



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: OCTOBER 25, 2013

FROM: REAL ESTATE

**SUBJECT: ORDER NO. _____ - PROPOSED SUCCESSOR PERMIT TO
WWL VEHICLE SERVICES AMERICAS, INC. PREFERENTIAL BERTH
ASSIGNMENT NO. 77-34**

SUMMARY:

Since 1969, WWL Vehicle Services Americas, Inc. (WWL), or its predecessors, have leased property at Berths 195-200A from the City of Los Angeles Harbor Department (Harbor Department). Customers of WWL include Nissan, Nissan Diesel, and Infiniti. Implementation of the proposed successor permit will allow for the continued use of the property for processing and operations of a vehicle cargo terminal.

The current Permit, Preferential Berth Assignment No. 77-34 (PBA 77-34), grants WWL Vehicle Services Americas, Inc. (WWL) use of the 91.12 waterfront acres. The original term of this Permit expired on October 31, 2011 and WWL was granted Holdover status by the Executive Director in November 2011. When approved, proposed Permit No. 900 will supersede PBA 77-34.

Proposed Permit No. 900 between the Harbor Department and WWL is a ten-year permit, with one five-year option. Minimum compensation is set at \$7,250,000 annually (payable at \$604,167 per month), with annual Consumer Price Index (CPI) rate adjustments.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve proposed Permit No. 900 with WWL Vehicle Services Americas, Inc., with a commencement date of January 1, 2012, an expiration date of January 1, 2022, and an option period of January 1, 2022 to January 1, 2027;
2. Direct the Board Secretary to transmit the proposed Permit No. 900 to the City Council for approval pursuant to Section 606 of the City Charter;
3. Authorize the Executive Director to execute and the Board Secretary to attest to Permit No. 900 upon approval by the Board; and
4. Adopt Order No. _____.

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DISCUSSION:

Background/Context – The existing WWL facility is an operating vehicle-processing terminal that accepts new automobiles shipped from overseas and undertakes necessary final preparations to those automobiles such that they can be tracked, distributed, and sold in the U.S. market. The operation currently processes in excess of 150,000 vehicles a year. Based on WWL's projections for market recovery, the facility expects to process 220,000 vehicles a year in the coming years depending on the rate of overall market recovery.

The proposed Permit contemplates a lease extension up to 15 years and adjustments to the premises in response to the Berth 200 Rail Yard Project. In addition, the Harbor Department is completing substantial deferred maintenance on the wharf structure and related issues. The completion of the project will improve and update the infrastructure of the facility and minimize operational inefficiencies.

The existing WWL facility is used for vehicle processing and logistics services for such companies as Nissan, Nissan Diesel, and Infiniti. WWL is a supply chain management services company of ocean transportation, inland distribution, and terminal handling, and is the terminal operator. WWL's existing uses on the terminal involve receiving, storing, servicing, distributing, and assembling vehicles for import and export. The facility loads and unloads vehicles using roll on - roll off, or 'ro/ro' operations. Physical improvements on the project site include offices, warehouses, repair shops, vehicle accessories assembly and installations areas, and a car wash. A 10,000-gallon underground storage tank is located at the northeastern portion of the project site for fueling vehicles.

The current terminal features five berths, with a storage capacity of up to 8,000 vehicles and a rail yard for loading and unloading of vehicles. On average, approximately eight cargo vessel calls per month import or export vehicles at the WWL facility. The vehicles are subsequently transported on approximately 800 railcars and about 417 carrier trucks per month, which equates to 5,008 trucks per year.

Such operations are large job generators. Currently, the peak number of workers at WWL is approximately 200 over four-work shifts. All vehicles are driven on and off the ship by International Longshore and Warehouse Union members.

CURRENT PERMIT TERMS AND CONDITIONS:

Current Compensation: WWL currently pays all charges under Tariff No. 4 and has a Minimum Annual Guarantee (MAG) of \$6,580,602 (\$74,847.61 per acre per year). Only wharfage charges paid by WWL are credited against the MAG. However, WWL has not been able to provide revenue above its MAG in the past five years.

Compensation for Wharf Damage: The Harbor Department's investigation of the wharf damage of Berth 198 revealed necessary repairs totaling \$673,000. The Harbor Department's Engineering Division reviewed certain wharf damage and determined that the necessary repairs are attributable to WWL's unpermitted heavy cargo operations

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that were conducted periodically. Given this fact, WWL is responsible for (and has agreed to pay) \$170,000 of the \$673,000 total repair costs and will pay within 30 days of the initiation of the repairs.

