



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

Board of Harbor Commissioners

DATE: FEBRUARY 13, 2020

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - APPROVE PERMIT NO. 949
WITH SPACE EXPLORATION TECHNOLOGIES CORP. TO
CONSTRUCT AND OPERATE A RESEARCH, DESIGN, AND
MANUFACTURING FACILITY**

SUMMARY:

Staff requests approval of new term Permit No. 949 (Permit) between the City of Los Angeles Harbor Department (Harbor Department) and Space Exploration Technologies Corp. (SpaceX), for the purpose of constructing and operating a research, design, and manufacturing facility for aerospace components for spacecraft at the former Southwest Marine site at Terminal Island. Recovery operations may also be conducted at the site.

At the site, SpaceX would develop new port-based spacecraft production facilities. The development includes an adaptive reuse of dilapidated facilities with a history of vacancy and vandalism for nearly 15 years. Other benefits of the permit include siting a prominent aerospace technology company in the City of Los Angeles that has the potential to create 130 aerospace jobs.

The term of the proposed Permit is 10 years, with two 10-year extension options, exercisable by SpaceX. Following application of rental offsets for tenant improvements, staff anticipates the Permit would yield a net neutral revenue stream by year 18 of the proposed term.

RECOMMENDATION:

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

1. Consider the Addendum to the certified 2018 Final Initial Study/Mitigated Negative Declaration along with the 2018 Initial Study/Mitigated Negative Declaration (State Clearinghouse No. 2017121023) adopted by the Board on March 15, 2018 (Resolution No. 18-8259);
2. Find that, in accordance with the provisions of the California Environmental Quality Act Guidelines Section 15164, the proposed permit and associated restoration of existing buildings will not result in any new significant environmental effects or any substantially more severe effects than previously analyzed in the certified 2018 Final Initial Study/Mitigated Negative Declaration;

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3. Authorize the Environmental Management Division to file a Notice of Determination with the Los Angeles County Clerk;
4. Find that the proposed action is in the best interest of the City and Los Angeles Harbor Department despite the fact that the estimated rate of return on investment does not meet stated policy targets as enacted by the Board;
5. Find that the proposed action is in the best interest of the City and Los Angeles Harbor Department despite the fact that the proposed permit was not a result of a public solicitation or request as this action has the potential to result in 130 aerospace jobs, and the site has not been occupied by a tenant since October 2005;
6. Approve Permit No. 949 with Space Exploration Technologies Corp. substantially in the form of Transmittal 1;
7. Direct the Board Secretary to transmit Permit No. 949 to the City Council for approval pursuant to Charter Section 606 of the City Charter;
8. Authorize the Executive Director to execute and the Board Secretary to attest to the Permit upon approval by City Council; and
9. Adopt Resolution No. _____.

DISCUSSION:

Background – On April 19, 2018, the Board approved an earlier permit with SpaceX (i.e. Permit 937) for construction of a manufacturing, research and development facility at the 19-acre former Southwest Marine facility located adjacent to Berth 240 on Terminal Island. Following the City Council’s approval, Permit No. 937 became effective on May 15, 2018. On February 21, 2019, SpaceX terminated Permit No. 937 citing failure to reach commencement of construction and vacated the facility. SpaceX continued west coast recovery operations located at Berth 52 under a separate Revocable Permit and still operates there today.

In January 2020, SpaceX notified the Harbor Department that it seeks to reestablish its rights to operate a manufacturing facility at the Port of Los Angeles and secure a term permit in a similar form to the one previously approved by the Board in 2018. Key terms that have changed from the previous Permit No. 937 include the possible adaptive reuse of the former Southwest Maine structures, which include a warehouse building and a workshop.

The spacecraft/parts, once complete, would be too large for reasonable transport by road and thus must be transported by barge or ship, necessitating that the facility be water adjacent, making the proposed premises an ideal location. Also, recovery operations currently at Berth 52 would fold into the proposed Permit and as such, water adjacency is also required for that aspect of SpaceX’s operation at the proposed premises.

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Material terms of the proposed Permit (Transmittal No. 1) are provided below.

Provision	Proposed Permit
Permitted Use	Research, design, and development of spacecraft parts and also recovery operations
Term	10 years, plus two 10-year option periods exercisable by tenant, total potential term of 30 years
Termination Rights	SpaceX may terminate the permit within 180 days of the effective date by providing 45 days' prior written notice
Extension Option Fee	10% of the estimated annual rent at year 10 and year 20 of term: Option Fee for First Extension: \$218,573 Option Fee for Second Extension: \$308,176
Initial Premises (Phase 1)	Consists of wharf, submerged land, waterfront land, backland and industrial buildings: <i>Total: 540,392 SF or 12.41 Acres of Land 115,460 SF or 2.65 Acres of Improvements</i> (See Transmittal No. 3)
Potential Additional Premises (Phase 2)	Consists of backland: <i>Total: 297,540 SF or 6.83 Acres of land</i>
Adding Premises	1) Tenant may request additional premises upon providing written notice, which would be granted via amendment in Executive Director's discretion and rent charged based on a set rate schedule 2) Tenant also has right of first refusal for up to 60 months for Phase II parcels
Rent - <i>Initial Premises</i> (Phase I)	\$1,699,990 per year, plus annual increases based on the Consumer Price Index (CPI)
<i>Rent - Additional Premises</i> (Phase II)	Backland rent to be charged using set rate schedule, i.e. rate per square foot per year, escalated annually based on CPI
Rent Adjustment	1. Annual CPI adjustment 2. Five-year rental rate adjustment
Tenant Improvement Allowance	\$42.00 million maximum for tenant improvements <u>\$02.10</u> million maximum for remediation \$44.10 million maximum aggregate total

