



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: JUNE 9, 2017

TO: BOARD OF HARBOR COMMISSIONERS

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

Financial performance results through May 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 May, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 2.6% relative to May 2016. In summary, performance results for the Harbor Department are as follows:

FYTD May 2017	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes PRELIMINARY	8,469	↑ 8.8%	↑ 9.8%
Operating Revenues	\$ 472.5	↑ 13.4%	↑ 16.3%
Operating Expenses	\$ 186.3	↓ (14.3%)	↓ (2.2%)
Operating Income	\$ 286.2	↑ 43.5%	↑ 32.7%
Net Income	\$ 134.4	↑ 209.3%	↑ 77.7%

Due to the heavy cargo volumes processed from October through May, overall cargo volumes for the fiscal year-to-date (FYTD) period have exceeded budget and the prior fiscal year-to-date period by 8.8% and 9.8%, respectively. Furthermore, the 8.5 million TEUs processed over 11 months of FY 2016/17 now exceed the 8.4 million TEUs processed over the entirety of the prior fiscal year. These higher cargo volumes as well as the receipt of large legal and insurance settlements, the receipt of Harbor Maintenance Tax proceeds and higher rental receipts led to a 13.4% increase in fiscal year-to-date Total Operating Revenues relative to budget and a 16.3% increase relative to the prior fiscal year-to-date period.

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

Although city services payments are trending higher than expected, Total Operating Expenses were favorably impacted as lower average staffing levels, invoicing delays with respect to outside services, lower electricity expenses as well as higher overhead capitalization drove Total Operating Expenses 14.3% below budget. Relative to the prior fiscal year-to-date period, Total Operating Expenses decreased by 2.2% as higher city services payments, Memorandum of Understanding salary increases and higher overtime expenses were more than offset by lower outside services expenses, lower materials and supplies expenses, lower electricity expenses and lower legal settlement expenses.

Operating margins for the fiscal year-to-date period were reported at 60.6% versus a budget of 47.8% and a prior year figure of 53.1%. However, it is important to note that as outstanding invoices are paid over the final weeks of FY 2016/17, operating expenses are anticipated to trend more closely towards budget.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended May 31, 2017 based on internal estimates reached \$87.9 million or about 60% 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.

Mark Blewett
FOR

EUGENE D. SEROKA
Executive Director

Transmittals:

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

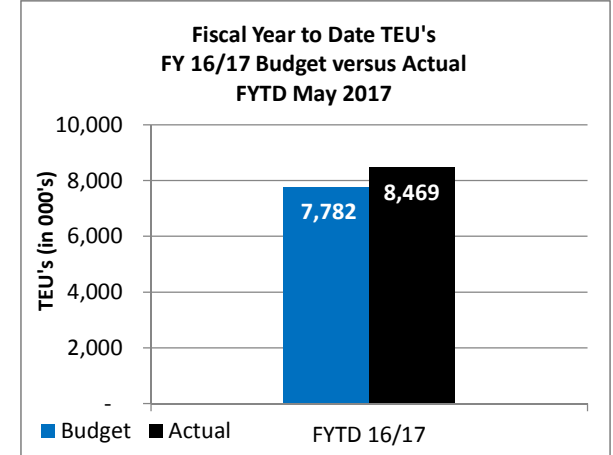
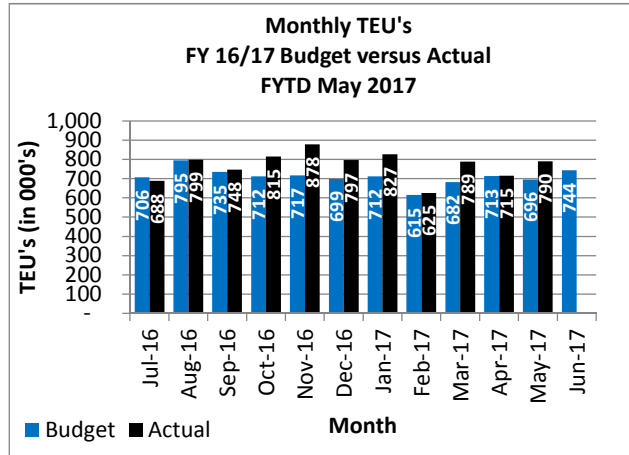
Author: M. Marchese

MB MB:JS/Finance
cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD MAY 2017 **PRELIMINARY**

