



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: APRIL 4, 2012

FROM: REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE SUCCESSOR PERMIT NO. 861 WITH CALIFORNIA SULPHUR COMPANY FOR A SULFUR PROCESSING FACILITY IN WILMINGTON

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) seeks approval to enter into Permit 861, a ten-year successor permit to Permit No. 771, with California Sulphur Company (CSC). CSC is a California general partnership based in Wilmington. The proposed successor permit proposes land rent consistent with market rent in the Wilmington area and will result in increased rental income to the Harbor Department of \$263,214 per year.

RECOMMENDATION:

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

1. Approve Permit No. 861 with California Sulphur Company;
2. Direct the Board Secretary to transmit the Permit to the Los Angeles City Council pursuant to Charter Sections 606 and 607;
3. Authorize the Executive Director to execute and the Board Secretary to attest to Permit No. 861 upon approval by the City Council; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background – Permit No. 771, currently on holdover, grants CSC use of 308,829 square feet (s.f.) of surface land area and 851 s.f. for subsurface pipelines. The premises, located in East Wilmington, is for the construction, operation, and maintenance of a sulfur processing, pelletizing, and storage facility, related bulk storage, and related incidental purposes (Transmittal 2). Permit No. 771 was for a term of ten years, commencing December 3, 1995, and ending December 2, 2005. Since going to holdover status on December 2, 2005, CSC has been paying a rate of 150 percent of its permit compensation.

The Real Estate Division (RED) supports CSC's request for a new ten-year permit (Transmittal 1) because they are a tenant in good standing and have demonstrated their long-term commitment to the facility through recent capital improvements estimated at \$3,350,000. This ten-year permit term is included in CSC's 2007 approved Term Sheet and the same term offered to another sulfur processing facility in the East Wilmington

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area within the Harbor District. Attempts to finalize the agreement over the past few years have been delayed by concerns over potential obligations over environmental remediation. These issues have now been resolved, and the proposed successor permit provides extensive and detailed remediation clauses.

Planning & Economic Development Division has indicated that the Harbor Department has no plans within the next ten years to redevelop the property occupied by CSC.

Rate History – The annual rent under Perrnit No. 771 was originally set at \$339,948, which was based on the Harbor Department receiving a ten percent annual rate of return on land value of \$11 per s.f. (the 1995 value of backland in East Wilmington). At that time, subsurface parcels were discounted by 75 percent of the land value of the surface premises, equating to a monthly rent of \$28,329 per month. On December 3, 2005, the yearly compensation was increased to \$509,922, based on the maximum holdover rate of 150 percent.

Proposed Compensation – As shown in the table below, it is proposed that compensation be set at \$773,136 annually, to be paid on a monthly basis at a proposed rate of \$64,428. The rental rate is based on receiving a ten percent rate of return on land value of \$25.00 per s.f., which was based on a negotiated rate between CSC and the Harbor Department and \$12.50 for subsurface land value. The current Board policy is based on receiving a ten percent annual rate of return on the current appraised land value of \$22.00 per s.f., with subsurface parcels discounted by 50 percent. The proposed rate of \$25.00 per s.f. is slightly higher than the \$22.00 land value established by the August 2009 RED land value survey, but is consistent with the market rates of 2009 in Wilmington. CSC has agreed to enter into a new permit based on the \$25.00 per s.f. land value.

Parcel No.	Surface or Subsurface	Area (Sq. Ft.)	Rental per s.f.	Rate of Return	Subsurface Discount	Annual Compensation
1	Surface	139,927	\$25.00	10%		\$349,818
2	Surface	6,525	\$25.00	10%		\$16,313
3	Subsurface	555	\$12.50	10%	50%	\$693
4	Subsurface	296	\$12.50	10%	50%	\$370
5	Surface	18,861	\$25.00	10%		\$47,152
6	Surface	143,516	\$25.00	10%		\$358,790
	Total	309,680				\$773,136
Monthly Compensation						\$64,428

Compensation would be reset after five years and would be adjusted annually on July 1st, between the five-year resets, based on the Consumer Price Index (CPI). Annual CPI adjustments shall not exceed five percent or be lower than two percent. CSC has agreed to this annual adjustment.

Based on the above proposed terms and conditions, RED recommends entering into a new ten-year permit with CSC.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of ten-year successor permit with CSC. The new permit does not involve any change in operation. 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 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 effect.

FINANCIAL IMPACT:

Proposed Permit No. 861 with CSC will result in an annual incremental revenue increase of \$263,214 over its existing Permit No. 771 and incorporates an annual CPI adjustment. The proposed annual compensation of \$773,136 conforms to the Board's rate of return policy of ten percent on land.

CITY ATTORNEY:

Proposed Permit No. 861 has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

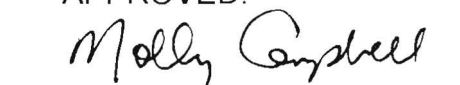
- 1. Proposed Permit No. 861
- 2. Site Aerial Map

FIS Approval: KR (initials)
 CA Approval: Th (initials)


 KARL K.Y. PAN
 Acting Director of Real Estate


 FOR KATHRYN McDERMOTT
 Deputy Executive Director

APPROVED:


 GERALDINE KNATZ, Ph.D.
 Executive Director