



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: APRIL 24, 2018

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE SIXTH AMENDMENT
AND CANCEL FIFTH AMENDMENT TO PERMIT NO. 888 WITH
EVERPORT TERMINAL SERVICES, INC.**

SUMMARY:

Staff requests approval of the Sixth Amendment to Permit No. 888 (Permit) between the City of Los Angeles Harbor Department (Harbor Department) and Everport Terminal Services, Inc. (Everport). The proposed Sixth Amendment will extend the term of Permit by ten years; revise notice requirement for a successor permit to 37th year; modify Section 2(b) of the Permit to capture additional acreage into the Permit; charge fixed rent in the amount of \$186,049.48 on 24.78 acres from the effective date of the Sixth Amendment until the Notice to Proceed is issued; charge zero rent on the 24.78 acres from issuance of Notice to Proceed until substantial completion after which the 24.78 acres will become part of the compensation acres; provide free rent on one and a half acre parcel for one year; and add a new subsection to Section 5 (Improvements), detailing new improvements to be constructed by the Harbor Department. The option to extend will result in total revenue of approximately \$888 million over the ten-year period from 2029 through 2038, with a Net Present Value (NPV) of \$397.5 million, and estimated volume of 18.8 million TEUs. Everport is financially responsible for all payments due under the Permit.

The Board of Harbor Commissioners previously approved Resolution No. 17-8180 on October 17, 2017, certifying the Environmental Impact Statement/Environmental Impact Report (EIS/EIR) to commence the proposed upgrade at the Everport Terminal. A new Section, "Environmental Compliance" will be added to the Permit to incorporate the mitigation measures.

The Sixth Amendment will also cancel and replace the Fifth Amendment approved by the Board of Harbor Commissioners on August 21, 2014. The Fifth Amendment revised the Twenty-Foot Equivalent Unit (TEU) rate scale and allowed Everport to call at other Port of Los Angeles Terminals to retain container volumes resulting from larger vessels that the Everport terminal could not be accommodated due to water depth limitations. The Sixth Amendment will not only allow Evergreen vessels to call at other Port of Los Angeles terminals due to vessel size (as in the Fifth Amendment), but also due to construction of the Sixth Amendment Improvements.

The proposed action would result in increased container volumes at the Port, while minimizing revenue impacts to the Harbor Department.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

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1. Find that the Director of Environmental Management has determined that the proposed action has been previously evaluated pursuant to the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(i) of the Los Angeles City CEQA Guidelines;
2. Approve the Sixth Amendment and cancel the Fifth Amendment to Permit No. 888 with Everport Terminal Services, Inc.;
3. Direct the Board Secretary to transmit the Sixth Amendment for Permit No. 888 to the City Council for approval pursuant to Section 606 of the City Charter;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the Sixth Amendment upon Board approval contingent upon approval by City Council; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background - On October 17, 2017, the Board adopted Resolution No. 17-8180 approving an EIS/EIR, which enables the upgrade and improvement project of the Everport terminal to accommodate larger ships. The project is expected to cost approximately \$58,690,000 and be completed by January 2021.

The Berths 226-236 Everport Container Terminal Improvements Project will improve the wharves and deepen the berth at Berths 226-229 to accommodate container vessels requiring -53 ft. berth depth; improve the Berths 230-232 wharves and deepen the berth to accommodate container vessels requiring -47 ft. berth depth; provide electrical infrastructure for 3 additional cranes, and 1.5 acre backland improvements. Project commencement is contingent upon the approval of the Sixth Amendment.

The Sixth Amendment (Transmittal 1) will extend the existing term by additional ten years, convert 24.78 acres of area currently under Space Assignment and 1.5 new acres to the premises and incorporate a new Section, "Environmental Compliance," to adopt the mitigation measures approved under Resolution No. 17-8180. The 24.78 acres will have a fixed rent of \$186,049.48 from the effective date of the Sixth Amendment until the Notice to Proceed for the Sixth Amendment Improvement Project. After the issuance of the Notice to Proceed until substantial completion, the rent will be zero to mitigate construction impact to the tenant. Upon substantial completion, 24.78 acres will become part of the compensation acres and rent will be determined pursuant to Section 4 of the Permit 888. The addition of 1.5 acres into the Permit premises (Transmittal 2) will result in zero rent for a one-year period as a condition of the existing Permit.

