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RECOMMENDATION APPROVED;
RESOLUTION NO. 18-8269 (PERMIT 937) ADOPTED
BY THE BOARD OF HARBOR COMMISSIONERS



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

Board of Harbor Commissioners

APRIL 19, 2018

AMBER M. KLESGES
Board Secretary

DATE: APRIL 12, 2018

FROM: CARGO & INDUSTRIAL REAL ESTATE

SUBJECT: RESOLUTION NO. 18-8269 - APPROVE PERMIT NO. 937 WITH SPACE EXPLORATION TECHNOLOGIES CORP. TO CONSTRUCT AND OPERATE A RESEARCH, DESIGN, AND MANUFACTURING FACILITY

SUMMARY:

Staff requests approval of new term Permit No. 937 (P937) between the City of Los Angeles Harbor Department (Harbor Department) and Space Exploration Technologies Corp. (SpaceX), a Delaware corporation, for the purpose of constructing and operating a research, design, and manufacturing facility for rockets and spacecraft. The rockets, once complete, would be too large for reasonable transport by road and thus must be transported by barge or ship, necessitating that the facility be water adjacent.

Staff initiated discussions with SpaceX in 2015, understanding the importance of retaining high-technology jobs in the City of Los Angeles by having the research and development facility located in the Port of Los Angeles (Port). SpaceX also considered other sites throughout the country. Ultimately, both SpaceX and staff agreed that the 19- acre site at the former Southwest Marine facility at Berth 240 was the most viable site for the project. Staff has negotiated P937 for an initial ten-year term with two, ten-year options to extend, with an initial annual rent of approximately \$1.38 million and annual adjustments based on the Consumer Price Index (CPI). SpaceX will receive credits that offset rent in exchange for tenant improvements constructed on the property for the initial ten-year term and the first ten-year option period. The improvements will transfer to the Harbor Department at the end of the term.

RECOMMENDATION:

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

1. Find that this action is administratively exempt from CEQA pursuant to the City of Los Angeles CEQA Guidelines Article 2, Section 2(i). This section exempts, "any activity (approval of bids, execution of contracts, allocation of funds, etc.) for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of these Guidelines. This action was assessed in the Final Initial Study/Mitigated Negative Declaration for the Berth 240 Transportation Vessels Manufacturing Facility Project (Los Angeles Harbor Department Application for Port Permit No. 170117-008, State Clearinghouse No. 2017121023. adopted by the BOHC on March 15, 2018 (Resolution No. 18-8259);

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2. Find that the proposed action is in the best interest of the City and Harbor Department despite the fact that the estimated rate of return on investment does not meet stated policy targets as enacted by the Board;
3. Find that the proposed action is in the best interest of the City and Harbor Department despite the fact that the proposed permit was not a result of a public solicitation or request as this action has the potential to result in 700 jobs and the site has not been occupied by a tenant since October 2005;
4. Approve Permit No. 937 with Space Exploration Technologies Corp.;
5. Direct the Board Secretary to transmit Permit No. 937 to the City Council for approval pursuant to Charter Section 606 of the City Charter;
6. Authorize the Executive Director to execute and the Board Secretary to attest to the Permit upon approval by City Council; and
7. Adopt Resolution No. 188269

DISCUSSION:

Background – In 2015, the Harbor Department began to discuss the possibility of building a water dependent facility for SpaceX at the Port. At that time, SpaceX was also considering other sites throughout the country. The most viable Port facility was 19 acres at the former Southwest Marine site at Berth 240. This site had been vacant for over a decade (since October 2005) and required extensive environmental remediation. The Harbor Department commenced remediation in 2016 on the north half of the property, which was completed in late 2017. At the same time, negotiations were underway and resulted in a Term Sheet signed in October 2017. Most of the previous documents have been prepared under VVV Marine Composites, LLC, a limited liability company formed by SpaceX to undertake the early stages of this project development.

The proposed facility is for the research, design, and development of spacecraft parts and has the potential to employ 700 people. The initial construction includes an 80,000 square foot building and repairs to wharves, paving, and utilities. The facility can be expanded to over 200,000 square feet. Use of the facility is water dependent, because the items to be developed at the site will be of a size that precludes reasonable transport by other means.

P937 (Transmittal 1) will initially consist of Parcels 1 through 4, with the option to add Parcel 5 by year seven and Parcels 6 and 7 by year ten.

Permit No. 937 Summary of Terms:

Term: The term is ten years, with two, ten-year options to extend, for a total of 30 years. A fee will be charged for every option exercised, based on ten percent of the annual rent of the initial year for each option. The fees are estimated at over \$224,000 for the first option and over \$274,000 for the second option.

