



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

Board of Harbor Commissioners

DATE: JUNE 23, 2011

FROM: REAL ESTATE DIVISION

**SUBJECT: ORDER NO. _____ - RESETTING COMPENSATION UNDER PERMIT
NO. 787 WITH YANG MING MARINE TRANSPORT CORPORATION**

SUMMARY:

Permit No. 787 between the City of Los Angeles Harbor Department (Harbor Department) and Yang Ming Marine Transport Corporation (Yang Ming) grants nonexclusive use of 186.13 acres at Berths 121-131 for container terminal operations.

The proposed Order resetting compensation is for the five-year period of October 11, 2011 through October 10, 2016. Compensation for the coming period is proposed to remain unchanged from the previous five-year compensation period, as the rates for Yang Ming continue to be in a competitive range in comparison to other container terminals in the Port of Los Angeles (Port).

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Order to reset compensation under Permit No. 787 for the five-year period of October 11, 2011 through October 10, 2016;
2. Authorize the Executive Director to execute and the Board Secretary to attest to the Order resetting compensation to be paid by Yang Ming pursuant to Section 4(h) of Permit No. 787; and
3. Adopt Order No. _____.

DISCUSSION:

Background – Permit No. 787 has a term of 25 years that commenced on October 11, 1996, and expires on October 10, 2021. Permit No. 787 grants Yang Ming nonexclusive use of 186.13 acres at Berths 121-131, of which 162.52 acres are subject to a Minimum Annual Guarantee (MAG) and Twenty Foot Equivalent (TEU) efficiency charges. The remaining 23.61 acres are dedicated to the West Basin Intermodal Container Transfer Facility (WBICTF).

Permit No. 787 requires that compensation be reset every five years.

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TRANSPORT CORPORATION**

Current Compensation – The compensation structure under Permit No. 787 has three major components:

- 1) Payment of TEU charges. TEU charges are set based on a sliding scale that provides discounts as higher volumes are achieved.
- 2) Payment of a MAG, if TEU charges do not exceed the MAG. The MAG is currently set at \$25,438,931 per compensation year, based upon a rate of \$156,528 per acre/per year for 162.52 acres.
- 3) Payment of \$1,061,100 per year for the WBICTF, based upon \$45,000 per acre/per year for 23.61 acres.

All compensation described above is subject to increases in accordance with any increase in the Tariff No. 4 Not Otherwise Specified (N.O.S.) cargo rate.

Proposed Compensation – It is proposed that compensation under Permit No. 787 for the period of October 11, 2011 through October 10, 2016 remain the same as the current compensation rates. No increase is warranted at this time, as Yang Ming's current TEU charges, rail facility rent, and MAG rates are in a competitive range with other similar container terminal facilities in the Port. Additionally, Yang Ming's current compensation rates are expected to yield a 10.8 percent rate of return (ROR) over five years, which meets the Board of Harbor Commissioners' (Board) ROR requirements. The current rate of return required for the Board for the Yang Ming container terminal is 10.7 percent, based on the combination of a 10 percent ROR on land and a 12 ROR on improvements.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the resetting of compensation with Yang Ming, 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.

ECONOMIC BENEFITS:

This Board action will have no direct employment effect in our five-county region.

FINANCIAL IMPACT:

Adopting the proposal to maintain Yang Ming rates at current levels is expected to yield a 10.8 percent ROR over the next five years, which will continue to meet the Board's adopted ROR policy. The projected rate of return is based upon a conservative TEU estimate and assumes that no new capital expenditures will occur over the period.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Order
2. Site Map

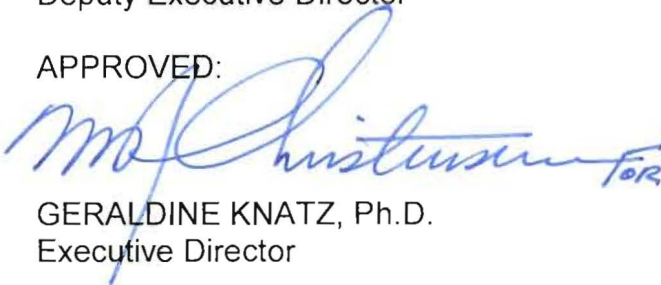
FIS Approval: MP (initials)

City Attorney: m (initials)



KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

KM:RG:raw
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BL384raw Yang Ming Comp Order