



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

Board of Harbor Commissioners

DATE: SEPTEMBER 30, 2014

FROM: REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE SUCCESSOR
PERMIT NO. 908 WITH TESORO LOGISTICS OPERATIONS LLC**

SUMMARY:

Proposed successor Permit No. 908 between the City of Los Angeles Harbor Department (Harbor Department) and Tesoro Logistics Operations LLC (Tesoro), an oil pipeline operator, grants Tesoro the use of 16,909 square feet (s.f.) of subsurface land area for a term of 20 years. The premises, located in East Wilmington, are for the operation and maintenance of existing subsurface pipelines for transportation of petroleum products.

It is proposed that compensation be set at \$24,518 annually, based on the Harbor Department receiving a 10 percent annual rate of return on a negotiated land value of \$29 per s.f., with subsurface parcels discounted by 50 percent. Successor Permit No. 908 will also include a Consumer Price Index (CPI) escalator. The \$2.90 per s.f. per year land rent is a negotiated rent and is consistent with market rent in the East Wilmington area.

RECOMMENDATION:

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

1. Approve Permit No. 908 with Tesoro Logistics Operations LLC;
2. Direct the Board Secretary to transmit Permit No. 908 to the Los Angeles City Council for approval pursuant to Section 606 of the City's Charter;
3. Authorize the Executive Director to execute and the Board Secretary to attest to Permit No. 908 upon approval by the City Council; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – The original permit was with Texaco Refining & Marketing, Inc. (Permit No. 79) for a term of 40 years, effective November 8, 1968 through November 7, 2008. In May 2007, Texaco Refining & Marketing, Inc. and Tesoro executed an asset purchase agreement for all pipeline facilities located in Los Angeles, which included the transfer of the underlying pipelines covered by the original permit. Permit No. 79 has expired and is on holdover status. As such, pursuant to Permit No. 79, Tesoro is obligated to pay the difference between the rent paid during the holdover period and the new rent payable under successor Permit No. 908 (Transmittal 1) within 30 days of the effective date of successor Permit No. 908.

SUBJECT: PROPOSED SUCCESSOR PERMIT NO. 908 WITH THE TESORO LOGISTICS OPERATIONS LLC

During the course of the holdover period, the Harbor Department reviewed all of its oil pipeline permits for best practices, with a focus on methods of minimizing Harbor Department liability associated with potential environmental contamination. As such, new environmental remediation language was included in the successor permit. In addition, new language related to pipeline inspections and testing, and compliance with state rules and regulations specific to pipelines, was included in the successor permit. Further, language ensuring that responsibility for contamination under the previous permit was transitioned to the new successor permit.

On May 18, 2010, Harbor Department staff was given authority to negotiate a revised successor permit to replace Permit No. 79. However, during the course of negotiations, Tesoro informed the Harbor Department that it was in the midst of acquiring the ownership rights of all BP West Coast Products LLC and ARCO Terminals Services Corporation (BP/ARCO) pipeline facilities in the Wilmington area. Consequently, Tesoro requested that negotiations be placed on hold until the business transaction between Tesoro and BP/ARCO was finalized, given it was Tesoro's intention to acquire an entitlement for those BP/ARCO facilities located on Harbor Department property as well.

In June 2013, the Harbor Department was notified that Tesoro's acquisition of the BP/ARCO pipeline facilities had been finalized and it was ready to resume its negotiations for a successor permit to replace Permit No. 79. The Harbor Department resumed negotiations but decided that the issuance of a 20-year term permit was the appropriate entitlement because of the long-term national economic need for Tesoro's petroleum products. The parties then went through a negotiation period and have mutually agreed to the terms and conditions of the proposed permit.

Proposed Permit Summary:

Effective Date: The proposed 20-year successor permit shall become effective upon approval by the City Council, pursuant to Charter Section 606 of the City's Charter.

Use: The operation and maintenance of existing subsurface pipelines for transportation of petroleum products.

Premises: The subsurface premises are located on the northern boundary line of the Classification Yard, south of Sepulveda Blvd.; and on the southern boundary line of the Classification Yard, north of Pacific Coast Highway (Transmittal 2). The premises are further described in Exhibit A of Permit No. 908.

Term: 20 years

SUBJECT: PROPOSED SUCCESSOR PERMIT NO. 908 WITH THE TESORO LOGISTICS OPERATIONS LLC

Compensation: The annual compensation for 16,909 s.f. of subsurface land will be \$24,518 per year for Permit No. 908, which equates to a 151 percent annual rental increase from the current rent of \$9,749 under Permit No. 79. Compensation is based on receiving a 10 percent rate of return on a land value of \$29 per s.f., with a subsurface discount of 50 percent. The proposed compensation conforms to the Board's adopted rate of return policy of 10 percent on land.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of Permit No. 908 with Tesoro for a term of 20 years for continued operation and maintenance of existing subsurface pipelines in the East Wilmington area for transportation of petroleum products. The issuance of a permit would not expand the size or capacity of the existing subsurface pipelines or otherwise alter the intended use of the pipelines. Therefore, as an activity involving the issuance 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 California Environmental Quality Act (CEQA) in accordance with Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no direct employment impact.

FINANCIAL IMPACT:

Approval of the proposed 20-year successor permit will result in Tesoro making a one-time payment for the difference between the rent paid during the holdover period, which was from November 7, 2008 to November 1, 2014 (annual invoice date), and the new rent payable under successor Permit No. 908 within 30 days after the effective date of the successor permit. This one-time payment to the Harbor Department is estimated at \$103,383. Thereafter, Tesoro will pay an initial annual rent of \$24,518 to the Harbor Department, with a rental adjustment for every five-year period of the 20-year term, as required by the City of Los Angeles Charter. In addition, the proposed compensation will be adjusted annually based on CPI. The proposed rent for Permit No. 908 equates to a 151 percent annual rental increase from the current rent of \$9,749 under Permit No. 79.

The proposed fixed land rent compensation conforms to the Board's adopted rate of return policy of 10 percent on land value of \$29 per s.f., discounted by 50 percent for subsurface use.

SUBJECT: PROPOSED SUCCESSOR PERMIT NO. 908 WITH THE TESORO LOGISTICS OPERATIONS LLC

CITY ATTORNEY:

Successor Permit No. 908 has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Proposed Permit No. 908
2. Site Map

FIS Approval: WP (initials)
CA Approval: an (initials)



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APPROVED:



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