



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: AUGUST 22, 2017

FROM: CARGO & INDUSTRIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE REVOCABLE PERMIT NO. 17-05 WITH HARBOR PERFORMANCE ENHANCEMENT CENTER, LLC

SUMMARY:

Staff requests approval of a Revocable Permit No. 17-05 (RP) with Harbor Performance Enhancement Center, LLC (HPEC) for use of City of Los Angeles Harbor Department (Harbor Department) land on Terminal Island. Approval of the proposed RP will allow HPEC use of approximately 10 acres for a period not to exceed 13 months, to conduct a pilot study to market-test the proposed full-scale use of the site.

As part of both parties' due diligence to test the feasibility of the Project, and to develop its project description for the California Environmental Quality Act (CEQA), the proposed RP and Private Railroad Crossing Agreement (PRCA) will allow HPEC to collect data on container dwell time at the site, ingress and egress times, and an analysis of impacts to container terminal throughput, gate turn-time improvements, and other efficiencies in the system. The data will help determine best approaches to improving container movement and cargo velocity in San Pedro Bay and will be shared with the Harbor Department to supplement current and future traffic and cargo movement analyses. The results of the study will also inform the full-scale project description for the required CEQA studies and resultant reports.

An inter-dependent PRCA is required to ensure access to the pilot study site is adequate for the purposes of the test. The PRCA is being presented separately for approval as a concurrent item, as this RP is not feasible without the PRCA and the PRCA has no purpose without the RP.

Compensation under the RP shall be \$24,119.86 per month. In addition, HPEC shall provide on a monthly basis, a list of deliverables generated from its pilot study. HPEC will assume all development, construction, and maintenance obligations for the site.

RECOMMENDATION:

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

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III Class 4(7) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Revocable Permit with Harbor Performance Enhancement Center, LLC;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the Revocable Permit; and
4. Adopt Resolution No. _____.

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DISCUSSION:

Background – In June 2015, the Harbor Department released a Request for Proposal (RFP) to solicit a qualified entity to develop, operate, and maintain a container terminal support facility on Terminal Island at the former sites of the U.S. Customs House and LAXT facility (Project site). The scope of the development was to solicit proposals that will increase the velocity, fluidity, and efficiency of existing nearby container terminals in the San Pedro Bay.

The RFP resulted in five responses, of which HPEC was selected because its proposal best represented the goal of improving the flow of cargo through the San Pedro Bay by developing a truck staging/waiting area, storage for containers mounted on chassis, chassis depot and adaptively reusing the Customs House for office and meeting space (Project).

Given the central location of the Project site to the Harbor Department's largest container terminals, and the projected volume of cargo moving through the San Pedro Bay ports, it is anticipated that the proposed Project will support critical truck-based cargo movements through the gateway and thus may greatly augment the core cargo-handling function. The type of operation proposed at the Project site may also provide substantial environmental benefits by reducing the idling time and terminal gate congestion currently experienced by truckers at the port complex.

As part of both parties' due diligence to test the feasibility of the Project, and to develop its project description for CEQA, HPEC has hired AECOM and Cambridge Associates to model the test performance. HPEC will utilize the premises to conduct the pilot study to collect essential operating metric data, which will sample container movement efficiencies created through HPEC's operational model. Specifically, the pilot study, limited to 400 parking spaces, or "spots", is designed to reveal actual customer interest for the proposed container handling and staging program as well as help provide insights into the seasonality of container volumes over the length of the permit period. This data will provide information which can be used to develop improved container movement efficiencies and cargo velocity for San Pedro Bay container terminals. The metrics utilized in the pilot study will include container dwell time at the site, ingress and egress times, and an analysis of throughput improvements and other efficiency improvements at the terminals. The data collected from the pilot study will be shared with the Harbor Department and will supplement current and future traffic and cargo movement analyses.

Furthermore, the study will gauge expected environmental benefits of improving efficiencies and reducing gate wait times and engine idling, and reduced congestion at impacted intersections and roadways during peak hours in the San Pedro Bay.

