DATE: May 20, 2019

TO: Honorable Members of the Trade, Travel and Tourism Committee and Economic Development Committee

Attn: Chair, Councilmember Joe Buscaino
Vice Chair, Councilmember Mike Bonin
Councilmember Paul Krekorian

FROM: Eugene D. Seroka, Executive Director
Harbor Department; Mail Stop 260

SUBJECT: RESPONSE TO MOTION CF# 19-0088 – INDUSTRIAL, ECONOMIC AND ADMINISTRATIVE (IEA) SURVEY

The IEA Survey (IEAS) of the Harbor Department presents an analysis of and recommendations for our Department’s business practices. BCA Watson, the consulting firm that conducted the survey, presented the findings and recommendations of the IEAS to the Travel, Trade and Tourism Committee (Committee) at its March 5, 2019 meeting. At this meeting the Committee requested that the Harbor Department respond to the recommendations pertaining to the Department’s cargo real estate and terminals and commercial real estate. This memo provides the Harbor Department’s responses to those 12 recommendations.

Recommendation 1: The ports of Los Angeles and Long Beach should consider collaboratively preparing a long-term, prioritized, market-driven capital investment and development plan for the San Pedro Bay (SPB) Gateway that prioritizes and optimizes investments in marine terminal facilities, transportation and related infrastructure; successfully implements the Clean Air Action Plan (CAAP); and sustains the competitiveness of the SPB Gateway and the economic benefits to the region.

The SPB ports have an extensive history, spanning more than four decades, of working together on transformative initiatives such as the first two iterations of the CAAP, the Alameda Corridor Transportation Authority (ACTA), the Intermodal Container Transfer Facility (ICTF), the SPB cargo forecast, and supply chain efficiency initiatives. In furtherance of the latter, effective February 2015, the Ports of Long Beach (POLB) and Los Angeles received approval from the Federal Maritime Commission (FMC) under Agreement 201219 to extend discussions beyond infrastructure and the environment and include supply chain logistics, joint legislative advocacy, joint marketing, and safety and security.

The ports continue to collaborate on areas such as the latest version of the CAAP that includes the next iteration of the clean truck and joint technology advancement programs. Additionally we are working together on a joint rail study that will determine rail needs in
the years to come. Collectively, we are working with supply chain entities to improve truck
turn times and with the SPB chassis providers and shipping lines on solutions that will
improve chassis fluidity. The Department is currently developing a long-term capital
development plan (2050 Plan) that will take the facilities under development at the POLB
into consideration.

Per the FMC the two ports are permitted to discuss and collaborate on all areas except
price and terms. As such, we will continue to work closely and cooperatively on the
permissible categories listed above.

**Recommendation 2**: The Harbor Department should consider enhancing its container
terminal pricing strategy by including charges to the marine cargo terminal tenants,
separate charges to the container shipping lines and evaluate the feasibility of instituting
a transportation infrastructure investment fee to sustain the Department’s ability to fund
the extensive road, rail, security and communications infrastructure.

Admittedly, the permits for the Department’s container terminal went into effect 20-30
years ago when the shipping industry functioned very differently. At that time, the terminal
operators, the entities with whom the permits are held, exercised greater influence over
the amount of cargo that came into the port because of the corporate relationship that
existed between the operators and the shipping lines. Now those relationships are
different and the Harbor Department does not have a direct contractual relationship with
the shipping lines, the entities that do control the amount of cargo coming into the port.
The significance of this is that 75% of the Department’s revenues are derived from
containerized cargo. As such, a pricing strategy that bifurcates charges between the
terminal operators and shipping lines makes intuitive sense. However, the Harbor
Department is not able to unilaterally make such an important change in its pricing policy
and must consider the changes carefully. We have been evaluating various pricing
strategies, some of which have been implemented, including those pertaining to liner
shipping companies. Efforts will continue along these strategic lines in the near future.

**Recommendation 3**: The Harbor Department should consider incorporating additional
provisions into marine cargo terminal leases/use permits.

The additional provisions recommended by the consultant include assessing a change of
control fee when ownership of a terminal changes, requiring minimum ownership
requirements for a qualified operator of a terminal, setting minimum annual guarantees
(MAG) to meet certain rate of return thresholds, and including uniform escalations, such
as the Consumer Price Index (CPI), in all permits. While most of these concepts including,
but not limited to, MAG and CPI have been included in our permits we will continue to
move forward with like-minded strategies as recommended by the consultant.

**Recommendation 4**: Continue to pursue diversification opportunities that enhance
supply chain velocity and enhanced utilization of existing industrial cargo properties.

As it becomes more difficult and costly to create additional container terminal facilities, it
is paramount to move more Twenty-foot Equivalent Units per acre in the current footprint.
Added to this complexity are the findings from a recent cargo forecast study by Mercator
International and Oxford Economics that projects cargo throughput, assuming unconstrained market growth, to double in the next 15 years. As such, to prepare for the future and enhance efficiencies, the Harbor Department is working with supply chain entities to look at innovative ways to improve the velocity within the terminals. This can be done with providing early visibility to incoming cargo, as provided with the Port Optimizer™, and looking at fast-flow container movements and exploring inland container yards that vacate containers quickly that are located closer to the cargo owners’ distribution centers. We are also working toward developing a port-wide truck reservations system, relocating chassis off marine terminals to near-dock port facilities, and introducing edge computing, industrial internet of things, 5G, private LTE and census tract spectrum all covered by enhanced cyber security.