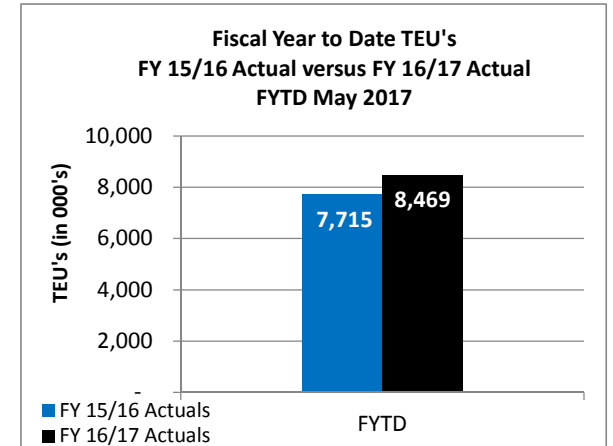
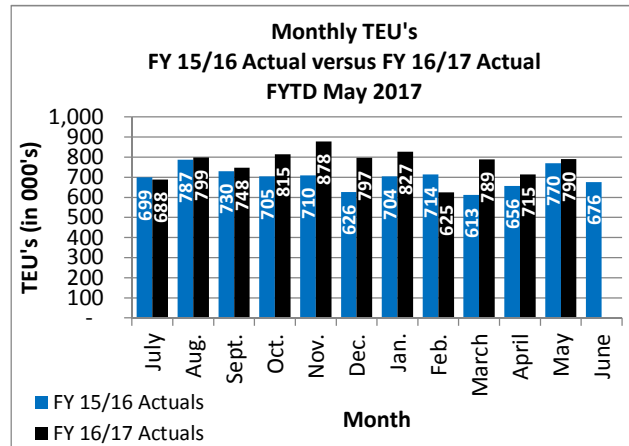
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(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	625	1.7%	↑
Mar-17	682	789	15.6%	↑
Apr-17	713	715	0.2%	↑
May-17	696	790	13.6%	↑
Jun-17	744			
FYTD 16/17	7,782	8,469	8.8%	↑
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	625	-12.4%	↓
March	613	789	28.7%	↑
April	656	715	8.9%	↑
May	770	790	2.6%	↑
June	676			
FYTD	7,715	8,469	9.8%	↑
FY 15/16 Actuals	8,391			



