



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JANUARY 16, 2018

FROM: CARGO & INDUSTRIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE SUCCESSOR PERMIT WITH PRAXAIR, INC. TO OPERATE AND MAINTAIN AN AIR SEPARATION PLANT IN EAST WILMINGTON

SUMMARY:

Staff requests approval of a new term Permit between the City of Los Angeles Harbor Department (Harbor Department) and Praxair, Inc. (Praxair) to replace Lease No. 88, a 50-year term lease. Praxair currently operates and maintains an air separation facility and several supply pipelines at 2300 E. Pacific Coast Highway in East Wilmington. This facility separates gases from the ambient air and individually separates the elements (such as nitrogen and oxygen) so that they can be used for specific industrial purposes. The gas plant supplies the local refineries with industrial gases that are essential to the refining process. The proposed replacement Permit is for a term of ten years with two options to extend the Permit ten years each, for a total potential term of 30 years. Annual revenue under the proposed Permit will be \$1,063,250.76 per year with annual Consumer Price Index (CPI) based adjustments.

RECOMMENDATION:

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

1. Find 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 as determined by the Director of Environmental Management;
2. Approve the proposed Permit with Praxair, Inc.;
3. Direct the Board Secretary to transmit the Permit to the City Council for approval pursuant to Charter 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 Permit upon approval by City Council; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background - On December 12, 1966, the Harbor Department approved Lease No. 88 with Union Carbide Corporation. The lease was for a term of 50 years for the construction of an air separation plant and appurtenant pipelines to distribute gases on 9.55 acres of land. The separation plant is located approximately one-quarter mile west of the intersection of Pacific Coast Highway and the Terminal Island Freeway.

In 1989, the gases division of Union Carbide Corporation was spun off as a subsidiary, Union Carbide Industrial Gases, Inc., and renamed Praxair when it became a formally independent company three years later (in 1992).

Included in the gas plant are an administrative office, service garage for tractor trailers, storage, mechanical buildings, and a rail spur.

Potential Merger - In August 2016, it was publicly announced that Praxair was in official negotiations to merge with the German industrial company Linde Group, which would form the world's largest gas supplier. In late December 2016, an official announcement was made that Praxair had reached an agreement to merge with Linde in a deal valued at \$35 billion, with an anticipated merger value of \$65 billion. Both companies reached an agreement in principle in May 2017 with an all-share merger of equals valued at \$73 billion. In early June 2017, both companies agreed to the merger, with the merger still required to be approved by a majority of Praxair's shareholders. Linde's shareholders will not vote on the deal, but 75 percent must tender their shares to the new company for the deal to go through. Upon completion of the merger, staff will return to the Board seeking consent related to the change in ownership and name, expected to close in the second half of 2018, according to information from both companies.

Permit Terms Summary

Term: The term of the proposed Permit (Transmittal 1) is for ten years with two options to extend the Permit ten years each for a total of 30 years. Praxair has requested these options as a result of the pending merger detailed above.

Premises: Total land under the new Permit is 9.08 acres, with an additional 29,246 square feet of pipeline right of way (Transmittal 2). The pipelines travel north along the southern and western border with Cal Cartage and west towards the Tesoro refinery.

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Compensation: Proposed compensation under the Permit shall be as follows:

Annual rent: \$1,063,250.76 (Land and Pipeline Right-of-Way), which represents a 52 percent increase in current rent.

Additional Compensation: Two ten-year option fees totaling \$294,279. Praxair to pave the majority of the western perimeter Port-owned street (19,280 square feet of paving for a cash equivalent value of \$77,600).

Retroactive Rent: Praxair to pay the difference between the replacement Permit's annual rent of \$1,063,250.76 and the current lease rent of \$698,492 prorated up to the effective date of the replacement Permit from December 16, 2016. Payment will be within 90 days of the effective date of the Permit and is estimated to be a minimum of \$364,759.

Economic Benefits: This Board action will result in the continued employment of up to 30 jobs related to the maintenance and operation of the Praxair gas plant and an additional 30 third-party jobs related to off-site trucking over the term of the Permit. Praxair is also LADWP's 3rd largest customer and is compliant with all applicable Port and local, regional, State, and Federal environmental rules, regulations, tariffs, and laws.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a new term Permit with Praxair, which is an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use. As such, 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:

Total compensation in the first year after the effective date will total \$1,722,289, which includes rent of \$1,063,250.76, upfront option fees of \$294,279 in the first year, and estimated retroactive rent payment of \$364,759. In addition, the Harbor Department will repave and repair a Harbor Department-owned street along the northern premises perimeter at an estimated cost to the Harbor Department of \$94,875 for 27,503 square feet. Funds in the amount of \$94,875 will be included as part of the Harbor Department's Capital Improvement Program budget for Fiscal Year 2019-2020 and submitted to the Board for approval. Compensation over the term of the Permit is estimated at approximately \$43,638,231 over the 30-year term of the Permit assuming Praxair exercises both ten-year options to extend with an average 1.75 percent annual Consumer Price Index adjustment and 5 percent estimated increase at every five-year compensation reset. The estimated internal rate of return over a 30-year term is 12.4 percent.

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CITY ATTORNEY:

The Permit has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Permit
- 2. Site Map



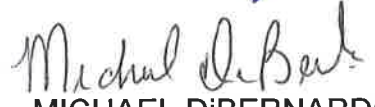
JACK C. HEDGE
Director of Cargo & Industrial Real Estate

APPROVED:



EUGENE D. SEROKA
Executive Director

FIS Approval: MB (initials)
CA Approval: JMC (initials)



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