



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 13, 2022

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ – ORDER RESETTING COMPENSATION
UNDER PERMIT NO. 896 WITH CRAFTED AT THE PORT OF LOS ANGELES

SUMMARY:

Staff requests approval of the Order resetting compensation for Permit No. 896 (P896) with Crafted at the Port of Los Angeles (Crafted), a visitor-serving arts and crafts public marketplace and tourist attraction. P896 has a 25-year term that commenced December 16, 2011, with two five-year options to extend.

The proposed Order resetting compensation is for the three-year period effective September 1, 2020, through and including August 31, 2023. Proposed compensation under this compensation reset is the greater of the minimum annual rental amount of \$50,000, or percentage of gross receipts. The minimum monthly rental amount will be adjusted annually thereafter by the greater of either Consumer Price Index (CPI) or the Economic Performance Method for the remainder of the compensation period. The Economic Performance Method is determined by setting the minimum annual compensation by applying a 25 percent discount to the annual average of past three years' compensation.

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 under Permit No. 896 with Crafted at the Port of Los Angeles for the three-year period of September 1, 2020 through August 31, 2023;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 896; and
4. Adopt Resolution No. _____ and Order No. _____.

DISCUSSION:

Background - P896 grants Crafted the use of City of Los Angeles Harbor Department (Harbor Department) property consisting of approximately 134,550 square feet of warehouse space and parking space consisting of approximately 261,360 square feet in San Pedro at 112 E. 22nd Street (Transmittal 1). The permitted uses include a visitor-serving arts and crafts public marketplace and tourist attraction with incidental specialty commercial uses, including but not limited to, a brewery, food carts, parking, special events and other ancillary uses. All improvements are owned and maintained by Crafted.

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As required by the terms and conditions of P896, it is necessary for staff to review and reset compensation for each five-year period. The last compensation reset was completed in September 2015 for the compensation period covering September 1, 2015 through and including August 31, 2020.

Due to expected market appreciation and increased economic activity at Crafted following the pandemic, staff has negotiated a Second Amendment to P896 which will adjust the Fourth Compensation Period into two sections - Fourth Compensation Period 1 from September 1, 2020 to August 31, 2023 and Fourth Compensation Period 2 from September 1, 2023 to August 31, 2028. The additional reset period will be made effective through a proposed separate board action proposing the Second Amendment to the permit.

Current Compensation – For the period of September 1, 2015 through and including August 31, 2020, the fixed minimum annual rent was set at \$17,500, paid monthly in the amount of \$1,458.33 with annual CPI increases. Percentage rent was as follows:

- 3.5 percent of gross receipts up to Four Million Nine Hundred Ninety-Nine Thousand Nine Hundred and Ninety-Nine Dollars (\$4,999,999), and
- 6.5 percent of gross receipts exceeding Five Million Dollars (\$5,000,000) up to Six Million Nine Hundred and Ninety-Nine Thousand Nine Hundred and Ninety-Nine Dollars (\$6,999,999), and
- 7.5 percent of gross receipts exceeding Seven Million Dollars (\$7,000,000)

From January 1, 2015 through December 31, 2019, Crafted has generated gross receipts and paid annual minimum rent as follows:

Calendar Year Basis	2015	2016	2017	2018	2019
Gross Receipts	\$359,893	\$514,546	\$552,915	\$700,646	\$755,783
Multiply by: Applicable %	3.5%	3.5%	3.5%	3.5%	3.5%
A Equals: Percentage Rent	\$12,596	\$18,009	\$19,352	\$24,523	\$26,452
B Applicable Annual Minimum	\$5,833	\$17,612	\$18,020	\$18,629	\$19,302
C Greater of % Rent or Min. [MAX (A, B)]	\$12,596	\$18,009	\$19,352	\$24,523	\$26,452

Currently, as outlined in Section 5.1.4 of P896, the minimum annual rent automatically reset to a minimum of \$50,000 on September 1, 2020. Further, P896 requires Board approval of the reset as the automatic adjustment also requires a review of market rent, with \$50,000 being the lowest possible rent that may apply. Staff has determined that the \$50,000 reset represented an appropriate market value for the Crafted premises on September 1, 2020.

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Proposed Compensation Reset (Transmittal 2) - Pursuant to Section 5.3.4.1 of the proposed Second Amendment to P896, minimum rent for the compensation year beginning September 1, 2020 through and including August 31, 2023 shall be reset to the greater of a minimum of \$50,000 annually or 3.5 percent of gross receipts up to \$4,999,999, 6.5 percent of gross receipts exceeding \$5,000,000 up to \$6,999,999, and 7.5 percent of gross receipts exceeding \$7,000,000. Minimum rent shall be subject to annual CPI increases or the Economic Performance Method, whichever is greater, for the remainder of the compensation period.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the Order resetting compensation for P896 with Crafted, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed Order would reset compensation under P896 for the three-year period effective September 1, 2020, through and including August 31, 2023. Under the proposed Order minimum annual rent would increase by 154 percent from \$19,683 as of September 1, 2019 to \$50,000 per year effective September 1, 2020. Effective September 1, 2021 and each September 1 thereafter for the remainder of the compensation period, minimum annual rent will be adjusted based upon the greater of CPI or the Economic Performance Method.

Under the proposed Order, Crafted would pay the greater of minimum annual rent or percentage rent charged at 3.5 percent of gross receipts up to \$4,999,999, 6.5 percent of gross receipts exceeding \$5,000,000 up to \$6,999,999 and 7.5 percent of gross receipts exceeding \$7,000,000. In order to meet the \$50,000 minimum annual rent requirement effective September 1, 2020, Crafted would need to generate gross receipts totaling more than \$1.4 million. Over the five-year period from January 1, 2015 through December 31, 2019, gross receipts increased from \$359,893 in 2015 to \$755,783 in 2019 and averaged \$576,757 per year over that period.

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CITY ATTORNEY:

The proposed Order resetting compensation under Permit No. 896 has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Site Map
2. Order

FIS Approval: 
CA Approval: 

Michael J. Galvin
MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate

Michael DiBernardo
MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:

Marla Bleavins For

EUGENE D. SEROKA
Executive Director

ES:MD:MG:HP:MS:fo
Author: Meagan Sestich
BL938fo Crafted Comp Reset