

## MEMORANDUM

August 8, 2019

**TO:** MEMBERS, PORT COMMISSION  
Hon. Kimberly Brandon, President  
Hon. Willie Adams, Vice President  
Hon. Gail Gilman  
Hon. Victor Makras  
Hon. Doreen Woo Ho

**FROM:** Elaine Forbes  
Executive Director

**SUBJECT:** Approval of Amendment to Port Tariff No. 5 regarding Cruise Ship Passenger Fees to increase the Fees and Provide for a Volume Discount

**DIRECTOR'S RECOMMENDATION:** Approve Attached Resolution

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### **Executive Summary**

U.S. public ports are required by law to file a port tariff with the Federal Maritime Commission (FMC) outlining rules, regulations, and rates for use of port marine terminals and wharves. The Port of San Francisco publishes Tariff No. 5, which contains the rules, regulations, and rates that govern maritime commerce at the Port. This tariff is periodically updated to reflect changes in regulatory programs, risk assessments, and marketplace rate increases. The Port confers with other California ports through the California Association of Port Authorities (CAPA), whereby all changes to port tariffs are reviewed by the CAPA membership for consistent application of rules and regulations.

### **Proposed Changes to Port of San Francisco Tariff No. 5**

The tariff item changes described below are proposed to Section 10 – Passenger Fees, Item No. 1000, Bundled Port Fee for Cruise Ships.

The passenger fee will increase from \$18.00 to \$19.00 per passenger, effective January 1, 2020. This applies to all cruise passengers (embarking, disembarking, or in-transit). The \$18.00 fee was established on January 1, 2015, in conjunction with the opening of the James R. Herman Cruise Terminal at Pier 27 and has not been adjusted since.

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The passenger fee is a bundled fee, which includes passenger wharfage, dockage (24 hours), and stores wharfage. Further, the passenger fee will increase from \$19.00 to \$20.00, effective January 1, 2021; and from \$20.00 to \$20.60 (three percent increase), effective January 1, 2022.

Type of Passenger	Effective Jan. 1, 2020	Effective Jan. 1, 2021	Effective Jan. 1, 2022
Disembarking	\$19.00 each	\$20.00 each	\$20.60 each
In-Transit	\$19.00 each	\$20.00 each	\$20.60 each
Embarking	\$19.00 each	\$20.00 each	\$20.60 each

In addition, beginning in 2020, to incentivize increased cruise business at the Port of San Francisco, a volume discount will be implemented as part of the Port tariff for cruise corporations and their affiliated brands that exceed 240,000 passengers in a given calendar year, reducing the passenger fee as shown in the table below.

No. Passengers	Effective Jan. 1, 2020	Effective Jan. 1, 2021	Effective Jan. 1, 2022
1-240,000 *	\$19.00 each	\$20.00 each	\$20.60 each
240,001-260,000	\$18.50 each	\$19.50 each	\$20.10 each
260,001-280,000	\$18.00 each	\$19.00 each	\$19.60 each
280,001-300,000	\$17.50 each	\$18.50 each	\$19.10 each
300,001 and above	\$17.00 each	\$18.00 each	\$18.60 each
* No discount			

The volume discount program is based on new business expected in 2020 from the Port's primary cruise client, which has averaged 60 ship calls and 240,000 passengers per year since 2015. This client is adding 28 calls and approximately 112,000 passengers at the Port of San Francisco next year. Using 240,000 passengers as the baseline, the Port will offer a stepped discount on passenger fees above this figure as incentive to increase future cruise volumes. The expected additional net cruise revenue in 2020 is \$2.1 million, with the discount being approximately 1.0 percent of the overall revenue from this client.

### **Port of San Francisco Cruise Business**

In the five years before the opening of the James R. Herman Cruise Terminal at Pier 27 (2010-2014), the Port of San Francisco averaged 61 cruise ship calls and 182,000 passengers per year. In the five years since Pier 27 opened (2015-2019), the annual average has grown to 81 ship calls and 288,000 passengers, increases of 33% and 58% respectively.

This tremendous growth can be attributed to several factors, including the new cruise terminal, the excellent service provided by the terminal operator (Metro Cruise Services) and the International Longshore and Warehouse Union (ILWU) labor force, year-round homeport sailings, and larger ships.

This year (2019) the Port is on track to establish records in both ship calls (85) and passengers (297,000), with a total of 33 different ships operated by 16 cruise lines visiting San Francisco. Princess Cruises is the Port's top cruise client with 48 of the 85 calls (56 percent). Pier 27 is the berth for approximately 90 percent of the calls, with

Pier 35 accommodating the other 10 percent. Nearly 60 percent of the calls are homeport sailings (where passengers disembark and embark) and 40 percent are transit calls (where passengers visit the city for sightseeing, dining, and shopping). Homeport itineraries include Alaska (spring and summer), Coastal California, Mexico, and Hawaii (fall and winter). Round-trip cruise durations vary from seven days (Coastal California) to 10 days (Alaska and Mexico) to 15 days (Hawaii).

