



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

Board of Harbor Commissioners

DATE: JUNE 19, 2013

FROM: REAL ESTATE

**SUBJECT: ORDER NO. _____ - RESETTING COMPENSATION UNDER
ORDER NO. 2680 WITH THE CITY OF LOS ANGELES BOARD OF
PUBLIC WORKS**

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) is proposing to reset compensation for Order No. 2680 with the City of Los Angeles Board of Public Works (Public Works) for the five-year period of July 1, 2013 through June 30, 2018, for Public Works' use of a subsurface sewer right-of-way on Terminal Island. Minimum annual rent is proposed to be set at \$12,041 per year, with an annual increase, by the Consumer Price Index (CPI) with a cap of three percent. Compensation terms also preclude any decrease in the minimum annual rent.

RECOMMENDATION:

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

1. Approve the Order resetting compensation under Order No. 2680 for the five-year period of July 1, 2013 through June 30, 2018;
2. Authorize the Board Secretary to attest to the Order resetting compensation to be paid by the City of Los Angeles Board of Public Works pursuant to Order No. 2680, as amended by Order No. 4735; and
3. Adopt Order No. _____.

DISCUSSION:

Background/Context – Order No. 2680, effective August 9, 1956, grants Public Works 35,891 square feet (s.f.) of subsurface backland for the purpose of a sewer right-of-way on Terminal Island for as long as the premises are required for such use (Transmittal 1). Originally, Order No. 2680 allowed Public Works to use the sewer right-of-way at no charge.

In 1977, the City of Los Angeles (City) and the Board, with the approval of the California State Lands Commission, entered into Settlement Agreement 1106. In part, Settlement Agreement 1106 states that the Harbor Department would bill the City for trust lands used for general municipal purposes, beginning July 1, 1977, based upon a specified benefit ratio. According to the agreement, Public Works is to pay 61 percent of the rent for the sewer right-of-way in Order No. 2680.

**SUBJECT: PROPOSED COMPENSATION RESET FOR CITY OF LOS ANGELES
PUBLIC WORKS**

Also in 1977, Order No. 4735 amended Order No. 2680 by adding language that requires Public Works to pay annual rent based upon the then Board policy regarding rate of return and an agreed upon market value of the premises.

In 2011, Order No. 11-7075 was adopted by the Board and provides that the compensation to be paid by Public Works for the use of the premises shall be subject to readjustment every five years, in accordance with the City Charter.

Since the General Services Department (GSD) acts as an agent on behalf of Public Works, both GSD and Public Works must approve this Order. GSD has determined that this Order does not have to be presented to the Municipal Facilities Committee and can be approved at the Department level. Public Works has determined that this Order does not have to be presented to the Board of Public Works and can be approved at the Bureau level.

Current Compensation: The current annual rent to the Harbor Department is \$6,842. Compensation is based on a land value of \$12.50 per s.f., with a 10 percent annual rate of return, consistent with Board policy. A subsurface discount of 75 percent is also given, as the pipeline service of Harbor Department tenants, also consistent with Board policy. A benefit ratio of 61 percent of the rent is then applied. The current rent is calculated as follows:

Land Type	Area (In Sq. Ft.)	Land Value (Per Sq. Ft.)	BOHC Rate of Return	Annual Rental Rate (Per Sq. Ft.)	Discount Rate	Settlement Agreement 1106 - Public Works Responsibility Allocation	Annual Rent
Backland Subsurface	35,891	\$ 12.50	10%	\$ 1.25	75%	61%	\$ 6,842
TOTAL	35,891						\$ 6,842

Proposed Compensation: Staff recommends that the proposed compensation be based on a land value of \$22.00 per s.f., the Board's 10 percent annual rate of return policy, and a subsurface discount of 75 percent. The proposed rent will be an increase from \$6,842 to \$12,041 (Transmittal 2). Although the Harbor Department now utilizes a subsurface discount of 50 percent, the Harbor Department has a practice of honoring the 75 percent discount for the tenants that currently receive it, especially in this case since the premises granted serve other Harbor Department tenants and Public Works is a sister agency of the Harbor Department. The proposed rent is calculated as follows:

**SUBJECT: PROPOSED COMPENSATION RESET FOR CITY OF LOS ANGELES
PUBLIC WORKS**

Land Type	Area (In Sq. Ft.)	Land Value (Per Sq. Ft.)	BOHC Rate of Return	Annual Rental Rate (Per Sq. Ft.)	Discount Rate	Settlement Agreement 1106 - Public Works Responsibility Allocation	Annual Rent
Backland Subsurface	35,891	\$ 22.00	10%	\$ 2.20	75%	61%	\$ 12,041
TOTAL	35,891						\$ 12,041

The proposed compensation results in a 76 percent increase in annual rent. Staff feels the increase is justified, as the \$12.50 per s.f. land value has been used as the basis for rent since 1993. Furthermore, there has been no increase in annual rent since 1993. Although the Harbor Department has recently increased its estimated land value to \$35.00 per s.f., \$22.00 per s.f. was the Harbor Department's estimated land value at the time this compensation reset was initiated.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order resetting compensation under Order No 2680 with Public Works. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act 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:

The financial impact of the proposed compensation reset of Order No. 2680 is that the Harbor Department will realize minimum annual rental revenues of \$12,041, which is \$5,199 (76 percent) higher per year compared to current annual compensation. Proposed compensation increases by CPI every year with a maximum of 3 percent and a floor of 0 percent. The proposed fixed rental compensation proposed herein conforms to the Board-approved 10 percent rate of return policy on land.

SUBJECT: PROPOSED COMPENSATION RESET FOR CITY OF LOS ANGELES
PUBLIC WORKS

CITY ATTORNEY:


The Order resetting compensation has been approved 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: MB (Initials)
 CA Approval: JMC (Initials)

 KATHRYN McDERMOTT
 Deputy Executive Director

APPROVED:

 GERALDINE KNATZ, Ph.D.
 Executive Director

GK:KM:JCH:RG:ST:JK:raw
 Author: Jeremy Karmelich
 BL453raw Public Works Comp Reset