



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

Board of Harbor Commissioners

DATE: SEPTEMBER 5, 2012

FROM: REAL ESTATE

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

SUMMARY:

Permit No. 353 between the City of Los Angeles Harbor Department (Harbor Department) and the City of Los Angeles Department of General Services (GSD) grants the use of 92,270 square feet (s.f.) of land and 20,800 s.f. of water for the purpose of construction, maintenance, and operation of a subsurface sanitary sewer pipeline, which is operated by the Bureau of Sanitation, Department of Public Works. The sewer line serves the communities of San Pedro and Wilmington, and they are charged for the pipeline network within the Harbor District with connection to the Terminal Island Treatment Plant. Permit No. 353 requires that compensation be reset every five years.

The proposed Order resets compensation for three consecutive five-year periods beginning January 1, 2000, and extending through December 31, 2014. The proposed compensation rate for the three reset periods is to remain unchanged from the previous compensation rate.

RECOMMENDATION:

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

1. Approve the Order resetting compensation under Permit No. 353 for the three consecutive five-year periods beginning January 1, 2000 and ending December 31, 2014;
2. Authorize the Board Secretary to attest to the Order resetting compensation to be paid by the City of Los Angeles Department of General Services under Permit No. 353; and
3. Adopt Order No. _____.

SUBJECT: ORDER RESETTING COMPENSATION UNDER PERMIT NO. 353 WITH CITY OF LOS ANGELES DEPARTMENT OF GENERAL SERVICES

DISCUSSION:

Background – Permit No. 353 has a 50-year term starting January 1, 1975, and expiring December 31, 2024. The premises consist of 92,270 s.f. of land and 20,800 s.f. of water (Transmittal 1). The Permit requires that compensation be reset every five years. However, due to various difficulties and protracted negotiations, previous compensation resets were not completed. The proposed compensation resets for the permit will include the following five-year periods:

- January 1, 2000 to December 31, 2004
- January 1, 2005 to December 31, 2009
- January 1, 2010 to December 31, 2014

Current Compensation – Permit No. 353 currently has an annual rent of \$31,349, which was set for the five-year period of January 1, 1995 through December 31, 1999. The annual rent was based upon a water value of \$5.00/s.f.; a backland value of \$12.00/s.f.; a waterfront land value of \$13.00/s.f., with a 10 percent rate of return (ROR); and subsurface pipeline rights-of-way discounted by 75 percent (Transmittal 3).

Compensation Reset – Effective January 1, 2000, for three consecutive five-year periods, annual rent will be increased to \$31,441 (Transmittal 2). Although the land values, ROR, and discounted rate stay the same, a small increase in annual rent occurs due to a minor increase in square footage based on Harbor Department permit maps updated in 2003 (Transmittal 4).

Current per s.f. land rental rates under Permit No. 353 are below the rental rates charged by the Harbor Department. Further, although the Harbor Department has initiated use of a 50 percent subsurface discount for new subsurface permits, for permits where a 75 percent discount was employed to establish the original permit compensation, the Harbor Department has maintained that discount rate to establish subsequent compensation resets. The recommendation to maintain the current 75 percent subsurface discount is consistent with standard practice.

Although the Harbor Department has generally implemented annual rental adjustments based upon the Consumer Price Index (CPI) in recent compensation resets, it is not recommended for Permit No. 353. In early 2010, in consideration of the current budget deficit of the City of Los Angeles (City), all City departments, including the Harbor Department, requested entities that leased property to the City to reduce rental rates by 10 percent. While a 10 percent discount in rent is not recommended for the three pending Permit No. 353 reset periods, maintaining current rates with no annual CPI increase is consistent with actions taken by the Harbor Department to provide relief to other tenants due to the current economic downturn.

The proposed compensation reset meets the 10 percent ROR policy established by the Board, but applies the same land value rates as during the last reset period ending December 31, 1999.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is an Order to reset compensation under Permit No. 353 for three consecutive five-year periods. As an administrative action, the Director of Environmental Management has determined 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.

ECONOMIC BENEFITS:

This Board action will have no direct employment effect.

FINANCIAL IMPACT:

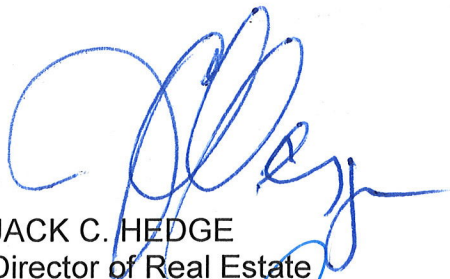
Approval of the proposed Permit No. 353 retroactive compensation reset for the 15-year period of January 1, 2000 through December 31, 2014 would result in an annual increase in fixed land rent compensation of \$92 through December 31, 2014. The Harbor Department will receive a retroactive lump sum payment of approximately \$1,150 to date.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the proposed Order as to form and legality.

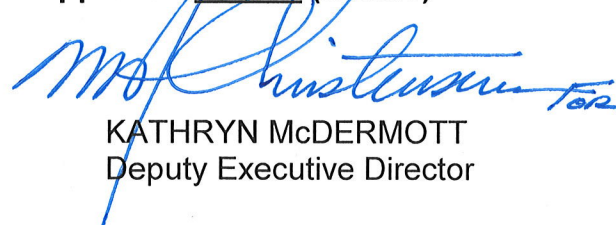
TRANSMITTALS:

- 1. Site Map
- 2. Order
- 3. Current Compensation Table
- 4. Proposed Compensation Table




JACK C. HEDGE
Director of Real Estate

FIS Approval: WR (initials)
CA Approval: mm (initials)



KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director