



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: APRIL 17, 2013

FROM: REAL ESTATE

**SUBJECT: ORDER NO. _____ — PROPOSED RESETTING OF
COMPENSATION UNDER PERMIT NO. 634 WITH SHELL OIL
COMPANY**

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) granted Permit No. 634 to Shell Oil Company (Shell) at Berths 167-169 for the construction, operation, modification, and maintenance of a marine hydrocarbon terminal and related uses. Permit No. 634 has a 35-year term, effective February 12, 1988 through February 11, 2023. The current five-year compensation period began on February 12, 2008 and ended on February 11, 2013. Shell is a tenant in good standing.

As required by Permit No. 634 and the Los Angeles City Charter Section 607(b), minimum rental compensation for Shell must be adjusted for the five-year period of February 12, 2013 through February 11, 2018. The reset will not impact the negotiations for the Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS) that are currently underway. All remaining terms and conditions of the Permit No. 634 shall remain the same.

RECOMMENDATION:

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

1. Adopt the Order resetting compensation under Permit No. 634 for Shell Oil Company for the period of February 12, 2013 through February 11, 2018;
2. Authorize the Board Secretary to attest to the Order resetting compensation pursuant to Permit No. 634; and
3. Adopt Order No. _____.

DISCUSSION:

Background/Context – Permit No. 634 grants Shell use of Harbor Department property at Berths 167-169 for the operation of a marine liquid bulk terminal. The permit premises consist of 397,290 square feet (s.f.) of surface land and approximately 129,997 s.f. of water frontage and water surface (wharf premises) (Transmittal 1). Permit No. 634 has a 35-year term, effective February 12, 1988 through February 11, 2023.

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Permit No. 634 requires that compensation be reset every five years. It is now necessary to reset the land rent for the next five-year period of February 12, 2013 through February 11, 2018 (Transmittal 2). The current quarterly rent is \$288,035 per quarter, plus all tolls and charges pursuant to Tariff No. 4. The current quarterly rent of \$288,035 is based on the current Board policy of receiving a ten percent annual Rate of Return (ROR) on the value of Harbor Department property, previously established at \$29.00/per s.f. In addition to rent, the tenant also pays averages of \$329,672 in dockage and \$1,089,634 in wharfage per year.

The Harbor Department is presently in negotiations for MOTEMS rates, and this compensation reset will have no impact to the MOTEMS negotiations. The reset is consistent with the rates used in ongoing negotiations.

Current and Proposed Compensation – The current annual rent of \$1,152,141 is based on a value of \$29.00/per s.f., with a ten percent ROR, plus all tolls and charges pursuant to Tariff No. 4. It is recommended that the current annual rent for Permit No. 634 remain the same, but subject to changes in Tariff No. 4.

This proposed rent is consistent with Conoco Phillips' and Equilon Enterprises, LLC's recent reset of compensation for their liquid bulk permits.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order resetting compensation under Permit No. 634 with Shell. As an activity involving an amendment of a permit to use an existing facility involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed project 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 employment effect.

FINANCIAL IMPACT:

The proposed Permit compensation reset would ensure the Harbor Department would continue to receive the current fixed rental compensation in effect through February 11, 2018. The tenant would also continue to be subject to Tariff No. 4 tolls and charges and any adjustment hereinafter.

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CITY ATTORNEY:

The Order is subject to approval as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Site Map
- 2. Order



JACK C. HEDGE
Director of Real Estate

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



KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

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