



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

Board of Harbor Commissioners

DATE: JULY 6, 2016

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE THE ORDER
RESETTING COMPENSATION UNDER PERMIT NO. 882 WITH
MILLENNIUM MARITIME, INC.**

SUMMARY:

Staff requests approval of the Order resetting compensation under Permit No. 882 (P882) with Millennium Maritime, Inc. (MMI) for the five-year period of November 1, 2016 through October 31, 2021.

Under the compensation reset Order, the current monthly rent of \$25,794.92 will be adjusted to \$26,462.38 effective November 1, 2016. Thereafter, the initial base rent will be subject to an annual 4 percent increase plus an annual Consumer Price Index (CPI) adjustment each year during the five-year period.

RECOMMENDATION:

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

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Order resetting compensation under Permit No. 882 with Millennium Maritime, Inc.;
3. Authorize the Board Secretary to attest to the Order;
4. Adopt Order No. _____; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – P882 with MMI was approved by the Board on November 19, 2009 for an initial five-year term, with two five-year options (a maximum term of 15 years), for the use of City of Los Angeles Harbor Department (Harbor Department) property at Berth 301 on Terminal Island. The options granted are at the sole discretion of MMI. P882 has an effective date of November 1, 2011, which is the occupancy date of the redeveloped premises.

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P882 permits the tenant to maintain and operate an office and maintenance facility for their tug and barge operation. The premises consist of 111,416 square feet (s.f.) of wharf area, which is treated as land based upon a previous Settlement Agreement & Release, and 43,786 s.f. of water area for docking their vessels (Transmittal 1).

MMI is responsible for the operation and maintenance costs of all improvements within its premises, except for the Harbor Department constructed wharf.

Pursuant to the terms of P882, MMI exercised its right for the first five-year extension option by providing written notice to the Executive Director. Exercising the option triggered the negotiation of rent for the subsequent five-year option period.

Current Compensation – MMI's initial compensation was negotiated in 2009. The rent was established based on a land value of \$24 per s.f. and value of \$8 per s.f. on the submerged area, with a rate of return of 10 percent. In addition, the rent is subject to an annual CPI adjustment. Based the latest CPI adjustment, MMI currently pays an annual rent of \$309,539.04, or \$25,794.92 per month.

Proposed Reset of Compensation – The market rent for permits on Terminal reflect land values that range between \$30 and \$40 per s.f. In recognition that a one-time adjustment to market rent would result in a financial hardship to MMI, the initial monthly rent for year one of the five-year option period will be set at \$26,462.38, with an annual 4 percent increase occurring in subsequent years until the initial rental rate is adjusted above the \$30 per s.f. range on year five of the reset period. The CPI based adjustment will continue in addition to the 4 percent per year adjustment.

Under the proposed Order (Transmittal 2), MMI's annual rent during the first year of the option period commencing on November 1, 2016 will be \$317,549 (or \$26,462.38 per month).

ENVIRONMENTAL ASSESSMENT:

The proposed action is resetting compensation under P882 with MMI for the five-year period of November 1, 2016 through October 31, 2021. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA under Article II, Section 2(f) of the City of Los Angeles CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed reset of compensation under P882 will result in MMI paying an initial annual rent of \$317,549 to the Harbor Department effective November 1, 2016, with 4 percent annual rental increases occurring throughout each year of the five-year term (ending October 31, 2021). In addition, the proposed compensation will be adjusted annually based on CPI.

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The proposed reset of compensation under P882 conforms to the Board's adopted rate of return policy.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the proposed Order as to form and legality.

TRANSMITTALS:

1. Site Map
2. Order




JACK C. HEDGE
Director of Cargo & Industrial Real Estate

FIS Approval: MB (initials)
CA Approval: QML (initials)



FOR MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



FOR EUGENE D. SEROKA
Executive Director

ES:MD:JH:ST:FS:raw
Author: F. Sanchez
BL596raw MMI Comp Reset