



THE PORT  
OF LOS ANGELES  
Executive Director's  
Report to the

Board of Harbor Commissioners

**DATE: JUNE 22, 2011**

**FROM: REAL ESTATE DIVISION**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - PROPOSED 36-MONTH LEASE  
EXTENSION FOR THE UNITED STATES CUSTOMS AND BORDER  
PROTECTION LABORATORY, TERMINAL ISLAND**

**SUMMARY:**

In 2005, the City of Los Angeles Harbor Department (Harbor Department) entered into a Memorandum of Understanding (MOU) with the United States General Services Administration (GSA), under which GSA quitclaimed the property located at 300 South Ferry Street on Terminal Island to the Harbor Department. As part of that MOU, the Harbor Department agreed to lease back a portion of the facility to GSA for the operation of the United States Customs and Border Protection (CBP) laboratory for up to five years under GSA Lease No. GS-09B-1498 (GSA Lease).

The five-year lease for use of the facility expired on March 22, 2010. GSA has requested a 36-month lease extension, under renegotiated terms and conditions, utilizing GSA's standard Supplemental Lease Agreement No.1 (SLA1). The proposed agreement is structured to provide an incentive to GSA to vacate the premises on or before the end of the three years.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners:

1. Approve the three-year period lease extension under the Supplemental Lease Agreement beginning March 23, 2010, and ending March 22, 2013;
2. Direct the Board Secretary to transmit the Supplemental Lease Agreement to City Council pursuant to Section 606 of the City Charter;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the Supplemental Lease Agreement for lease extension; and
4. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:**

Background – The lease to GSA commenced following a transfer in ownership of the property from the GSA pursuant to the Harbor Department Agreement No. 2384, in March 2005 at no cost, with the agreement that if GSA vacated the property granted under the GSA Lease by September 23, 2008, the Harbor Department would pay the GSA \$6.3 million, which was the estimated value of the property at the date of transfer.

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Since GSA failed to vacate the property by the above-mentioned date, the Harbor Department did not have to pay \$6.3 million to GSA. The Harbor Department now owns the 9.02-acre property, which has a land value of approximately \$8.6 million, and the potential for greater revenue-producing activities.

The GSA facility is a 222,539 square foot (s.f.) building, of which GSA occupies 30,686 s.f. and 108,276 s.f. of the parking and security area under the GSA SLA1, as depicted in the attached Transmittal 1. The Harbor Department's Port Police uses certain portions of the facility for storage, a training room, and parking associated with such activities. The remainder of the facility is vacant. The GSA Lease period commenced March 23, 2005 and expired March 22, 2010.

Previous Compensation – Under the GSA Lease, GSA's total compensation was based on a flat rate of \$220,000 annually for the utilities and maintenance costs, with no charge for rent on land and improvements. However, the actual utility and maintenance costs amounted to an annual average of \$464,040 for the entire facility. Although GSA only occupies approximately 14 percent of the building, GSA is the primary user of the facility. It is estimated that 90 percent of the utility and maintenance costs are attributable to GSA's operations, with the remaining 10 percent attributable to Port Police's operations. All outstanding compensation shall be paid within 60 days after SLA1 is signed.

Proposed Lease Extension – It is proposed that the GSA occupancy be extended for a period of 36 months, from March 23, 2010 through March 22, 2013, with an option to terminate sooner by GSA upon serving a 30-day written notice. The term reflects the time GSA anticipates it will require to relocate the laboratory, while providing GSA the flexibility to vacate as soon as GSA's new facility becomes available.

Proposed Compensation – It is recommended that annual compensation be established based on GSA's pro-rata share of the actual cost of utility allocations, maintenance services provided by the Harbor Department, and the property rent for the premises, including land and improvements.

GSA will reimburse the Harbor Department for 90 percent of the actual cost of utilities and maintenance services, estimated to be \$417,636, with the Harbor Department being responsible for the remaining 10 percent of the costs attributable to Port Police operations. During its occupancy, GSA will be billed separately for any additional improvements required for fire, life, and safety compliance associated with its use of the facility. The proposed first-year compensation includes a one-time payment of \$25,000 for undergoing improvements.

The proposed rent for the office, laboratory, and loading dock is \$276,174, based on an annual rental rate of \$9 per s.f. determined by a recent market survey. The annual proposed rent for the security and parking area is \$238,207, based on a 10 percent rate of return on a \$22 per s.f. land value. By applying these market values, the total proposed annual property rent is \$514,381. However, in consideration of the substantial increase from its annual compensation of \$220,000, staff recommends

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providing the following discounted property rent for the first two years of the three-year term of the Supplemental Lease Agreement No.1, as follows:

	Property Rent	Utilities & Maintenance	Compensation
GSA Lease – 5 years (03/23/2005-03/22/2010)	0	\$1,100,000.00	\$1,100,000.00
Supplemental Lease Agreement – 3 years			
First Year (03/23/2010-03/22/2011)	\$77,157.15	\$442,636.00	\$519,793.15
Second Year- 1 <sup>st</sup> half (03/23/2011-09/22/2011)	\$77,157.15	\$208,818.00	\$285,975.15
2 <sup>nd</sup> half (09/23/2011-03/22/2012)	\$128,595.25	\$208,818.00	\$337,413.25
Third Year (03/23/2012-03/22/2013)	\$514,381.00	\$417,636.00	\$932,017.00
*First year utilities and maintenance include a one-time \$25,000 charge for life and safety improvements			

The Harbor Department's recovery of direct expenses and escalating property rent over the term of the agreement provides a clear incentive for GSA to relocate its operations as soon as possible. Additionally, if GSA extends its occupancy beyond March 23, 2013, a lump sum in the amount of \$745,852, representing the discount to property rent in the first two years, shall be due and payable.

If and when construction commences in the area labeled as "PLAMT Construction Area," the Lessor shall provide 90 days' notice to GSA prior to construction commencement. Any changes to the perimeter boundary initiated by the Lessor during the term of the extension shall be comparable to the existing fence in terms of height and materials, and shall be constructed by the Lessor at no cost to GSA. GSA will review and approve the specifications of such fence prior to installation. In no event shall such review and approval take longer than 60 days from receipt of fence specifications.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is the approval of a three-year lease extension with GSA for the continued operation of the CBP laboratory with no change to, or expansion of, use. As such, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS:**

This Board action will have no direct job impact for the five-county region.

**FINANCIAL IMPACT:**

Provided GSA vacates the subject property at the end of the three-year lease, the financial impact of the proposed three-year lease extension with GSA is that annual compensation payable to the Harbor Department is expected to exceed the current compensation of \$220,000 in the first year by \$299,793; in the second year by \$403,388; and in the third year by \$712,017.

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**CITY ATTORNEY:**

The proposed Supplemental Lease Agreement has been approved as to form and legality by the Office of the City Attorney.

**TRANSMITTALS:**

1. Site Map
2. Supplemental Lease Agreement No.1 (SLA1)

FIS Approval : LDP (initials)

City Attorney: m (initials)

  
KATHRYN McDERMOTT  
Deputy Executive Director

APPROVED:

  
GERALDINE KNATZ, Ph.D.  
Executive Director

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