor for RP 21-16.



In February 2023, staff discovered that Taylored Transload, LLC's upstream ownership changed. On February 28, 2023, Taylored Parent Company Inc. sold all its outstanding shares of all divisions except Taylored Transload LLC to Yusen Logistics Services. Also, on February 28, 2023, Taylored Fulfilment, LLC Inc. sold its membership interest of Taylored Transload LLC to Waterfront Logistics LLC, which is owned by AMG.

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AMG was under the assumption that since no guarantees were changed at the time of the transfer, and Taylored continued to operate the facility, the change in shareholders did not require prior Board approval. However, staff confirmed the transfer language in RP 21-14 does not limit itself to just the tenant but also any entity that directly or indirectly controls or owns 50 percent or more of the tenant. As such, the change in upstream ownership constituted a transfer.

Staff Analysis of Transfer Transaction: While the transaction occurred in February, staff required time to evaluate the new ownership structure and financial strength, with the assistance of finance and legal counsel.

The Harbor Department’s Financial Planning and Analysis Division reviewed the financial condition of Taylored Transload, LLC as of December 31, 2022 and noted that key liquidity and profitability metrics had improved relative to December 31, 2021 (prior to becoming a tenant under RP 21-16).

Finance staff also reviewed Taylored’s request to terminate the guaranty furnished by Taylored Services Parent Co. effective January 31, 2024 in favor of a new guaranty furnished by AMG (Transmittal 2). As of December 31, 2022, neither Taylored Services Parent Co. nor AMG carried long-term debt, and AMG generated higher net income as a percentage of revenues relative to Taylored Services Parent Co. While Taylored Services Parent Co. carried more liquidity than AMG, staff noted that AMG held sufficient cash on hand as of December 31, 2022 to pay its rent obligations over the proposed two-year extension period. Therefore, staff concluded that AMG possesses a reasonable level of financial wherewithal to assume its responsibilities as a guarantor under RP 21-16 effective February 1, 2024.

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As further assurance, Taylored has provided a security deposit in the form of cash in the amount of \$2,794,905. The security deposit will increase concurrently with scheduled rent increases.

Transfer Fee: Revocable permits typically do not contain a provision requiring assessment of a transfer fee. However, in consideration of the retroactive approval of the transfer, staff recommends Taylored is assessed a transfer fee in the amount of \$493,560 as a condition of the proposed amendment. The fee is derived using a negotiated percentage of the net present value of future rent payments.

Scope of Amendment: Below is a summary of the terms modified by the proposed amendment (Transmittal 3):

<u>Provision</u>	<u>Current</u>	<u>Proposed</u>
Term	Not to exceed 24 months subject to termination with 30 days' prior notice Expires January 31, 2024	Not to exceed a total of 48 months subject to termination with 90 days' prior notice Expires January 31, 2026
Guarantor	Taylored Services Parent Co., Inc.	AMG Logistics Group LLC
Rent Adjustments	Rent is adjusted each February 1 using the <u>July</u> Consumer Price Index (CPI)	Rent is adjusted each February 1 using the <u>December</u> CPI Index
Transfer Fee	None	One-time fee in the amount of \$493,560 due within 30 days of the effective date of the First Amendment

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the First Amendment to Revocable Permit No. 21-16, which is a two-year extension of a permit for Taylored to use and occupy an 85-acre site in Wilmington, with no expansion of use. Therefore, the Director of Environmental Management has determined that the proposed action is categorically exempt from the requirements of CEQA in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed Amendment will: i) extend the expiration date of RP 21-16 by two years from January 31, 2024 to January 31, 2026, subject to cancellation with 90 days' notice; ii) update the provision for annual rent adjustments; and iii) consent to a

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one-time change in the upstream ownership and control of Taylored.

As of February 1, 2023, monthly rent under RP 21-16 is \$931,635, or approximately \$11.2 million per year. Assuming 3% annual CPI increases, staff has estimated that the proposed two-year extension will generate approximately \$23.3 million in compensation under RP 21-16.

Furthermore, the proposed update to annual rent adjustments will utilize the year-over-year change in December CPI rather than July CPI. For purposes of calculating rental adjustments with an effective date of February 1, utilizing the December CPI will support a more timely administrative process by allowing rental adjustments to be calculated as of the February 1 effective date rather than delaying the process by months until the July CPI readout becomes available.

Lastly, the consent to a one-time change in ownership is conditioned upon Taylored paying a one-time transfer fee in the amount of \$493,560 and furnishing a guaranty from Taylored's new upstream owner, AMG to replace the existing guaranty. In addition to receiving the one-time transfer fee, the Harbor Department will be further supported by AMG serving as guarantor under RP 21-16. Staff has evaluated AMG's financial statements as of December 31, 2022 and noted that AMG possessed a reasonable level of financial wherewithal to serve as guarantor under RP 21-16.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the proposed First Amendment to Revocable Permit No. 2021-16 as to form and legality.

TRANSMITTALS:

1. Site Map
2. Guaranty
3. First Amendment

FIS Approval: MB
CA Approval: SO

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