

DATE: AUGUST 31, 2011

FROM: REAL ESTATE DIVISION

SUBJECT: RESOLUTION NO. _____ - PROPOSED SECOND AMENDMENT TO RECIPROCAL LEASE AGREEMENT WITH THE UNITED STATES OF AMERICA, DEPARTMENT OF THE NAVY FOR PROPERTY ON TERMINAL ISLAND

SUMMARY:

The Reciprocal Lease Agreement (Lease Agreement) with the United States of America, Department of the Navy (Navy), provides for an exchange of property wherein the Navy leases land measuring 22.93 acres, also known as Site 6B, to the City of Los Angeles Harbor Department (Harbor Department) for the operation of the Terminal Island Container Transfer Facility (TICTF). In exchange, the Harbor Department leases 22.93 acres of land to the Navy for the Naval Reserve Center. The Lease Agreement is for a period of 50 years, from September 22, 1979 through September 21, 2029. The lease provides for each party to demolish any improvements and restore the respective premises upon expiration or termination of the Lease Agreement.

The Navy ceased its operations at the Naval Reserve Center in 2009 and requested that it be allowed to surrender the Harbor Department land and be relieved of its obligations to demolish the Naval Reserve Center and restore the premises, as required by the Lease Agreement. However, the Harbor Department still needs the Navy land for the TICTF operations.

The proposed Second Amendment allows the Navy to surrender the Harbor Department land without demolishing the Naval Reserve Center and restoring the premises, as required by the Lease Agreement. In turn, the Navy will provide a no-cost lease to the Harbor Department for continued use of its land for the TICTF premises until the Navy permanently conveys the TICTF premises to the Harbor Department or until the expiration of the Lease Agreement in 2029, whichever occurs first.

RECOMMENDATION:

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

1. Approve the proposed Second Amendment to Reciprocal Lease Agreement with the United States of America, Department of the Navy (Transmittal 1);

DATE: AUGUST 31, 2011

PAGE 2 OF 4

SUBJECT: PROPOSED SECOND AMENDMENT TO RECIPROCAL LEASE AGREEMENT WITH THE DEPARTMENT OF THE NAVY

2. Direct the Board Secretary to transmit the proposed Second Amendment to City Council pursuant to Charter Section 606;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Second Amendment upon approval by City Council; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background and Need – The Reciprocal Lease Agreement, Navy's Agreement No. N6247479RP00A47, approved by the Board through Order No. 4846 (Transmittal 2), provides an agreement whereby the Navy leases a 22.93-acre site from the Harbor Department for its Naval Reserve Center (Transmittals 3 and 4). In exchange, the Harbor Department leases a 22.93-acre parcel (Site 6B) from the Navy to accommodate the Terminal Island Container Transfer Facility (TICTF).

In November 2009, the Navy notified the Harbor Department that the operations at the Naval Reserve Center would be closing. The Navy has since vacated the premises and requested that it be allowed to surrender the Harbor Department land and be relieved of its obligations to demolish the existing improvements and restore the premises, as required by the Lease Agreement.

In February 2010, the Real Estate Division requested the Engineering (ENG) and Environmental Management (EMD) Divisions to conduct cost estimates and environmental surveys to determine the existing attributes of the Naval Reserve Center. ENG estimated the cost of demolishing the Naval Reserve Center to be \$3.2 million, and EMD determined that there was no indication of environmental contamination at the site.

Although the Harbor Department will incur costs associated with the demolition and restoration of the Naval Reserve Center, such costs are anticipated to be offset by the revenue that could be generated from the property over the remainder of the Lease Agreement's term of 18 years. If the Naval Reserve Center were to be demolished and the land leased at the Harbor Department's current rate of \$22 per square foot, with a 10 percent rate of return, annual compensation for the entire premises would be approximately \$2.2 million. Therefore, it is feasible that the estimated demolition and restoration cost of \$3.2 million could be recovered within two years.

DATE: AUGUST 31, 2011

PAGE 3 OF 4

SUBJECT: PROPOSED SECOND AMENDMENT TO RECIPROCAL LEASE AGREEMENT WITH THE DEPARTMENT OF THE NAVY

Additionally, the Navy proposes to allow the Harbor Department to continue occupying Site 6B for the Harbor Department's TICTF operations at no cost, until such time that the Navy is able to transfer the premises to the Harbor Department through a Conveyance for Public Benefit, or until the expiration of the Lease Agreement in 2029.

ENVIRONMENTAL ASSESSMENT:

The proposed action is for the approval of the Second Amendment to the Reciprocal Lease Agreement. The amendment would allow the Navy to return Harbor Department land, and be relieved of the obligation to demolish the Naval Reserve Center and to restore the premises. In exchange, the Harbor Department will be allowed to continue using the Navy's land, Site 6B, for continued TICTF operations at no cost until the Navy is able to transfer Site 6B to the Harbor Department, or until the Lease Agreement expires in 2029. As an administrative activity, the Director of Environmental Management has determined that 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. The proposed Second Amendment also is exempt from CEQA in accordance with Article III, Section 14 of the Los Angeles City CEQA Guidelines for existing facilities involving negligible or no expansion of use and in accordance with the Los Angeles City CEQA Guidelines, Article II, Section 1 and CEQA Guidelines where it can be seen with certainty that there is no possibility that the activity may have a significant effect on the environment.

ECONOMIC BENEFITS:

This Board action will have no direct employment effect.

FINANCIAL IMPACT:

Under the current Reciprocal Lease Agreement, the Navy and Harbor Department have agreed to occupy each other's similarly sized property for use as a Naval Reserve Center and TICTF, respectively, through 2029. The Navy currently has no further need for the Naval Reserve Center and would like to relinquish the Harbor Department's property. The Navy, in return for not having to restore the Harbor Department's property, reciprocally agrees to release the Harbor Department from restoring the Navy's property. Moreover, the Navy proposes to allow the Harbor Department to continue to occupy the TICTF premises rent free until the Navy is able to transfer its land through a Conveyance for Public Benefit, or until the expiration of the Lease Agreement in 2029.

DATE: AUGUST 31, 2011

PAGE 4 OF 4

SUBJECT: PROPOSED SECOND AMENDMENT TO RECIPROCAL LEASE AGREEMENT WITH THE DEPARTMENT OF THE NAVY

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved as to form and legality the transmitted Second Amendment.

TRANSMITTALS:

1. Proposed Second Amendment
2. Reciprocal Lease Agreement Order No. 4846
3. Aerial Site Map

FIS Approval: RP (initials)

CA Approval: JR (initials)

FOR 
KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

RG:AB:RV:KS:raw
Author: K. Stanberry
BL388raw US Navy 2nd Amend