



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 12, 2012

FROM: REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE FIRST AMENDMENT TO PERMIT NO. 850 WITH PRINCESS CRUISE LINES, LTD.

SUMMARY:

The proposed First Amendment to Permit No. 850 with Princess Cruise Lines, Ltd. (Princess), a subsidiary company to Carnival Corporation & PLC (Carnival), will provide all Carnival brands the same permitted uses under Permit No. 850.

The First Amendment will allow the current nine additional Carnival brands, in addition to Princess, to berth its cruise ships, embark and disembark passengers and luggage, and store the ships with goods, wares, fuel, and merchandise, as well as conduct other cruise-related activities at the Los Angeles World Cruise Center (Cruise Terminal). The First Amendment will also enable all Carnival brands to participate in the lower passenger fee offered through Permit No. 850, currently set at \$7.81 per passenger, including dockage and vessel stores fees. This lowering of the passenger fee may generate increased tourism and economic activity in the City of Los Angeles, where each cruise ship call generates approximately \$970,000 in local economic activity.

RECOMMENDATION:

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

1. Approve the First Amendment to Permit No. 850 with Princess Cruise Lines, Ltd.;
2. Direct the Board Secretary to transmit the amendment to City Council for approval pursuant to Section 606 of the City Charter;
3. Authorize the Executive Director to execute and the Board Secretary to attest to the amendment upon approval by City Council; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background – Permit No. 850 grants Princess use of the Cruise Terminal at Berths 90-93 (Transmittal 2), San Pedro, for the berthing of cruise vessels, associated passenger operations, and other required cruise-related activities. Permit No. 850 is for a six-year term, effective September 1, 2004 through August 31, 2010. Pursuant to Section 1(d), Permit No. 850 was placed on holdover status, with month-to-month occupancy, by written notification of the Executive Director effective September 1, 2010.

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Princess continues to operate out of the Cruise Terminal under this holdover status, until such time as a successor permit is executed. Negotiations for a successor permit have been ongoing for the past two years and are expected to conclude shortly. Delays in the execution of the successor permit are mainly attributed to the complex negotiations that have been ongoing with the City of Los Angeles Department of Water and Power (DWP) for the establishment of an electrical rate specific for the Harbor Department's Alternative Maritime Power (AMP) program. Use of the AMP system is especially challenging for cruise lines, since the vessels use much more electrical power while at berth than a typical cargo vessel. Establishment of a program with DWP with AMP rates is imminent.

During successor permit negotiations, Carnival rescheduled some of its cruises in 2011 to the Cruise Terminal. The proposed First Amendment (Transmittal 1), effective January 1, 2011, will allow all Carnival member lines to have the same permitted uses under Permit No. 850 and allow Carnival to participate in the lower passenger fees offered through this permit. Since the successor permit was not executed as anticipated, Carnival has still not paid the Harbor Department for its 2011 calls, totaling \$794,536. In order for Carnival to participate in lower rates negotiated for its subsidiary company Princess, the First Amendment is required.

Princess' current passenger rate is \$7.81 per passenger, which includes dockage and stores fees that are typically charged separately under the Port of Los Angeles Tariff No. 4. For calendar year 2011, Princess had 244,300 passengers and Carnival had 66,397 passengers.

Approval of the proposed First Amendment will result in a revenue decrease to the Harbor Department of approximately \$283,751. The First Amendment essentially covers calls made by Carnival for 2011. No other calls by Carnival have been scheduled at this time. The approval of the First Amendment is essential to retain our last remaining long-term cruise line at the Cruise Terminal, Princess. All other former long-term cruise lines have rescheduled calls in the foreseeable future due to the decline of tourism to Mexico.

Carnival brands, including Princess Cruises, accounted for 50 percent of the Cruise Terminal's cruise ship calls in 2011 and 55 percent of the passengers. For 2012, this figure is estimated to be 53 percent of the Cruise Terminal's cruise ship calls and 58 percent of the passengers; and in 2013, the numbers grow to 81 percent of the estimated cruise ship calls and 86 percent of the passengers.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an amendment to Permit No. 850 with Princess, a subsidiary of Carnival, to allow nine other Carnival brands use of the Cruise Terminal as allowed under Permit No. 850. As an activity involving an amendment of a permit to use an existing facility involving negligible or no expansion of use, 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 III, Class 1(14) of the Los Angeles City CEQA Guidelines.

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ECONOMIC BENEFITS:

Approval of the proposed First Amendment will have no employment impacts.

FINANCIAL IMPACT:

There will be a decrease in revenue to the Harbor Department of approximately \$283,751 with the reduced fee schedule proposed under the First Amendment to Permit 850 with Princess. The proposed amendment will allow Princess, as well as all Carnival brands, to potentially increase tourism and economic activity at the Cruise Terminal.

CITY ATTORNEY:

The proposed First Amendment has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

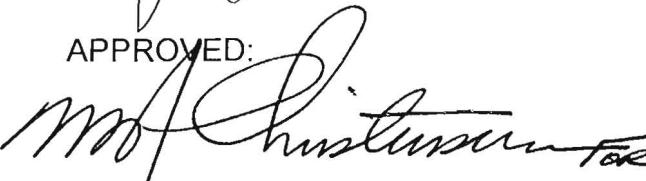
1. First Amendment
2. Site Map

FIS Approval: KR (initials)
CA Approval: gmc (initials)


JACK C. HEDGE
Director of Real Estate


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APPROVED:


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