



**THE PORT
OF LOS ANGELES**

Executive Director's

Report to the

Board of Harbor Commissioners

DATE: OCTOBER 29, 2013

FROM: BUSINESS & TRADE DEVELOPMENT

**SUBJECT: PERMANENT ORDER NO. _____ AMENDING PORT OF
LOS ANGELES TARIFF NO. 4, "OCEAN COMMON CARRIER
INCENTIVE PROGRAM" AND "DEFINITIONS INCENTIVES"**

SUMMARY:

On April 19, 2012, the City of Los Angeles Board of Harbor Commissioners (Board) approved the Port of Los Angeles (Port) Strategic Plan. The Strategic Plan recognizes our position as the number one container port in the nation by volume. Maintaining this position requires new and innovative approaches and a concerted effort to stay focused on critical issues. The Port's container business accounts for more than 80 percent of its revenue. Maintaining financial strength with growing cargo volumes is necessary to continue to invest in the future of the Port so that it may continue to meet its obligations to stakeholders.

In order to meet our Strategic Plan objectives, staff is recommending the Board approve an amendment to Port of Los Angeles Tariff No. 4 (Tariff No. 4) Section Twenty-Three "Intermodal Containers – General Rules and Regulations". The amendment if approved would give Ocean Common Carriers (Carriers) a tiered incentive of \$5.00 or \$15.00 per Twenty-Foot Equivalent Unit (TEU) for every incremental loaded and empty TEU they move through the Port during Calendar Year (CY) 2014 compared to CY 2013. The benefit for the Port is increased container volumes and revenue from Carriers. This incentive program would be valid for one year. This tariff amendment would require the title of Tariff No. 4 Section 23 to be revised to read Section 23 "Incentives-General Rules and Regulations."

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the Amendment to Port of Los Angeles Tariff No. 4 Section Twenty-Three, re-naming "Intermodal Containers - General Rules and Regulations" to "Incentives – General Rules and Regulations," establishing Item 2320 "Definitions Ocean Common Carrier Incentives," and establishing Item 2325 "Ocean Common Carrier Incentive Program," subject to the California Association of Port Authorities' review and approval, and authorize the Executive Director to work with the California Association of Port Authorities to secure this approval or proceed to take independent action in accordance with the California Association of Port Authorities' procedure;

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2. Adopt Permanent Order No. _____ to amend and re-name Section Twenty-Three to "Incentives – General Rules and Regulations," establish Item 2320 "Definitions Ocean Common Carrier Incentives," and establish Item 2325 "Ocean Common Carrier Incentive Program" in 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 Port of Los Angeles Tariff No. 4 pursuant to City Charter 653(a);
4. The Board Secretary shall certify to the adoption of this Order by the Board of Harbor Commissioners and shall cause the same to be published in a daily newspaper printed and published in the City of Los Angeles; and
5. 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 – In 2009 and 2010, the Board approved various incentive programs to assist our customers during the economic crisis and to maintain the Port's competitive position in the marketplace.

The Port's Strategic Plan recognizes our position as the number one container port in the nation by volume. The Port has world-class facilities that include deep water berths, ample backland space and a superior on-dock rail network. As such, the Port remains committed and poised for growth over the next few years. As Carriers begin to solidify their relationships with other Carrier partners by forming super-alliances, modify their ship deployments and determine preferred gateways, the Port wants to provide an incentive to these Carriers to influence their gateway decision-making process and ensure these services land at the container terminals at the Port. Super-alliances amongst existing Carrier alliances have changed the traditional Carrier/Port relationship. Traditionally a Carrier's ships would call exclusively at its own container terminal. With the formation of Super-alliances, Carrier partners now require a greater level of flexibility at which Port terminal their ships should call. The terminal selection is influenced by the ships operated by Carrier partners and the trade volumes of specific trade routes. This incentive program recognizes the development of super-alliances and their container terminal needs.

Staff has identified and crafted incentives that could be offered to all Carriers, will help sustain our revenue stream, ensures the Port meets its strategic objectives and continues to grow in volume and revenue.

