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**RECOMMENDATION APPROVED;
RESOLUTION 18-8375 (LEASE 904A) ADOPTED
BY THE BOARD OF HARBOR COMMISSIONERS**

October 18, 2018



AMBER M. KLESGES

Board Secretary



Executive Director's

Report to the

Board of Harbor Commissioners

DATE: OCTOBER 10, 2018

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. 18-8375 APPROVE FIRST AMENDMENT TO
THE AMENDED AND RESTATED LEASE NO. 904A WITH ALTASEA AT
THE PORT OF LOS ANGELES**

SUMMARY:

Staff requests approval of the First Amendment to the Amended and Restated Lease No. 904A (Lease) with AltaSea at the Port of Los Angeles (AltaSea). The premises, located at City Dock No. 1 and consisting of 34.75 acres, is for water-dependent, academic, and governmental uses, and a non-profit and for-profit marine research facility. AltaSea is a tenant in good standing and has complied with all provisions of the Lease.

The proposed First Amendment will waive the required monetary compensation (rent) from AltaSea in the amount of \$136,222 for certain portions of the Business Innovation Hub (generally Parcels B58 to B61A and B61C) in consideration of unforeseen and significant delays to secure the necessary electrical power for the site and receive revenues from prospective tenants. The waiver of rent will be effective from the time AltaSea took possession of the subject parcels, September 11, 2018, until the end of the Interim Compensation Period, August 22, 2019, when it is anticipated that the electrical power will be secured.

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 Amended and Restated Lease No. 904A with AltaSea at the Port of Los Angeles;
3. Direct the Board Secretary to transmit the First 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 First Amendment to Amended and Restated Lease No. 904A upon approval by City Council; and
5. Adopt Resolution No. 18: 8375.

DISCUSSION:

Acceptance and Possession of Parcels: Under the Lease, AltaSea, at its sole option, may accept parcels from Berth 57.5 to Berth 61A over a period of time during the 12 months following the effective date of the Lease, August 23, 2017, pending satisfaction of certain obligations, conditions, and timelines. As of March 1, 2018, AltaSea possessed 2.92 acres within the subject area for which monetary rent has been paid until December 22, 2018. AltaSea was required to accept all parcels from Berth 57.5 to Berth 61A by August 23, 2018.

On August 23, 2018, AltaSea provided the City of Los Angeles Harbor Department (Harbor Department) its notice of acceptance and intent to take possession of 9.39 acres within Parcel B57.5 (slated for the Education Pavilion and Wharf Plaza), the remaining areas not previously taken within Parcels B58 to B60 (Business Innovation Hub), and Parcel B61A (U.S. Water Taxi, Inc./USWT). AltaSea also requested possession of a 12,155-square foot (s.f.) water parcel (subsequently referred to as Parcel B61C), a portion of which is occupied by the existing tenant, USWT. The Executive Director has the authority under the Lease to add Parcel 61C to AltaSea's existing 34.75 acres.

On September 5, 2018, after staff review of the documents submitted, a preliminary letter of determination of compliance was issued, which was to be finalized pending the execution of an amendment adding the 12,155 s.f. water parcel (subsequently identified as Parcel B61C) to the Lease permit premises; termination of the revocable permits of Catalina Sea Ranch, LLC (CSR) and USWT; and AltaSea's concurrence with the enclosed calculation of the rent; and receipt of the prorated Minimum Annual Rent in an amount to be determined after above conditions have been completed. On September 10, 2018, 30-day notices of termination were issued to CSR and USWT.

Lack of Sufficient Electrical Capacity and Deficiency in Infrastructure: In a letter dated September 13, 2018, AltaSea informed the Harbor Department of adverse site conditions prior to taking possession of the subject parcels, the most significant of which was the lack of sufficient electrical capacity and infrastructure to support prospective tenants' operations, compounded by the numerous delays in receiving the required power from the Los Angeles Department of Water and Power (LADWP). AltaSea also noted the existence of a sinkhole at Parcel B61A. The electrical issue has limited AltaSea's ability to secure land and water-based tenants. AltaSea provided a list of potential tenants and estimated rental income of \$500,000 to \$700,000 annually not realized as a result of the lack of adequate power to the site.

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LADWP Delays: AltaSea has pursued "meet and confer" discussions with staff regarding the LADWP power issue. Staff has generally been aware of the ongoing issue that AltaSea has experienced with securing a power solution with LADWP. AltaSea's original plan assumed power would be available by June 2018 and that LADWP could use the existing service to provide interim power to Warehouse 58 and adjacent wharf areas. AltaSea planned to move tenants into Warehouse 58 in June 2018 after electrical service was made available to offset a large portion of existing operating expenses. According to AltaSea, they were notified in August 2017 that their proposed electrical plan could not be achieved. An agreeable solution was reached in May 2018 and currently, the plans are expected to be approved by LADWP within 30 days. If there are no further delays, AltaSea will have an interim power solution installed at Warehouse 58 between May and July of 2019, a 12-month delay from the expected date of completion.

Monetary Compensation/Rent: Rent during the first two years of the Lease (August 23, 2017 to August 22, 2019) is established at the rate of \$.42/s.f. for land and \$.10/s.f. for water areas so long as non-monetary compensation in the form of service and public benefit has also been provided, pursuant to Exhibit F of the Lease. AltaSea has complied with all non-monetary compensation provisions of the Lease, as depicted in their latest annual report from calendar year 2017.

According to AltaSea, the loss of approximately \$500,000 to \$700,000 annually in potential revenue from rental income significantly constrains their annual budget. Rental costs to the Harbor Department of \$14,262 per month would further burden this situation until potential tenants can be accommodated. Staff recommends waiving rent in the amount of \$136,222 from September 11, 2018 to August 22, 2019 due to the unforeseen and prolonged delays in receiving adequate power to the premises.

ENVIRONMENTAL ASSESSMENT:

The proposed action is an amendment to an agreement to waive rent for certain AltaSea parcels for an interim period, which is an administrative activity with no expansion of use. Therefore, the Director of Environmental Management has determined that the proposed action is administratively and categorically exempt from the requirements of CEQA in accordance with Article III, Class 1 (14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

If approved, the First Amendment will waive \$136,222 in required monetary compensation from AltaSea over the period from September 11, 2018 through August 22, 2019.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the First Amendment to the Amended and Restated Lease No. 904 as to form and legality.


TRANSMITTALS:

1. Site Map
2. First Amendment



MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate

FIS Approval: MB
CA Approval: MB



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



FOR

EUGENE D. SEROKA
Executive Director

ES:MD:MG:RV:raw
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BL756raw AltaSea First Amend 904A