



DATE: MAY 28, 2014

FROM: FINANCE

**SUBJECT: RESOLUTION NO. _____ - CONSIDER FISCAL
YEAR 2014/15 ANNUAL BUDGET**

SUMMARY:

The Fiscal Year (FY) 2014/15 Proposed Annual Budget (Proposed Budget) of \$938,818,161 will enable the City of Los Angeles Harbor Department (Harbor Department) to meet its commitments in the coming year in line with its Strategic Plan. During the next fiscal year, the Harbor Department is projecting \$281.0 million or 30% being dedicated to the Capital Improvement Program (CIP). The projects included in the CIP are those that will enable the Port of Los Angeles (Port) to maintain its competitive edge and support waterfront development while enhancing job creation and economic development. As a result of the Proposed Budget, approximately 6,250 direct and indirect jobs are projected to be created, of which 4,600 are attributed to capital spending.

The Proposed Budget also reflects the Harbor Department's goals of growing Port business in a sustainable and fiscally responsible manner. Of the \$217.3 million in proposed operating expenses, about \$35 million is committed to Port Police operations dedicated to maintaining a safe and secure Port environment. Approximately \$18 million is also dedicated to environmental management operations, of which \$3.5 million is earmarked for environmental incentives towards reducing emissions from Port operations. Given a slow recovering economy, competitive threats, and a changing shipping industry, the Proposed Budget includes \$3.5 million for the Ocean Common Carrier Incentive Program (Carrier Incentive Program) that will be covered by increased operating revenues resulting from the program. Additionally, the Proposed Budget meets key financial metrics as set forth in the Harbor Department's Financial Policies, Strategic Plan and Mayoral Priority Outcomes (see table below). It is also consistent with the preliminary budget proposal provided to the Board of Harbor Commissioners (Board) on March 20, 2014, with changes that in the aggregate do not materially affect budget appropriations.

Key Financial Metric	Minimum	Proposed Budget
Debt Rating	AA	AA
Debt Service Coverage	2.0X	2.8X
Operating Margin	45%	48%
Unrestricted Cash Levels	\$207 Million	\$266 Million

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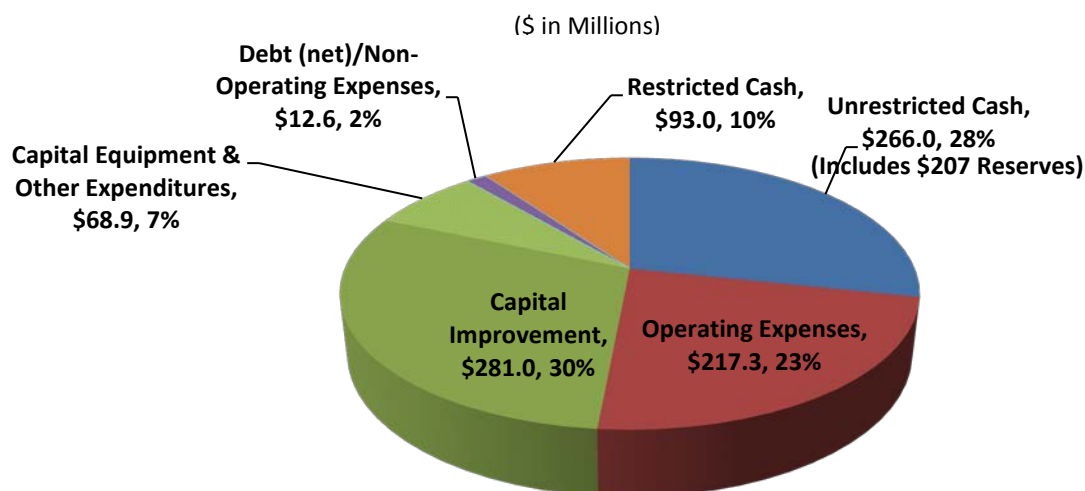
RECOMMENDATIONS:

It is recommended that the Board of Harbor Commissioners:

1. Adopt the Fiscal Year 2014/15 Proposed Annual Budget for the City of Los Angeles Harbor Department and appropriate funds in accordance herewith;
2. Authorize the Executive Director, or designee, to make any technical adjustments consistent with the Board action(s) to the Fiscal Year 2014/15 Proposed Annual Budget documents, so as to provide for the implementation of this budget; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – The \$938.8 million FY 2014/15 Proposed Budget (Transmittal 1) is appropriated as follows:



- \$349.9 million or 37.3% of the total budget for Capital;
- \$266.0 million or 28.3% for Unrestricted Cash;
- \$217.3 million or 23.2% for Operating Expenses;
- \$ 93.0 million or 9.9% for Restricted Cash; and
- \$ 12.6 million or 1.3% for Debt (net)/Non-Operating Expenses.

