



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: AUGUST 31, 2016

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVE TEMPORARY AND PERMANENT ORDERS AMENDING PORT OF LOS ANGELES TARIFF NO. 4, SECTION 4 - DOCKAGE, ITEM NO. 410, SECTION 5 – WHARFAGE, ITEM 525, SECTION 6 – PASSENGER FEES, ITEM 600, AND SECTION 23 – INCENTIVES GENERAL RULES AND REGULATIONS, ADDING ITEM 2330, ITEM 2335, AND ITEM 2340

SUMMARY:

Staff requests approval of amendments to the Port of Los Angeles (Port) Tariff No. 4 (Tariff No. 4) Section 4 – Dockage, Item No. 410; Section 5 – Wharfage, Item No. 525; Section 6 – Passenger Fees, Item No. 600; and Section 23 – Incentives General Rules and Regulations, adding Item Nos. 2330, 2335, and 2340.

The proposed amendments to Tariff No. 4 would include: 1) an eight-year rate schedule with an annual three percent rate increase; 2) a bundled passenger rate that includes 24 hour dockage, stores and lay day fees; 3) a minimum fee level of \$15,000 for any passenger ship call at the port; 4) an in-transit passenger fee of \$10.00 per passenger; 5) a volume and season based cruise vessel incentive program; and 6) an exemption from General Rate Increases (GRI) from the effective date through August 31, 2024. The proposed effective date is September 20, 2016.

RECOMMENDATION:

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

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Amendment to Port of Los Angeles Tariff No. 4 revising Section 4 - Dockage, Item No. 410; Section 5 - Wharfage, Item No. 525; Section 6 - Passenger Fees, Item No. 600; and Section 23 - Incentives - General Rules and Regulations, adding Item Nos. 2330, 2335, and 2340, 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;
3. Adopt Temporary Order No. _____ to amend Section 4 - Dockage, Item No. 410; Section 5 - Wharfage, Item 525; Section 6 - Passenger Fees, Item No. 600; and Section 23 - Incentives - General Rules and Regulations, adding Item Nos. 2330, 2335, and 2340, in the Port of Los Angeles Tariff No. 4;

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4. Adopt Permanent Order No. _____ to amend Section 4 - Dockage, Item No. 410; Section 5 - Wharfage, Item No. 525; Section 6 - Passenger Fees, Item No. 600; and Section 23 - Incentives - General Rules and Regulations, adding Item Nos. 2330, 2335, and 2340, in the Port of Los Angeles Tariff No. 4;
5. Authorize the Board Secretary to certify to the adoption of the Temporary Order by the Board of Harbor Commissioners and cause the same to be published once in a newspaper printed and published in the City of Los Angeles, to take effect prior to adoption by Ordinance for a period not-to-exceed 90 days pursuant to City Charter Section 653(b);
6. Direct the Board Secretary to transmit to the City Council for approval of 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);
7. Authorize the Board Secretary to execute the Temporary Order, Permanent Order and Ordinance amending Tariff No. 4 as stated above, and upon its publication, transmit the Orders and Ordinance to the Chief Wharfinger for implementation and posting to the Port of Los Angeles website; and
8. Adopt Resolution No. _____.

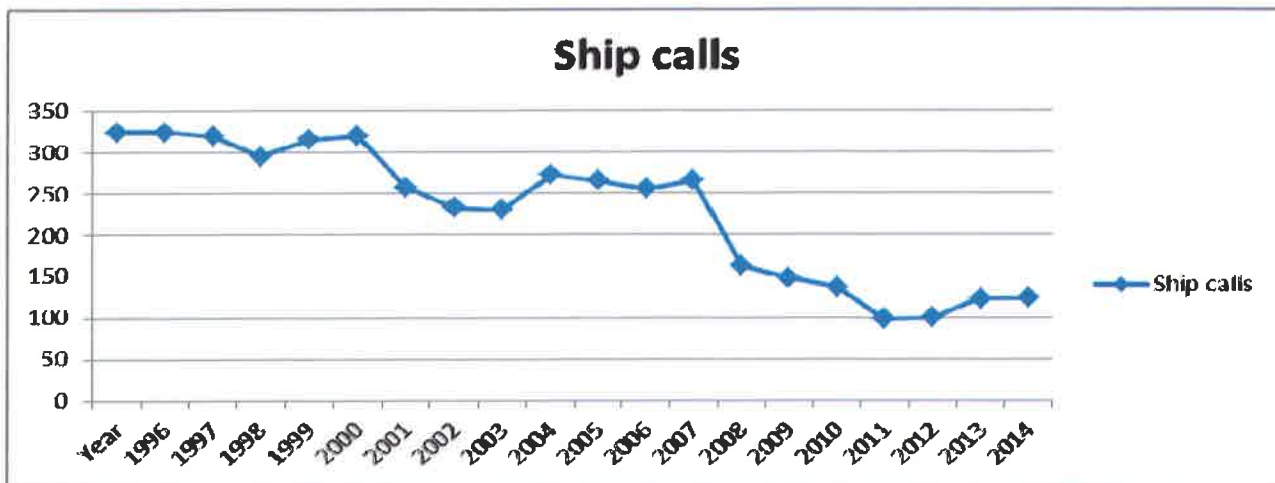
DISCUSSION:

