



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: DECEMBER 28, 2016

TO: BOARD OF HARBOR COMMISSIONERS

**SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR
FISCAL YEAR 2016/17 ENDED NOVEMBER 30, 2016**

Financial performance results for the first five 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 November, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 23.6% relative to November 2015, and, for the second consecutive month, marked the busiest month ever for a container port in the Western Hemisphere. In summary, performance results for the Harbor Department are as follows:

FYTD November 2016	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	3,927	↑ 7.1%	↑ 8.2%
Operating Revenues	\$ 208.4	↑ 9.7%	↑ 20.7%
Operating Expenses	\$ 84.7	↓ (14.2%)	↑ 3.2%
Operating Income	\$ 123.7	↑ 35.6%	↑ 36.5%
Net Income	\$ 50.2	↑ 158.6%	↑ 148.1%

Due to the heavy cargo volumes processed during the months of October and November, overall cargo volumes through the first five months of FY 2016/17 have exceeded budget and the prior fiscal year-to-date period by 7.1% and 8.2%, respectively. These higher cargo volumes as well as the receipt of a one-time legal settlement and higher rental receipts led to a 9.7% 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.

Operating Expenses were favorably impacted as invoicing delays with respect to outside services, lower average staffing levels, lower utility (electricity and water)

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

expenses as well as higher salary and overhead capitalization drove Total Operating Expenses 14.2% below budget. Relative to the prior fiscal year-to-date period, Total Operating Expenses increased by 3.2% as higher average headcounts, higher city services payments, and Memorandum of Understanding salary increases were only partially offset by lower utility (electricity and water) expenses as well as lower outside services.

Operating margins for the fiscal year-to-date period were reported at 59.3% versus a budget of 48.0% and a prior year figure of 52.5%. 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 November 30, 2016 based on internal estimates reached \$48.7 million or about 33% of the total \$146.1 million CIP adopted budget. Harbor Department CIP spending is ultimately expected to approximate the total CIP adopted budget by fiscal year-end.



EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD November 2016
2. Actual-to-Budget FY 2016/17 – November
3. Year-to-Year Performance Report YTD November 31, 2016 and 2015

Author: M. Marchese

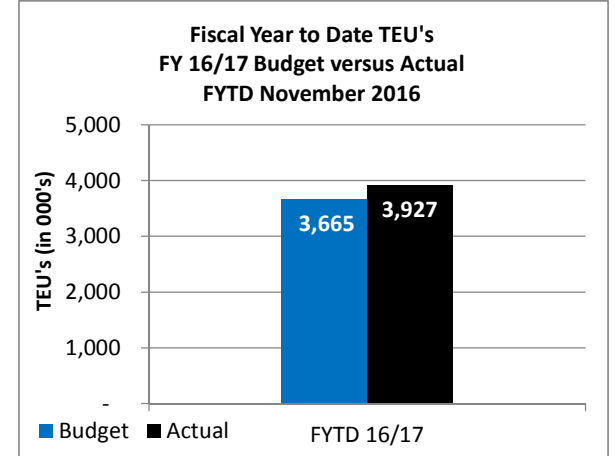
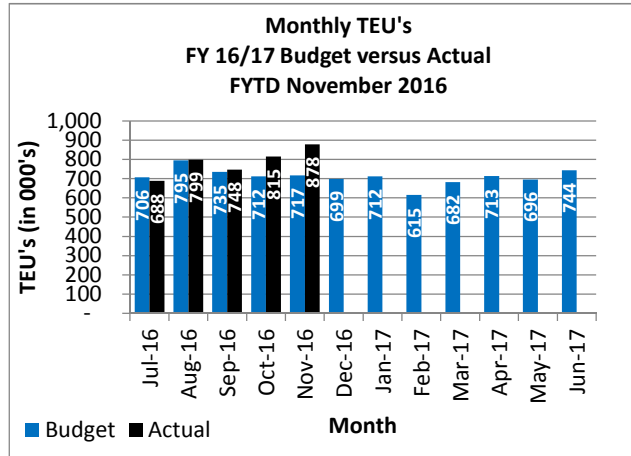
MB:JS:MM/Finance

cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD NOVEMBER 2016

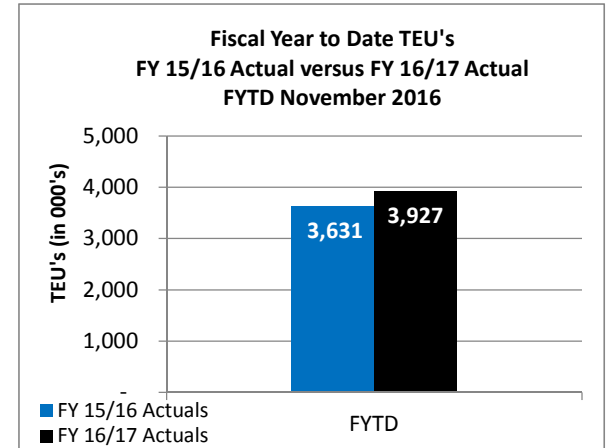
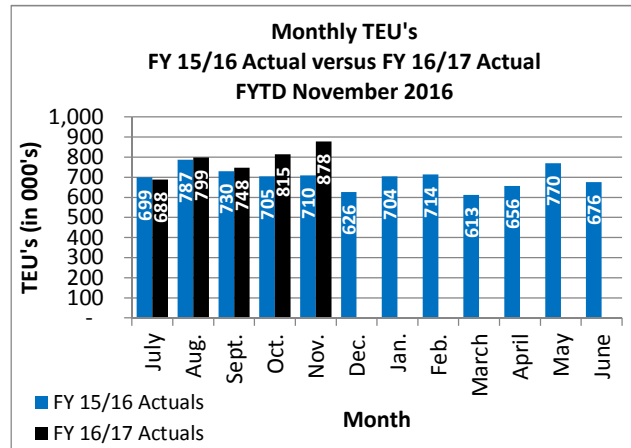
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(in 000's)	TEU's		% Δ	Δ
Month	FY 16/17 Budget	FY 16/17 Actuals		
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			
Jan-17	712			
Feb-17	615			
Mar-17	682			
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	3,665	3,927	7.1%	↑
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		% Δ	Δ
Month	FY 15/16 Actuals	FY 16/17 Actuals		
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			
Jan.	704			
Feb.	714			
March	613			
April	656			
May	770			
June	676			
FYTD	3,631	3,927	8.2%	↑
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 - Nov. 2016	Fiscal YTD - Nov. 2016	\$	%	
Operating Revenues					
Shipping Services	170,086	162,289	7,797	4.8%	Higher than budgeted wharfage \$8.0 and higher space assignment \$0.7, partially offset by lower dockage <\$0.7> and lower lay day fees <\$0.2>
Rentals	20,342	19,283	1,060	5.5%	Higher land rent \$1.1, offset by slightly lower building, warehouse & wharf/shed rents
Royalties, Fees and Other Revenues	17,258	7,601	9,656	127.0%	One-time legal settlement \$12.5, higher other one-time settlements and refunds \$0.4, higher permits & fees \$0.3, higher railroad lease accruals \$0.2 and higher parking fees \$0.1, partially offset by lower utility reimbursements <\$1.9>, higher credits for tenant services <\$1.1> and lower misc. revenues <\$1.0>
Clean Truck Program Revenues	700	800	(100)	(12.5%)	
Total Operating Revenues	208,386	189,973	18,413	9.7%	
Operating Expenses					
Gross Salaries & Benefits	59,173	62,156	(2,983)	(4.8%)	Lower average filled positions, partially offset by higher overtime
Capitalization	(10,557)	(6,036)	(4,522)	74.9%	Overhead allocations <\$4.0> and higher direct capitalization <\$0.5>
Net Salaries & Benefits	48,615	56,120	(7,505)	(13.4%)	
Marketing & Public Relations	1,219	1,506	(286)	(19.0%)	Overhead capitalization <\$0.2> and lower promotional <\$0.1>
Travel	185	426	(241)	(56.6%)	