Currently, an entity related to HPEC, Eco Flow Transportation, LLC (Eco Flow), has a Space Assignment Agreement (Space Assignment) for approximately 2.7 acres (or 117,612 square feet) of land, which is part of the northwesterly portion of the proposed HPEC RP premises. Eco Flow operates a container freight station, which includes the property under the Space Assignment. Prior to the effective date of the RP, the Space Assignment with Eco Flow will be terminated to remove this area from its use. All other property to be used for the study is currently available.

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Effective Date: The RP (Transmittal 1) will be effective upon execution by the Executive Director and revocable upon 30 days' written notice.

Term: Maximum term of 13 months, consisting of one month of construction use and 12 months of operations use. No holdover or term extension will be authorized without conducting a further CEQA assessment of the continued pilot operation at the site.

Premises: The premises will consist of approximately 117,612 square feet (s.f.) of mostly paved land (Parcel 1); 317,988 s.f. of unpaved land (Parcel 2); and a nonexclusive roadway for ingress and egress (Parcel 3) for a total of 435,600 s.f. The Premises are located directly east of 300 South Ferry Street (Transmittal 2).

Compensation: HPEC shall pay to the Harbor Department \$24,119.86 per month and provide on a monthly basis a list of deliverables, as defined in Exhibit C of the RP. The total cost of improvements to HPEC is estimated at \$98,307 for the pilot study, as set forth in Exhibit B of the RP.

The proposed rent structure is similar to the terms in the MOU with HPEC, executed in March 2017.

The Harbor Department will provide Crushed Miscellaneous Base (CMB), which HPEC will use at its own risk and truck to the site. The Harbor Department will recapture the value of the material in the value of the improved land at the expiration of the permit (13 months). The value of the CMB is estimated to be \$70,000, based on \$7.00 per cubic yard, for a total volume of 10,000 cubic yards.

Permitted Use: The Premises shall be used to construct necessary improvements and to grade and place crushed miscellaneous base on the surface of Parcel 1 and Parcel 2 (construction use). For the 12 months immediately following the period reserved for the construction use, the Premises shall be used for temporary drayage truck, container, and container chassis handling, staging and storage, utilizing a maximum of four hundred (400) parking slots, alternative fueling facility (such as hydrogen), and not for trans-loading of containers, truck maintenance, or any other use without the prior written consent of Executive Director which approval may be withheld by City in its sole and absolute discretion (operations use).

Maintenance: Tenant shall be responsible for all maintenance associated with the use of the Premises, including the grading, compacting, and placing appropriate material on the unpaved portion of the Premises.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an RP with HPEC for the temporary operation of a pilot project limited to a one-year duration involving drayage truck, container and chassis handling, staging and storage, along with minor modifications to the premises. As an activity involving the temporary use of land and minor alterations to the condition of the land, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article III, Class 4(7) of the Los Angeles City CEQA Guidelines.

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FINANCIAL IMPACT:

The proposed RP to utilize 435,600 s.f. of land on Terminal Island for a pilot study to test HPEC's operational model, which will generate a monthly revenue stream to the Harbor Department of \$24,119.86. Rent under the RP is derived from initial market land value of \$28 per s.f., less deductions for site conditions, accessibility, etc., and then discounted by 25 percent for the sharing of data collected from HPEC's pilot study, which will supplement current and future traffic and cargo movement analyses with the Harbor Department.

In addition to the rent paid by HPEC during the term, the Harbor Department will recapture improved value of its property at expiration. This project is expected to generate an estimated 11.25 percent rate of return, versus the Board policy target rate of 10 percent on land and 12 percent on improvements. The operating and maintenance costs will be fully borne by HPEC.

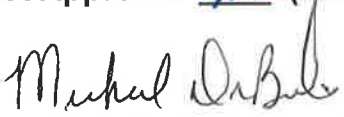
CITY ATTORNEY:

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

TRANSMITTALS:

- 1. Revocable Permit
- 2. Site Map

FIS Approval: MB (Initials)
CA Approval: Qu (Initials)


MICHAEL DiBERNARDO
Deputy Executive Director

FOR 
JACK C. HEDGE
Director of Cargo & Industrial Real Estate

APPROVED:


EUGENE D. SEROKA
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