



THE PORT
OF LOS ANGELES

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: AUGUST 10, 2012

FROM: REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE SUCCESSOR
PERMIT NO. 870 WITH SOUTHERN CALIFORNIA GAS COMPANY**

SUMMARY:

Proposed successor Permit No. 870 between the City of Los Angeles Harbor Department (Harbor Department) and Southern California Gas Company (SCG), a public utility, grants SCG the use of 3,138 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 an existing subsurface pipeline right-of-way for delivery of natural gas to the surrounding community.

It is proposed that compensation be set at \$3,452 annually, based on the Harbor Department receiving a 10 percent annual rate of return on a negotiated land value of \$22 per s.f., with subsurface parcels discounted by 50 percent. Successor Permit No. 870 will also include a Consumer Price Index escalator. The \$2.20 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. 870 with Southern California Gas Company;
2. Direct the Board Secretary to transmit Permit No. 870 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. 870 upon approval by the City Council; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background – The original permit with SCG (Permit No. 415) was for a term of 20 years, effective January 6, 1980 through January 5, 2000. On January 6, 1995, Parcel 1 was reduced from 2,001 s.f. to 1,420 s.f., and the rent was adjusted to \$732 for the final five-year period of the 20-year term. On February 23, 2004, the Executive Director authorized the holdover of Permit No. 415, which had expired on January 5, 2000. As such, pursuant to Permit No. 415, SCG is obligated to pay the difference between the rent paid during the holdover period and the new rent payable under successor Permit No. 870 (Transmittal 1) within 30 days of the effective date of successor Permit No. 870.

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During the course of negotiations, SCG and the Harbor Department were unable to reach an agreement in regard to the terms of the successor permit; therefore, a holdover letter was issued in February 2004. Subsequently, SCG insisted that the proposed rent structure for the successor permit be based on a franchise fee model versus the standard pipeline rent structure, resulting in protracted negotiations. However, SCG was unable to justify its proposed franchise fee structure, so the parties mutually agreed to the utilization of the pipeline rent structure as a basis for the proposed rent of Permit No. 870.

Proposed Permit Summary:

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

Use: The use and maintenance of two existing subsurface high-pressure gas pipelines.

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 and A-1 of Permit No. 870.

Term: 20 years

Compensation: The annual compensation for 3,138 square feet of subsurface land will be \$3,452 per year for Permit No. 870. Compensation is based on receiving a 10 percent rate of return on a land value of \$22 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 to grant a 20-year successor permit to SCG for continued operation of two existing subsurface pipelines. 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 for the five-county region.

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FINANCIAL IMPACT:

Approval of the proposed 20-year successor permit will result in SCG making a one-time payment for the difference between the rent paid during the holdover period, which was from January 5, 2000 to January 5, 2012, and the new rent payable under successor Permit No. 870 within 30 days after the effective date of the successor Permit. This one-time payment is estimated at \$32,640. Thereafter, SCG will pay an initial annual rent of \$3,452 to Harbor Department, with a rental adjustment for every five-year period of the 20-year term as required under the City's Charter. In addition, the proposed compensation will be adjusted annually based on the Consumer Price Index.

The proposed fixed land rent compensation conforms to the Board's adopted rate of return policy of 10 percent on land value of \$22 per s.f., discounted by 50 percent for subsurface use.

CITY ATTORNEY:

Successor Permit No. 870 has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Proposed Permit No. 870
2. Site Map


JACK C. HEDGE
Director of Real Estate

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

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FIS Approval:  (initials)
CA Approval:  (initials)


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