\$ in thousands	Fiscal Year Actual	Fiscal Year Budget	Actual-to-Budget Comparison		Notes (\$ in millions)
	FY 2016/17	FY 2016/17	\$	%	
	Fiscal YTD - May 2017	Fiscal YTD - May 2017			
Operating Revenues					
Shipping Services	365,178	351,453	13,726	3.9%	Higher than budgeted wharfage \$16.2 and higher pilotage \$0.2, partially offset by lower dockage <\$1.9> and lower lay day fees <\$0.8>
Rentals	47,068	38,620	8,448	21.9%	Higher rent receipts than budgeted due to unbudgeted rent from Ports O' Call and implementation of compensation resets, including CPI escalations
Royalties, Fees and Other Revenues	58,087	24,490	33,597	137.2%	One-time legal and insurance settlements \$37.6, Harbor Maintenance Tax receipt \$3.0, higher port police services \$0.2 and higher railroad lease accruals \$0.2, partially offset by lower utility reimbursements <\$3.0>, higher credits for tenant services <\$2.4> and lower misc. revenues <\$2.0>
Clean Truck Program Revenues	2,131	2,254	(123)	(5.4%)	
Total Operating Revenues	472,464	416,817	55,648	13.4%	
Operating Expenses					
Gross Salaries & Benefits	122,545	135,756	(13,211)	(9.7%)	Lower average filled positions, partially offset by higher overtime and miscellaneous employee benefits
Capitalization	(20,189)	(13,278)	(6,911)	52.0%	Overhead allocations <\$8.0>, partially offset by lower direct capitalization \$1.1
Net Salaries & Benefits	102,356	122,478	(20,122)	(16.4%)	
Marketing & Public Relations	2,272	2,995	(723)	(24.1%)	Lower promotional/sponsorships <\$0.3>, overhead capitalization <\$0.2> and lower advertising <\$0.2>
Travel	506	859	(354)	(41.1%)	
Outside Services	20,445	28,753	(8,308)	(28.9%)	Outside legal counsel invoicing delays <\$2.9>, lower shed demolition costs and deferred maintenance invoicing delays <\$1.9>, environmental assessment invoicing delays <\$1.8>, overhead allocations <\$1.1>, misc. invoicing delays and lower spending <\$0.6>, lower mayoral trade mission spending <\$0.3>, lower cruise operator costs <\$0.3>, contract compliance invoicing delays <\$0.3>, lower federal/state advocacy spending <\$0.2> and lower external auditor spending <\$0.2>, partially offset by higher software & IT consulting costs \$0.7 and higher port security system costs \$0.6
Materials & Supplies	4,530	6,437	(1,907)	(29.6%)	C&M invoicing delays <\$0.9>, overhead allocations <\$0.7> and misc. invoicing delays <\$0.3>
City Services	37,339	38,807	(1,468)	(3.8%)	Overhead allocations <\$2.8>, lower recreation and parks spending <\$0.3> and Public Works/CAO/ITA invoicing delays <\$0.3>, partially offset by higher Fire \$1.4 and City Attorney services \$0.5
(1) Allocations to Capital - Overhead		(12,556)	12,556	(100.0%)	Higher aggregate overhead allocations \$1.8
(2) Other Operating Expenses	18,216	28,774	(10,558)	(36.7%)	Lower electricity <\$4.7>, workers' compensation payment delay <\$1.7>, overhead allocations <\$1.4>, lower water & gas <\$0.9>, environmental incentive invoicing delays <\$0.5>, lower telephone expenses <\$0.4>, litigation/claims payment delays <\$0.3>, lower insurance expense <\$0.3>, lower provisions for bad debt <\$0.2>, lower memberships/subscriptions/books <\$0.1> and lower equipment rentals <\$0.1>
Clean Truck Program Expenses	590	865	(275)	(31.8%)	
Total Operating Expenses	186,254	217,414	(31,159)	(14.3%)	
Income Before Depreciation	286,210	199,403	86,807	43.5%	
Provision For Depreciation	157,623	157,671	(48)	(0.0%)	
Income From Operations	128,587	41,732	86,855	208.1%	
(3) Non-Operating Revenue	14,399	13,480	918	6.8%	Higher interest income \$1.6, higher passthrough grant receipts \$0.4, higher reimbursable EIR expenses \$0.2 and higher federal operating grants \$0.1, partially offset by lower gains on asset sales <\$1.2> and lower Joint Powers Authority Income <\$0.2>
(4) Non-Operating Expenses	(8,564)	(11,756)	3,192	(27.1%)	Lower interest expense \$9.1, timing of capital projects closed to expense \$1.5, lower losses on asset sales \$0.9, lower misc. non-operating expenses \$0.6, and lower bond/commercial paper administration costs \$0.3, partially offset by lower interest capitalization <\$8.8> and higher passthrough grant disbursements <\$0.4>
Net Income	134,421	43,456	90,965	209.3%	

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 \$14.4 million relative to a budget of \$12.6 million.
- (2) Primarily for: Electricity \$10.2; Insurance \$2.7; Environmental Incentives \$1.9; Water & Gas \$1.5; Telephone \$1.3; Equipment Rental/Permits/License/Fees \$0.8; Memberships/Subscriptions/Books \$0.7; Taxes & Assessments \$0.4; Overhead Capitalization (\$1.3)
- (3) Primarily for: Federal/State Passthrough Receipts \$5.7; Interest Income \$5.3; Joint Powers Authority Income \$1.6; Federal/State Operating Grants \$1.0; Rebates/Late Charges/Discounts/Misc. \$0.6; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$32.9; Capitalized Interest <\$32.4>; Federal/State Passthrough Expenses \$5.7; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8; Commercial Paper Costs \$0.7

