

**DATE: APRIL 22, 2015**

**FROM: REAL ESTATE**

**SUBJECT: ORDER NO. \_\_\_\_\_ - RESETTING COMPENSATION UNDER PERMIT NO. 513 WITH UNITED STATES OF AMERICA THROUGH NAVAL FACILITIES ENGINEERING COMMAND, SOUTHWEST**

**SUMMARY:**

Permit No. 513 (Permit) grants the United States of America, through the Department of the Navy (U.S. Navy), 91,203 square feet of surface and subsurface rights-of-way for a petroleum pipeline on City of Los Angeles Harbor Department (Harbor Department) land and water primarily located on Terminal Island. The Permit is for a term of 50 years, effective November 26, 1984 through November 25, 2034. The Permit requires that compensation be reset every five years.

The proposed Order resetting annual compensation is \$89,405.40 per year for the current five-year period of November 26, 2014 through November 25, 2019.

**RECOMMENDATION:**

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

1. Approve the Order resetting compensation under Permit No. 513 for the five-year period of November 26, 2014 through November 25, 2019;
2. Authorize the Board Secretary to attest to the Order resetting compensation to be paid by the United States of America through the Department of the Navy, Naval Facilities Engineering Command, Southwest Division, San Diego pursuant to Section 4(c) of Permit No. 513; and
3. Adopt Order No. \_\_\_\_\_.

**DISCUSSION:**

**Background/Context** – The Permit premises (Transmittal 1) extends from the Port of Long Beach through Harbor Department property (Terminal Island, the Main Channel, and San Pedro) to a Defense Energy Support Center on North Gaffey Street, San Pedro, and is more fully identified on Harbor Engineer's Drawing No. 1-2491-1 (Transmittal 2). The entire pipeline consists of 91,203 square feet of surface and subsurface rights-of-way for a petroleum pipeline.

The Permit requires that annual compensation be reset and agreed upon by both parties every five years, following the first ten-year period of the Permit. Reset for the five-year period of November 26, 2014 through November 25, 2019 is now due (Transmittal 3).

**SUBJECT: PROPOSED COMPENSATION RESET FOR UNITED STATES NAVY P513**

On January 8, 2015, the Real Estate Division (RED) requested that the Board approve the negotiated compensation amount of \$85,900 annually for the 2014 through 2019 compensation period. The Board did not vote on the item and requested that RED reopen negotiations with the U.S. Navy to discuss the inclusion of annual compensation adjustments. Staff successfully negotiated two percent annual increases for the current compensation period.

Current Compensation – In the years following 1999, the U.S. Navy and the Harbor Department were at an impasse regarding the resetting of compensation, resulting in the September 2013 Settlement Agreement, in which the U.S. Navy and the Harbor Department agreed to the compensation terms for the following five-year periods:

1999 to 2004: \$381,101  
 2004 to 2009: \$280,000  
 2009 to 2014: \$395,000

Proposed Compensation – Pursuant to the Board's directive of January 8, 2015, the U.S. Navy and the Harbor Department have agreed to include annual compensation adjustments for the current five-year period. Therefore, it is proposed that compensation under Permit No. 513 for the current five-year period of November 26, 2014 through November 25, 2019 be set at \$85,900 for the first year (same amount as the January Board proposal), plus two percent in annual increases over the compensation period. The new total compensation is \$447,027 for the five-year compensation period. However, the U.S. Navy, to help ease their budgeting process, requested that the total payments be divided into five equal payments of \$89,405.40 annually. Please see the chart below for further details. This equals to a total net increase of \$52,027, or 13.2 percent, over the previous five-year period.

Proposed Compensation Chart - US Navy Permit 513: November 26, 2014-2018						
Description	2014	2015	2016	2017	2018	5-Yr Total
2% Annual Increases	\$ 85,900.00	\$ 87,618.00	\$ 89,370.36	\$ 91,157.77	\$ 92,980.92	\$ 447,027
Equal Annual Payments:	\$ 89,405.40	\$ 89,405.40	\$ 89,405.40	\$ 89,405.40	\$ 89,405.40	\$ 447,027

The proposed compensation meets the Board's required rate of return on the land value derived from a review of market trends in the South Bay area published by CBRE Global Research and Consulting and employing the method and concepts provided in the appraisal for the previous 2009 compensation values. The land value is estimated at \$28.36 per square foot. The discount rate for subsurface use is 50 percent of the land rate, and the discount rate for submerged and shared rights-of-way use is ten percent.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of an order resetting compensation under Permit No. 513 with the U.S. Navy. As an administrative activity, 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 Los Angeles City CEQA Guidelines.

SUBJECT: PROPOSED COMPENSATION RESET FOR UNITED STATES NAVY  
P513

**ECONOMIC BENEFITS:**

This Board action will have no employment impact.

**FINANCIAL IMPACT:**

Approval of the proposed compensation reset results in a five-year total rental compensation to the Harbor Department of \$447,027, based on \$85,900 for year 2014, with annual increases of two percent over the five-year compensation period, which will be paid in equal installments of \$89,405.40. The proposed compensation is consistent with the current market rate of return of 7.5 percent on an estimated land value of \$28.36 per square foot. The discount rate for subsurface use is 50 percent, and ten percent for submerged and shared rights-of-way use. This represents a 13.2 percent increase in total compensation over the preceding five-year period.

**CITY ATTORNEY:**

The Order resetting compensation under Permit No. 513 has been reviewed and approved as to form and legality by the Office of the City Attorney.

**TRANSMITTALS:**

1. Site Location Map
2. Engineering Drawing
3. Order

FIS Approval: \_\_\_\_\_ (Initials)

CA Approval: \_\_\_\_\_ (Initials)



JACK C. HEDGE  
Director of Real Estate

APPROVED:



MICHAEL DiBERNARDO  
Deputy Executive Director

EUGENE D. SEROKA  
Executive Director

ES:MD:JH:RV:KLS:raw  
Author: Kenneth Stanberry  
BL524raw US Navy Comp Reset