



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

Board of Harbor Commissioners

DATE: APRIL 4, 2017

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ - ORDER RESETTING
COMPENSATION UNDER PERMIT NO. 692 WITH YUSEN
TERMINALS, LLC**

SUMMARY:

Staff requests approval of the Order resetting compensation under Permit No. 692 (Permit) with Yusen Terminals, LLC (YTI) for the period from October 1, 2016 to September 30, 2021. The Permit grants YTI use of 224.83 acres at Berths 212-224 for container terminal operations for a 25-year term and one, 10-year option to extend (exercised in May 2015).

The Order resetting compensation will increase the Minimum Annual Guarantee (MAG) by 8 percent in Year 1 from \$156,583 per acre to \$169,110 per acre and remain as such thereafter until Year 5 when MAG will be increased by an additional 5 percent (from \$169,110 per acre to \$177,565 per acre). All other components of compensation will remain the same.

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 Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Order resetting compensation under Permit No. 692 with Yusen Terminals, LLC;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 692; and
4. Adopt Resolution No. _____ and Order No. _____.

DISCUSSION:

Background - YTI is the assignee of Nippon Yusen Kaisha and the current tenant at Berths 212-224. The Permit has a 25-year term and one, 10-year option to extend. The original term was scheduled to end in September 2016. However, YTI exercised its option to extend in May 2015. The Permit now terminates on September 30, 2026. This five-year compensation reset period covers the period of October 1, 2016 to September 30, 2021 (Transmittal 1).

SUBJECT: ORDER RESETTING COMPENSATION UNDER PERMIT NO. 692

The Permit grants YTI preferential use of 181.36 acres, which includes YTI's 21.73 acre preferential portion of the Terminal Island Container Transfer Facility (TICTF). These acres are deemed "Compensation Acres" and are subject to a MAG, TEU efficiency charges, and storage and demurrage charges. In addition, rents for areas not included in the Compensation Acres, such as the 4.04-acre storage parcel or the 5.68-acre radiation monitor parcel are charged per Tariff No. 4

Current Compensation: YTI's compensation under the Permit has three major components:

- 1) Payment of a MAG: The current MAG is approximately \$28,397,892 per year, based upon a rate of \$156,583 per acre per year applied against the 181.36 Compensation Acres.
- 2) TEU per Acre Efficiency Scale with Revenue Sharing Breakpoints (RSB): The current structure discounts 50 percent of all qualifying charges (wharfage and dockage) until TEU volume reaches a certain amount per compensation acre, referred to as an RSB. At that point the discount increases to 75 percent of all charges on that incremental volume. The RSB is subject to change each year depending on the prior year's TEU per acre efficiency.
- 3) Storage and Demurrage Charges: In lieu of paying tariff charges for storage and demurrage, the tenant pays a fixed fee of \$100,000 per year. Rents for areas not included in the Compensation Acres, such as the 4.04-acre storage parcel or the 5.68-acre radiation monitor parcel are charged per Tariff No. 4, currently \$63,510 per month.

Proposed Compensation:

Under the proposed Order, compensation will be adjusted as follows:

MAG of \$156,583 per acre, against the total Compensation Acres will be increased in Year 1 by 8 percent to \$169,110 per acre, or approximately \$30,669,789 and in Year 5 by 5 percent to \$177,565 per acre, or approximately \$32,203,188. All other components of rent will remain the same.

Non-Compensation areas, such as the 4.04-acre parcel at Site 6A and the 5.68-acre parcel at New Dock Street, will continue to be charged per Tariff No. 4.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order under Permit No. 692 with YTI to reset compensation for the five-year period. As such, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

SUBJECT: ORDER RESETTING COMPENSATION UNDER PERMIT NO. 692

FINANCIAL IMPACT:

The total five-year MAG obligation will increase by \$12.9 million, or approximately 9 percent, from \$142.0 million to \$154.9 million in year five. Based on estimated throughput, total revenue over the five-year period will not see any increase unless a General Rate Increase is implemented through the Tariff.

CITY ATTORNEY:

The Order resetting compensation has been reviewed and approved as to form and legality by the Office of the City Attorney.

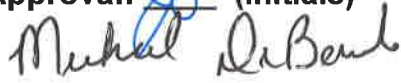
TRANSMITTALS:

1. Order
2. Site Map


for JACK C. HEDGE
Director of Cargo & Industrial Real Estate

FIS Approval:  (Initials)

CA Approval:  (Initials)


MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:

 FOR
EUGENE D. SEROKA
Executive Director

ES:MD:JH:ST:raw
Author: Sumita Thappa
BL630raw YTI Comp Reset