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - May 2017	Fiscal YTD - May 2016	\$	%	
Operating Revenues					
Shipping Services	365,178	337,252	27,926	8.3%	Higher overall wharfage \$26.3, higher pilotage \$2.2 and higher space assignment \$1.5, partially offset by lower dockage <\$1.5> and lower lay day fees <\$0.6>
Rentals	47,068	43,258	3,810	8.8%	Permit assignment to PBF Energy \$4.2, net rental rate increases \$3.3, assignment of subleases at Ports O' Call \$1.3 and new permits issued (EcoFlow) \$0.5, partially offset by cancellation of Exxon Mobil permit <\$4.0> and one-time Ardagh payment in the prior fiscal year <\$1.5>
Royalties, Fees and Other Revenues	58,087	23,294	34,793	149.4%	Higher one-time refunds & reimbursements \$31.3, Harbor Maintenance Tax receipt \$3.0, higher utility reimbursements \$0.4, higher misc. permits & fees \$0.3, higher railroad lease accruals \$0.2 and higher accommodation work orders \$0.2, partially offset by and lower parking fees <\$0.3>, higher tenant credits <\$0.2> and lower permits & fees <\$0.1>
Clean Truck Program Revenues	2,131	2,329	(198)	(8.5%)	Lower concession and annual truck fees <\$0.2>
Total Operating Revenues	472,464	406,133	66,331	16.3%	
Operating Expenses					
Gross Salaries & Benefits	122,545	123,021	(475)	(0.4%)	Lower average filled positions and timing of salary accruals, partially offset by MOU salary increases and higher overtime
Capitalization	(20,189)	(21,366)	1,177	(5.5%)	Lower direct capitalization \$1.1
Net Salaries & Benefits	102,356	101,654	702	0.7%	
Marketing & Public Relations	2,272	2,359	(87)	(3.7%)	
Travel	506	738	(232)	(31.4%)	
Outside Services	20,445	21,751	(1,305)	(6.0%)	Lower shed demolition costs <1.6>, lower environmental assessment spending <\$0.5>, lower red car spending <\$0.5>, lower outside legal counsel costs <\$0.4>, lower cruise terminal operator costs <\$0.3>, timing of Bond Assistance Program payment <\$0.2>, lower cargo forecast costs <\$0.1>, lower federal/state advocacy spending <\$0.1>, lower external auditor spending <\$0.1> and timing of LAREX payment <\$0.1>, partially offset by higher C&M building services \$0.8, lower overhead capitalization \$0.6, higher security camera spending \$0.5, lower capitalization of C&M services \$0.5 and higher I.T. software and consulting costs \$0.3
Materials & Supplies	4,530	5,514	(984)	(17.8%)	
City Services	37,339	36,596	743	2.0%	Higher Fire services \$1.6, partially offset by lower City Attorney services <\$0.5> and Recreation and Parks invoicing delays <\$0.4>
(1) Other Operating Expenses	18,216	21,258	(3,042)	(14.3%)	Lower electricity <\$1.2>, lower litigation/claims expenses <\$0.8>, lower environmental incentives <\$0.7>, lower telephone <\$0.3>, lower equipment rentals/permits/license/fees <\$0.2>, higher overhead allocations <\$0.2> and lower insurance <\$0.1>, partially offset by higher taxes & assessments \$0.3 and higher water & gas \$0.2
Clean Truck Program Expenses	590	623	(33)	(5.4%)	
Total Operating Expenses	186,254	190,494	(4,240)	(2.2%)	
Income Before Depreciation	286,210	215,639	70,571	32.7%	
Provision For Depreciation	157,623	146,311	11,312	7.7%	
Income From Operations	128,587	69,328	59,259	85.5%	
(2) Non-Operating Revenue	14,399	9,650	4,749	49.2%	Higher federal/state passthrough revenues \$5.4, higher federal grants \$0.7, interest income \$0.4 and higher reimbursable EIR expenses \$0.2, partially offset by lower gains on asset sales <\$1.6> and lower ICTF/JPA payments <\$0.4>
(3) Non-Operating Expenses	(8,564)	(3,353)	(5,211)	155.4%	Higher federal/state passthrough expenses <\$5.4>, lower interest capitalization <\$5.1> and higher bond/commercial paper administration costs <\$0.7>, partially offset by lower interest expense \$5.0, timing of capital projects closed to expense \$0.7 and lower bond redemption accounting adjustment \$0.3
Net Income	134,421	75,625	58,796	77.7%	

Notes:

- (1) Primarily for: Electricity \$10.2; Insurance \$2.7; Environmental Incentives \$1.9; Water & Gas \$1.5; Telephone \$1.3; Equipment Rental/Permits/License/Fees \$0.8; Memberships/Subscriptions/Books \$0.7; Taxes & Assessments \$0.4; Overhead Capitalization (\$1.3)
- (2) Primarily for: Federal/State Passthrough Receipts \$5.7; Interest Income \$5.3; Joint Powers Authority Income \$1.6; Federal/State Operating Grants \$1.0; Rebates/Late Charges/Discounts/Misc. \$0.6; Reimbursable EIR Expenses \$0.2
- (3) Primarily for: Interest Expense \$32.9; Capitalized Interest <\$32.4>; Federal/State Passthrough Expenses \$5.7; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8; Commercial Paper Costs \$0.7