



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: FEBRUARY 14, 2017

TO: BOARD OF HARBOR COMMISSIONERS

SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR 2016/17 ENDED JANUARY 31, 2017

Financial performance results for the first seven months of Fiscal Year (FY) 2016/17 are below and have been summarized relative to both budget and the prior fiscal year. For the month of January, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 17.4% relative to January 2016. In summary, performance results for the Harbor Department are as follows:

FYTD January 2017	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	5,500	↑ 9.3%	↑ 11.9%
Operating Revenues	\$ 295.0	↑ 10.5%	↑ 20.7%
Operating Expenses	\$ 117.3	↓ (15.9%)	↑ 2.5%
Operating Income	\$ 177.7	↑ 39.2%	↑ 36.7%
Net Income	\$ 79.5	↑ 178.1%	↑ 104.6%

Due to the heavy cargo volumes processed in recent months, overall cargo volumes through the first seven months of FY 2016/17 have exceeded budget and the prior fiscal year-to-date period by 10.5% and 20.7%, respectively. Despite lower utility reimbursements and higher credits for tenant services, these higher cargo volumes as well as the receipt of a one-time legal settlement and higher rental receipts led to a 10.5% increase in fiscal year-to-date Total Operating Revenues relative to budget and a 20.7% increase relative to the prior fiscal year-to-date period.

Although city services payments are trending higher relative to budget, Total Operating Expenses were favorably impacted as lower average staffing levels, invoicing delays with respect to outside services, lower utility expenses as well as higher overhead capitalization drove Total Operating Expenses 15.9% below budget. Relative to the

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

prior fiscal year-to-date period, Total Operating Expenses increased by 2.5% as higher city services payments, higher average headcounts, Memorandum of Understanding salary increases and higher overtime expenses were only partially offset by lower legal settlement expenses and lower utility expenses.

Operating margins for the fiscal year-to-date period were reported at 60.2% versus a budget of 47.8% and a prior year figure of 53.2%. However, it is important to note that as vacancies are filled, and, as invoicing issues are resolved, operating expenses are anticipated to trend towards budget as FY 2016/17 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended January 31, 2017 based on internal estimates reached \$63.9 million or about 44% of the total \$146.1 million CIP adopted budget. Harbor Department CIP spending is expected to fall below the total CIP adopted budget by fiscal year-end.



EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD January 2017
2. Actual-to-Budget FY 2016/17 – January
3. Year-to-Year Performance Report YTD January 31, 2017 and 2016

Author: M. Marchese

MB

MB:JS:MM/Finance

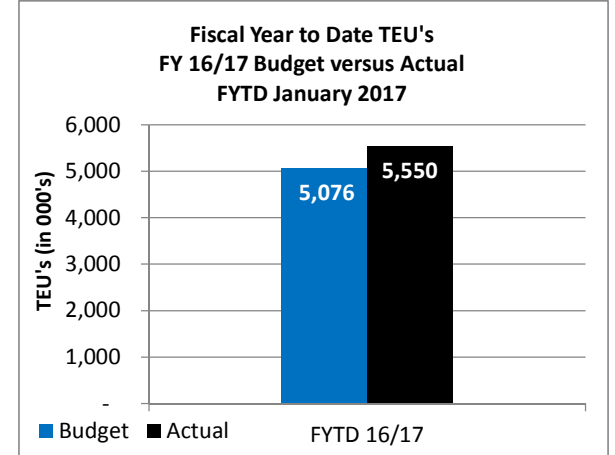
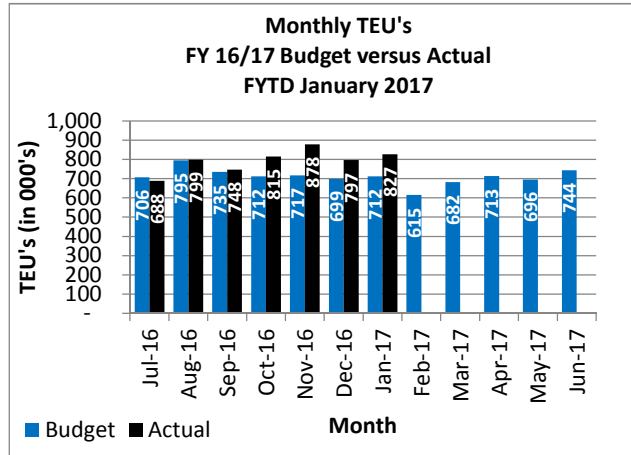
cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD JANUARY 2017

