



DATE: AUGUST 14, 2013

FROM: BUSINESS & TRADE DEVELOPMENT

**SUBJECT: RESOLUTION NO. _____ - NEW CONTAINER SERVICES
MOVING EXPENSES TO THE PORT OF LOS ANGELES**

SUMMARY:

On August 3, 2012, The Port of Los Angeles (Port) received the first vessel operated in one of four joint container services that moved from the Port of Long Beach (POLB) to the TraPac container terminal. Partners of the new joint container services are: Hamburg Sud North America Inc., Hapag Lloyd AG, ANL (CMA CGM, US Lines), CCNI, MSC, and Polynesia Line Ltd., (New Services Partners). The City of Los Angeles Harbor Department (Harbor Department) is proposing to reimburse each New Services Partner for some expenses associated with moving from the POLB to the Port on a pro-rata basis using each New Services Partner's relative annual container volume. The combined total expense to the Harbor Department will not exceed \$340,000 payable within three months after approval of this Resolution by the Board. Staff is recommending the Board of Harbor Commissioners (Board) approve the Resolution.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve the expenditure of \$340,000 for Fiscal Year 2013/2014 to fund Hamburg Sud North America Inc., Hapag Lloyd AG, ANL (CMA CGM, US Lines), CCNI, MSC, and Polynesia Line Ltd., pro-rata using each partner's relative twelve-month container volume for their moving expenses from the Port of Long Beach to the Port of Los Angeles;
2. Find that such expenditure serves the public purpose and provides the public benefit of increased container throughput through the Port of Los Angeles and maximization of Harbor Assets, as that term is defined in the Charter, pursuant to the Tidelands Trust;
3. Authorize Resolution No. _____ authorizing the transfer of \$340,000 from the Unappropriated Balance to Account 59964 (Customer Operations Subsidies & Incentives) for Fiscal Year 2013/2014; and
4. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter.

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DISCUSSION:

Background and Context – The New Services Partners’ container services agreement with International Transportation Services, Inc. at the POLB expired in July 2012. The New Services Partners sent a Rate Proposal Request to container terminal operators at both the Port and the POLB to handle stevedoring and terminal operations. The container services agreement contract period would be for a period of five to ten years. Four separate container services are involved with each container service having a different mix of partners as is illustrated in the table below:

Oceania Service (1)	South Seas Service (2)	Pace/WCX Service (3)
Hamburg Sud	Hamburg Sud	Hamburg Sud
Hapag Lloyd	Polynesia Line	CCNI
CMA CGM		
MSC		
US Lines		

- (1) Australia – New Zealand to/from West Coast North America Services
- (2) South Pacific Islands to/from West Coast North America Services
- (3) West Coast North America to/from West Coast South America Services

The expected trade route annual container volumes in Twenty-Foot Equivalent Units (TEUs) are as follows:

Service Line	No. of TEU's
Oceania Service (1)	145,000
South Seas Service (2)	20,000
Pace / WCX Service (3)	35,000
Total	200,000

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On May 16, 2012, the New Services Partners inquired about the Harbor Department's ability to assist in covering part of the extraordinary moving costs that would be incurred when moving container services. The New Services Partners would provide the Port with approximately 200,000 full and/or empty TEUs per year in incremental volume representing approximately \$7.5 million of revenue to the Harbor Department. The additional revenue will support the growth of the Port's core business, which supports the Harbor Department's Capital Improvement Program and operating expenses. Growing the Port's core business is consistent with the Trust agreement with the California State Lands Commission. Given the incremental volume and revenue stream that New Services Partners represent, staff agreed to seek Board approval covering New Services Partners' moving expenses in an amount not-to-exceed \$340,000 payable within three months following a twelve-month period commencing on the date of the first New Services Partners' vessel arrival at a Port container terminal. Moving costs would include:

- Equipment relocation, (chassis and containers)
- Office relocation expenses
- IT system costs

The amount of the moving expense reflects an expectation that the New Services Partners' volumes would remain at the Port for at least a two-year period. Reimbursement of some of the moving expenses serves the public purpose and provides the public benefit of increased container throughput through the Port.

Proposal and Justification – In July 2012, TraPac advised the Harbor Department they were the successful bidder of the New Services Partners' container services. The first vessel operated in one of the four container services called at the TraPac container terminal on August 3, 2012. The New Services Partners moved 162,610 TEUs through the TraPac container terminal for the period August 2012 through June 2013. Harbor Department revenues received from the New Services Partners more than offsets the proposed moving cost expenditure.

Prior to seeking Board approval of this welcome package, staff deemed the contract between the majority of New Services Partners and TraPac needed to be in place ensuring the anticipated container volumes would be handled through a Port terminal. TraPac confirmed the majority of New Services Partners have recently concluded their container services contract with them (Transmittal 1).

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Staff recommends reimbursement to each New Services Partner on a pro-rata basis using each partner's first-year actual container volume coming to the Port. The total reimbursement amount is not-to-exceed \$340,000 for all New Services Partners combined.

Each New Services Partner shall provide documentation demonstrating relocation costs that have been spent and necessarily incurred allowing staff to calculate each New Services Partner's pro-rata share of the \$340,000. Actual reimbursement of moving expenses remains at the sole discretion of the Executive Director.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a Resolution for the reimbursement of expenses to four New Services Partners to cover costs associated with moving their services from POLB to Port. 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:

Approval of this Resolution will have no employment impact.

FINANCIAL IMPACT:

Annual TEUs handled by New Services Partners through Fiscal Year (FY) 2013/2014 are estimated at 200,000 and are projected to increase the Harbor Department's revenues from the TraPac terminal by an amount of \$7.5 million, which is expected to more than offset the \$340,000 proposed shared expenditure for moving costs. The \$340,000 will require a transfer from the Unappropriated Balance to Account 59964 (Customer Operations Subsidies & Incentives) for FY 2013/2014. The incremental 200,000 TEUs have been included in the Harbor Department's FY 2013/2014 operating revenue budget.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and commented on the transactions which are the subject of this report.

TRANSMITTAL:

1. TraPac New Services Partner's confirmation letter

FIS Approval: MB (initials)
CA Approval: gc (initials)


MICHAEL DiBERNARDO
Director of Business Development


for KATHRYN McDERMOTT
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APPROVED:


for GERALDINE KNATZ, Ph.D.
Executive Director

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