



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JANUARY 18, 2012

FROM: REAL ESTATE

SUBJECT: ORDER NO. _____ - RESETTING COMPENSATION UNDER PERMIT NO. 692 WITH YUSEN TERMINALS, INC.

SUMMARY:

Permit No. 692 between the City of Los Angeles Harbor Department (Harbor Department) and Yusen Terminals, Inc. (YTI) grants nonexclusive use of 224.83 acres at Berths 212-224 for container terminal operations. Permit No. 692 is a 25-year permit expiring on September 30, 2016, with one ten-year option, and a provision for the renegotiation of compensation for each five-year period.

The proposed Order resetting compensation is for the final five-year period of October 1, 2011 through September 30, 2016. Compensation for this period is proposed to remain unchanged from the previous five-year compensation period, as the rates for YTI continue to be in a competitive range in comparison to other container terminals in the Port of Los Angeles.

RECOMMENDATION:

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

1. Approve the Order to reset compensation under Permit No. 692 with Yusen Terminals, Inc. for the five-year period of October 1, 2011 through September 30, 2016;
2. Authorize the Executive Director to execute and the Board Secretary to attest to the Order resetting compensation to be paid by Yusen Terminals, Inc., pursuant to Section 4(i) of Permit No. 692; and
3. Adopt Order No. _____.

DISCUSSION:

Background – Permit No. 692 grants YTI nonexclusive use of 224.83 acres at Berths 212-224 (Transmittal 1), of which 181.36 acres are subject to a Minimum Annual Guarantee (MAG) and Twenty-Foot Equivalent (TEU) efficiency charges. The remaining 43.47 acres are dedicated to the non-preferential areas of the Terminal Island Container Transfer Facility, the Radiation Portal Monitor site on New Dock Street, and off-site storage at Site 6A.

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Permit No. 692 requires that compensation be reset every five years.

Current Compensation – The compensation structure under Permit No. 692 is as follows:

- 1) MAG: \$28,397,893 per compensation year, based upon the rate of \$156,583 per acre/per year for 181.36 acres.
- 2) Revenue Sharing: YTI retains 50 percent of all qualifying charges (wharfage and dockage) until reaching a 25/75 breakpoint, at which point YTI retains 75 percent of all incremental charges. No other Tariff No. 4 (Tariff) charges shall count toward reaching the MAG and revenue sharing breakpoints. The 25/75 breakpoint is subject to change each year depending on the prior year's TEU per Acre Efficiency Scale.
- 3) Storage and Demurrage Charges: In lieu of paying Tariff charges for storage and demurrage, YTI pays a fee of \$100,000 per year.
- 4) Compensation for the 4.04-acre parcel at Site 6A and the 5.68-acre parcel at New Dock Street: These parcels totaling 9.72 acres charged pursuant to the Tariff, currently \$63,510 per 30 days.
- 5) Office Space: YTI uses all office space (approximately 28,000 square feet) on the premises without additional charge.

All compensation described above is subject to increases in accordance with any increase in the Tariff Not Otherwise Specified cargo rate.

Proposed Compensation – It is proposed that compensation under Permit No. 692 for the period of October 1, 2011 through September 30, 2016 remain the same as the current compensation rates (Transmittal 2). No increase is warranted at this time, as YTI's current charges and MAG rates are in a competitive range with other similar container terminal facilities in the Port of Los Angeles.

Additionally, YTI's current compensation rates meet the Board's adopted rates of return (ROR) of 10 percent for land and 12 percent for improvements over the next five years. Based on the value of land (\$22 per square foot), improvements currently in operation at the YTI facility, and cargo growth projections prepared and analyzed by Financial Management, the projected ROR is expected, at the minimum, to meet the Board's adopted ROR.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the resetting of compensation with YTI, as required every five years under the associated permit. As an administrative activity, the Director of Environmental Management has determined the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

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ECONOMIC BENEFITS:

This Board action will have no direct employment effect.

FINANCIAL IMPACT:

Adopting the proposal to maintain YTI rates at current levels is expected to meet the Board's adopted ROR policy over the next five years. The projected ROR is based upon a conservative TEU estimate and assumes that no new capital expenditures will occur over the period.

CITY ATTORNEY:

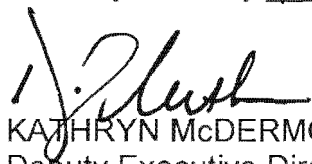
The proposed Order has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Site Map
- 2. Order

FIS Approval: KK (initials)
City Attorney: PM (initials)


 KARL K.Y. PAN
 Interim Director of Real Estate


 FOR K KATHRYN McDERMOTT
 Deputy Executive Director

APPROVED:


 GERALDINE KNATZ, Ph.D.
 Executive Director

KP:RG:RV:mnm
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