**Recommendation 5:** Monitor changes and innovation that could potentially disrupt the business model, operations and revenue of the Port and make adjustments as needed and feasible.

The Harbor Department has been actively monitoring and engaged in changes to the industry that could potentially disrupt the Port’s business model. Currently there are three categories of disrupters and they have been identified as government policy-related (tariffs), technological and operational advancements (3D printing), and modal (Hyperloop, LNG trucks, zero-emission vehicles). Because the Port is active and engaged in each of these three areas we are able to help drive discussions, shape policy, and become a test-lab for many of these changes and innovations. We will remain involved and help the industry move forward and progress toward acceptance and implementation of new developments.

**Recommendation 6:** The Harbor Department should continue to identify future development opportunities compatible with existing development and begin the planning process now.

The Harbor Department agrees with this recommendation and is working to carry out its obligations pertaining to current commercial real estate development opportunities such as the San Pedro Public Market (SPPM) and Altasea at the Port of Los Angeles while pursuing opportunities that complement existing initiatives. Concerning future developments we are already evaluating several development opportunities including, but not limited to, the Outer Harbor, Warehouse One, and the Marina Pads. Moreover, the Harbor Department is currently working on developing its 2050 Plan which will help guide future long-term development opportunities.

**Recommendation 7:** The Harbor Department should provide incentives for non-profit tenants with older leases to invest in the growth and success of prime locations leased to non-profit tenants as they renew or are renegotiated.

The Department agrees with this recommendation and will look to provide incentives for non-profit tenants to invest in prime locations or consider relocating them as permits come up for renewal in order to optimize the locations of our tenants. It should be noted that the Department is already doing this with asset and non-asset based organizations (e.g. Boys & Girls Club, Boy Scouts of America, Los Angeles Maritime Institute).
Recommendation 8: The Harbor Department should explore the feasibility of new market-driven development and leasing opportunities that are compatible with the requirements of the California State Tidelands Trust.

In February 2015, within seven months of the Executive Director’s appointment to the Department, the Board of Harbor Commissioners unanimously approved a groundbreaking, first-of-its-kind in the nation, infrastructure investment program. This program, the Public Access Investment Plan, is designed to actively engage the community in the decision-making process regarding development projects. Additionally, the Plan also helps to drive the partnering of government with private organizations to bring more development to the Harbor District. The Department will continue to use the Plan to foster leasing, construction, and investment opportunities all designed with the intent to bring more investors to the Historic Los Angeles Waterfront.

Recommendation 9: The Harbor Department should modify its leasing and pricing policy and practices to be more consistent with market rates and standard commercial lease practices to the extent practical given the market realities of the San Pedro and Wilmington waterfronts.

The Harbor Department’s commercial leasing policy, which includes guidance on pricing, was last updated in January 2017. We will review the current policy and modify it accordingly to ensure that it is nimble enough to flex with market demands as investment opportunities grown.

Recommendation 10: Assess the impact of current investments in public access infrastructure improvements to determine increases in revenue.

Consistent with current policy, the Department continues to identify and develop infrastructure projects that are consistent with our Commercial Real Estate Policy. In fact, we are on our third iteration of the call for projects under the PAIP with local Neighborhood Councils and community stakeholders.

Recommendation 11: Maximize the use and potential of the iconic Maritime Museum building.

The Department recognizes the value of the unique location and iconic nature of the Maritime Museum building. The Maritime Museum will close later this year for a period of 18-24 months due to construction of the SPPM. During this time, the Department will work closely with the Department of Recreation and Parks to find a way to continue the mission of the museum, possibly in an alternative location, while optimizing use of the current location. Because of the iconic nature of the building and prime location on the main channel, the Harbor Department wants to make this a unique visitor serving location that will provide economic benefits to the City and the Harbor Department.

Recommendation 12: The recently created Waterfront Commercial Real Estate Division of the Harbor Department should continue to direct and manage the development and management of the Department’s commercial real estate assets.
Harbor Department management created the Waterfront and Commercial Real Estate Division in January of 2015 in recognition of the growing importance of non-cargo related waterfront developments and to provide an opportunity for a more intensive focus on commercial waterfront projects. This effort has been successful and has led to: the execution of a lease for the SPPM; (development of a sustainable and predictable approach to the Port’s yearly investment in commercial, public-serving projects and programs; creation of the Wilmington Waterfront master plan; execution of a critical lease amendment for AltaSea that will enhance their ability to meet its development goals; and substantial progress in the execution of leases for the port’s six liquid bulk terminals that will enable the construction of upgraded facilities that are compliant with State of California seismic requirements. This team has grown from one person to 12.