The total Proposed Budget represents a \$132.3 million or 12.4% decrease from the \$1.1 billion FY 2013/14 Adopted Budget (Adopted Budget) and a \$58.1 million or 5.8% decrease from the \$996.9 million in previously estimated appropriations for the current fiscal year. The lower proposed budget is primarily due to lower levels of CIP as compared to the current year.

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Key Budget Components of the Proposed Budget are summarized as follows with a budget-to-budget comparison:

Components	FY 2013/14 Adopted Budget	FY 2014/15 Proposed Budget	Δ%
Cargo Volumes (TEUs)	7.9M	8.2M	↑ 3.8%
Operating Revenues	\$413.0M	\$418.4M	↑ 1.3%
Operating Expenses	\$210.1M	\$217.3M	↑ 3.4%
Operating Income	\$202.9M	\$201.1M	↓ 0.9%
Net Income	\$ 91.4M	\$ 80.0M	↓ 12.5%
Capital Improvement Program	\$399.9M	\$281.0M	↓ 29.7%

Cargo volumes (as measured in twenty-foot equivalent units or TEUs) are the key driver to the operating revenues of the Harbor Department's budget. The estimated 3.8% in cargo growth compared to the Adopted Budget is primarily due to higher TEU volumes expected to be generated by organic growth and the Board adopted Carrier Incentive Program approved in November 2013. Under this program, an ocean carrier will earn \$5 per TEU for each incremental container it ships through the Port in 2014 compared to 2013 or \$15 per TEU, if a carrier's container volume grows by 100,000 or more units for the same 12-month period. An example of how this incentive program is designed to work is if a carrier brings in 75,000 incremental TEUs, this would result in approximately \$3.0 million in operating revenues. After paying the incentive amount of \$375 thousand to the carrier (or 75,000 TEUs @ \$5 per TEU), this would result in \$2.6 million in net operating revenues to the Harbor Department. Operating revenues are estimated to grow by 1.3%, while operating expenses are anticipated to grow by 3.4%, the latter primarily due to mandated salary and benefits adjustments. Both operating revenues and expenses are relatively flat to the previous four years, indicative of a slow recovering economy and the Harbor Department's efforts to control operating expenses. Net Income is lower primarily due to higher depreciation as a higher level of capital projects is completed.

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Projected Cash Flow – Given the levels of projected operating revenues and proposed operating expenses next fiscal year, the Proposed Budget anticipates \$201.1 million in operating income. After deducting for existing debt service of approximately \$65.5 million and \$304.2 million in proposed capital expenditures, the Proposed Budget contemplates about \$169 million in projected cash needs:

(\$ in Millions)	Proposed Budget FY 2014/15
Operating Revenues	\$418.4
Less: Operating Expenses	<u>-\$217.3</u>
Operating Income	\$201.1
Less: Debt Service	-\$65.5
Sub Total	\$135.6
Less: Total Capital Expenditures	<u>-\$304.2</u>
Projected Cash Needs	-\$168.6

To provide for this, available cash will be utilized, as well as the issuance of debt. As of fiscal year-to-date April 2014, the Harbor Department has an unrestricted cash balance of \$288.9 million of which \$207 million is under Board mandated reserve. The Proposed Budget estimates approximately \$200 million in new bond issues next fiscal year. This also takes into account maintaining minimum cash reserve levels of approximately \$207 million in accordance with Harbor Department Financial Policies.

