

TABLE C.—DISTRICT THREE—Continued

| | Area 6 Lakes Huron and Michigan | Area 7 St. Mary's River | Area 8 Lake Superior | Total District Three |
|---|---------------------------------------|-------------------------------|-------------------------|-------------------------|
| Step 7, Adjustment of pilotage rate | \$1.20 (+20%) | 1.03 (+3%) | 1.28 (+28%) | 1.17 (+17%) |

Here is a detailed explanation of our step-by-step calculations:

Step 1.A: Submission of Financial Information

The first step is gathering financial data from each of the three Great Lakes pilots' districts. Each district must obtain an audit by an independent Certified Public Accountant (CPA) and submit it to the Acting Director (the Director) of Great Lakes Pilotage, in accordance with 46 CFR 403.300.

Step 1.B: Determination of Recognizable Expenses

The Director determines which association expenses will be recognized for ratemaking purposes each year. The Director hires an independent CPA to review the expenses reported by the associations using the guidelines contained in 46 CFR 404.05. To determine which expenses were reasonable and necessary to include in our 2002 rate review, we used the Director's independent audit of the associations for 2001. In the following paragraphs, we discuss some of the

audit's details. We have also provided a table containing the expenses recognized and approved by the Director.

We calculate target pilot compensation for both designated and undesignated waters each year based on the current union contract for first mates on U.S. Great Lakes vessels. We add that amount to the total expenses to determine the revenue needed for ratemaking purposes.

In 2001, to support safety and ongoing professional development, each association was asked to develop a continuing education program for registered pilots and to submit to the Director a proposed annual budget. The purpose of the program is to keep registered pilots aware of safety issues and to refresh their skills. The Director approved each district's program together with their estimate of yearly costs (District One, \$30,000; District Two, \$40,000; and District Three, \$50,000) and included these amounts in their respective expense bases in the final rule published on July 12, 2001, in

the **Federal Register** (63 FR 68697) with the new rates becoming effective August 13, 2001. The Director's 2001 audit disclosed that the pilots' associations during the remainder of the 2001 navigation season were only able to expend approximately 50 percent of the Director's training allocation that was included in the final rule (63 FR 68697). Therefore, the Director is adjusting the expense base of each pilots' association to reflect the full amount the Director previously approved (District One, \$30,000; District Two, \$40,000; and District Three, \$50,000). This will ensure adequate funding for this program on a continuing yearly basis. The Director will continually monitor the plans to ensure they are effectively implemented, that the money is accounted for and applied properly to each district's continuing education account. The Director reserves the right to modify each plan as necessary.

Accordingly, the Director has added the following amounts to each district's expense base to support this program on a yearly basis:

| | District One | District Two | District Three |
|-----------------------------|-----------------|-----------------|-------------------|
| 2001 Expenditure | \$8,128 | \$19,500 | \$25,000 |
| Director's Adjustment | 21,872 | 20,500 | 25,000 |
| Total Yearly Training | 30,000 | 40,000 | 50,000 |

Additionally, effective August 1, 2002, the current union contract for first mates on the Great Lakes stipulates: "that employers will make matching contributions for each participating 401(k) plan employee in an amount equal to 50 percent of the employee's contribution, to a maximum of 5 percent of a participating employee's

compensation." District Two has a pension plan, while District Three has a 401(k) plan. District One does not provide either a 401(k) or pension plan for its members. Therefore, to conform to the current union contract for first mates in accounting for an employer's contribution of 50 percent, expense bases of Districts Two and Three are

increased by \$41,817 and \$66,159 based on their total employee 401(k)/pension contributions in 2001 of \$83,634 and \$132,318, respectively.

The following table displays audit results, along with the CPA's and Director's adjustments:

RECOGNIZABLE EXPENSES

| | District One | District Two | District Three |
|--|--|--|--|
| Reported expenses for 2001 | \$687,591 | \$1,386,376 | \$1,336,710 |
| Proposed adjustments (independent CPA) | <i>Equalization Between Districts:</i> \$10,120 \$62,096 | <i>Equalization Between Districts:</i> None | <i>Equalization Between Districts:</i> \$143,035 \$152,535 |