

#15
4.27.23

RECOMMENDATION APPROVED;
RESOLUTION 23-10176 (PERMIT 904A) ADOPTED
BY THE BOARD OF HARBOR COMMISSIONERS

April 27, 2023
AM KLESGES
AMBER M. KLESGES
Board Secretary



DATE: APRIL 12, 2023
FROM: WATERFRONT & COMMERCIAL REAL ESTATE
SUBJECT: RESOLUTION NO. 23-10176 – APPROVE SIXTH AMENDMENT TO AMENDED AND RESTATED LEASE NO. 904A WITH ALTASEA AT THE PORT OF LOS ANGELES

SUMMARY:

Staff requests approval of the Sixth Amendment to Amended and Restated Lease 904A (Lease No. 904A) with AltaSea at the Port of Los Angeles (AltaSea). The premises, located at City Dock No. 1 and consisting of 32.13 acres, is for water-dependent, academic, and governmental uses, and houses a non-profit and for-profit marine research facility.

The proposed Sixth Amendment includes: revisions to the City of Los Angeles Harbor Department's (Harbor Department) monetary contribution towards improvements at Warehouses 58-60, deletion of the Parcel 56 Engagement Center Project, and addition of an adjacent parcel at Berth 56 that was recently vacated by the California Department of Fish and Wildlife. Approval of the proposed Amendment is not expected to change the total amount of the Harbor Department's \$36,660,000 monetary commitment under Lease No. 904A.

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 and categorically exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) and Article III Class 1(14) of the Los Angeles City CEQA Guidelines;
2. Approve the Sixth Amendment to Amended and Restated Lease No. 904A with AltaSea at the Port of Los Angeles;
3. Direct the Board Secretary to transmit the Sixth Amendment to Amended and Restated Lease No. 904A to the City Council for approval pursuant to Section 606 of the City Charter;

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4. Authorize the Executive Director to execute and the Board Secretary to attest to the Sixth Amendment to Amended and Restated Lease No. 904A upon approval by City Council; and
5. Adopt Resolution No. 23 - 10176.

DISCUSSION:

Background - On December 23, 2013, AltaSea was granted Lease No. 904 (Lease) for the construction, operation, and maintenance of an urban marine research facility with a term of 50 years at City Dock No. 1. The Lease provides conditions under which AltaSea may occupy 11 parcels totaling 32.13 acres.

In August 2017, Lease No. 904 was amended and restated (Lease No. 904A) in order to expedite activation and development of the premises and reduce each party's financial obligations without compromising AltaSea's original mission and goals, including providing comparable public access infrastructure; educational and public programming; job creation; and economic activity.

Proposed Sixth Amendment – The proposed Sixth Amendment (Transmittal 1) will: (i) revise certain conditions for the use of Harbor Department monetary contributions towards improvements at Warehouses 58-60; (ii) expand the scope of development activities supported by the Harbor Department's monetary contributions; (iii) remove the development of the Berth 56 Engagement Center as well as the accompanying 22nd Street Reconfiguration Project from the Lease; and (iv) add an adjacent parcel to the AltaSea premises.

Expanded Project for initial \$6 million Harbor Department funding for Warehouse 58

Background

- AltaSea has received funding commitments totaling \$22 million (\$15 million from the state; \$7 million from private donors) to redevelop all three Warehouses at Berths 58-60 simultaneously, versus the previous plan to redevelop the three warehouses in two to three separate phases. AltaSea is in the process of receiving final bids for this project and negotiating a construction contract for this work.

Proposed Amendment Revisions

- AltaSea would commit to enter into a construction contract for the entire Warehouses 58-60 at a total estimated construction cost of \$26 million (\$20 million AltaSea funded and \$6 million Harbor Department funded), versus the existing requirement for redeveloping only Warehouse 58 at an estimated cost of \$12 million (\$6 million each party).

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- AltaSea is requesting expedited access to the Harbor Department-approved \$6 million funding for Warehouse 58. AltaSea requests initial use of \$3 million when they meet a lowered funding pre-condition for Warehouse 58 of at least 50 percent leased occupancy and revenue of proforma, and the remainder of the \$6 million made available upon reaching the now-existing occupancy and revenue of proforma leasing requirements of 85 percent.
- AltaSea is also requesting less restrictive bank deposit conditions. Under current lease requirements, AltaSea has to deposit \$6 million in a construction contract account in order to receive incremental funding of the Harbor Department's \$6 million. However, because a significant portion of AltaSea's funds are post-expenditure reimbursement grants from the State of California, a requirement to hold significant funds in a construction contract account will increase AltaSea's borrowing costs while restricting cash flow. Alternatively, AltaSea proposes to deposit \$1 million into the construction contract account and refresh deposit amounts quarterly up to the \$1 million level over the course of the contract until redevelopment of all three warehouses is complete.
- As part of the funding structure, AltaSea will be required to produce satisfactory evidence to the Executive Director demonstrating \$20 million of in-hand and committed funding for the Warehouses 58-60 project prior to the Harbor Department providing funds to AltaSea.