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Initial Premises (Phase 1):	
Parcel 1	194,983 sq. ft. (waterfront land)
Parcel 2	196,414 sq. ft. (backland)
Parcel 3	38,911 sq. ft. (wharf)
Parcel 4	44,924 sq. ft. (submerged land)
Total	475,232 sq. ft. or 10.9 acres

Additional Premises (Phase 2):	
Parcel 5	83,278 sq. ft. (backland)
Parcel 6	214,277 sq. ft. (backland)
Parcel 7	54,703 sq. ft. (waterfront land)
Total	352,258 sq. ft. or 8.1 acres

First Right of Refusal: The tenant has the right to add additional premises (Parcels 5 through 7) upon providing written notice to the Harbor Department. The tenant also has the first right of refusal if other parties request to occupy Parcels 5 through 7.

Compensation: Initial annual rent: \$1,381,441, which represents rent for the initial premises consisting of Parcels 1 through 4, subject to annual CPI adjustments.

Rent is based on:

- i. waterfront land value of \$30 per sq. ft.;
- ii. backland value of \$24 per sq. ft.;
- iii. wharf value of \$90.29 per sq. ft.; and
- iv. submerged land value of \$10 per sq. ft.;
- v. All the above include a 10 percent rate of return on waterfront land, 7 percent rate of return on backland, and 12 percent rate of return on improvements.

Tenant Improvement Allowance: The tenant shall be entitled to rental offsets for tenant improvements constructed on the property. Offsets are limited to improvements that are deemed an improvement to the real property. The value of these improvements transfers to the benefit of the Harbor Department at the end of the term. The amount of the tenant improvement allowance is phased and encourages utilization and improvement of this underutilized property with a history of vacancy, vandalism, and environmental contamination.

The Tenant Improvement Allowances are structured in two phases. Phase 1 construction cost estimates are \$27 million and for Phase 2, \$15.75 million. Collectively, the rental offsets have been negotiated to not to exceed \$42 million and are estimated to offset rent until the 21st year of the permit. Considering the reversion value of the premises at the end of 30 years, the estimated rate of return for the project is 6.75 percent. Tenant Improvement Allowance provides as further contingency for the possibility of discovering additional environmental contamination during site development that is beyond five percent of the total construction costs, an additional five percent, or \$2.1 million rental offsets shall be added. Therefore, the total rental offset shall not exceed \$44.1 million.

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CEQA Documents: This action was assessed in the Final Initial Study/Mitigated Negative Declaration for the Berth 240 Transportation Vessels Manufacturing Facility Project (Los Angeles Harbor Department Application for Port Permit No. 170117-008, State Clearinghouse No. 2017121023, adopted by the BOHC on March 15, 2018. (Resolution number 18-8259. The tenant was responsible for costs associated with preparing this CEQA document.

Maintenance: The tenant is responsible for all maintenance costs associated with the use of the premises.

Improvements: The tenant shall be responsible for the construction of all new improvements on the site. Upon termination of the P937, the title to all real property improvements shall vest in the Harbor Department.

ENVIRONMENTAL ASSESSMENT:

The proposed action is for approval of P937 between the Harbor Department and SpaceX. The proposed action is administratively exempt pursuant to the City of Los Angeles CEQA Guidelines Article 2, Section 2 (i), as it has been environmentally assessed in compliance with CEQA and the Board may approve issuance of P937.

FINANCIAL IMPACT:

The proposed Permit No. 937 with SpaceX has a ten-year initial term, with two ten-year renewal options, for a total maximum term of 30 years. Initial annual compensation payable to the Harbor Department is estimated at over \$1.38 million and will be adjusted annually by CPI to attain an estimated \$2.7 million in compensation by year 20, for a total cumulative compensation of approximately \$40 million (inclusive of the estimated \$225,000 option fee for the initial option beginning year 11). However, corresponding to this initial 20-year period, the Tenant Improvement Allowance is estimated at \$40 million and will offset any compensation due the Harbor Department through year 20. Beginning in year 21 (the final year of the tenant improvement allowance estimated at \$1.5 million), the Harbor Department is estimated to collect approximately \$3 million in annual compensation (also adjusted by CPI annually) from SpaceX through the end of the 30-year permit term for an estimated total of \$30 million during the final 10 years of the permit (also inclusive of the estimated \$274,000 option fee for the second and final option beginning in year 21). At the end of the 30-year permit, the land committed under the permit to SpaceX will revert back to the Harbor Department with an estimated future value of over \$36 million, as would the estimated \$55 million future value of improvements completed by SpaceX during the permit term. The estimated overall rate of return for the permit is 6.75 percent and is reflective of the above valuation.

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CITY ATTORNEY:

The Permit has been prepared and approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Permit
2. Site Map

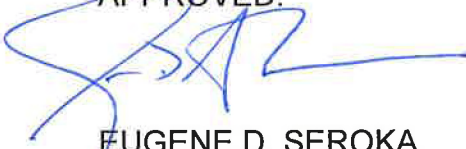
FIS Approval: 

CA Approval: 


for JACK C. HEDGE
Director of Cargo & Industrial Real Estate


MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:


EUGENE D. SEROKA
Executive Director

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