Outside Services	5,933	12,150	(6,217)	(51.2%)	Environmental assessment invoicing delays <\$1.3>, outside counsel invoicing delays <\$1.2>, lower shed demolition costs <\$0.9>, software & IT consulting invoicing delays <\$0.8>, lower port police spending <\$0.5>, lower C&M maintenance services <\$0.2>, lower federal/state advocacy spending <\$0.2>, lower cruise operator costs <\$0.2>, accounting consultant invoicing delays <\$0.2> and overhead allocations <\$0.4>
Materials & Supplies	1,800	2,786	(986)	(35.4%)	Overhead allocations <\$0.5> and lower C&M spending <\$0.5>
City Services	18,076	17,776	299	1.7%	Higher Fire \$1.7 and City Attorney services \$0.4, partially offset by overhead allocations <\$1.3> and lower Rec & Parks payments <\$0.5>
(1) Allocations to Capital - Overhead		(5,707)	5,707	(100.0%)	Higher aggregate overhead allocations \$1.4
(2) Other Operating Expenses	8,681	13,345	(4,664)	(35.0%)	Lower electricity <\$1.5>, workers' compensation payment delay <\$0.8>, lower water & gas <\$0.6>, environmental incentive payment delays <\$0.6>, lower telephone expenses <\$0.3>, litigation/claims payment delays <\$0.1>, lower insurance expense <\$0.1> and overhead allocations <\$0.6>
Clean Truck Program Expenses	215	393	(178)	(45.3%)	
Total Operating Expenses	84,724	98,795	(14,071)	(14.2%)	
Income Before Depreciation	123,663	91,178	32,484	35.6%	
Provision For Depreciation	75,373	71,669	3,705	5.2%	
Income From Operations	48,289	19,510	28,779	147.5%	
(3) Non-Operating Revenue	3,488	5,065	(1,577)	(31.1%)	Lower pass-through grant receipts <\$1.8>, lower ICTF/JPA investment income <\$0.8> and lower gains on asset sales <\$0.5>, partially offset by higher interest income \$0.6, higher federal/state operating grants \$0.5, higher reimbursable EIR expenses \$0.2 and higher delinquency fees \$0.2
(4) Non-Operating Expenses	(1,590)	(5,166)	3,575	(69.2%)	Lower interest expense \$3.4, lower pass-through grant disbursements \$1.8, timing of capital projects closed to expense \$1.0, lower losses on asset sales \$0.4, lower bond administration costs \$0.1, and lower misc. non-operating expenses \$0.1, partially offset by lower interest capitalization <\$3.3>
Net Income	50,187	19,409	30,778	158.6%	

