

DATE: OCTOBER 19, 2022

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE ORDER
RESETTING COMPENSATION UNDER PERMIT NO. 853 WITH CITY OF
LOS ANGELES DEPARTMENT OF GENERAL SERVICES**

SUMMARY:

Staff requests approval of the Order resetting compensation under Permit No. 853 (P853) with the City of Los Angeles Department of General Services (GSD) for the five-year period of June 9, 2021 through June 8, 2026 for premises connected with the Terminal Island Water Reclamation Plant (TIWRP). GSD serves as a pass-through contracting department on behalf of the Los Angeles Department of Public Works Bureau of Sanitation (DPW).

Under the proposed Order, rent will increase by \$584,571, or 23.9 percent, from \$2,446,356 to \$3,030,927 per year effective June 9, 2021. Commencing June 9, 2022, the base rent will be subject to an annual Consumer Price Index (CPI) adjustment for the remainder of the reset period through June 8, 2026. The permit has a three percent cap on CPI increases.

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order resetting compensation under Permit No. 853 with the Department of General Services and the Department of Public Works;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 853; and
4. Adopt Resolution No. _____ and Order No. _____.

SUBJECT: RESET OF COMPENSATION ORDER UNDER PERMIT NO. 853 WITH CITY OF LOS ANGELES DEPARTMENT OF GENERAL SERVICES

DISCUSSION:

Background – P853 with GSD was approved by the Board on June 9, 2011, for a 50-year term for the use of City of Los Angeles Harbor Department (Harbor Department) property on Terminal Island for purposes of operating the TIWRP (Transmittal 1). The premises consist of 941,597 square feet of land, 191,923 square feet of subsurface land, and 33,605 square feet of submerged land or water, for a total of 1,167,125 square feet.

The TIWRP is operated by the DPW, while GSD is the pass-through department over lease administration matters. The plant began providing services in the 1930s and continues to provide essential wastewater services benefitting Harbor Department facilities, Harbor Department tenants and the surrounding communities. The sewer line serves the communities of San Pedro and Wilmington, and DPW is charged for the pipeline network within the Harbor District with connection to the TIWRP.

The rental adjustments for P853 are made pursuant to Settlement Agreement 1106 and 1106A, between the City of Los Angeles and the Board in 1977. The compensation for occupancy of trust lands used for municipal purposes may be adjusted annually based on the Board’s then current rate of return on the lands and submerged land, and the then fair market value of the lands and submerged land. For P853, the Harbor Department allocates a discount to GSD of 35 percent, since a portion of the TIWRP is used for municipal purposes.

Proposed Reset – Provided below are details of the proposed Order resetting compensation (Transmittal No. 2), which takes into consideration the proration required under the settlement agreement. The proposed rent was negotiated by the parties and uses a \$43.50 per square foot land value for June 2021 and a \$14.50 per square foot submerged land value, while utilizing a 10 percent rate of return. The market rent further incorporates a subsurface discount of 50 percent, and factors in a 35 percent proration for those facilities providing municipal service.

| Effective Dates | Land Rental Rates per sf, per year | Annual Rent | Percentage Increase |
|------------------------|---|--------------------|-------------------------------------|
| Rent prior to 6/9/2021 | \$3.51 | \$2,446,356.00 | NA |
| 6/9/2021 | \$4.35 | \$3,030,927.00 | 23.9% |
| 6/9/2022 | \$4.48 | \$3,121,522.00 | 3.0% |
| 6/9/2023 | +CPI | +CPI | The Permit caps CPI increases at 3% |

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ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the Order resetting compensation under P853 with GSD for the premises connected with the TIWRP, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed Order resetting compensation under P853 will result in annual rent increasing by \$584,571, or 23.9 percent, from \$2,446,356 to \$3,030,927 effective June 9, 2021. Thereafter, annual adjustments will be based upon the lesser of CPI or 3.0 percent. Based upon the terms of the proposed Order, effective June 9, 2022, annual rent will increase by 3.0 percent to \$3,121,522.

CITY ATTORNEY:

The proposed order resetting compensation under P853 has been approved as to form and legality by the office of the City Attorney.

TRANSMITTALS:

1. Site Map
2. Order

FIS Approval: MB
CA Approval: SO

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APPROVED:

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