Background/Context - The Port of Los Angeles (Port) was one of the original cruise ports on the West Coast when cruises to Mexico began in the 1970s. Today the cruise business has expanded to include cruises to Hawaii and through the Panama Canal. The Port's cruise season runs from late September through mid-May. Princess Cruises (Princess) is currently the Port's largest cruise customer representing about 75% of cruise activities at the Port in 2015 (442,615 passengers out of 592,335), followed by Norwegian Cruise Line (NCL) with 18% (105,205 passengers). During 2015, in addition to Princess and NCL vessel calls, the Port had cruise calls from seven additional cruise lines. Unlike other shipping terminals, the Port operates the cruise terminal through a contracted terminal operator, Ports America. Ports America receives a fixed fee to operate the terminal to cover direct expenses, overhead and profit.

While the cruise industry at the Port is not a primary revenue contributor, it plays an important role in increasing economic activity in the region, providing new visitors to the LA Waterfront and maintaining a diversified portfolio of land uses that serve maritime needs of the citizens of California. Each cruise line call generates economic activity in the region of approximately \$1,000,000 through direct passenger spending and activity related to supplying and servicing the ship while in port. Cruise line passengers also provide a significant opportunity to attract more visitors to LA Waterfront visitor serving attractions which should increase with new anticipated private development in the San Pedro waterfront area.

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The global and regional economic events of 2008 resulted in a decline in the Port’s cruise business. Safety and health concerns in the primary cruise destination also contributed to the decline in vessel calls. As a result of the market downturn, cruise line operators moved their ships out of the Southern California market. During the same period, cruise markets in Australia/New Zealand and China expanded. Many of the cruise ships deployed on the West Coast were sent to these markets. The below chart provides an overview of the cruise business at the Port for the last 20 years.



The largest cruise passenger volumes occurred in 2005 with 1,218,739 passengers moving through the Port. Passenger volume dropped to a low in 2011 of 426,073 before climbing back up to 592,335 passengers in 2015. The outlook for 2016 looks very similar to 2015 in terms of passenger volumes.

The Port’s Strategic Plan, amongst other elements, focuses on attracting more visitors to the LA Waterfront through public access improvements and improving financial performance of Port assets. The proposed amendments to cruise passenger and ancillary

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tariff fees align with the above mentioned Strategic Plan goals. Creating a predictable bundled passenger fee schedule with established annual escalation will provide a strong foundation to continue to build our current cruise business, which in turn will bring more visitors to the LA Waterfront and improve the financial performance of the cruise terminal.

Proposed Cruise Tariff Revisions

Tariff Passenger Rate Structure - Staff proposes amending cruise passenger fees to establish new bundled rates that include a three percent per year increase, effective from September 20, 2016 through August 31, 2024. Passenger fees would be bundled to include, dockage, vessel stores and the lay day fee. Currently, average fees collected per passenger arrival or departure amount to \$10.33 inclusive of dockage, vessel stores and lay day fees. An in-transit passenger (a passenger who boarded a vessel at a port other than the Port of Los Angeles and is on a voyage on such vessel to a port other than the Port of Los Angeles) fee of \$10 is also being proposed.

The in-transit passenger fee would result in an additional \$150,000 from a projected 15,000 annual revenue passengers. In addition, a minimum fee of \$15,000 per cruise ship call would improve profitability of operations for smaller vessel calls. The proposed passenger fees would be effective on the following schedule:

<u>Bundled Passenger Fee Rate Schedule</u>	
<u>Effective Date</u>	<u>Per Passenger Fee</u>
9/20/2016	\$13.50
9/1/2017	\$13.91
9/1/2018	\$14.32
9/1/2019	\$14.75
9/1/2020	\$15.19
9/1/2021	\$15.65
9/1/2022	\$16.12
9/1/2023	\$16.60

The cruise industry plans most of their itineraries 18 to 24 months ahead of vessel departure. Developing a passenger fee structure that provides longer term predictability is important to cruise lines, and would provide the Port with a competitive advantage.

Incentives – Staff proposes providing two distinct cruise vessel incentive programs based on volume and off season utilization. The incentive program provides increased economic benefit for 1) yearly passenger volume through the Port and 2) the use of Port facilities from May 15 through September 15, the summer season, during which no cruise ships currently make routine calls.