TRANSMITTAL 1

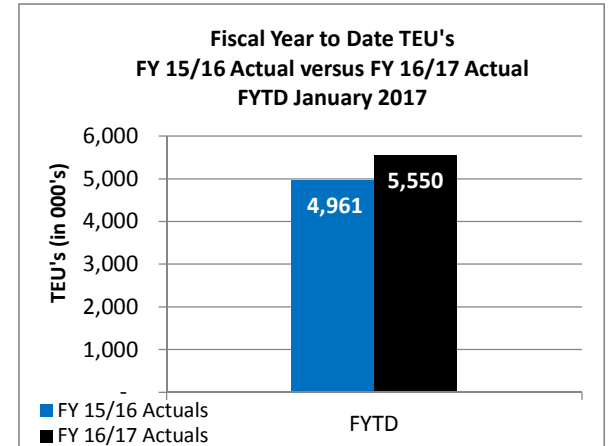
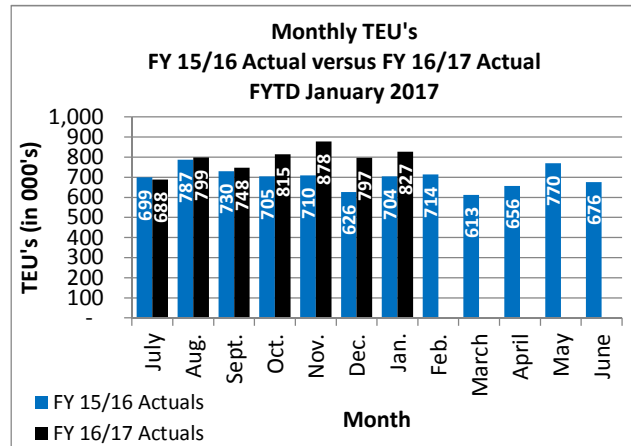
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(in 000's)	TEU's			
Month	FY 16/17 Budget	FY 16/17 Actuals	% Δ	Δ
Jul-16	706	688	-2.6%	↓
Aug-16	795	799	0.6%	↑
Sep-16	735	748	1.7%	↑
Oct-16	712	815	14.5%	↑
Nov-16	717	878	22.4%	↑
Dec-16	699	797	14.0%	↑
Jan-17	712	827	16.1%	↑
Feb-17	615			
Mar-17	682			
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	5,076	5,550	9.3%	↑
FY 16/17 Budget	8,526			



Year-to-Year Actuals Comparison
FY 15/16 Actuals vs. FY 16/17 Actuals

(in 000's)	TEU's			
Month	FY 15/16 Actuals	FY 16/17 Actuals	% Δ	Δ
July	699	688	-1.6%	↓
Aug.	787	799	1.6%	↑
Sept.	730	748	2.4%	↑
Oct.	705	815	15.6%	↑
Nov.	710	878	23.6%	↑
Dec.	626	797	27.2%	↑
Jan.	704	827	17.4%	↑
Feb.	714			
March	613			
April	656			
May	770			
June	676			
FYTD	4,961	5,550	11.9%	↑
FY 15/16 Actuals	8,391			



