



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JANUARY 20, 2016

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: ORDER NO. _____ - FIRST AMENDMENT AND
COMPENSATION RESET ORDER TO PERMIT NO. 853 WITH CITY OF
LOS ANGELES, GENERAL SERVICES DEPARTMENT**

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) staff requests the Board of Harbor Commissioners (Board) approve the First Amendment and Order resetting compensation under Permit No. 853 (P853) with the City of Los Angeles Department of General Services.

P853, which was granted in 2011, used a land value of \$18/square foot (s.f.) and annual Consumer Price Index (CPI) escalator. It is due for a five-year compensation readjustment effective June 9, 2016, through June 8, 2021. The proposed First Amendment will merge Revocable Permit No. 1157 (RP), Order Nos. 3084, 1493, and 391 (Orders), and additional premises into P853. The proposed compensation reset Order will adjust compensation to reflect the current fair market land value of \$32/s.f., while obtaining a ten percent rate of return that will yield annual rent of \$2,229,655. Annual CPI based escalation will continue.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III Section 1(14) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the First Amendment to Permit No. 853 with the City of Los Angeles Department of General Services;
3. Approve the compensation reset Order to Permit No. 853 with City of Los Angeles Department of General Services;
4. Direct the Board Secretary to transmit the First Amendment for Permit 853 to the City Council for approval pursuant to Charter Section 606 of the City Charter;

SUBJECT: FIRST AMENDMENT AND COMPENSATION RESET ORDER TO PERMIT NO. 853 WITH CITY OF LOS ANGELES, GENERAL SERVICES DEPARTMENT

5. Authorize the Executive Director to execute and the Board Secretary to attest to the First Amendment upon Board approval contingent upon approval by City Council;
6. Authorize the Board Secretary to attest to the Order resetting compensation to be paid by City of Los Angeles Board of Public Works pursuant to Section 4(f) of Permit No. 853; and
7. Adopt Order No. _____.

DISCUSSION:

Background/Context – P853 has a 50-year term, effective from June 9, 2011 through June 8, 2061. The premises consist of 975,202 s.f. of land, 191,923 s.f. of subsurface land, and 33,605 s.f. of submerged land (water) (Transmittal 1) for the Terminal Island Treatment Plant (TITP) and sewer pipelines, which is operated by the Bureau of Sanitation, Department of Public Works (Public Works). TITP has been in operation since the 1930s. The plant provides essential wastewater treatment services for Harbor Department facilities, Harbor Department tenants, and the surrounding communities. The sewer line serves the communities of San Pedro and Wilmington, and Public Works is charged for the pipeline network within the Harbor District with connection to the TITP.

The Board also granted Public Works certain lands for the purpose of a sewer right-of-way by of RP 1157 (November 1, 1972), Order No. 3084 (March 9, 1961), Order No. 1493 (August 23, 1934), Order No. 391 (September 27, 1918). These entitlements did not address compensation, and as such, no rent is currently received for these premises. In addition, it was determined that Public Works also has additional premises with sewage pumps on Harbor Department property, but no entitlements were found. Therefore, to ensure that Harbor Department property is properly entitled and compensated, the RP, Orders, and additional premises are being incorporated into P853 under the First Amendment (Transmittal 2). The rental obligation will be reflective of the market rates and follow the same time frames as P853.

The rental adjustments for P853 are pursuant to Settlement Agreement 1106 and 1106A (Transmittal 3) between the City of Los Angeles and the Board in 1977. The compensation for occupancy of State Tidelands Trust lands used for municipal purposes may be adjusted annually based on the Board's then current rate of return on the lands and submerged land and the then fair market value of the lands and submerged land.

SUBJECT: FIRST AMENDMENT AND COMPENSATION RESET ORDER TO PERMIT NO. 853 WITH CITY OF LOS ANGELES, GENERAL SERVICES DEPARTMENT

The City Attorney has opined that since the term of the Orders has exceeded the 50-year limitation set under the Los Angeles City Charter (City Charter), they could neither be further amended, nor compensation reset, to ensure compliance pursuant to City Charter Section 607(a). Therefore, it was decided to add the RP, Orders, and additional premises into P853 under the proposed First Amendment.

Current Compensation: The total current annual rent for P853 is \$1,252,057.70 based on land value established in 2011 (a submerged land value of \$6.00/s.f. and a backland value of \$18.00/s.f.) adjusted by annual CPI. No rent is currently paid on the RP, Orders, and additional premises.

Proposed Compensation: Under the proposed compensation reset Order (Transmittal 4), the annual rent will be calculated based on current land value of \$32.00/s.f. using the Board’s ten percent rate of return policy, a negotiated submerged value of \$10.67/s.f. and subsurface land value of \$32.00/s.f., discounted by 50 percent. The proposed rent is calculated as follows effective June 9, 2016:

Permit No. 853 Compensation Calculations						
Rental Reset for the 5-Year Period Commencing on June 9, 2016 through June 8, 2021						
P853 - Terminal Island Water Reclamation Plant						
Drawing No. 45631-1						
	Area S.F.	Base Unit Value/s.f.	Subsurface Discount	Rate of Return	Allocation to Port (Settlement Agt.)	Annual Compensation
Parcel 1	936,257	\$32.00	N/A	10%	65%	\$1,947,415
Parcel 2	75,002	\$32.00	50%	10%	65%	\$78,002
Parcel 3 (water)	15,019	\$10.67	N/A	10%	65%	\$10,416
Parcel 4	41,482	\$32.00	50%	10%	65%	\$43,141
Parcel 5 (water)	18,586	\$10.67	N/A	10%	65%	\$12,890
	1,086,346				Subtotal	\$2,091,865