The ten-year term extension will result in additional revenue to the Harbor Department of \$888 million (NPV of \$397.5 million) and estimated volume of 18.8 million TEUs. The redevelopment will improve Everport's operational effectiveness by accommodating larger container vessels and increase terminal capacity from 1.8 million TEUs to 2.3 million TEUs annually.

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Aside from mitigation measures that are the responsibility of the Tenant as outlined in the Mitigation Monitoring & Reporting Program, the proposed project cost is the financial responsibility of the Harbor Department. The construction schedule estimates project completion 24 months after the Notice to Proceed from January 2019.

The Sixth Amendment will also cancel and replace the Fifth Amendment approved by the Board of Harbor Commissioners on August 21, 2014. The Fifth Amendment revised the Twenty-Foot Equivalent Unit (TEU) rate scale and allowed Everport to call at other Port of Los Angeles Terminals to count towards the Everport compensation to retain container volumes resulting from larger vessels that the Everport Terminal cannot accommodate due to water depth limitations.

The Sixth Amendment will not only allow Evergreen vessels to call at other Port of Los Angeles Terminals due to vessel size (as in the Fifth Amendment), but also due to construction of the Sixth Amendment Improvements.

Upon the completion of the sixth amendment improvement project, the tenant will no longer be able to count the TEU's handled by Evergreen vessels calling at other Port facilities due to construction of the sixth amendment improvements.

Fifth Amendment: The Board approved the Fifth Amendment on August 21, 2014. The existing terminal leased by Everport cannot accommodate such vessels due to water depth limitations at their berth requiring Evergreen and its joint service partner to utilize other terminals, including those at the Port of Long Beach. To address this issue, the Harbor Department and Everport negotiated a revised TEU/acre rate schedule recognizing the need to have those vessels remain at the Port.

Under the Fifth Amendment, and notwithstanding existing incentive programs (empty, transshipped incentives), all the TEUs handled through the Everport facility, as well as any TEUs handled by Evergreen controlled vessels calling at other Port facilities, due to their size, would count toward the negotiated Everport compensation schedule. If the total volume of TEUs per acre is 4,999 or less, a single TEU rate is applied, as detailed in Exhibit F. If the total volume of TEUs per acre is greater than 4,999, the TEU rates corresponding to different compensation brackets are applied to the remaining TEUs. This compensation methodology is used to obtain an average TEU rate with respect to all TEUs handled by Evergreen controlled vessels at any Port facility, due to their size. The average TEU rate is then applied only to those TEUs handled at the Everport facility for compensation calculation purposes. Compensation is reconciled yearly based on actual TEU volumes handled versus billed during the year.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a Sixth Amendment to Permit No. 888. This project was previously assessed in the Berths 226-236 [Everport] Container Terminal Improvements Project which was certified by the Board of Harbor Commissioners on October 19, 2017. Therefore, the Director of Environmental Management has determined that the proposed action has been previously evaluated pursuant to the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(i) of the Los Angeles City CEQA Guidelines.

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FINANCIAL IMPACT:

The total capital cost of improvements is estimated at \$68.20 million, including the completed EIR plus tenant improvements. Based upon annual 1 percent TEU increases on 2017 throughput of 1.6 million TEUs that register 2.0 million TEUs during the final year of the extended Permit, the total estimated rate of return (ROR) on the upgraded terminal, as well as the ROR on the incremental investment of \$68.20 million, attains the Harbor Department's blended target rate of return of 10.9 percent. The ten-year term extension will result in additional revenue to the Harbor Department, with a NPV of \$397.5 million, and estimated volume of 18.8 million TEUs.

CITY ATTORNEY:

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

TRANSMITTALS:

1. Sixth Amendment
2. Site Map



JACK C. HEDGE
Director of Cargo & Industrial Real Estate

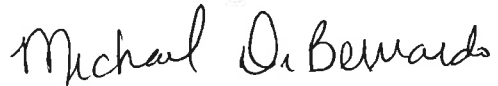
APPROVED:



EUGENE D. SEROKA
Executive Director

FIS Approval:  (initials)

CA Approval:  (initials)



MICHAEL DiBERNARDO
Deputy Executive Director