File #: HD-19-007, Version: 1

DATE: 12/10/2018

TO: Board of Harbor Commissioners

FROM: Eamonn Killeen, Director of Real Estate

SUBJECT: Tesoro Refining & Marketing Company LLC Third Amendment to Lease HD-7877

Executive Summary
Tesoro Refining & Marketing Company LLC (Tesoro) occupies approximately 7.13 acres of land and 3.52 acres of submerged land at Berths B-84 through B-87 for a liquid bulk marine terminal pursuant to Lease HD-7877 (Lease). Tesoro’s subsidiary and terminal operator Tesoro Logistics Operations LLC currently subleases the premises. The twenty-year Lease commenced January 11, 2012, and expires on January 10, 2032.

As required by the provisions of Long Beach City Charter Section 1207(d), the Lease provides for the Port and Tesoro to renegotiate the rent and insurance provisions for each five-year segment of the term. Port staff and Tesoro have reached agreement to the terms recommended herein for the five-year period commencing retroactively from January 11, 2017, through January 10, 2022.

In addition, the Lease is currently guaranteed by Andeavor, a Delaware corporation. On October 1, 2018, Marathon Petroleum Corporation (Marathon) acquired all outstanding shares of Andeavor. As of that date, Andeavor ceased to be publicly traded, merged with other Marathon entities, and is now a wholly owned subsidiary of Marathon.

In consideration thereof, this proposed Third Amendment to Lease provides for the rental amount and insurance provisions during the latest five-year lease segment, and a substitute guaranty by Marathon, unconditionally guaranteeing the obligations of Tesoro under the Lease.

Key Points
- The Lease allows for a liquid bulk petroleum terminal.
- The five-year rent renegotiation is for the period of January 11, 2017, through January 10, 2022.
- The Lease is currently guaranteed by Andeavor.
- Marathon acquired Andeavor.
- This proposed Third Amendment to Ground Lease provides for a new Guaranteed Minimum Annual Compensation (GMAC) and a substitute guaranty with Marathon.

Recommendation
This item requests the Board of Harbor Commissioners’ approval of a Third Amendment to Lease HD-7877 for approximately 10.65 acres of land and submerged land located at 820 Carrack Avenue, to establish compensation for the five-year period commencing January 11, 2017, and causing Marathon to execute and
deliver a substitute guaranty, unconditionally guaranteeing Tesoro’s obligations under the Lease, make the determination that the action is categorically exempt pursuant to the California Environmental Quality Act, and adopt the authorizing Ordinance.

Financial Impact
The current Guaranteed Minimum Annual Compensation (GMAC) is $2,500,000. Commencing retroactively as of January 11, 2017, the proposed Third Amendment to the Lease will increase the GMAC to $2,978,565, totaling $14,892,825 of guaranteed compensation for the five-year period.

This equates to a $478,565 (or 19%) annual increase to the GMAC.

<table>
<thead>
<tr>
<th>Proposed GMAC:</th>
<th>$2,978,565</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current GMAC:</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Increase:</td>
<td>$478,565</td>
</tr>
</tbody>
</table>

Historically, and including the 2018 calendar year, the apportionable tariff charges paid by Tesoro, meaning those portions of tariff charges assessed for wharfage and dockage, have reached amounts well above the contracted GMAC.

Background
On November 1, 1966, the Port and Texaco, Inc. entered into a 40-year lease for a 10.65 acre marine bulk terminal located on Pier B. In July 1998, the lease was assigned to Equilon Enterprises LLC, doing business as Shell Oil Products US, and in May 2007, the lease was assigned to Tesoro Refining and Marking Company following its acquisition of assets and leasehold.

The Port entered into a new twenty-year Lease with Tesoro Refining and Marketing Company, a Delaware corporation, effective January 11, 2012. The Lease is guaranteed by Andeavor (formerly known as Tesoro Corporation). Tesoro Refining and Marketing Company has since converted to Tesoro Refining & Marketing Company LLC, a limited liability company (Tesoro), through a Conversion and Consent Agreement approved by the Board of Harbor Commissioners on February 4, 2013. Tesoro’s subsidiary and terminal operator Tesoro Logistics Operations LLC has been subleasing the premises since December 2013.

With the exception of the berth structures, all improvements placed upon the leased premises are owned by Tesoro, with the majority constructed by predecessor entities.

On October 1, 2018, Marathon closed the transaction in which it acquired all of the outstanding shares of Andeavor. Also occurring on October 1, 2018, pursuant to multiple merger activities and entity name changes, Andeavor ultimately merged with, and into Andeavor LLC, a Delaware limited liability company and wholly owned subsidiary of Marathon.

Detailed Discussion of Current Issues
Port staff, Tesoro, and Marathon have reached agreement regarding the GMAC for the five-year period commencing retroactively on January 11, 2017, through January 10, 2022, in addition to replacing the existing guaranty with a substitute guaranty executed by Marathon.

The proposed Third Amendment to Lease will have the following terms and conditions:

GMAC: $2,978,565
The proposed new guaranteed minimum annual compensation reflects a $30 per square foot land value, a $15 per square foot submerged land value, with a 10% rate of return. In addition, a 12% return on Port-owned berth structures valued at $15,142,298.

<table>
<thead>
<tr>
<th>GMAC</th>
<th>Land Value (1)</th>
<th>Submerged Land Value (2)</th>
<th>Improvements (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,978,565</td>
<td>$931,443</td>
<td>$230,046</td>
<td>$1,817,076</td>
</tr>
</tbody>
</table>

**Insurance:** No Change.

**Guaranty:** Upon the Port’s execution of this proposed Third Amendment to Lease, the guaranty originally executed by Tesoro Corporation shall be superseded by a substitute guaranty with the express knowledge that:

1) The substitute guaranty has the same effective date as the original guaranty executed by Tesoro Corporation in 2011;

2) The substitute guaranty shall have no less force and effect than if signed prior to and as a condition precedent to execution of the Lease dated January 11, 2012; and

3) The rights of the Port under the substitute guaranty shall be no less than those set forth in the original guaranty.

All other terms and conditions of the Lease shall remain the same.