\$ in thousands	Fiscal Year Actual	Fiscal Year Budget	Actual-to-Budget		Notes (\$ in millions)
	FY 2016/17	FY 2016/17	Comparison		
	Fiscal YTD - Jan. 2017	Fiscal YTD - Jan. 2017	\$	%	
Operating Revenues					
Shipping Services	241,881	228,567	13,314	5.8%	Higher than budgeted wharfage \$15.1, partially offset by lower dockage <\$0.9>, lower space assignment <\$0.6> and lower lay day fees <\$0.3>
Rentals	32,650	26,315	6,335	24.1%	Higher land rent for Westrec \$1.8, Ports O' Call tenants \$1.1, City of LA \$1.0, Phillips 66 \$0.7, Vopak \$0.6, Shore Terminals \$0.3, Union Pacific \$0.1 and various unbudgeted rentals \$0.7
Royalties, Fees and Other Revenues	19,449	11,072	8,377	75.7%	One-time legal settlement \$12.5, higher parking fees \$0.5, higher other one-time settlements and refunds \$0.4 and higher railroad lease accruals \$0.2, partially offset by lower utility reimbursements <\$2.3>, higher credits for tenant services <\$1.6> and lower misc. revenues <\$1.3>
Clean Truck Program Revenues	999	1,042	(43)	(4.2%)	
Total Operating Revenues	294,979	266,996	27,983	10.5%	
Operating Expenses					
Gross Salaries & Benefits	77,852	86,735	(8,883)	(10.2%)	Lower average filled positions, partially offset by higher overtime
Capitalization	(13,259)	(8,450)	(4,809)	56.9%	Overhead allocations <\$5.3>, partially offset by lower direct capitalization \$0.5
Net Salaries & Benefits	64,593	78,285	(13,692)	(17.5%)	
Marketing & Public Relations	1,694	2,376	(683)	(28.7%)	Lower promotional/sponsorships <\$0.4>, overhead capitalization <\$0.2> and lower advertising <\$0.1>
Travel	223	538	(316)	(58.7%)	
Outside Services	10,805	18,440	(7,635)	(41.4%)	Outside legal counsel invoicing delays <\$1.7>, lower shed demolition costs <\$1.5>, environmental assessment invoicing delays <\$1.3>, software & IT consulting invoicing delays <\$0.8>, lower port police spending <\$0.8>, lower cruise operator costs <\$0.3>, contract compliance invoicing delays <\$0.1>, lower federal/state advocacy spending <\$0.1> and overhead allocations <\$0.6>
Materials & Supplies	2,695	4,249	(1,555)	(36.6%)	C&M invoicing delays <\$0.6>, Port Police invoicing delays <\$0.1> and overhead allocations <\$0.6>
City Services	24,812	24,796	16	0.1%	Higher Fire \$1.6 and City Attorney services \$0.4, almost completely offset by overhead allocations <\$1.8> and Public Works invoicing delay <\$0.2>
(1) Allocations to Capital - Overhead		(7,990)	7,990	(100.0%)	Higher aggregate overhead allocations \$1.5
(2) Other Operating Expenses	12,089	18,152	(6,062)	(33.4%)	Lower electricity <\$1.9>, workers' compensation payment delay <\$1.1>, environmental incentive payment delays <\$0.7>, lower water & gas <\$0.6>, lower telephone expenses <\$0.3>, litigation/claims payment delays <\$0.2>, lower insurance expense <\$0.2>, lower memberships/books/subscriptions <\$0.2>, lower bad debt provisioning <\$0.1> and overhead allocations <\$0.8>
Clean Truck Program Expenses	388	551	(163)	(29.6%)	
Total Operating Expenses	117,299	139,398	(22,099)	(15.9%)	
Income Before Depreciation	177,680	127,598	50,082	39.2%	
Provision For Depreciation	102,201	100,336	1,865	1.9%	
Income From Operations	75,478	27,262	48,217	176.9%	
(3) Non-Operating Revenue	5,789	9,078	(3,289)	(36.2%)	Lower pass-through grant receipts <\$3.5>, lower gains on asset sales <\$0.7> and lower federal/state operating grants <\$0.3>, partially offset by higher interest income \$1.0 and higher reimbursable EIR expenses \$0.2
(4) Non-Operating Expenses	(1,789)	(7,766)	5,977	(77.0%)	Lower interest expense \$5.1, lower pass-through grant disbursements \$3.5, timing of capital projects closed to expense \$1.3, lower losses on asset sales \$0.6, lower misc. non-operating expenses \$0.3 and lower bond/commercial paper administration costs \$0.2, partially offset by lower interest capitalization <\$5.0>
Net Income	79,479	28,574	50,904	178.1%	

Notes:

- (1) Allocations to capital - overhead are allocated to individual accounts within the presentation of actual results; however, these overhead allocations are not allocated to individual accounts for budgetary purposes. Allocations to capital - overhead for the fiscal year-to-date period totaled \$9.5 million relative to a budget of \$8.0 million.
- (2) Primarily for: Electricity \$7.5; Insurance \$1.7; Water & Gas \$1.0; Telephone \$0.9; Equipment Rental/Permits/License/Fees \$0.7; Environmental Incentives \$0.6; Memberships/Subscriptions/Books \$0.5; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.9)
- (3) Primarily for: Interest/Investment Income \$3.4; Joint Powers Authority Income \$1.1; Federal/State Operating Grants \$0.6; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$21.7; Capitalized Interest <\$21.4>; Bond Administration Costs \$0.9; Commercial Paper Costs \$0.4; Capital Projects Closed to Expense \$0.2

