



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

Board of Harbor Commissioners

DATE: AUGUST 23, 2018

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE SIXTH
AMENDMENT WITH PERMIT NO. 560 WITH VOPAK TERMINAL LOS
ANGELES, INC.**

SUMMARY:

Staff requests approval of the Sixth Amendment to Permit No. 560 with Vopak Terminal Los Angeles, Inc. (Vopak). Vopak operates a marine oil terminal at Berths 187-191 in Wilmington, which is subject to the Marine Oil Terminal & Maintenance Standards (MOTEMS). The proposed Sixth Amendment will shift the severe and major defect repairs identified in a prior MOTEMS audit to Vopak in consideration of waiving wharfage charges for 30 months. Vopak will have 18 months to substantially complete the repairs. Repair of the severe and major defects in the existing wharf is required by the California State Lands Commission, which has oversight responsibilities over the marine oil terminals. Shifting of the repair responsibilities to Vopak will limit the City of Los Angeles Harbor Department's (Harbor Department) financial risk and improve Vopak's ability to maintain business during construction. Waiving wharfage charges will reduce revenues which would have otherwise been due to the Harbor Department. The waiver of wharfage charges is offset by construction cost savings and potential business reduction that would have occurred if the Harbor Department performed the work. Based upon annual wharfage of \$3,592,174 (approximately \$299,348 per month on average) paid by Vopak in the 2017 compensation year, waiving 30 months of wharfage is anticipated to cost the Harbor Department \$8,980,440 in foregone wharfage revenues. The severe and major defect repairs are part of the Harbor Department's regular maintenance responsibilities and are separate from the wharf upgrade required by MOTEMS.

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 categorically exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III Class 1(14) of the Los Angeles City CEQA Guidelines;
2. Approve the the Sixth Amendment to Permit No. 560 with the Vopak Terminal Los Angeles, Inc.;
3. Direct the Board Secretary to transmit the Sixth Amendment for Permit 560 to the City Council for approval pursuant to Charter Section 606 of the City Charter;

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4. Authorize the Executive Director to execute and the Board Secretary to attest to the Sixth Amendment upon Board approval contingent upon approval by City Council; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background: Permit 560 allows Vopak the use of Harbor Department property for the operation of a marine liquid bulk terminal. Vopak currently occupies a total of 37.82 acres at Berths 187-191 and in inland location in Wilmington. The Permit is for a 30-year term, which commenced on August 30, 1993.

The proposed Sixth Amendment (Transmittal 1) addresses the severe repairs identified in the MOTEMS audit dated May 10, 2013. The Harbor Department staff and Vopak have agreed to allow Vopak to repair the wharf in exchange for a temporary waiver of wharfage charges for 30 months. Staff has determined that Vopak is better situated to manage the safety issues and repair schedules according to their vessel schedules and to minimize business loss during construction. The shift will also allow the long-delayed repairs to proceed expeditiously and reduce the Harbor Department's risk of further cost increases due to project delay.

Vopak will have 18 months to substantially complete the repairs. Should the described repairs not be substantially complete before the lapse of 18 months, Vopak shall pay to the Harbor Department any wharfage charges temporarily waived less construction expenses for repairs that have already been paid. Thereafter, the Harbor Department will not waive further wharfage charges. The Executive Director may extend the period for substantial completion of repairs upon written request and a showing of good cause.

Upon substantial completion of the repairs, Vopak shall take sole responsibility for all maintenance and repair of the specific wharf structure areas directly affected by the repairs for the remainder of their permit term, which expires in 2023.

In 2017, staff estimated that the direct cost to the Harbor Department to repair the selected severe repairs and major defects of the wharves to be \$4,498,163. Staff further estimates that there would be an indirect cost to the Harbor Department due to wharfage revenue lost due to business interruption during construction. Staff estimates that the Harbor Department could potentially lose \$3,891,522 in wharfage assuming that (1) Vopak is able to operate at only 50 percent of its capacity during eight months of construction; (2) Vopak continues to operate at only 50 percent of its capacity for one year following construction completion as it works to bring back business lost during construction; (3) Vopak recovers all but 25 percent of its business lost in the second year following construction completion; and (4) Vopak recovers all of its lost business two years after construction is completed. A 10 percent contingency has been added to the total to account for potential increases in construction costs and additional lost wharfage revenues due to greater than expected business interruption. Staff estimates a potential total cost of \$9,228,651 for the Harbor Department to repair the wharves, inclusive of direct construction costs, as well as indirect costs arising from lost wharfage due to business interruption.

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The table below summarizes the estimated costs to the Harbor Department associated with repairs performed by the Harbor Department relative to the costs to the Harbor Department associated with repairs performed by Vopak:

Repairs performed by the Harbor Department	
Severe Repair Cost (April 20, 2017 Moffatt & Nichol report)	\$4,498,163
Estimated Potential Lost Wharfage 2017 wharfage - \$3,592,174 (\$299,348 per month)	
50% Lost Wharfage for 8 months during construction:	\$1,197,391
50% Lost Wharfage during 1 st year recovery period:	\$1,796,087
25% Lost Wharfage during 2 nd year recovery period:	\$ 898,044
Total Estimated Lost Wharfage	\$3,891,522
10% Contingencies (potential cost increase and greater lost wharfage due to increased business interruption)	\$838,966
Estimated Repair Cost & Lost Wharfage	\$9,228,651
Repairs performed by Vopak	
Estimated Wharfage Waiver - 30 Months of Wharf Rent (30 x \$299,348 based on 2017 wharfage)	\$8,980,440
Difference 2.69 % less	\$248,211

By shifting the repair responsibilities to Vopak and waiving wharfage charges for 30 months, the Harbor Department is limiting the total financial cost of these required repairs and reducing the likelihood of long-term business loss. The estimated net savings to the Harbor Department arising from Vopak completing this work rather than the Harbor Department is \$248,211.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the Sixth Amendment to Permit No. 560, which is an activity involving the amendment to a permit to use an existing facility (Transmittal 2) involving negligible expansion of use. Therefore, the Director of Environmental Management has determined that the proposed action is categorically exempt from the requirements of CEQA in accordance with Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

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FINANCIAL IMPACT:

Approval of the Sixth Amendment to Permit No. 560 would result in Vopak becoming responsible for repairing severe and major defects at Berths 187-190 which were identified within a MOTEMS audit. Vopak would bear the costs of completing these repairs, and, in exchange, the Harbor Department would waive wharfage charges for 30 months. Based upon annual wharfage of \$3,592,174 (approximately \$299,348 per month on average) paid by Vopak in the 2017 compensation year, waiving 30 months of wharfage is anticipated to cost the Harbor Department \$8,980,440 in foregone wharfage revenues.

Application of wharfage credits in lieu of the Harbor Department performing repair work, limits the Harbor Department's exposure to higher than expected construction costs, reduces the degree to which Vopak's business will be interrupted while repair work is ongoing, and shifts the responsibility for ongoing maintenance of the completed repairs to Vopak. Further financial details regarding MOTEMS upgrades beyond the repair of severe and major defects discussed herein will be brought before the Board in a separate action.

CITY ATTORNEY:

The Sixth Amendment was prepared and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Sixth Amendment
- 2. Site Map

FIS Approval: MB
 CA Approval: JHC

Ed Reddes FOR

MICHAEL J. GALVIN
 Director of Waterfront & Commercial Real Estate

Michael DiBernardo

MICHAEL DiBERNARDO
 Deputy Executive Director

APPROVED:

Mark Bleavin FOR

EUGENE D. SEROKA
 Executive Director