



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: APRIL 19, 2016

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - SUCCESSOR PERMIT NO. 911
WITH THE CITY OF LOS ANGELES DEPARTMENT OF WATER AND
POWER**

SUMMARY:

Staff requests approval of Permit No. 911 with the City of Los Angeles Department of Water & Power (LADWP) to succeed Permit Nos. 711 and 780 for a term of 30 years. Permit No. 911 will grant use of City of Los Angeles Harbor Department (Harbor Department) property located at 200 Terminal Way, Terminal Island, for the operation and maintenance of an electrical distribution station; and 708 Regan Street in San Pedro for the operation and maintenance of an electrical distribution station and underground and above ground electrical conduits.

The annual compensation payable under Permit No. 911 is \$148,071, based on agreed market rental values at the commencement of the lease. Thereafter, the compensation will be adjusted annually with a Consumer Price Index (CPI) escalator.

RECOMMENDATION:

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

1. Find that the proposed action is exempt from the requirements of the California Quality Act (CEQA) under Article III Class 1(14) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Find that a 30-year term under Permit No. 911 for the premises utilized by the City of Los Angeles Department of Water & Power for the substations and electrical conduits is in the best interest of the City of Los Angeles Harbor Department due to the essential utility service it provides to Port of Los Angeles operations and the ongoing need for such services;
3. Approve Permit No. 911 with the City of Los Angeles Department of Water & Power;
4. Direct the Board Secretary to transmit Permit No. 911 to the City Council for approval pursuant to Charter Sections 606 and 607;

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5. Authorize the Executive Director to execute and the Board Secretary to attest to the Permit No. 911 upon approval by the City Council; and
6. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – Permit No. 711 grants LADWP use of 7,502 square feet (s.f.) of land area for the operation and maintenance of an electrical distribution station. Permit No. 711 was issued in 1992 for a term of ten years, which expired on March 16, 2002. Permit No. 711 has been on holdover since 2002, and based on the holdover provision, rent is 150 percent of the initial rate of \$1.15/s.f. (\$12,942 annual rent).

Permit No. 780 grants LADWP the use of 41,083 s.f. of land area for the operation and maintenance of an electrical distribution station and underground and above ground electrical conduits. Permit No. 780 was issued in 1997 for a term of five years, which expired on May 9, 2002. Permit No. 780 has been on holdover since 2002, and based on the holdover provision, the rent is 150 percent of the initial rate of \$1.30/s.f. (\$54,456 annual rent).

Negotiations with LADWP to combine the premises of Permit Nos. 711 and 780 (Transmittal 1) into a single permit with a long-term lease was initiated in 2002 and were recently completed, resulting in Permit No. 911 (Transmittal 2).

30-Year Term – City Charter Section 607 limits the length of lease terms to 30 years, unless City Council, by a two-thirds vote, finds that a longer term is in the best interest of the City (with 50 years being the maximum term allowed for a lease). In consideration of the long-term essential public utility service provided by the electrical substations to the Harbor Department, its tenants, and surrounding community, a 30-year term is recommended. A 50-year lease was also contemplated, but both Departments believed that a 30-year lease was sufficient to allow reassessment of the future demand for utility service and for the amortization of assets. LADWP will be able to continue to make significant long-term investments in the electrical distribution stations in order to meet future demand for utility services.

Compensation – In 1977, the City of Los Angeles (City) and the California State Lands Commission agreed that the Harbor Department would bill the City for trust lands used for general municipal purposes. It was further agreed that land costs would be based upon market rental value. Therefore, the rent for Permit Nos. 711 and 780 at the time of issuance of these permits was set at the then-existing market rate, which generated \$8,628 and \$36,304 annually, respectively.

The rent under Permit No. 711 was later readjusted in 1997 as part of a five-year compensation reset to \$8,628, which still reflected then-existing market rent.

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Permit No. 911 establishes an annual compensation amount of \$148,071. Compensation is based on rental values of \$35.00 per s.f. for land, with a ten percent rate of return, and a 50 percent discount provided for subsurface pipeline parcels. The \$35.00 per s.f. land value is based upon consideration of appraisals performed during the negotiation process. The premises and associated rental calculations are detailed below:

Drawing No. 45607		Exhibit "A-1" to the Permit No. 911						
Parcel #	Premises	SF	\$/SF	RoR	\$/SF/YR	DISCOUNT	\$/YR	\$/QTR
1	Land	28,244	\$35	10%	\$3.50	0	\$98,854	\$24,714
2	Subsurface Land	244	\$35	10%	\$3.50	50%	\$427	\$107
3	Subsurface Land	458	\$35	10%	\$3.50	50%	\$802	\$200
4	Subsurface Land	10,316	\$35	10%	\$3.50	50%	\$18,053	\$4,513
5	Subsurface Land	501	\$35	10%	\$3.50	50%	\$877	\$219
6	Subsurface Land	254	\$35	10%	\$3.50	50%	\$445	\$111
7	Land	281	\$35	10%	\$3.50	0%	\$984	\$246
8	Subsurface Land	148	\$35	10%	\$3.50	50%	\$259	\$65
9	Subsurface Land	61	\$35	10%	\$3.50	50%	\$107	\$27
10	Subsurface Land	226	\$35	10%	\$3.50	50%	\$396	\$99
11	Subsurface Land	350	\$35	10%	\$3.50	50%	\$613	\$153
		41,083				Subtotal	\$121,814	\$30,454

Drawing No. 5-4538-1		Exhibit "A-2" to the Permit No. 911						
Parcel #	Premises	SF	\$/SF	RoR	\$/SF/YR	DISCOUNT	\$/YR	\$/QTR
1	Land	7,502	\$35	10%	\$3.50	0	\$26,257	\$6,564

Total Quarterly Rent	\$37,018
Total Annual Rent	\$148,071

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Compensation will be automatically adjusted annually based upon the CPI escalator, but in no event will such adjustments be less than zero.

Other Permit Provisions – Permit No. 911 includes the Harbor Department's standard permit provisions, including the updated restoration and remediation provisions. Provisions not applicable to the City have been eliminated. Further, Permit No. 911 includes the following unique provisions:

- Holdover provision has been modified to reflect holdover rent from 150 percent to 125 percent.
- Provision related to security deposit has been modified to reflect no deposit required.
- Affirms, consistent with the holdover provisions of Permit Nos. 711 and 780, that the \$67,398 in combined annual rent paid by the City for calendar years 2002 to present is current and no additional rental amounts are owed.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a 30-year successor permit with LADWP for continued operation and maintenance of two electrical distribution stations and underground and aboveground electrical conduits, which is an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use. As such, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Permit No. 911 would increase annual rent from \$67,398 (combined rent under Permit Nos. 711 and 780) to \$148,071, resulting in an annual increase in fixed land rent revenue to the Harbor Department of \$80,673 in the first year. Beginning the second year, compensation will be escalated by CPI per year, but in no event will compensation decrease.

The proposed fixed land rent conforms to the Board's adopted rate of return policy of ten percent on an annual market land value of \$35/s.f.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved Permit No. 911 as to form and legality.

TRANSMITTALS:

1. Site Map
2. Permit No. 911



JACK C. HEDGE
Director of Cargo & Industrial Real Estate

FIS Approval: MB (Initials)
CA Approval: MB (Initials)



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

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