PROPOSED SUCCESSOR PERMIT:

The proposed permit is to be issued to WWL for a term of ten years, with one five-year option (Transmittal 1). The premises will consist of the current premises, with adjustments to the configuration of the footprint due primarily to the utility road associated with the Berth 200 Rail Yard project (Transmittal 2).

Term – Justification: Based on the consistency with the long-term land use plan; the Board's Leasing Policy adopted on August 8, 2013; and WWL's importance to diversifying the cargo operations of the Harbor Department and its excellent history at the Port of Los Angeles (Port), a ten-year term with one five-year option is justifiable.

Proposed Compensation: Under Permit No. 900, WWL will pay the Harbor Department all applicable charges necessary under Tariff No. 4, including, but not limited to, wharfage. WWL shall pay a Minimum Annual Guarantee (MAG), if the total wharfage charges do not exceed the MAG on the first day of each month for the duration of the term (and any additional term). The initial MAG shall be \$7,250,000.

The MAG is subject to (1) annual CPI adjustments every July 1 of each year during the term, (2) market rate adjustments on every fifth year anniversary of the effective date, and (3) any increase in the Tariff rate for Merchandise Not Otherwise Specified (NOS) following the effective date. All wharfage payments will be credited toward the MAG.

Six months prior to every fifth anniversary of the effective date, the Harbor Department and WWL will calculate the average number of vehicles loaded and unloaded at the premises (Vehicle Throughput) on a per-acre basis. In the event the following Vehicle Throughput is not met, the Harbor Department may exercise the option to reduce the premises by up to six contiguous acres for each five-year period.

1. If the premises average Vehicle Throughput in the prior five years ending March 31, 2016 is less than 2,000 vehicles per acre per year; or
2. If the premises average Vehicle Throughput in the prior five years ending March 31, 2021 is less than 2,500 vehicles per acre per year.

From the effective date of proposed Permit No. 900, WWL shall, in addition to the then current compensation, pay the difference between the amount due under PBA 77-34 (under which they are current) and the compensation due under the proposed agreement. This difference (\$669,398.00) will be paid in 12 equal installments within the first year after execution of this Permit.

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Deposit: As a condition of proposed Permit No. 900, WWL shall deposit \$1,208,333 with the Board. Said deposit shall be held as a deposit to cover delinquent rent or other deficiencies in performance under the Permit. In the event that all or part of such deposit is used to apply to rent due and unpaid, WWL shall immediately make another deposit in an amount equal to the amount so used.

Based on the proposed terms and conditions above, Harbor Department staff recommends entering into a new ten-year permit with (with one five-year option) with WWL.

ENVIRONMENTAL ASSESSMENT:

The proposed action is for approval of WWL's proposed successor Permit No. 900 for a term of ten years with one five-year option to renew. The permit extension and adjustments to the boundary of the premises were previously analyzed in a Mitigated Negative Declaration prepared pursuant to the requirements of the California Environmental Quality Act (CEQA) and adopted by the Board on August 16, 2012. Therefore, as an activity for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of the CEQA, the Director of Environmental Management has determined that the proposed action is exempt from CEQA in accordance with Article II Section 2 (i) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no employment impacts.

FINANCIAL IMPACT:

Approval of WWL's proposed successor Permit No. 900 will increase MAG compensation to the Harbor Department from \$6,580,602.00 to \$7,250,000.00 annually, a \$669,398.00 per year increase. The Permit terms also include an annual CPI adjustment mechanism.

A negotiated land value of \$18 per square foot reflects the comparable market land value at the Toyota facility in the Port of Long Beach. This value also reflects the limited wharf capacity of the premises, the limited depth of the berths at the premises, and the restricted ingress and egress due to the Berth 200 Rail Yard development. The Rate of Return (ROR) on land and improvements is below the Harbor Department's stated ROR Policy (10 percent land, 12 percent Improvements). However, this lower ROR is warranted in that the strategic necessity to diversify the cargo business within the Port is important to the long-term economic vitality of the Harbor Department. In addition, this facility is an important job-creator and tax revenue generator for the local economy as well as an important point of entry servicing the Western U.S. economy. Given these facts, the compensation terms of proposed Permit No. 900, while they do not conform to the targets set by the Leasing Policy adopted by the Board on August 8, 2013, are reasonable and justified.

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CITY ATTORNEY:

Permit No. 900 and the accompanying Order (Transmittal 3) have been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Proposed Permit No. 900
2. Site Aerial Map
3. Order



JACK HEDGE
Director of Real Estate

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



 KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

GK:KM:JH:RG:ER:mmm
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