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<u>Volume Incentive</u>	
<u>Number of cruise passengers per cruise year</u>	<u>Incentive per call</u>
25,000 - 49,999	\$5,000
50,000 - 99,999	\$6,000
100,000 - 149,999	\$7,000
150,000 - 199,999	\$8,000
200,000 - 249,999	\$9,000
250,000 - 299,999	\$10,000
300,000 - 349,000	\$11,000
350,000 +	\$12,000

Summer Call Incentive -The Port strives to be a year-round cruise destination as it was during past peak volume years. Providing a summer season incentive could motivate cruise ship lines to call during this period. The proposed summer season incentive would be \$5,000 per vessel call. The summer incentive would be in addition to the yearly passenger volume incentive if applicable.

The proposed Tariff revisions are expected to provide long-term certainty and added economic incentives for existing and prospective cruise line customers to maintain and promote additional cruise vessel volumes through the Port.

Proposed Action

Staff proposes approval of amendments to Tariff No. 4 to establish 1) an eight-year rate schedule with an annual three percent rate increase; 2) a bundled passenger rate that includes 24 hour dockage, stores and lay day fees; 3) a minimum fee level of \$15,000 for any passenger ship call at the Port; 4) an in-transit passenger fee of \$10.00 per passenger; 5) a volume and season based cruise vessel incentive program; 6) an exemption from General Rate Increases (GRI) from the effective date through August 31, 2024; and 7) a volume and seasonal incentive program. The proposed amendments would be effective September 20, 2016. The proposed amendments to Tariff No. 4 will increase revenues collected per passenger and provide passenger fee stability to cruise lines and the Port.

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New Tariff No. 4 language will read as follows:

- Section 4 - Dockage, Item No. 410 “Free Dockage” adding a new condition for free dockage “for the first twenty-four hours only when bundled passenger fees are paid in accordance with Item No. 600” (Passenger Fees).
- Section 5 - Wharfage, Item No. 525 “Free Wharfage” adding new condition for free wharfage “on vessel stores or supplies when bundled passenger fees are paid in accordance with Item No. 600 (Passenger Fees).
- Section 6 - Passenger Fees, Item No. 600 “Passenger Fees” adding a new “bundled passenger fee rate schedule” effective September 1, 2016, through August 31, 2024, which will include passenger fees, dockage for the first twenty-four hours only, wharfage for stores and supplies, and lay day fee for the first twenty-four hours only. If a vessel berths for more than twenty-four hours in port, then the applicable dockage rate and lay day fee will apply. In addition, Item No. 600 is proposed to be amended effective September 20, 2016, adding a minimum charge for passengers fees of \$15,000 per call, in-transit passengers will be assessed a fee of \$10 per passenger, and passenger fee rates will not be subject to GRI through August 31, 2024. This proposed amendment also includes exempting fees for passengers on a vessel having accommodations for 99 or less passengers.
- Section 23 - Incentives – General Rules and Regulations adding three new tariff items for a cruise vessel incentive program, effective September 20, 2016. Item No. 2330 “Definitions Cruise Vessel Incentive Program” defines the meaning of terms used in Item No’s 2330, 2335, and 2340. Item No. 2335 lists the tiered incentive amount per vessel call, the requirements of the incentive program, and how to receive incentive payments. Item No. 2340 is a summer season incentive for any cruise vessel operator with more than ten vessel calls between May15th and September 15th of the same calendar year.

To implement these amendments to Tariff No. 4 (Transmittal 1) Board and City Council approval is required. The proposed Temporary Order (Transmittal 2) is required to keep the proposed tariff rules and regulations in place until the Permanent Order (Transmittal 3) and Ordinance (Transmittal 4) are approved by City Council.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of Temporary and Permanent Orders amending Port Tariff No.4. 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.

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FINANCIAL IMPACT:

Since the last council approved tariff increase of passenger rates in 2005, passenger volume has declined by 50% to the current stable annual level of approximately 600,000. During the same period operating costs including terminal operator costs, insurance, maintenance, security and depreciation have increased. As a result of these operating cost increases, operating income for calendar year 2015 was negative in the amount of \$626,531. Approval of the proposed tariff amendments will eliminate the current operating loss within two years assuming the current 600,000 passenger count remains constant. Annual revenue increases are estimated at \$585,000 for the first year to \$2,837,000 in the eighth year.

CITY ATTORNEY:

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

TRANSMITTALS:

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

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

ERIC CARIS
 Director of Cargo Marketing

MICHAEL DIBERNARDO
 Deputy Executive Director

APPROVED:

FD

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 Executive Director