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - Jan. 2017	Fiscal YTD - Jan. 2016	\$	%	
Operating Revenues					
Shipping Services	241,881	201,760	40,121	19.9%	Higher overall wharfage \$39.1, higher space assignment \$1.2 and higher pilotage \$1.1, partially offset by lower dockage <\$1.1> and lower lay day fees <\$0.2>
Rentals	32,650	28,518	4,133	14.5%	New permits issued and rental rate increases \$4.4 and permit assignment to PBF Energy \$3.0, partially offset by cancellation of Exxon Mobil permit <\$3.2> and lower wharf/shed rentals <\$0.1>
Royalties, Fees and Other Revenues	19,449	13,121	6,328	48.2%	Higher one-time refunds & reimbursements \$7.2 and higher railroad lease accruals \$0.2, partially offset by lower utility reimbursements <\$0.6> and higher credits for tenant services <\$0.5>
Clean Truck Program Revenues	999	1,032	(33)	(3.2%)	
Total Operating Revenues	294,979	244,430	50,548	20.7%	
Operating Expenses					
Gross Salaries & Benefits	77,852	75,824	2,028	2.7%	MOU salary increases, higher average filled positions and higher overtime
Capitalization	(13,259)	(13,330)	72	(0.5%)	Lower overhead capitalization <\$0.1>
Net Salaries & Benefits	64,593	62,494	2,100	3.4%	
Marketing & Public Relations	1,694	1,571	123	7.8%	
Travel	223	340	(117)	(34.6%)	
Outside Services	10,805	10,700	105	1.0%	Higher C&M building services \$0.7, higher equipment servicing costs \$0.7, lower capitalization of C&M services \$0.5 and lower overhead capitalization \$0.4, almost completely offset by lower I.T. software and consulting costs <\$0.7>, lower port police spending <\$0.4>, lower red car spending <\$0.4>, lower outside legal counsel costs <\$0.3>, lower cruise terminal operator costs <\$0.2>, lower external auditor spending <\$0.1> and timing of LAREx payment <\$0.1>
Materials & Supplies	2,695	3,089	(394)	(12.8%)	
City Services	24,812	22,145	2,667	12.0%	Higher Fire services \$2.2, higher Rec & Parks \$0.4 and lower overhead allocations \$0.1
(1) Other Operating Expenses	12,089	13,782	(1,692)	(12.3%)	Lower litigation/claims expenses <\$0.8>, lower electricity <\$0.3>, lower environmental incentives <\$0.2>, lower insurance <\$0.1>, lower memberships/subscriptions/books <\$0.1> and higher overhead allocations <\$0.2>
Clean Truck Program Expenses	388	306	82	26.8%	
Total Operating Expenses	117,299	114,426	2,873	2.5%	
Income Before Depreciation	177,680	130,004	47,676	36.7%	
Provision For Depreciation	102,201	94,908	7,293	7.7%	
Income From Operations	75,478	35,096	40,382	115.1%	
(2) Non-Operating Revenue	5,789	6,531	(742)	(11.4%)	Lower gains on asset sales <\$1.1>, lower ICTF/JPA payments <\$0.3> and lower pass-through grant receipts <\$0.1>, partially offset by higher federal grants \$0.3, higher interest income \$0.3 and higher reimbursable EIR expenses \$0.2
(3) Non-Operating Expenses	(1,789)	(2,777)	988	(35.6%)	Lower interest expense \$2.8, timing of capital projects closed to expense \$1.0, lower bond redemption accounting adjustment \$0.3, lower pass-through grant disbursements \$0.2 and lower misc. non-operating expenses \$0.1, partially offset by lower interest capitalization <\$2.9> and higher bond administration costs <\$0.5>
Net Income	79,479	38,850	40,629	104.6%	

Notes:

(1) Primarily for: Electricity \$7.5; Insurance \$1.7; Water & Gas \$1.0; Telephone \$0.9; Equipment Rental/Permits/License/Fees \$0.7; Environmental Incentives \$0.6; Memberships/Subscriptions/Books \$0.5; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.9)

(2) Primarily for: Interest/Investment Income \$3.4; Joint Powers Authority Income \$1.1; Federal/State Operating Grants \$0.6; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2

(3) Primarily for: Interest Expense \$21.7; Capitalized Interest <\$21.4>; Bond Administration Costs \$0.9; Commercial Paper Costs \$0.4; Capital Projects Closed to Expense \$0.2