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The program developed by staff would provide all Carriers that call at the Port a tiered incentive of \$5.00 or \$15.00 per TEU for every incremental loaded and empty TEU they moved through the Port during CY2014 compared to CY2013 as follows:

Volume Tiers in TEU	Incentive Amount per TEU
1 to 99,999	\$5.00
100,000 +	\$15.00 per TEU for all TEUs

The Port of Los Angeles will provide each Carrier receiving payments under this program, if any, with a reconciliation of such payment, after January 31, 2015. Payment will be processed upon receipt of written request from Carriers directed to the Executive Director no later than April 30, 2015. Payments made under this program, if any, shall be paid in one-time lump sum payments. This incentive program would be valid for one year. Staff will monitor the effectiveness of the program on a monthly basis using Carrier container volume data that is obtained by the Port’s Wharfing Division.

A tariff amendment would require changing the title of Tariff No. 4 Section Twenty-Three to read “Incentives – General Rules and Regulations” (Transmittal 1).

Staff is recommending approval of an “Ocean Common Carrier Incentive Program,” applicable to Tariff No. 4.

Need for Approval – Los Angeles City Charter Section 653(a) requires the Board to approve any amendment by Order and approval of the City Council by Ordinance (Transmittals 2 and 3).

ENVIRONMENTAL ASSESSMENT:

The proposed action is an amendment to Port of Los Angeles Tariff No. 4. approving an “Ocean Common Carrier Incentive Program” to incentivize growth in container volumes by Carriers calling at the Port, in accordance with the goals of the Port Strategic Plan. This amendment would incentivize container growth at existing container terminals and would not expand use at the terminals beyond what is currently permitted and within their current physical configuration. Therefore, as an administrative activity and an activity involving the modification of a fee for the use of existing municipal facilities involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2 (f) and Article III Class 1 (31) of the Los Angeles City CEQA Guidelines.

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ECONOMIC BENEFITS:

This Board action will have no direct employment impacts for the five-county region.

FINANCIAL IMPACT:

The proposed one-year "Ocean Common Carrier Incentive Program" is expected to incrementally benefit operating revenues if the payout occurs according to the parameters of the incentive program requirements.

An example of how this incentive program would work using a Carrier who produced under 100,000 incremental TEUs and another Carrier who produced over 100,000 or more incremental TEUs is as follows:

Example Carrier 1

TOTAL Incremental TEUs	75,000
Gross Estimated TEU Revenue	\$3,000,000
Incentive Cost to POLA @\$5 per TEU	<u>\$375,000</u>
Estimated Revenue to Port	\$2,625,000

Example Carrier 2

TOTAL Incremental TEUs	150,000
Gross Estimated TEU Revenue	\$6,000,000
Incentive Cost to POLA @\$15 per TEU	<u>\$2,250,000</u>
Estimated Revenue to Port	\$3,750,000

The expected incremental container volume increase for CY 2014 and respective incentive pay-out using Carriers who produced varying incremental TEUs is as follows:

	TEU	Incentive Amount	Total Incentive Amount
TEU @ \$5.00/TEU	320,000	\$ 5.00	\$ 1,600,000.00
TEU @ \$15.00/TEU	255,000	\$ 15.00	\$ 3,825,000.00
Total TEU	575,000		\$ 5,425,000.00

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If the Port achieves the 575,000 incremental TEUs, the estimated gross revenue would be approximately \$23,000,000 and an incentive cost of approximately \$5,425,000 resulting in estimated net revenue to the Port of \$17,575,000.

Funds for this program will be requested to be included in the fiscal year 2014-2015 budget as part of the annual budget adoption process, upon Board approval. Incentive amounts earned by Carriers that contributed to the Port's container volume growth will be directly paid as a one-time cash payment.


CITY ATTORNEY:

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

TRANSMITTALS:

1. Tariff No. 4
2. Permanent Order
3. Ordinance

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


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APPROVED:


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