The forecast for next year (2020) is extremely bright, with 116 calls and 390,000 passengers expected. The major difference is the entrance of Carnival Cruise Line into the San Francisco market for the first time ever, with 28 homeport calls of Carnival Miracle. The Port was able to secure this new business by promoting the numerous benefits of cruising in this region, including iconic attractions, unparalleled cuisine, inclusive and vibrant culture, and inspiring diversity. The anticipated revenue from passenger fees will increase from \$5.3 million (2019) to \$7.2 million (2020) inclusive of the volume discount.

While the cruise forecast at the Port is bright, it is important to note that changes in environmental regulations may impact the Port's cruise business. Specifically, existing California Air Resources Board (CARB) regulations require a certain percentage of cruise vessels to turn off idling diesel engines and connect to zero-emissions electrical shore power while at berth to reduce air pollution. CARB is currently developing a new regulation that may require every cruise vessel at berth to connect to a zero-emissions power supply. While cruise ships that call at Pier 27 are currently served with shore power, the Port's secondary cruise terminal at Pier 35 is not similarly equipped, and electrification is not feasible due to inadequate existing electrical infrastructure and the obsolete layout of the facility. The Port is currently evaluating its facilities to determine locations that would be best suited for a possible second cruise terminal while also exploring clean fuel alternatives for supplying power to vessels at berth.

### **Other U.S. West Coast Cruise Ports**

Besides San Francisco, the other major public cruise ports on the U.S. West Coast are San Diego, Los Angeles, and Seattle. Each port is different in terms of ship and passenger volumes, destinations, cruise types, and rates.

Port of San Diego: 92 calls and 300K passengers in 2018; 100 calls and 338K in 2019. Primary destination is Mexico, with approximately 70 percent homeport and 30 percent transit calls. The typical cruise duration is seven days or less. The current passenger fee, as of 7/1/2019, is \$6.86 (dockage charged separately). If the passenger fee were bundled, the total would be about \$9.00.

Port of Los Angeles (POLA): 120 calls and 525K passengers in 2018; 127 calls and 615K in 2019. Primary destinations are Mexico and Hawaii, with the majority of calls being homeport (full turns). Cruises range from under seven days (Mexico) to 15 days (Hawaii). The current passenger fee, as of 9/1/2018, is \$14.32 (bundled, includes dockage). This will increase by three percent to \$14.75 on 9/1/2019. POLA tariff includes annual three percent passenger fee increases through 2023.

Port of Seattle: 216 calls and 1.1M passengers in 2018; 213 calls and 1.2M passengers in 2019. Primary destination is Alaska during spring and summer months, with virtually all calls being seven-day homeport calls (full turns). The current passenger fees as of 1/1/2019 are \$27.11 (homeport, weekend, bundled), \$29.15 (homeport, weekday, bundled), and \$31.06 (transit, bundled).

### **Strategic Plan**

This tariff amendment supports the *Stability* component of the Port's strategic plan by increasing annual revenue to support capital improvements, particularly those at the Pier 27 and Pier 35 cruise terminals, including bollard and fendering upgrades at both terminals, Pier 35 roof repairs, and Pier 27 escalator installation.

### **Environmental**

The Port tariff amendments contained herein represent revisions to the Port rules and rates and are not a project subject to review under the California Environmental Quality Act.

### **Staff Recommendation**

Port staff recommends that the Port Commission approve the proposed changes to Port Tariff No. 5 as stated above.

Prepared by: Michael Nerney, Assistant Director, Maritime  
For: Andre Coleman, Director, Maritime

### **Attachment**

Exhibit A: Port of San Francisco Tariff No. 5, Changes to Section 10 – Passenger Fees

**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 19-32**

- WHEREAS, Section B3.581 of the Charter of the City and County of San Francisco empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the Port area in the City and County of San Francisco; and
- WHEREAS, Federal law mandates that U.S. Public Ports file rules, regulations, and rates in a public tariff; and
- WHEREAS, Tariff No. 5 details the port fees and charges as well as rules and regulations for the Port of San Francisco; and
- WHEREAS, The amendments to the Port Tariff represent updates to the Port rules, regulations, and rates, and this action does not require further review under the California Environmental Quality Act; and therefore be it
- RESOLVED, That the Port Commission authorizes the Executive Director or her designee to implement the revisions as set forth in the revised Tariff No. 5 on file with the Port Commission Secretary.

***I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of August 13, 2019.***

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**Secretary**