

0150-09263-0004

TRANSMITTAL

TO
Eugene D. Seroka, Executive Director
Executive Director

DATE
MAR 15 2018

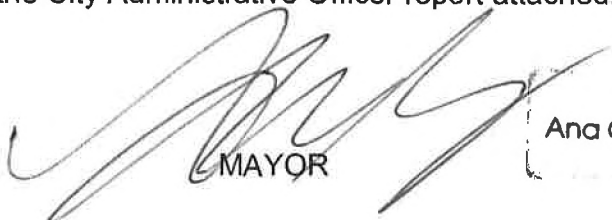
COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT
15

**PROPOSED EIGHTH AMENDMENT TO PERMIT NO. 827
WITH APM TERMINALS PACIFIC, LLC**

Transmitted for further processing and Council consideration.
See the City Administrative Officer report attached.


MAYOR Ana Guerrero

RHL:ABN:101800771

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: March 15, 2018

CAO File No. 0150-09263-0004

Council File No.

Council District: 15

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Correspondence from the Harbor Department dated February 20, 2018; referred by the Mayor for report dated February 22, 2018

Subject: **PROPOSED EIGHTH AMENDMENT TO PERMIT NO. 827 WITH APM TERMINALS PACIFIC, LLC**

RECOMMENDATIONS

That the Mayor:

1. Approve the Harbor Department (Port) Resolution No.18-8246 authorizing the Eighth Amendment to Permit No. 827 with APM Terminals Pacific, LLC; and,
2. Return the document to the Port for further processing, including Council consideration.

SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No.18-8246 authorizing a proposed Eighth Amendment (Amendment) to Permit No. 827 (Permit) with APM Terminals Pacific, LLC (APMT). APMT is one of the largest terminal operators at the Port of Los Angeles (POLA). The proposed Amendment will amend the provision of the Permit to reflect changes to the compensation amount that were negotiated between the Port and APMT. The Permit authorizes the Board to reset the compensation provisions every five years. The proposed Amendment will include the reset of negotiated compensations for the period from August 2017 through July 2022, as follows: 1) exempt applicable compensation increases in Tariff No. 4 (port rules and regulations) from the effective date of the proposed Amendment until after July 2019 and 2) delete provisions related to "tenant controlled cargo movement" through the POLA and Port of Long Beach (POLB), also known as the San Pedro Bay complex. The Port states that the retroactive date to August 2017 was due to prolonged negotiations between the two parties.

The Port states that APMT will be exempted from potential compensation increases pursuant to Tariff No. 4 (Tariff) until after July 2019. The compensation increases will begin in August 2019 and end in July 2022. The reset of the negotiated compensation in the proposed Amendment allows for a readjustment to all rates described as "Merchandise Not Otherwise Specified (NOS)" in the Tariff

after July. According to the Port, after that date, the compensation for the NOS rates in the Tariff section will be applicable and readjusted to the Twenty-Foot Equivalent Unit (TEU) cargo container rates and the minimum annual guarantee rates, including the applicable Consumer Price Index. In addition, the Permit will delete provisions related to tenant cargo containers movements through the San Pedro Bay. The APMT and POLA agreed to negotiate a deletion of the provision in the Permit, because both parties concluded that APMT does not directly control the routing of its cargo.

The Port states that although the proposed Amendment will result in an increase in revenue from the terminal operations, the projected rate of return (ROR) is anticipated to be lower than the targeted ROR rate stated in the POLA policy. The targeted ROR in the POLA policy is generally 10 percent on land and 12 percent on improvements. Since there is no acquisition costs on POLA land, the Port states that it compares land uses and rents with comparable industrial real estate markets. The improvements costs are part of project development expenses. In this case, one of the factors that the Port used to calculate the return on investment is the projected number of TEU cargo containers that the POLA anticipates will be moved in and out of the POLA in the future. The volume of cargo containers could fluctuate, either going up or down, and have a direct impact on the projected ROR and future revenue generation for the APMT and therefore the Port.

This proposed Amendment, as negotiated, represents the current market rent for this facility and property. The Port determined that the return of the investment on the land is approximately six percent. Revenue for the proposed Amendment is expected to increase the minimum annual rent by 17 percent, from a current amount of approximately \$71.6 million to \$83.8 million. There will be a corresponding increase to the minimum ROR by 1.2 percent, from 4.93 percent to 5.58 percent, by the end of the five-year contract period.

The Port factored the current market conditions and size of the leased property and facility, compared to other facilities in the San Pedro Bay complex, TEU volume, and the most recent deployment schedules of major carriers in the transpacific trade markets to arrive at costs. Instead of considering only a strict financial return on investment, the Port states that the POLA staff measured the economic return for APMT and the San Pedro Bay ports by the projected number of jobs, taxes and economic impact on the region. According to the Port, although APMT may not meet the published ROR target rates, APMT more than makes up for it in the creation of jobs, revenue generation and financial impact on the local, regional and national economy. The Permit's future compensation rates, rental revenues and RORs will be based on the number of TEU cargo containers processed through the POLA. Although Port expects adjusted revenue to increase in the future, the Departments states that revenue could decrease if there is a decline in TEUs being processed through the POLA.

The City Attorney has approved the proposed Amendment as to form. In accordance with Charter Section 606, the Council must approve the proposed Amendment since the term of the Permit exceeds five years. The Port Director of Environmental Management has determined that the proposed action is an administrative activity and an Amendment to the existing Permit and is therefore exempt from the requirements of the California Environmental Quality Act (CEQA) under Article III, Class 1(14) of the Los Angeles City CEQA Guidelines.

BACKGROUND

In 2002, the Board authorized approval to open APMT in the POLA. APMT provides cargo support and container services at the ports and inland areas, including container transportation, management, and maintenance. The property covered by the Permit consists of nearly 500 acres, which includes acreage for container terminal spaces, on-dock rail facilities, storage capacity, and trucking spaces. The Port states that the Permit was approved for a term of 25 years and three, five-year contract options. Services at the ports include the loading and unloading of merchandise from vessel carriers at the POLA and POLB terminals. The shipping vessels operators previously formed a partnership with each other to share vessel space, increase efficiency and reduce supply chain costs. The Port has worked with vessel operators by developing incentives for containerized cargo merchandise for participating tenants to maintain their intermodal (ship, rail and trucks) container business. APMT has the capacity to accommodate vessels of various sizes, including larger ships docking at the POLA. According to the Port, the movement of containerized cargo through the POLA supports thousands of direct and indirect jobs in Los Angeles and the five-county region.

FISCAL IMPACT STATEMENT

Approval of the Harbor Department (Port) request to amend Permit No. 827 with APM Terminals Pacific, is anticipated to increase revenue from minimum annual rent by 17 percent from a current amount of approximately \$71.6 million to \$83.8 million, with a corresponding increase to the minimum ROR by 1.2 percent or from 4.93 percent to 5.58 percent by the end of the contract reset period. Instead of only a strict financial return on investment, the Port states that it measured the economic return for APMT and the San Pedro Bay ports by the projected number of jobs, taxes and economic impact on the region. Future rental revenues and rate of returns percentages will be based on the number of cargo containers processed through the POLA at the end of each five-year reset period for the Permit.