



DATE: SEPTEMBER 17, 2019

FROM: CARGO & INDUSTRIAL REAL ESTATE

**SUBJECT: RESOLUTION NO. _____ – ORDER RESETTING
COMPENSATION UNDER PERMIT NO. 353 WITH THE CITY OF LOS
ANGELES DEPARTMENT OF GENERAL SERVICES**

SUMMARY:

Staff requests approval of an Order resetting compensation under Permit No. 353 (P353) with the City of Los Angeles Department of General Services (GSD) for the five-year period of January 1, 2020 through December 31, 2024. P353 grants GSD use of 15,001 square feet (s.f.) of land, 131,955 s.f. of subsurface land, and 20,800 s.f. of submerged land for a term of 50 years, expiring December 31, 2024, for the operation of a sewer pipeline with connection to the Terminal Island Water Reclamation Plant.

The current annual rent for P353 is \$264,172.00. Under the compensation reset Order effective January 1, 2020, GSD will begin paying \$334,453.00 in annual rent, an increase of \$70,281 annually. The rent was calculated using a land value of \$45 per s.f., a discount of 50 percent applied to subsurface land, and a 10 percent rate of return policy on land. Annual Consumer Price Index (CPI-U) escalations will continue based on the terms of Permit No. 353.

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 the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the Order resetting compensation to Permit No. 353 with the City of Los Angeles Department of General Services;
3. Authorize the Board Secretary to attest to the Order resetting compensation under Permit No. 353; and
4. Adopt Resolution No. _____ and Order No. _____.

SUBJECT: ORDER RESETTING COMPENSATION UNDER PERMIT NO. 353

DISCUSSION:

Background – P353 was granted to GSD for a term of 50 years expiring December 31, 2024, for the purpose of construction, maintenance, and operation of a sewer pipeline with connection to the Terminal Island Water Reclamation Plant located on Terminal Island (Transmittal 1). The premises consist of 15,001 s.f. of surface land, 131,955 s.f. of subsurface land, and 20,800 s.f. of submerged land. As stipulated by the terms of P353, the adjustment of rent for the upcoming five-year period of January 1, 2020 through December 31, 2024 is now required.

Current Compensation – The current annual rent for P353 is \$264,172.00 based on land values established in 2015 (a surface land value of \$32.00/s.f., a submerged land value of \$10.67/s.f., and a subsurface land value of \$16.00/s.f. - 50 percent discount) adjusted by annual CPI-U.

Proposed Reset of Compensation – Effective January 1, 2020, the annual negotiated rent is based on surface land value of \$45.00/s.f., which is within the range of market values in the harbor area. Subsurface rents are discounted by 50 percent and submerged land rent is calculated at one-third of surface land rent. All rents meet the Board's rate of return requirement of 10 percent. The proposed rent is detailed as follows:

| Parcel | Land Type | Area (Sq. Ft.) | | Land Value (Sq. Ft.) | BOHC Rate of Return | Agreement 1106 Port's % | Discount Rate | Annual Rent |
|----------------------------------------------------------------------------|------------|----------------|------|----------------------|---------------------|-------------------------|---------------|------------------|
| P353 - Drawing No. 2-2123-1 Exhibit "A-1" to the Permit, as amended | | | | | | | | |
| Parcel 1 | Submerged | 20,800 | s.f. | \$15.00 | 10% | 100% | 0% | \$31,200 |
| Parcel 2 | Subsurface | 1,200 | s.f. | \$45.00 | 10% | 100% | 50% | \$2,700 |
| Parcel 3 | Subsurface | 38,815 | s.f. | \$45.00 | 10% | 100% | 50% | \$87,334 |
| Parcel 4 | Subsurface | 14,162 | s.f. | \$45.00 | 10% | 100% | 50% | \$31,865 |
| Parcel 5 | Subsurface | 32,238 | s.f. | \$45.00 | 10% | 100% | 50% | \$72,536 |
| Subtotal | | | | | | | | \$225,634 |
| P353 - Drawing No. 5-4225-1 Exhibit "A-2" to the Permit, as amended | | | | | | | | |
| Parcel 1 | Subsurface | 5,855 | s.f. | \$45.00 | 10% | 100% | 50% | \$13,174 |
| P353 - Drawing No. 5-1839-2 Exhibit "B-1" to the Permit, as amended | | | | | | | | |
| Parcel 1 | Surface | 6,000 | s.f. | \$45.00 | 10% | 61% | 0% | \$16,470 |
| P353 - Drawing No. 45486-1 Exhibit "B-2" to the Permit, as amended | | | | | | | | |
| Parcel 1 | Surface | 9,001 | s.f. | \$45.00 | 10% | 61% | 0% | \$24,708 |
| Parcel 2-4 | Subsurface | 3,794 | s.f. | \$45.00 | 10% | 61% | 50% | \$5,207 |
| P353 - Drawing No. 2-2451 Exhibit "B-3" to the Permit, as amended | | | | | | | | |
| Parcel 1 | Subsurface | 35,891 | s.f. | \$45.00 | 10% | 61% | 50% | \$49,260 |
| Total Annual Rent | | | | | | | | \$334,453 |

The proposed rent will continue to be adjusted by annual CPI-U under the requirements of P353.

SUBJECT: ORDER RESETTING COMPENSATION UNDER PERMIT NO. 353

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Order resetting compensation, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

The proposed Order (Transmittal 2) resets compensation paid by GSD under P353 over the five-year period from January 1, 2020 through December 31, 2024. Effective January 1, 2020, GSD will pay annual rent of \$334,453.00. The proposed compensation will be increased annually to reflect any CPI-U adjustment, with a floor of zero percent and no maximum. The proposed compensation conforms to the Board's 10 percent rate of return policy on land.

CITY ATTORNEY:

The Order resetting compensation under Permit No. 353 has been reviewed and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Site Map
- 2. Order

FIS Approval: MB
CA Approval: MD


REGNER GLOBUS
Assistant Director, Cargo & Industrial Real Estate


MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:


EUGENE D. SEROKA
Executive Director

ES:MD:RG:ST:SM:raw
Author: Sayaka Meguri
BL797raw GSD Comp Reset