



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: APRIL 22, 2015

FROM: REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - NOTICE OF RENTAL AND MAINTENANCE REQUIREMENT ADJUSTMENT FOR REVOCABLE PERMIT NO. 92-24 WITH PHILLIPS 66 (CONOCO PHILLIPS)

SUMMARY:

Revocable Permit No. 92-24 (RP 92-24) was entered into with Union Oil Company of California dba UNOCAL (UNOCAL) in February 1993 as a replacement to Permit No. 579, pursuant to Board of Harbor Commissioners (Board) Order No. 5497. RP 92-24 authorized UNOCAL use of the premises for the purpose of construction, operation, and maintenance of a marine hydrocarbon terminal for the storage, transportation, supply, and distribution of crude petroleum, gasoline, hydrocarbon derivatives, and fuel components.

In 1997, Tosco Corporation (Tosco) bought UNOCAL and Tosco continued to operate under the terms of RP 92-24. Phillips Petroleum Company, Conoco Inc., and Tosco all became subsidiaries of the newly-formed Conoco Phillips in 2002. Conoco Phillips continued to operate under the terms of RP 92-24. In 2012, Conoco Phillips spun-off its refining and marketing business into its affiliate, Phillips 66. Phillips 66 continued to operate under the terms of RP 92-24.

Staff has been in Term Sheet negotiations with Phillips 66 to implement Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS) wharf improvements. Staff intends to enter into a new long-term permit with Phillips 66 following California Environmental Quality Act (CEQA) assessment of a mutually agreeable project scope. In the interim, adjustments to existing rent and maintenance obligations are required pending CEQA assessment and final agreement on new permit terms.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Notice of Rental and Maintenance Requirement Adjustment to Revocable Permit No. 92-24 with Phillips 66;

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2. Authorize the Executive Director to execute and the Board Secretary to attest to the Notice upon approval by the Board of Harbor Commissioners; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background and Context - California Civil Code § 827 provides that upon written notice a landlord may change the terms of the lease. With that authority in mind, the City of Los Angeles Harbor Department (Harbor Department and City) periodically reviews all revocable permits and updates the revocable permits to reflect the current rental values of the land, water, and facilities under the Harbor Department's ownership; as well as any other significant changes applicable to the revocable permit.

A review of RP 92-24 has indicated that:

- Since 2008, rent has been \$307,440 per quarter; and
- The maintenance obligations are in need of adjustment to shift future MOTEMS responsibility to the tenant pending agreement on new proposed permit terms.

Compensation - Based upon current market rental rates, the rent will be increased to \$516,407 per quarter. This increased rate is reflective of the current market land value and adjustments to the subsurface land rate found in the Port of Los Angeles Leasing Policy, Section X,(D), which was adopted by the Board in 2013. The waterfront market value is \$29.00 per square foot. The discount rate for subsurface use is 50 percent of the waterfront rate. Transmittal 1 provides additional detail regarding the proposed change in compensation.

The delay in adjusting the compensation resulted from the pending MOTEMS land use decisions on Phillips 66 long-term location that was not finalized until late 2012. Subsequent delays in MOTEMS negotiations led to this decision to both adjust the compensation and shift the maintenance obligations to Phillips 66.

Phillips 66 and the Harbor Department acknowledge the significant rent increase from \$307,440 to \$516,407 per quarter. In consideration of Phillips 66's request for time to adjust their budget for the new compensation amount, as well as the cost of the increased maintenance obligations, the adjusted rental rate will begin January 1, 2016. The difference in payment to the Harbor Department between the target compensation reset date of September 1, 2013 and the negotiated compensation reset date of January 1, 2016 is approximately \$1,537,200 in adjusted compensation. However, the immediate change in maintenance obligations is expected to save the Harbor Department in excess of \$2,000,000 in maintenance costs.

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Maintenance and Repair - The language governing maintenance obligations in RP 92-24 shall be adjusted to shift wharf maintenance obligations and future MOTEMS obligations to Phillips 66 effective June 1, 2015 pending agreement to new maintenance terms in the proposed new long-term permit. This change will result in significant future savings to the Harbor Department. The language revision proposed is fully described in the proposed Rental and Maintenance Adjustment Notice (Transmittal 2).

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a Notice of Rental and Maintenance Requirement adjustment to RP 92-24 with Phillips 66. This action is limited to approval of the Notice and does not constitute approval of any MOTEMS construction project or long-term lease. Such actions will be subject to separate environmental analysis pursuant to the California Environmental Quality Act (CEQA). As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2 (f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

Proposed compensation, effective January 1, 2016, is consistent with the Board's policy based on a minimum ten percent rate of return on the 2015 estimated land value of \$29.00 per square foot for surface lands and 50 percent of land value for subsurface land. The change in revenue is as follows:

Current Quarterly Revenue	Proposed Quarterly Revenue	Difference in Quarterly Revenue	Difference in Annual Revenue
\$307,440	\$516,406.63	\$208,966.63	\$835,866.52

The Harbor Department will also be relieved of ongoing maintenance and MOTEMS obligations which should provide significant savings related to required MOTEMS inspections, reports, and required repair work.

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CITY ATTORNEY:

The Notice of Rental and Maintenance Requirement Adjustment has been reviewed and approved as to form and legality by the Office of the City Attorney.

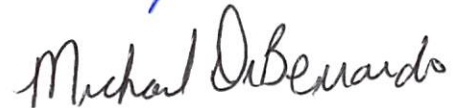
TRANSMITTALS:

1. Proposed Compensation
2. Rental and Maintenance Adjustment Notice

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



MICHAEL J. GALVIN
Director of Waterfront and Commercial Real Estate



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



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