



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

Item #2

DATE: MARCH 13, 2015

**TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR
COMMISSIONERS**

SUBJECT: OCEAN COMMON CARRIER INCENTIVE PROGRAM

This item is being transmitted to the Audit Committee of the Board of Harbor Commissioners in order to facilitate a discussion of the results of the Ocean Common Carrier Incentive Program (Carrier Incentive Program).

EUGENE D. SEROKA
Executive Director

Transmittals:

Transmittal 1: Ocean Common Carrier Incentive Performance Summary

MB:MD:MM/Finance

OCEAN COMMON CARRIER INCENTIVE PERFORMANCE SUMMARY:

Based on fiscal year-to-date ended February 28, 2015 data, the City of Los Angeles Harbor Department (Harbor Department) projections indicate that spending for the expense category of Other Operating Expenses will be greater than what was budgeted. The projected additional expenses result from higher than budgeted payouts associated with the Carrier Incentive Program.

The table below summarizes performance that was expected at the time the Carrier Incentive Program was approved during the November 7, 2013 Meeting of the Board of Harbor Commissioners, and compares this expected performance to the results that were actually achieved.

	Expected	Actual	Difference Favorable / (Unfavorable)
TEUs @ \$5 Threshold	320,000	204,897	(115,103)
TEUs @ \$15 Threshold	255,000	630,028	375,028
Incremental TEUs (A)	575,000	834,925	259,925
Incremental Revenue (B)	\$23,000,000	\$13,939,395	(\$9,060,605)
Rate per TEU (B / A)	\$40.00 per TEU	\$16.70 per TEU	(\$23.30) per TEU
\$5 Incentive Payouts	\$1,600,000	\$1,021,041	\$578,959
\$15 Incentive Payouts	\$3,825,000	\$9,450,416	(\$5,625,416)
Incentive Payout (C)	\$5,425,000	\$10,471,457	(\$5,046,457)
Net Benefit (B – C)	\$17,575,000	\$3,467,938	(\$14,107,062)

KEY TAKEAWAYS:

- 834,925 incremental TEUs were generated relative to calendar year 2013, and this was 259,925 more incremental TEUs than initially expected when the Carrier Incentive Program was adopted. However, a much greater proportion of these incremental TEUs qualified for the enhanced incentive of \$15 per incremental TEU.
- At a rate of \$40 per TEU, these 834,925 TEUs should have generated \$33.4 million in incremental revenues. However, the actual Carrier Incentive Program incremental revenues were only \$13.9 million, and, ultimately, \$9.1 million less incremental revenue was generated than expected.
 - When the Carrier Incentive Program was adopted, it was difficult to predict precisely which terminals would achieve incremental TEU's;
 - Tiered pricing structure impact;
 - Amendment to a terminal operator agreement and empty container discount;
 - Higher enhanced incentive payouts.