Deletion of Parcel Berth 56 Engagement Center ProjectBackground

- Under current Lease terms, AltaSea is required to build an engagement center at Berth 56. The building's design won multiple architectural awards and was originally estimated to cost in excess of \$50 million. The building originally was expected to be the public front entrance of AltaSea and required relocating 22nd Street to create a large enough parcel to develop the proposed design. Current AltaSea management believes the building's utility does not justify the cost for either party given the limited jobs produced by the proposed engagement center and available alternative methods to achieve a higher degree of public engagement.

Proposed Revisions

- Subject to the approval of the Executive Director and as a condition of acceptance for Parcels B56A-C, AltaSea will be required to produce a development plan for Berth 56 including various tenant or land use concepts configured to connect pedestrian access from the future improved 22nd Street and Signal Street right-of-ways to an integrated and multifaceted engagement experience throughout the AltaSea premises. The integrated engagement experience will facilitate the public visit to AltaSea and promote the marine research, education, and commercial endeavors and maritime-related pursuits happening at AltaSea.
- The 22nd Street realignment project will be deleted from the Lease and AltaSea and the Department agree to discuss future Berth 56 improvements and the 22nd Street reconfiguration project to enhance pedestrian access to the new entrance to AltaSea.

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- Subject to AltaSea accepting Parcels B56A-C, the adjacent California Department of Fish and Wildlife (CDFW) premises, measuring 14,087 square feet (Transmittal 2) will be added to the AltaSea premises. Annual rent for the CDFW parcel will be \$3,169.40. CDFW has relocated to the AltaSea site and will vacate their current site directly adjacent to Parcel 56A, as depicted on attached map. The CDFW parcel includes a historic-eligible office building that needs significant upgrades for future occupancy. These premises will provide utility to future AltaSea tenants and may have limited marketability and utility as a standalone site. AltaSea will be required to pay rent on this parcel based on the same rates for water, land, and indoor space existing in the current Lease.

The Sixth Amendment indicated all of the Lease No. 904A sections being amended. Staff recommends the Board approve the Sixth Amendment to expedite development of Warehouses 58-60, improve engagement within the AltaSea campus, and eliminate unjustified investment in limited utility improvements by both parties at Berth 56.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the Sixth Amendment to Lease 904A, which is an administrative activity and an amendment to a Lease for an existing facility with negligible or no expansion of use. Any developmental activities resulting from the new design for pedestrian access and restoration of the historic building would be handled under a separate CEQA analysis. Therefore, the Director of Environmental Management has determined that the proposed project is administratively and categorically exempt from the requirements of CEQA in accordance with Article II Section 2(f) and Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed Amendment will: (i) revise certain conditions for use of Harbor Department monetary contributions towards improvements at Warehouses 58-60; (ii) expand the scope of development activities supported by the Harbor Department's monetary contributions; (iii) remove the development of the Berth 56 Engagement Center as well as the accompanying 22nd Street Reconfiguration Project from the Lease; and (iv) add an adjacent parcel to the AltaSea premises.

The Harbor Department's overall monetary commitment of \$36,660,000 under Lease No. 904A is not expected to change if the proposed Amendment is approved. The proposed Amendment will enable \$6,000,000 to be applied towards development of the Berths 58-60 warehouses rather than solely the Berth 58 warehouse. Furthermore, while the Harbor Department's \$9,040,000 commitment to relocate 22nd Street will be removed from the Lease, this commitment is anticipated to be redirected towards a future development at Berth 56 which may include improvements to 22nd Street. Lastly, the Harbor Department will continue to be responsible for reimbursing up to \$3,000,000 in expenses incurred by AltaSea to remediate construction materials and ground contamination present on Harbor Department-owned property at Berth 56.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the proposed Sixth Amendment as to form and legality.

TRANSMITTALS:

1. Sixth Amendment
2. Premise Map

FIS Approval: MB
CA Approval: SO

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BL984raw AltaSea Sixth Amend