



**THE PORT  
OF LOS ANGELES**

Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: JANUARY 30, 2018**

**FROM: CARGO & INDUSTRIAL REAL ESTATE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - APPROVE ORDER RESETTING  
COMPENSATION UNDER PERMIT NO. 827 WITH APM TERMINALS  
PACIFIC, LLC**

**SUMMARY:**

Staff requests approval of the Order resetting compensation under Permit No. 827 (Permit) with APM Terminals Pacific, LLC (APMT) at the 512.36-acre Pier 400 facility. The Order will reset compensation to fair market rent for the five-year period of August 1, 2017 through July 31, 2022 by (a) increasing the Minimum Annual Guarantee (MAG) per acre, (b) increasing the Twenty-foot Equivalent Unit Rates (TEU), (c) keeping Intermodal Rail Facility (IRF) rates the same, and (d) incorporating a Consumer Price Index (CPI) Adjustment capped of six percent. The Eighth Amendment to the Permit presented under a separate Board action will amend the compensation provision of the Permit as necessary to effectuate the negotiated agreement, and delete the permit provision related to tenant bringing cargo through San Pedro Bay. APMT is financially responsible for rental payments due under the Permit.

**RECOMMENDATION:**

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

1. Find that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Find that the proposed action is in the best interest of the City and Harbor Department despite the fact that the estimated rate of return on investment does not meet stated policy targets as enacted by the Board;
3. Approve the Order resetting compensation under Permit No. 827 with APM Terminals Pacific, LLC for the period of August 1, 2017 through July 31, 2022;
4. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 827; and
5. Adopt Resolution No. \_\_\_\_\_ and Order No. \_\_\_\_\_.

SUBJECT: APPROVE ORDER RESETTING COMPENSATION TO PERMIT NO. 827

**DISCUSSION:**

Background – On August 1, 2002, Maersk Pacific Limited (Maersk) was granted Permit No. 827 and became the City of Los Angeles Harbor Department's (Harbor Department) tenant at the Pier 400 container terminal facility (Berths 401 through 406). Subsequently, the name of the tenant was changed to APM Terminals Pacific, LLC and remains a wholly-owned subsidiary of A.P. Moller Maersk Group of Copenhagen, Denmark.

The Permit has a 25-year term and three, five-year options to extend. The property covered by the Permit consists of approximately 512.36 acres total (441.74 acres of container terminal [Compensation Acres] + 40.84 acres of IRF + 24.24 acres of storage tracks + 5.54 acres of truck queuing).

Permit Section 3(h) requires the Board to readjust the various components of rent at each five-year anniversary of the Effective Date: TEU rates, which are based on estimated cargo throughput; MAG, which is the minimum amount of cargo throughput charges due; and IRF charges, which is the rent charged for the IRF acres. This five-year compensation reset covers the period of August 1, 2017 through July 31, 2022 (Transmittal 1). The 441.74 acres referred to as Terminal Area are subject to a rent structure based on volume or a MAG, while the 40.84 acres of the Premises used for IRF are subject to a fixed rental rate per acre. The remainder 29.78 acres are "non-compensation" acres (Transmittal 2).

Current Compensation – The compensation structure currently in effect under the Permit has three major components as detailed below:

- a. MAG: \$157,411 per acre on 441.74 acres of Terminal Area for a total MAG in access \$69.5 million.
- b. TEU charges based upon sliding scale.
  - i. CPI-based escalation
- c. Payment for rail and intermodal yard: \$49,768 per acre per year.

Proposed Compensation – Under the proposed Order, compensation (MAG and TEUs) will be adjusted to reflect fair market rent for the facility as detailed below:

PERIOD	MAG Per Acre/Year (441.74 AC)	TEU Rates
8/1/17 – 7/31/18	\$170,000	No CPI
8/1/18 – 7/31/19	\$170,000	No CPI
8/1/19 – 7/31/20	\$180,000	CPI 0 to 3% 100 percent; Between 3 to 6% 50 percent of CPI. Capped at 6%
8/1/20 – 7/31/21	\$180,000	CPI 0 to 3% 100 percent; Between 3 to 6% 50 percent of CPI. Capped at 6%
8/1/21 – 7/31/22	\$185,000	CPI 0 to 3% 100 percent; Between 3 to 6% 50 percent of CPI. Capped at 6%

**SUBJECT: APPROVE ORDER RESETTING COMPENSATION TO PERMIT NO. 827**

1. As shown above, the MAG is being raised in a stepped fashion until it reaches a level similar in economic terms to comparable facilities. All "terminal acres" are deemed "compensation acres" except for the IRF, and as such, both MAG and TEU charges apply. In other comparable facilities, all acres may not be part of the compensation acres. It was negotiated to allow APMT to offset any MAG shortfall in 2018 by an excess in MAG revenue from 2017 and any MAG shortfall in 2020 by an excess in MAG revenue from 2019. This offset in MAG will end in 2020.
2. IRF compensation will remain \$49,768 per acre per year.
3. CPI adjustment to the Permit will be as shown above.
4. GRI – As part of the negotiated rates, APMT will be not subject to any potential GRI increase to Tariff No. 4, including the "Merchandise Not Otherwise Specified" rates, until after July 31, 2019.

The proposed Amendment will result in a significant increase in revenue from the terminal. Staff notes, however, that the projected rate of return from this Amendment is still lower than the Port's targeted Rate of Return (ROR). Nonetheless, given current market conditions such as the sheer size of the facility under lease compared to others in the San Pedro Bay complex, the number of acres paid for via the "compensation acres" concept, and the most recent deployment schedule of major carriers in the trans-pacific trade lanes, this proposed Amendment, as negotiated, represents the current "market rent" for this facility.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of an Order resetting compensation under Permit No. 827 with APMT. The proposed Order is solely administrative and will not result in changes in operation. As such, the Director of Environmental Management has determined that the proposed project is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

**FINANCIAL IMPACT:**

The proposed terms will increase minimum annual rent 17 percent from the current \$71.6 million to \$83.8 million by the fifth reset year, with a corresponding increase in the estimated minimum rate of return from 4.93 percent to 5.58 percent. Assuming depressed calendar 2017 throughput remains flat at 1.860 million TEUs and an annual 2 percent CPI, annual revenue generated by TEU throughput will improve by 10 percent from \$77.4 million to \$85.1 million by the fifth year, with the estimated five year return up from 5.70 percent to 5.84 percent. If annual throughput returns to the ten-year APMT terminal average of 2.208 million TEUs, annual TEU revenues improve 13 percent from \$80.8 million to \$91.3 million, with corresponding rates of return of 6.11 percent and 6.26 percent.

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**CITY ATTORNEY:**

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

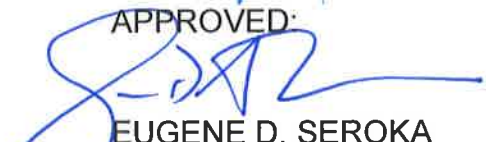
**TRANSMITTALS:**

1. Order
2. Site Map




JACK C. HEDGE  
Director of Cargo & Industrial Real Estate

APPROVED:



EUGENE D. SEROKA  
Executive Director

ES:MD:JH:ST:raw  
Author: Sumita Thappa  
BL713raw APMT Comp Reset

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



MICHAEL DiBERNARDO  
Deputy Executive Director