



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: SEPTEMBER 2, 2015

FROM: CARGO & INDUSTRIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF MASTER JOINT REVOCABLE PERMIT NO. 14-13 AMONG THE CITY OF LOS ANGELES HARBOR DEPARTMENT, PORT OF LONG BEACH, AND CRIMSON CALIFORNIA PIPELINE, L.P.

SUMMARY:

Crimson California Pipeline, L.P. (Crimson) will operate and maintain two new pipelines and related appurtenances under Master Joint Revocable Permit (MJRP) No. 14-13. This new MJRP is being proposed for the purpose of consolidating new crossing locations for Crimson's subsurface oil pipelines into a single MJRP that will simplify and consolidate administrative workloads. The proposed MJRP will allow subsurface pipelines to be added or removed through an amendment that would solely require the approval and execution by both Executive Directors of the City of Los Angeles Harbor Department (Harbor Department) and Port of Long Beach (POLB). In addition, the MJRP will revise permit terms and provisions to reflect current standards, historically document operated facilities for future reference, and adjust compensation.

Approval of the MJRP will result in substantial time and cost savings associated with the management of the Crimson subsurface pipeline crossings. In addition, the aggregate annual rent of this Crimson MJRP will be \$4,000, including an annual Consumer Price Index (CPI) escalator. Crimson is financially responsible for the cost of installation, operation, maintenance, insurance, and removal of the pipelines and relocated appurtenances.

RECOMMENDATION:

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

1. Approve Master Joint Revocable Permit No. 14-13 among the City of Los Angeles Harbor Department, Port of Long Beach and Crimson for the operation and maintenance of existing subsurface pipelines;
2. Authorize the Executive Director to execute and the Board Secretary to attest to Master Joint Revocable Permit No.14-13; and
3. Adopt Resolution No. _____.

SUBJECT: PROPOSED MASTER JOINT REVOCABLE PERMIT NO. 14-13 WITH CRIMSON CALIFORNIA PIPELINE, L.P.

DISCUSSION:

Background/Context – On December 22, 1994, the Harbor Department and POLB jointly purchased properties as part of the Alameda Corridor construction project. The property is located along the former Southern Pacific Railroad (SPRR) and Union Pacific Railroad (UPRR) right-of-way (ROW) within the County of Los Angeles. The SPRR ROW was acquired to serve as the main rail line for the Alameda Corridor. The UPRR ROW was acquired to serve as a possible alternative route within the corridor. The railroad properties purchased are held by the Harbor Department and POLB as Tenants in Common, with each holding an undivided 50 percent interest in the property. In addition, the Harbor Department and POLB became successors-in-interest to all railroad agreements, leases, and licenses related to the acquired railroad ROW. Many of these entitlements have outdated language, some of which date back to the 1920s.

Proposed MJRP – The proposed Crimson MJRP (Transmittal 1) is for two new subsurface pipeline crossings that are located in the aforementioned property jointly owned by the Harbor Department and POLB.

The proposed MJRP includes permit language that reflects current standard terms and provisions, documents operated facilities historically for future reference, and compensation adjustment language.

Compensation under the proposed MJRP is based upon a negotiated \$2,000 annual fee for each subsurface pipeline crossing. Compensation will be adjusted annually based upon the CPI. The Harbor Department and POLB also reserve the right to adjust compensation to market rent upon 60 days' written notice.

Subsurface improvements and appurtenances periodically require maintenance or relocation for various purposes. In order to ease administration of the MJRP, language is included that allows parcels for subsurface and related surface appurtenances to be added or removed through amendments requiring the approval of the Executive Directors of the Harbor Department and POLB.

The MJRP will be effective upon last execution by either the Harbor Department or POLB, and revocable upon 60 days' written notice by any party.

Crimson MJRP Terms and Conditions – The general terms and conditions of the proposed MJRP are as follows:

Use: The MJRP allows the operation and maintenance of subsurface improvements on Harbor Department and POLB property.

Premises: The MJRP encompasses two new subsurface pipeline crossings located within jointly-owned property. The premises are comprised of a 499.50 square-foot subsurface pipeline crossing and a 541.50 square-foot subsurface pipeline crossing. The premises are further described in Exhibit B-1 and B-2 of the MJRP (Transmittal 2).

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Compensation: The Harbor Department and POLB (Ports) have established a minimum set annual fee of \$2,000 per crossing under the MJRP. The Harbor Department and POLB have agreed to a land value of \$25 per square-foot. Using a 10 percent rate of return including subsurface discount, the leasing value is \$1.25 per square-foot per year or \$651 on average per crossing. The set annual minimum fee of \$2,000 per crossing equates to land values of \$36.93 and \$40.04 for the respective Crimson crossings under the MJRP. Using a 10 percent rate of return and inclusive of subsurface discount, the joint Ports will be receiving rental values of \$1.85 and \$2.00 per square-foot per year which exceeds the agreed upon rental value of \$1.25 (see calculation in the Financial Impact Section).

The combined adjusted annual rent for the proposed premises would be \$4,000, of which the Harbor Department would receive 50 percent (\$2,000). Exhibit A of Transmittal 1 provides a summary of compensation allocated to the two new pipelines consisting of subsurface, surface, and overhead facilities located within the property where the Harbor Department and POLB merely have railroad easement rights. The two facilities located within the easement area are listed for record purposes.

Insurance: The MJRP requires that the Harbor Department and POLB be named as additional insureds under Crimson's insurance coverage, including environmental pollution insurance.

POLB is pursuing approval of the Crimson MJRP within their respective process through its Board.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a MJRP with POLB and Crimson for two new subsurface pipelines that cross railroad properties jointly owned by the Harbor Department and POLB. As an administrative activity related to installation of a pipeline with a length less than one mile, 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 II Section 2(f) of the City CEQA Guidelines and Section 15252(k) of the State CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no direct employment effect in the five-county region.

FINANCIAL IMPACT:

Approval of the proposed Crimson MJRP will result in Crimson paying the Harbor Department and POLB annual permit fees of \$4,000 for two facilities. The calculation is as follows:

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SF	\$/SF Value	Rental Rate @ 10% ROR	Rental Rate with 50% Subsurface Discount	Compensation at \$25 Value (incl. subsurface discount)	Minimum Annual Compensation
499.5	\$25.00	\$2.50	\$1.25	\$624.38	\$2,000.00
541.5	\$25.00	\$2.50	\$1.25	\$676.88	\$2,000.00
Total				\$1,301.25	\$4,000.00
				Proposed compensation	\$4,000.00

The Harbor Department will be entitled to receive 50 percent of the total proposed compensation which is \$2,000, plus an annual CPI adjustment when applicable. The proposed compensation conforms to the Port's 10 percent rate of return policy on land. Crimson is financially responsible for the cost of installation, operation, maintenance, insurance, and removal of the pipelines and relocated appurtenances.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved MJRP No. 14-13 as to form and legality.

TRANSMITTALS:

1. Master Joint Revocable Permit No. 14-13
2. Site Map

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

Michael DiBernardo

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JCH
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APPROVED:

ES
EUGENE D. SEROKA
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