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Provision	Proposed Permit
Scope of Improvements	Site prep and construction of any of the following: <ul style="list-style-type: none"> • Tent structures • Reuse of historic Southwest Marine Structures • New Building, square footage to be determined
Improvement obligations	<ol style="list-style-type: none"> 1) Tenant is responsible for construction of all new improvements at its sole cost and expense 2) Upon the termination of the proposed permit, title to all real property improvements would vest in the Harbor Department, unless the Executive Director otherwise requires demolition of such improvements and site restoration
Assignment/Sublease	Assignments and subleases are prohibited
Maintenance	Tenant is responsible for all maintenance
Security Instrument	Amount equal to three times the monthly rent
Insurance	Standard insurance requirements, plus pollution liability insurance

Detail on Tenant Improvement Allowance: The tenant would be entitled to rental offsets for tenant improvements constructed on the premises. Offsets would be limited to improvements that are deemed as an improvement to the real property. The value of these improvements transfers to the benefit of the Harbor Department at the end of the term, subject to the Harbor Department's right to have any or all improvements constructed by SpaceX demolished and the site restored. The amount of the tenant improvement allowance is phased and encourages 1) adaptive reuse of existing structures that can be rehabilitated; and 2) demolition of structures that are beyond restoration for an underutilized property with a history of vacancy and vandalism.

The Tenant Improvement Allowances are structured in two phases. Phase 1 construction cost estimates are \$27 million and for Phase 2, \$15 million. Collectively, the rental offsets have been negotiated to not to exceed \$42 million and are estimated to offset rent until the 18th year of the permit. The Tenant Improvement Allowance provides a further contingency for the possibility of discovering additional environmental contamination during site development that is beyond five percent of the total construction costs equating to an additional five percent, or \$2.1 million in rental offsets should additional contamination be discovered. The total rental offset would not exceed \$44.1 million.

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The Addendum has been prepared pursuant to CEQA and focuses on project changes between the 2018 Final Initial Study/Mitigated Negative Declaration for the Berth 240 Transportation Vessels Manufacturing Facility Project on behalf of WW Marine Composites, LLC (now Space Exploration Technologies Corp.) and the Proposed Revised Project. According to Section 15164(a) of the state CEQA Guidelines, the lead agency will prepare an Addendum to the previously certified CEQA document if changes or additions are necessary but none of the conditions described in Section 15162 calling for the preparation of a subsequent document have occurred. The Director of the Environmental Management Division has determined that the conditions in Section 15162 have not been met and, therefore, an Addendum is the appropriate document. An Addendum does not need to be circulated for public review. Based on the finding of the Addendum, the proposed action will not result in any new significant environmental effects or any substantially more severe effects than previously analyzed and, therefore, does not trigger any of the conditions calling for the preparation of a subsequent document. All previously approved mitigation measures and lease measures are incorporated into the proposed permit. The Addendum, along with the Final Initial Study/Mitigated Negative Declaration, have been made publicly available and are posted on the Harbor Department's website. See Transmittal No. 3.

FINANCIAL IMPACT:

The proposed Permit No. 949 with SpaceX has a 10-year initial term, with two 10-year renewal options, for a total maximum term of 30 years.

Initial annual compensation invoiced by the Harbor Department is estimated to be \$1,699,990. Initial compensation will be adjusted annually by CPI, and additional rent will be invoiced as SpaceX begins Phase 2 development activities. Annual compensation is estimated to be \$3,516,802 by year 20 due to the collective impact of CPI increases on Phase 1 premises and the incorporation of Phase 2 developments into the premises. Inclusive of an estimated \$218,573 option fee payable by SpaceX at the beginning of Year 8 and an estimated \$308,176 option fee payable by SpaceX at the beginning of Year 18, cumulative invoiced compensation over the initial 20-year period is estimated to be \$52,888,933.

However, it is important to note that over this initial 20-year period, SpaceX can apply \$44,100,000 in tenant credits to offset invoiced amounts due. Furthermore, staff estimates that the Harbor Department will be responsible for \$326,301 in cumulative property insurance costs over the initial 20-year period. Staff has also estimated that the Harbor Department will forego the receipt of \$360,000 for one year of recovery operations which are currently being performed under RP 15-19, but will now be performed under the proposed Permit No. 949.

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After subtracting the anticipated \$44.8 million in aggregate estimated costs from the \$52.9 million in aggregate estimated revenues, Staff has estimated net receipts to the Harbor Department of approximately \$8.1 million over the initial 20-year term of the proposed Permit. After all tenant credits are exhausted, staff has estimated the receipt of \$40.2 million in net receipts over Years 21-30 such that cumulative net receipts over the maximum 30-year permit term may reach \$48.3 million.

At the end of the 30-year permit, the land committed under the permit to SpaceX will revert back to the Harbor Department with an estimated future value of over \$71.2 million, as would the estimated \$10.8 million future value of improvements completed by SpaceX during the permit term.

The estimated financial rate of return associated with Permit No. 949 meets neither the 10 percent target rate of return for land nor the 12 percent target rate of return requirement for improvements as stated in the Port's Leasing Policy. While the estimated financial rate of return falls below the blended target rate of return, intangible benefits associated with attracting increased aerospace industry business activity to the Port may potentially mitigate the rate of return deficiency associated with the proposed Permit.

CITY ATTORNEY:

The Permit has been prepared and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Permit
- 2. Premises Map
- 3. Addendum

FIS Approval: MB
 CA Approval: JD



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APPROVED:



EUGENE D. SEROKA FOR
 Executive Director