AGENDA REPORT

Resolution: Approve a First Port of Call (FPOC) Incentive Program for Calendar Year 2021, Providing for an Incentive in the Amount of $100,000 per FPOC Service and Incremental Annualized Revenue of Approximately $4.4 Million per PFOC Service **(Maritime)**

MEETING DATE:	4/8/2021
AMOUNT:	Est. $100,000 per FPOC Service Operating Expense Est. $4.4 million per FPOC Service Operating Revenue
PARTIES INVOLVED:	All Ocean Carriers (Shipping Lines) Serving the Port
SUBMITTED BY:	Bryan Brandes, Director of Maritime
APPROVED BY:	Danny Wan, Executive Director
ACTION TYPE:	Resolution

EXECUTIVE SUMMARY

Staff requests the Board's approval of a first port of call (FPOC) incentive program for certain vessel calls in Calendar Year 2021. Under the proposed incentive program, each FPOC service would be eligible for a one-time $100,000 incentive payment from the Port. Each such service is estimated to generate about $4.4 million of incremental annualized revenue.

BACKGROUND

First port of call (FPOC) services are an essential component of long-term growth at the Port of Oakland (Port) maritime facilities (Seaport) because they provide cargo volume that drives revenue across many Port tenants and allows the Port to grow revenue at a rate that exceeds the local economy.

With very limited exceptions, the Port is a second port of call on existing ocean carrier (shipping line) services, which means our cargo takes up to 10 days of additional transit compared to Southern California. Higher value import goods destined for non-local markets cannot accept this delay due to financing costs, as well as speed to market. Current congestion and delays (7 to 10 days) at the Southern California ports are making the transit time even longer; Oakland importers are facing a 2.5 to 3-week delay to receive cargo.

ANALYSIS

The long-term danger of congestion and delays in getting cargo to the Port is the loss of discretionary cargo to interior destinations, as well as a portion of the central valley cargo market. On the other hand, the delays in Southern California have resulted in ocean carriers revising their service patterns, making FPOCs to the Port economically more viable.

The Ports of Los Angeles and Long Beach have taken note of the potential impacts of congestion; they have incentivized terminals to increase their efficiency and have purchased additional land nearby their core maritime facilities.

Staff believes now is an opportune time for the Port to demonstrate its commitment to FPOC services, capturing the current opportunity to create a self-sustaining shift of cargo to the Port. One FPOC service has already started and more are anticipated (at this time, it is reasonable to assume up to two additional FPOC services). Staff proposes an incentive program for FPOC services that meet the following criteria:

1. Ocean carrier brings a new FPOC service to the Port, with weekly vessel calls and such service commences in Calendar Year 2021 (CY 2021);
2. Such new FPOC service remains in place for at least 12 months;
3. Each new FPOC service is eligible for an incentive of $100,000 (one-time payment) for the 12-month term. The same ocean carrier may be eligible for multiple incentive payments if it brings multiple new FPOC services to Oakland;
4. The Port will pay the incentive to the ocean carrier after the FPOC service has been in place for three months, provided that at the end of the first three months, the ocean carrier submits a signed certification that the new FPOC service has been in place as expected, and is expected to continue for the remainder of the 12-month term. This certification should be submitted no more than five days following the end of the 3-month period and the incentive shall be payable within forty-five (45) days of the Port’s receipt of the certification; and
5. An incentive agreement must be signed by ocean carrier prior to the first vessel call of the FPOC service to be eligible for the incentive. For FPOC services starting between January 1 and March 31, 2021, this requirement will be waived.

An average FPOC service is expected to yield about 3,800 TEUs per call or 200,000 TEUs per year. We conservatively assume that 50% (or 100,000 TEUs) is incremental to the Seaport. Currently, all marine terminals are expected to meet the activity breakpoints for variable rent; therefore, any incremental cargo from a FPOC service would yield variable rent at over-breakpoint rates set forth in the marine terminal leases. Depending on the marine terminal handling the cargo, the incremental revenue would vary, with the average per TEU rate being about $35. Variable rent would also be earned from the Joint Intermodal Terminal (JIT), at rates set forth in the lease between the Port and BNSF, for cargo destined for interior destinations by rail. Given this, Staff believes the proposed incentive highly justifiable.

The incentive is proposed for one year only (CY 2021), but Staff currently expects that the FPOC services (or at least some of them) will continue beyond CY 2021 because they primarily serve new, time-sensitive cargo.

BUDGET & STAFFING

On an annualized basis, one FPOC service would result in an incentive payment of $100,000 and is expected to result in incremental revenue of approximately $4.4 million, broken down as follows: approximately $3.5 million from the marine terminals and about $0.9 million from the JIT. The incentive and revenue have not been included in the FY 2020-21 maritime division operating expense and revenue budgets but will be reflected in future budgets as applicable.

The proposed action is not expected to have an impact on Port staffing.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The Port of Oakland Maritime and Aviation Project Labor Agreement ("MAPLA") does not apply because the proposed incentive is not within the craft jurisdiction of the unions signatory to the MAPLA

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf

Goal: Grow Net Revenues

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), living wage requirements do not apply to this action.

SUSTAINABILITY

The proposed action does not present sustainability opportunities. However, any vessel calling the Port must comply with shore power requirements, which reduce at-berth vessel emissions.

ENVIRONMENTAL

CEQA Determination: The action to provide an incentive payment for FPOC services was reviewed in accordance with the requirements of the California Environmental Quality Act ("CEQA"). The action would increase annual TEU throughput at the Port by about 100,000 per FPOC service (or 300,000 TEUs if three FPOC services are assumed). The Port's resulting total throughput would be well below the 4.05 million annual TEU throughput analyzed in the 2002 Oakland Army Base Area Redevelopment Environmental Impact Report as addended ("OAB EIR"). None of the conditions that would trigger the need for subsequent or supplemental environmental impact report per Section 21166 of the CEQA Statute would occur, and no further environmental review is required.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)

The action to approve a FPOC service incentive program is not subject to the Port's Owner Controlled Insurance (OCIP) as it is not a capital improvement construction project.

OPTIONS

Port staff has identified the following three options for the Board's consideration:

1. Approve the FPOC incentive program, as described herein.

2. Approve the FPOC incentive program under different terms than those stated in this Agenda Report, as may be directed by the Board.

3. Do not approve the FPOC incentive program; under this option, some FPOC services may still come to the Port for a limited period.

RECOMMENDATION

Adopt a resolution approving a First Port of Call (FPOC) Incentive Program for Calendar Year 2021, providing for an incentive in the amount of $100,000 per FPOC service and incremental annualized revenue of approximately $4.4 million per PFOC service.