SUBJECT: FIRST AMENDMENT AND COMPENSATION RESET ORDER TO PERMIT NO. 853 WITH CITY OF LOS ANGELES, GENERAL SERVICES DEPARTMENT

Harbor Sewage Collection System - Terminal Island Area Drawing No. 2-2462						
	Area S.F.	Base Unit Value/s.f.	Subsurface Discount	Rate of Return	Allocation to Port (Settlement Agt.)	Annual Compensation
Parcel 1	10,623	\$32.00	50%	10%	N/A	\$16,997
Parcel 2	1,595	\$32.00	50%	10%	N/A	\$2,552
Parcel 3	919	\$32.00	50%	10%	N/A	\$1,470
Parcel 4	1,324	\$32.00	50%	10%	N/A	\$2,118
Parcel 5	1,460	\$32.00	50%	10%	N/A	\$2,336
Parcel 6	2,390	\$32.00	50%	10%	N/A	\$3,824
Parcel 7	1,640	\$32.00	50%	10%	N/A	\$2,624
Parcel 8	380	\$32.00	50%	10%	N/A	\$608
Parcel 9	2,917	\$32.00	50%	10%	N/A	\$4,667
Parcel 10	2,178	\$32.00	50%	10%	N/A	\$3,485
	25,426				Subtotal	\$40,682

Sewer Lines for Sewage Pumping Plant No. 4 - Terminal Island Area Drawing No. 9 - 411						
	Area S.F.	Base Unit Value/s.f.	Subsurface Discount	Rate of Return	Allocation to Port (Settlement Agt.)	Annual Compensation
Parcel 1	4,921	\$32.00	50%	10%	N/A	\$7,874
Parcel 2	8,895	\$32.00	50%	10%	N/A	\$14,232
Parcel 3	105	\$32.00	50%	10%	N/A	\$168
Parcel 4	38	\$32.00	50%	10%	N/A	\$61
Parcel 5	263	\$32.00	50%	10%	N/A	\$421
Parcel 6	10,800	\$32.00	50%	10%	N/A	\$17,280
Parcel 7	502	\$32.00	50%	10%	N/A	\$803
	25,524				Subtotal	\$40,838

Sewer Line - Terminal Island Area Drawing No. 5-7211						
	Area S.F.	Base Unit Value/s.f.	Subsurface Discount	Rate of Return	Allocation to Port (Settlement Agt.)	Annual Compensation
Parcel 1	24,489	\$32.00	50%	10%	N/A	\$39,182
	24,489				Subtotal	\$39,182

Sewage Pumping Plant - Terminal Island Area Drawing No. 5-7324						
	Area S.F.	Base Unit Value/s.f.	Subsurface Discount	Rate of Return	Allocation to Port (Settlement Agt.)	Annual Compensation
Parcel 1	2,500	\$32.00	N/A	10%	N/A	\$8,000
	2,500				Subtotal	\$8,000

SUBJECT: FIRST AMENDMENT AND COMPENSATION RESET ORDER TO PERMIT NO. 853 WITH CITY OF LOS ANGELES, GENERAL SERVICES DEPARTMENT

Sewage Pump Plant No. 692 - East Wilmington Area 900 N. Southerland Ave.						
	Area S.F.	Value/s.f.	Discount	Return (Settlement Agt.)	Compensation	
Parcel 1	2,840	\$32.00	N/A	10%	N/A	\$9,088
	2,840				Subtotal	\$9,088
Total Area of Surface (s.f.)	975,202	Total Area of Subsurface (s.f.)	191,923		Total Combined Annual Rent	\$2,229,655

The proposed rent will continue to be adjusted by annual CPI under the requirements of P853. This rent has been negotiated with both Public Works and GSD. The negotiated rental increase will be effective June 9, 2016.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a First Amendment and an Order resetting compensation under P853 with the GSD to consolidate entitlements, entitle improvements that are not currently entitled, and are activities involving the issuance and amendment of a permit to use existing facilities 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:

The proposed compensation reset sets land value at \$32/s.f., subsurface land value at \$16/s.f., and submerged land (water) value at \$10.67/s.f., which translates to annual fixed rent under P853 in the amount of \$2,229,655. In addition, the proposed compensation will be increased annually by the Los Angeles-Riverside-Orange County CPI with a floor of zero percent. The proposed compensation conforms to the Board's ten percent rate of return policy on land.

DATE: JANUARY 20, 2016

PAGE 6 OF 6

SUBJECT: FIRST AMENDMENT AND COMPENSATION RESET ORDER TO PERMIT NO. 853 WITH CITY OF LOS ANGELES, GENERAL SERVICES DEPARTMENT

CITY ATTORNEY:

The First Amendment and Order resetting compensation have been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Site Map
- 2. First Amendment
- 3. Settlement Agreement
- 4. Order

FIS Approval: *MB* (initials)
CA Approval: *JM* (initials)



JACK C. HEDGE
Director of Cargo Industrial Real Estate



FOR MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

ES:MD:JH:ST:FS:raw
Author: Sumita Thappa
BL566raw GSD Comp Reset & 1st Amend