



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: DECEMBER 5, 2012

FROM: REAL ESTATE

SUBJECT: ORDER NO. _____ - APPROVE SUCCESSOR PERMIT NO. 887 WITH H.J. BAKER & BRO., INC. FOR THE OPERATION AND MAINTENANCE OF A SULPHUR PROCESSING, STORAGE AND MAINTENANCE FACILITY

SUMMARY:

Permit No. 809 between the City of Los Angeles Harbor Department (Harbor Department) and H.J. Baker & Bro., Inc. (HJB), a Delaware corporation, grants HJB use of Harbor Department land located in the Wilmington District for the operation and maintenance of a sulphur processing, storage, and maintenance facility, and incidental purposes.

Permit No. 809 was for a term of five years, commencing August 3, 1998, and expired on August 2, 2003. Order No. 6625 granted holdover status on July 17, 2003, with HJB continuing its compensation to the Harbor Department at its current rate of \$11,990 monthly for a total annual amount of \$143,880.

It is recommended that the Harbor Department enter into a ten-year successor permit with HJB. Compensation will be set at \$327,636 annually (payable at \$27,303 per month), based on the Harbor Department's required 10 percent annual rate of return on a surface land value of \$25 per s.f. The proposed \$25 per s.f. per year surface value is consistent with market value for land of similar size and condition in the Wilmington area.

RECOMMENDATION:

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

1. Approve Permit No. 887 with H.J. Baker & Bro., Inc., with a commencement date of January 02, 2013 and an expiration date of January 01, 2023;
2. Direct the Board Secretary to transmit Permit No. 887 with H.J. Baker & Bro., Inc. 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. 887 upon approval by City Council; and
4. Adopt Order No. _____.

SUBJECT: PROPOSED SUCCESSOR PERMIT NO. 887 WITH H.J. BAKER & BRO., INC.

DISCUSSION:

Background/Context – Permit No. 887 (Transmittal 1) will grant HJB use of land, identified as Parcel Nos. 1 and 2 and consisting of approximately 62,521 and 68,534 square feet (s.f.) of land, respectively. Both parcels are depicted on Exhibit A of the attached permit. The annual rent under Permit No. 809 is currently set at \$143,880, which was based on the Harbor Department receiving a 10 percent annual rate of return on surface value of \$11.90 per s.f. The area will continue to be used for the operation and maintenance of a sulphur processing, storage and maintenance facility, and uses incidental to such a facility.

HJB is one of two companies established in east Wilmington for the purpose of processing liquid sulphur from refineries into pelletized sulphur. The other company is California Sulphur, whose permit was renewed by the Board in April of this year. Both companies are non-water dependent Harbor Department tenants in good standing.

Pelletizing is the process of compressing or molding a material into the shape of a pellet. The liquid sulphur processed by HJB is a necessary by-product of the oil refineries in the Harbor area that result in cleaner fuel. HJB's relationship to the sulphur industry dates back to the early 1900's. HJB ships the pelletized sulphur throughout the United States, Canada, and Mexico. HJB is located on Harbor Department property at the eastern edge of Wilmington at the southern end of the railroad Classification Yard between the Dominguez Channel and the City of Los Angeles' boundary with Long Beach (Transmittal 2). HJB's operations provide a valuable service and are a source of jobs in the area.

Order No. 6625 granted holdover status on July 17, 2003. Extensive permit template revisions resulted in protracted negotiations, further contributing to an extended holdover period. Upon resolution of the permit revisions, negotiations to finalize the permit renewal began in earnest in September of 2010.

It is proposed that compensation be set at \$327,636 annually, to be paid monthly at \$27,303. The rental rate is based on a 10 percent rate of return on a surface value of \$25 per s.f.

Compensation will be adjusted annually, and in no event downward, on July 1st of each year (beginning July 1, 2013), based on the Consumer Price Index - All Urban Areas (CPI-U). The annual adjustment is consistent with current Harbor Department practice. HJB has agreed to and approved this annual adjustment. Compensation will be reset every five years, pursuant to the Los Angeles City Charter.

Based upon HJB's status as a tenant in good standing, and the above provisions of the proposed permit, the Real Estate Division recommends approval of the new ten-year term permit.

SUBJECT: PROPOSED SUCCESSOR PERMIT NO. 887 WITH H.J. BAKER & BRO., INC.

ENVIRONMENTAL ASSESSMENT:

The proposed action is issuance of a ten-year successor permit to HJB for continued operation and maintenance of a sulfur processing, storage, and maintenance facility. 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 requirements of CEQA in accordance with Article III Class 1 (14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

Approval of HJB's proposed successor Permit No. 887 will increase fixed rent compensation to the Harbor Department from \$143,880 to \$327,636 annually, an increase of \$183,756 for the initial year. Proposed successor Permit No. 887 also includes an annual CPI-U adjustment mechanism. The compensation terms of proposed Permit No. 887 conforms to the Board's rate of return policy.

CITY ATTORNEY:

Proposed Permit No. 887 has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Permit No. 887
- 2. Site Aerial Map
- 3. Order

JACK HEDGE
Director of Real Estate

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

KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:

GERALDINE KNATZ, Ph.D.
Executive Director