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 \$7.1 million relative to a budget of \$5.7 million.
- (2) Primarily for: Electricity \$5.3; Insurance \$1.3; Water & Gas \$0.7; Telephone \$0.5; Equipment Rental/Permits/License/Fees \$0.5; Environmental Incentives \$0.5; Memberships/Subscriptions/Books \$0.4; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.6)
- (3) Primarily for: Interest/Investment Income \$2.3; Federal/State Operating Grants \$0.5; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$15.7; Capitalized Interest <\$15.5>; Bond Administration Costs \$0.9; Commercial Paper Costs \$0.4; Misc. Non-Op \$0.1

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - Nov. 2016	Fiscal YTD - Nov. 2015	\$	%	
Operating Revenues					
Shipping Services	170,086	142,928	27,158	19.0%	Higher overall wharfage \$26.5, higher space assignment \$0.9, and higher pilotage \$0.7, partially offset by lower dockage <\$0.8> and lower lay day fees <\$0.1>
Rentals	20,342	18,968	1,374	7.2%	Permit assignment to PBF Energy \$1.9 as well as new permits issued and rental rate increases \$2.0, partially offset by cancellation of Exxon Mobil permit <\$2.5>
Royalties, Fees and Other Revenues	17,258	9,983	7,275	72.9%	Higher one-time refunds & reimbursements \$7.9, one-time ExxonMobil assignment fee \$0.3 and higher railroad lease accruals \$0.1, partially offset by lower utility reimbursements <\$0.6> and credits for tenant services <\$0.4>
Clean Truck Program Revenues	700	793	(92)	(11.7%)	
Total Operating Revenues	208,386	172,672	35,714	20.7%	
Operating Expenses					
Gross Salaries & Benefits	59,173	54,540	4,633	8.5%	MOU salary increases, higher average filled positions and higher overtime
Capitalization	(10,557)	(9,865)	(692)	7.0%	Higher salary capitalization <\$0.6> and higher overhead capitalization <\$0.1>
Net Salaries & Benefits	48,615	44,675	3,941	8.8%	
Marketing & Public Relations	1,219	1,208	12	1.0%	
Travel	185	247	(62)	(25.1%)	
Outside Services	5,933	6,919	(986)	(14.2%)	Lower I.T. software and consulting costs <\$0.6>, lower red car spending <\$0.4>, lower environmental assessment services <\$0.3>, lower port police spending <\$0.3>, lower cruise terminal operator costs <\$0.1> and lower outside legal counsel costs <\$0.1>, partially offset by lower capitalization of C&M salaries \$0.5 and lower overhead capitalization \$0.3
Materials & Supplies	1,800	2,011	(211)	(10.5%)	
City Services	18,076	16,359	1,717	10.5%	Higher Fire services \$1.8 and lower overhead allocations \$0.1, partially offset by delayed Public Works invoicing <\$0.2>
(1) Other Operating Expenses	8,681	10,427	(1,747)	(16.8%)	Lower pollution remediation accruals <\$0.8>, lower electricity <\$0.6>, higher overhead allocations <\$0.2> and lower environmental incentives <\$0.1>
Clean Truck Program Expenses	215	244	(29)	(11.9%)	
Total Operating Expenses	84,724	82,089	2,634	3.2%	
Income Before Depreciation	123,663	90,583	33,080	36.5%	
Provision For Depreciation	75,373	71,177	4,196	5.9%	
Income From Operations	48,289	19,406	28,884	148.8%	
(2) Non-Operating Revenue	3,488	3,789	(301)	(7.9%)	Delayed ICTF/JPA payments <\$0.7> and lower pass-through grant receipts <\$0.2>, partially offset by higher reimbursable EIR expenses \$0.2, higher federal grants \$0.2 and higher interest income \$0.2
(3) Non-Operating Expenses	(1,590)	(2,965)	1,375	(46.4%)	Lower interest expense \$2.0, timing of capital projects closed to expense \$1.2, lower bond redemption accounting adjustment \$0.3 and lower pass-through grant disbursements \$0.2, partially offset by lower interest capitalization <\$1.5>, higher bond administration costs <\$0.6> and higher commercial paper costs <\$0.2>
Net Income	50,187	20,230	29,957	148.1%	

Notes:

(1) Primarily for: Electricity \$5.3; Insurance \$1.3; Water & Gas \$0.7; Telephone \$0.5; Equipment Rental/Permits/License/Fees \$0.5; Environmental Incentives \$0.5; Memberships/Subscriptions/Books \$0.4; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.6)

(2) Primarily for: Interest/Investment Income \$2.3; Federal/State Operating Grants \$0.5; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2

(3) Primarily for: Interest Expense \$15.7; Capitalized Interest <\$15.5>; Bond Administration Costs \$0.9; Commercial Paper Costs \$0.4; Misc. Non-Op \$0.1