



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

FOR INFORMATION ONLY

DATE: APRIL 20, 2017

TO: THE BOARD OF HARBOR COMMISSIONERS THROUGH AUDIT COMMITTEE

SUBJECT: PORT OF LOS ANGELES – TARIFF NO. 4 – RATE INCREASES

This report highlights prior City of Los Angeles Board of Harbor Commissioners' actions relating to Port of Los Angeles (Port) Tariff No. 4 rate increases.

General Rate Increases

- In Calendar Year (CY) 2004 and 2005 respectively, California port authorities imposed a 5 percent General Rate Increase (GRI)
- In late 2012, the California Association of Port Authorities (CAPA), of which the Port is a member, adopted an annual general rate increase methodology based on the West Regional Consumer Price Index (CPI-U) as follows:
 - The effective date of each GRI would be July 1 of each CY
 - Applicable to existing and new tariffs
 - No adjustments below zero
 - Market and economic conditions will drive each Ports' hold-downs and independent actions
- On May 16, 2013, the City of Los Angeles Board of Harbor Commissioners (Board) approved a 1.7 percent GRI applicable to almost all rated tariff items of the Tariff No. 4, effective July 1, 2013. Exceptions were; wharfage on petroleum products that were increased 13 percent on January 1, 2013, and the Clean Truck Program Concession and Temporary Access Permits that was calculated using a cost recovery principle that not intended to be influenced by a CPI-U index.
- The Pacific Merchant Shipping Association sent a letter on June 24, 2013 to then Councilman Tom LaBonge, Chair of the Trade Commerce and Tourism Committee requesting to reject the GRI on the following grounds:
 - Impact to the Port's competitiveness
 - It would not minimize or possibly eliminate the 5-year reset as required by City Charter

- It may constitute imposition of a tax.
- On August 22, 2013, the Board approved a Second Temporary Order relating to the GRI which expired on November 25, 2013.
- The GRI item was never agendized by the City of Los Angeles City Council and thus no further Temporary Orders were approved by the Board, and the effects of the temporary GRI ended.

Other Tariff No. 4 rate related amendments

Parking

Effective March 1, 2015 the Board approved amending Tariff No. 4 Section Thirteen - "Parking Charges" to increase parking charges. As a result total parking revenue for CY 2016 increased by \$244,128 over CY 2015 (\$3,210,837.76 versus 2,966,709.29). This while passenger throughput was about the same for CY 2016. Since the 2016 increases repeated effective January 1, 2017, it is reasonable to expect another \$244,128 increase for CY 2017 assuming static passenger throughput.

Pilotage

Effective July 1, 2016, and January 1, 2017 the Board approved an approximately 10 and 25 percent increase in pilot tariff rates. Comparing the fiscal year to date, March 31, 2016 pilotage revenues to the fiscal year to date March 31, 2017 pilotage revenues increase in revenue is approximately \$1.7 million, mainly due to the pilotage rate increases.

Cruise Passenger Fees

At the September 15, 2016 Board meeting, the Board approved amendments to Tariff No. 4 to include:

- An eight-year rate schedule with an annual 3 percent rate increase
- A bundled passenger rate that includes 24 hour dockage, stores and lay day fees
- A minimum fee level of \$15,000 for any passenger ship call at the port
- An in-transit passenger fee of \$10.00 per passenger
- A volume and season based cruise vessel incentive program; and
- Exempted passenger fees from GRIs from the effective date through August 31, 2024. The effective date was September 20, 2016.

With the approval of these tariff amendments it is expected annual revenue will increase \$585,000 for the first year to \$2,837,000 in the eighth year.

Options for Discussion:

GRI's have not kept pace with the increased cost and operations of Port properties. The CAPA GRI percentage for 2017 is 2.5 percent, based on the West Region CPI-U. Three options for discussion are being proposed, specifically:

- 1) Leave rated tariff items unchanged
- 2) Effective August 1, 2017 introduce tariff increases on to all rated items in Tariff No. 4 with the exception of the following:
 - Wharfage: Merchandise Not Otherwise Specified
 - Parking fees
 - Cruise passenger fees
 - Pilotage and related charges
 - Space Assignment property
 - Clean truck program & Concession fees
 - Infrastructure fees (No fee is listed in tariff today)

The financial impact is estimated to be \$643,641 over the subsequent 12 months following GRI application.

- 3) Effective August 1, 2017, introduce tariff increases to all rated items in Tariff No. 4 with the exception of the following:
 - Parking fees
 - Cruise passenger fees
 - Pilotage and related charges
 - Space Assignment property
 - Clean truck program & Concession fees
 - Infrastructure fees (No fee is listed in tariff today)

Tariff items subject to a GRI would be:

- Dockage fees
- Wharfage (merchandise NOS, empty containers, fruits, beverages, building supplies, transferred merchandise, coffee, cans, foods, metals, slabs, livestock, lumber, newsprint, vehicles, auto parts, animal feed, cotton, wastepaper, meats, seafood, petroleum products, merchandise in bulk, merchandise in bulk in containers, and project cargo)
- Wharf demurrage
- Wharf storage
- Crane rental
- Office space
- Water and electricity
- Permits (cargo handling, diving)
- Public landings for vessels
- Commercial fishing vessels

A 2.5 percent increase effective on August 1, 2017 is expected to increase annual revenue by approximately \$6.3 million over the subsequent 12 months following GRI application.

Any Tariff No. 4 amendment requires Board and City Council approval.


FOR EUGENE D. SEROKA
Executive Director