



Executive Director's

Report to the
Board of Harbor Commissioners

DATE: APRIL 2, 2014

FROM: REAL ESTATE

SUBJECT: ORDER NO. _____ - RESET OF COMPENSATION UNDER PERMIT NO. 597 WITH SOUTHERN CALIFORNIA EDISON COMPANY

SUMMARY:

Permit No. 597 grants Southern California Edison Company (SCE) use of 73,035 square feet (s.f.) of aerial right-of-way that traverses across City of Los Angeles Harbor Department (Harbor Department) land located within the Intermodal Container Transfer Facility (ICTF) for the construction, maintenance, and operation of overhead electrical power transmission lines. Permit No. 597 has a 30-year term, expiring August 20, 2017, with compensation to be reset every five years. The annual compensation will be retroactively set at \$49,825 for the first year of the final five-year period of August 21, 2012 through August 20, 2017.

RECOMMENDATION:

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

1. Approve the Order resetting compensation under Permit No. 597 with Southern California Edison Company for the final five-year period of August 21, 2012 through August 20, 2017;
2. Authorize the Board Secretary to attest to the Order resetting compensation pursuant to Permit No. 597; and
3. Adopt Order No. _____.

DISCUSSION:

Background/Context – Permit No. 597 has a 30-year term, from August 21, 1987 to August 20, 2017. The premises consist of 73,035 s.f. of aerial right-of-way, with utility poles and overhead electrical powered transmission lines owned by SCE (Transmittal 1).

Pursuant to the terms of Permit No. 597, the Harbor Department is required to evaluate and adjust the current annual rent to a market rate, if necessary, every five years. Given that SCE's annual rental rate of \$25 per s.f. is currently within the range of market rates, no rate increase is necessary at this time. However, after several rounds of negotiations, the Harbor Department and SCE mutually agreed that the proposed rental adjustment for the final five-year term (August 21, 2012 through August 20, 2017) of Permit No. 597 be based on capturing the Consumer Price Index (CPI) escalation of 9.15 percent from August 2007 to August 2012 for year one of the final five-year period.

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Current Compensation – Compensation for land rent under Permit No. 597 is currently set at \$45,647 per year, based upon a 10 percent rate of return on a land value of \$25 per s.f., and discounted by 75 percent because the SCE aerial right-of-way minimally restricts the use of Harbor Department property.

During the course of protracted negotiations, SCE and the Harbor Department were unable to reach an agreement in regard to a rental adjustment for the final five-year period. SCE was unable to justify not paying an increase in rent, given the slight upward trend in property values and the marginal increase of inflation being experienced throughout the economy, so the parties mutually agreed to the utilization of a CPI escalator in order to maintain the value of the Harbor Department's asset.

Proposed Compensation – Annual land rent under Permit No. 597 will increase from \$45,647 to \$49,825, based on capturing the cumulative CPI escalation of 9.15 percent from August 2007 to August 2012 for year one of the final five-year period. As such, the rental amount for year one would be retroactively set at \$49,825. Every year thereafter, the rental amount will be adjusted by the change in CPI for the remainder of the final five-year term of Permit No. 597. No increase in the dollar per s.f. rate for the same 73,035 s.f. is necessary at this time, as SCE's annual rental rate is currently within the range of market rates.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order resetting compensation under Permit No. 597 with SCE. As an administrative activity involving the 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 action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Class 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no impact to current employment.

FINANCIAL IMPACT:

Approval of the proposed Order resetting compensation will retroactively adjust SCE's fixed compensation under Permit No. 597 to \$49,825 annually beginning with the first year of the final five-period of August 21, 2012 through August 20, 2017. The annual rental rate will be adjusted every year thereafter by the change in CPI for the remainder of the final five-year period. SCE will make a one-time lump sum payment for the difference between the current rent paid and the new rent payable under the retroactive compensation reset Order, to be paid within 30 days after the effective date of the Order. This one-time retroactive payment will be calculated by dividing the current and proposed annual rental rates by 365 days, then taking the difference between the current and proposed annual per day figures and multiplying it by the number of days beyond August 21, 2012.

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CITY ATTORNEY:

The proposed Order (Transmittal 2) 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: KS (initials)
CA Approval: me (initials)



DAVID L. MATHEWSON
Interim Deputy Executive Director

APPROVED:



for GARY LEE MOORE, P.E.
Interim Executive Director

GLM:DM:JH:ER:HP:FS:raw
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