



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

Board of Harbor Commissioners

DATE: SEPTEMBER 17, 2019

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ RESETTING COMPENSATION
UNDER PERMIT NO. 513 WITH UNITED STATES OF AMERICA
THROUGH NAVAL FACILITIES ENGINEERING COMMAND,
SOUTHWEST**

SUMMARY:

Staff requests approval of an Order resetting compensation under Permit No. 513 (P513) with The United States of America, through Naval Facilities Engineering Command, Southwest (US Navy). P513 grants the US Navy use of 91,203 square feet (s.f.) of surface, submerged, and subsurface right-of-way (land) for a petroleum pipeline on City of Los Angeles Harbor Department (Harbor Department) property. The Permit is for a term of 50 years, effective November 26, 1984 through November 25, 2034. The Permit requires that compensation be reset every five years.

The current annual rent is \$89,405.40. Under the proposed compensation reset Order, effective November 26, 2019, US Navy will begin paying annual rent of \$176,736.39 based upon a land value of \$42.00 per square foot with a 10 percent rate of return, including 3 percent annual adjustments averaged over the period. The proposed rent represents an increase of approximately 97.68 percent over the previous compensation.

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 CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order resetting compensation under Permit No. 513;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 513; and
4. Adopt Resolution No. _____ and Order No. _____.

SUBJECT: COMPENSATION RESET FOR UNITED STATES NAVY P513

DISCUSSION:

Background – P513 was granted to the US Navy effective November 26, 1984 for a term of 50 years. The Permit premises (Transmittal 1) consist of 91,203 s.f. of right-of-way for a petroleum pipeline. The entire pipeline extends from the Port of Long Beach through Harbor Department property (Terminal Island, the Main Channel, and San Pedro) to a Defense Energy Support Center on North Gaffey Street, San Pedro.

As dictated by the terms of P513, the adjustment of rent for the upcoming period of November 26, 2019 to November 25, 2024 is required.

Current Compensation – Pursuant to Order No. 15-7176, compensation for years 2014 through 2019 was reset utilizing a land value rate of \$22.00 per square foot with a required rate of return of 10 percent amounting to \$89,405.40 per annum.

Proposed Compensation – Under the proposed Order (Transmittal 2), the negotiated annual rent is calculated based upon: (a) land value of \$42.00 per square foot, which is within the range of market values in the harbor area; (b) utilizing the Board’s 10 percent rate of return requirement; (c) a 3 percent fixed annual increases for years 2-5; and (d) averaging the five-year total compensation to arrive at the annual rent detailed below:

Proposed Compensation Chart - US Navy Permit 513: November 26, 2019-2024						
Description	Year 1	Year 2	Year 3	Year 4	Year 5	5-Yr Total
Land Rent w/3% Yr2-5	\$166,445.54	\$171,438.90	\$176,582.06	\$181,879.53	\$187,335.92	\$883,681.95
Annual Rent	\$176,736.39	\$176,736.39	\$176,736.39	\$176,736.39	\$176,736.39	\$883,681.95

Due to budgetary constraints, the US Navy is unable to use annual Consumer Price Index (CPI) based escalations. As such, in lieu of a CPI adjustment, an annual 3 percent increase was negotiated. Further, the proposed compensation meets the Board’s required rate of return on land value derived from a review of market trends in the Harbor/South Bay area as tracked by CoStar and the Los Angeles County Recorder’s Office (closed sale transactions).

In addition, due to budgetary protocol, the US Navy cannot execute the Order until its Fiscal Year 2020-2021 accounting is in place. Accordingly, staff prepared the attached acknowledgement letter agreement dated August 13, 2019 (Transmittal 3). The executed Order will be substituted for the letter upon receipt.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a proposed Order resetting compensation under Permit No. 513, 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.

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FINANCIAL IMPACT:

Approval of the proposed compensation reset results in a five-year total rental compensation to the Harbor Department of \$883,681.95 based on annual payments of \$176,736.39 for the five-year period.

CITY ATTORNEY:

The Order setting compensation under Permit No. 513 has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

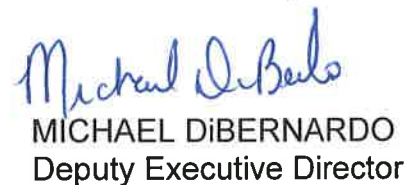
1. Site Location Map
2. Order
3. Letter

FIS Approval: MB

CA Approval: JMC



REGNER GLOBUS
Assistant Director, Cargo & Industrial Real Estate



MICHAEL DIBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA FOR

EUGENE D. SEROKA
Executive Director

EDS:MG:RG:ST:TP:jg
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BL798jg US Navy Comp Reset