



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: APRIL 24, 2013

FROM: BUSINESS & TRADE DEVELOPMENT

SUBJECT: PERMANENT ORDER NO. _____ AMENDING THE PORT OF LOS ANGELES TARIFF NO. 4, "GENERAL RATE INCREASE" RULE AND SECTION ONE "DEFINITIONS" ITEM 100

SUMMARY:

In November 2012, the California Association of Port Authorities (CAPA), of which the Port of Los Angeles (Port) is a member, adopted an annual general rate increase (GRI) methodology for CAPA member tariffs based on the West Region Consumer Price Index for All Urban Consumers (CPI-U). The effective date of each GRI would be July 1 of each calendar year.

To implement the annual CAPA GRI, staff is recommending the Board of Harbor Commissioners (Board) adopt two amendments to Tariff No. 4 establishing Item 201 "General Rate Increase" under Section Two "General Rules and Regulations, and adding definitions to Section One "Definitions", Item 100. Item 201 in Tariff No.4 describes how the GRI would be implemented each year. Item 100 in Tariff No. 4 addresses new definitions used in Item 201.

RECOMMENDATIONS:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Amendments to Port of Los Angeles Tariff No. 4 establishing Item 201 "General Rate Increase" under Section Two "General Rules and Regulations", and adding definitions in Section One "Definitions", Item 100, both subject to the California Association of Port Authorities' review and approval, and authorize the Executive Director to work with California Association of Port Authorities to secure this approval or proceed to take independent action in accordance with California Association of Port Authorities procedure;
2. Adopt Permanent Order No. _____ establishing Item 201 "General Rate Increase" under Section Two "General Rules and Regulations" and adding definitions in Section One "Definitions", Item 100, in the Port of Los Angeles Tariff No. 4 ;
3. Direct the Board Secretary to transmit to the City Council for approval the Permanent Order and the Ordinance approving and authorizing the Amendments to the Port of Los Angeles Tariff No. 4 pursuant to City Charter 653(a); and

SUBJECT: GENERAL RATE INCREASE RULE AND DEFINITIONS

4. After the effective date of the Ordinance, transmit the Permanent Order and Ordinance to the Chief Wharfinger for implementation and posting to the Port of Los Angeles website as regulated by the Federal Maritime Commission.

DISCUSSION:

Background and Context – On November 19, 2012 CAPA, of which the Port is a member, adopted a GRI methodology for tariffs based on the CPI-U. The CPI-U index was recommended and agreed upon by CAPA member ports as the most representative index for California ports. In addition, 50 percent of the goods that come through the Port are destined for the five-county region. Because the vast majority of the cost basis for the major operating and capital expenditures for the Port all relate to personnel, companies, goods, and services in the Southern California area, the CPI-U is opined to be the most appropriate index to reference.

The effective date of each GRI would be July 1 of each calendar year. The methodology used by CAPA to establish and announce the annual GRI is, as follows:

- CAPA will send a preliminary notice to members each year in January stating that member ports will be implementing annual rate increases using the previous December's CPI-U index.
- Each year in March, CAPA will send another notice to members confirming the CPI-U based rate increase once the CPI-U information is available from the Bureau of Labor Statistics.
- Member ports will review the CAPA proposed GRI, taking into consideration the economy, market conditions and port competition.
- Member ports will convene to discuss possible hold-downs or independent actions, if any.
- Effective July 1st of each calendar year, the CPI-U based GRI increase will become effective at member ports unless any member elects to implement hold-downs or take other independent action.
- Each CAPA member port will undertake the necessary approvals from their respective Boards, if applicable, prior to implementation of the GRI on July 1 of each calendar year.

The CAPA GRI approval process at the Port would be, as follows:

1. Each year, upon CAPA notice of the proposed GRI, staff shall inform the Board of the GRI amount applicable to all rated Items in Tariff No. 4, except Section Twenty "Clean Air Action Plan and General Rules and Regulations" in a non-action item presentation to the Board. This item may be heard at the annual City of Los Angeles Harbor Department (Harbor Department) budget Board meeting.
2. No other action shall take place unless the Board directs staff to return at a subsequent meeting with additional information or action.

SUBJECT: GENERAL RATE INCREASE RULE AND DEFINITIONS

3. The proposed Order and Ordinance will provide annual authority for the Chief Wharfinger to publish the new rates and for the rates to become effective each July 1.
4. If the Board elects to implement hold-downs or take other independent action, staff will be directed to seek subsequent Board approval of a new Order and Ordinance reflecting a proposed new GRI and any hold-downs or other action.

Staff is recommending that the Board adopt two amendments to Tariff No. 4 establishing Item 201 "General Rate Increase" under Section Two "General Rules and Regulations" (Transmittal 1) and adding definitions in Section One "Definitions", Item 100 (Transmittal 2). Item 201 of Tariff No. 4 describes how the Port will implement the annual CAPA announced GRI. Item 100 in Tariff No. 4 addresses new definitions used in Item 201. If adopted, these amendments would implement the annual CAPA approved GRI after review of such increase by the Board. The Port's ability to implement an annual GRI based on the CAPA approved CPI-U will ensure rated Items in Tariff No. 4 keep up with the rate of inflation. This GRI rule, if routinely implemented by the Harbor Department, allows for smaller incremental increases that may minimize or possibly eliminate the need to negotiate larger increases every five years for term permits. Additionally, the Harbor Department has been concerned about equal application of rate increases and the proposed GRI methodology meets this objective.

Item 201 "General Rate Increase" of Tariff No. 4 would exempt Section Twenty "Clean Air Action Plan – General Rules and Regulations" from the CAPA approved GRI. The Clean Truck Program Concession and Temporary Access Permits amounts shown in Item 2040 of Section Twenty "Clean Air Action Plan – General Rules and Regulations" are calculated using a cost recovery principle for that program that is not intended to be influenced by a CPI-U index.

Need for Amendment – Section Two "General Rules and Regulations", Item 201 "General Rate Increase" would provide the Port the authority to implement annual CAPA approved GRIs ensuring rated Items in Tariff No. 4 keep up with the rate of inflation. An amendment to Item 100, Section One "Definitions" is needed to support the addition of new definitions used in Item 201 "General Rate Increase".

Need for Approval – Los Angeles City Charter Section 653 requires the Board to approve any amendment by Order (Transmittal 3) and approval of the City Council by Ordinance (Transmittal 4).

DATE: APRIL 24, 2013

PAGE 4 OF 5

SUBJECT: GENERAL RATE INCREASE RULE AND DEFINITIONS

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a two Amendments to Tariff No. 4 to facilitate implementation of the GRI methodology adopted by the CAPA. 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.

ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

If approved, the proposed Amendments to Port of Los Angeles Tariff No. 4 could result in increasing certain of the Port's shipping revenues commensurate with the Bureau of Labor Statistics reported CPI-U which will be announced by CAPA to its members each year. For Fiscal Year 2013/2014 the additional revenues resulting from a 1.7% CPI increase is estimated at \$4.4 million.

CITY ATTORNEY:

The Office of the City Attorney has approved the proposed Permanent Order and the proposed Ordinance as to form and legality.


DATE: APRIL 24, 2013

PAGE 5 OF 5

SUBJECT: GENERAL RATE INCREASE RULE AND DEFINITIONS

TRANSMITTALS:

1. POLA Tariff No. 4 – Item 201
2. POLA Tariff No. 4 – Item 100
3. Permanent Order
4. Ordinance


MICHAEL DiBERNARDO
Director of Business Development

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

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FIS Approval:  (initials)
CA Approval:  (initials)


KATHRYN McDERMOTT
Deputy Executive Director