Budget Process - Beginning in September 2013, the budget process commenced with discussions with senior and division managers regarding the financial outlook, issues, preliminary funding needs, CIP prioritization, and global target formulation. Budget workshops were held in November 2013, followed by divisions' submission of proposed budgets in December 2013, which were discussed with senior management during internal budget meetings held in January 2014. Preliminary budget discussions were held with the Board in March 2014, followed by submission of the Proposed Budget to the City of Los Angeles (City) City Administrative Officer (CAO) for its review and inclusion in the budget submittal of the Mayor to the Council. Upon adoption by the Board, the annual budget covers the Harbor Department's fiscal year from July 1 through June 30.

Board Review – In March 2014, preliminary budget documents were submitted to the Board for input and review prior to submission to the CAO in accordance with the City's annual budget process. At that time, the Board approved submittal of the preliminary budget documents to the CAO. Subsequent adjustments and changes were made, which in the aggregate resulted in an \$8.6 million decrease in CIP spending as projected spending estimates were refined, a \$225 thousand increase in proposed operating expenses for Port Police overtime needs, and a net \$8.4 million increase in capitalized interest and debt related adjustments to reflect contemplated borrowing plans for next fiscal year.

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The Board also instructed the Executive Director to report back within 90 days with additional recommendations on revenue enhancements and expense reductions as it relates to the budget. While the FY 2014/15 Proposed Budget continues to reflect an overall healthy financial condition, given the level, type and timing of the CIP contemplated over the next five years, the Harbor Department will be facing challenging decisions as to prioritizing its expenditures. Towards that end, the Harbor Department identified revenue enhancement and expense reduction options; for the latter, most have been incorporated into the Proposed Budget (see Transmittal 2 for details of additions and reductions primarily made to the proposed operating expense budget). Remaining options totaling approximately \$9 million in potential annual revenue or savings will continue to be discussed with the Board:

Options	Potential Annual Revenue/Savings
Tariff Rate Increase (i.e., general rate increase)	\$5.3 million
Environmental Impact Report Costs	\$1.8 - \$2.0 million per report
Port Pilotage Fee Increase	\$1.5 million
Cruise Terminal Parking Fee Increase (and other areas)	\$0.5 million
Development of Mineral Rights	(To Be Determined)

Operating Budget – Major drivers to the variances between the FY 2014/15 proposed operating budget and the FY 2013/14 estimates and Adopted Budget are shipping services revenues, salaries and benefits and customer incentive expenses, depreciation, pass-through grant receipts and disbursements, cancelled capital projects charged to expense, and indirect overhead capital allocations. Comparisons of the Proposed Budget with FY 2013/14 Adopted Budget and estimates follow.

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**FY 2014/15 PROPOSED OPERATING BUDGET
COMPARATIVE STATEMENT OF OPERATIONS
COMPARISONS WITH FY 2013/14 ADOPTED BUDGET AND ESTIMATES**

	Adopted Budget	Estimates	Proposed Budget	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
(\$ in 000's)	FY 2013/14	FY 2013/14	FY 2014/15		
Operating Revenues					
Shipping Services	\$ 360,128	\$ 362,450	\$ 370,414	2.9%	2.2%
Rentals	\$ 45,377	\$ 41,512	\$ 41,585	-8.4%	0.2%
Royalties and Fees	\$ 2,039	\$ 2,124	\$ 2,319	13.7%	9.2%
Clean Truck Fees	\$ 1,550	\$ 1,453	\$ 1,459	-5.9%	0.4%
Other Operating	\$ 3,941	\$ 2,546	\$ 2,622	-33.5%	3.0%
Total Operating Revenues	\$ 413,035	\$ 410,085	\$ 418,399	1.3%	2.0%
Operating Expenses					
Salaries & Benefits	\$ 112,113	\$ 117,862	\$ 122,468	9.2%	3.9%
Marketing & Public Relations	\$ 3,834	\$ 3,703	\$ 3,734	-2.6%	0.8%
Travel	\$ 963	\$ 936	\$ 933	-3.1%	-0.3%
Outside Services	\$ 35,719	\$ 35,000	\$ 35,144	-1.6%	0.4%
Materials & Supplies	\$ 7,390	\$ 7,349	\$ 7,533	1.9%	2.5%
City Services	\$ 36,246	\$ 35,529	\$ 36,648	1.1%	3.1%
Allocations to Capital	\$ (12,235)	\$ (18,000)	\$ (16,700)	36.5%	-7.2%
Other Operating Expenses	\$ 26,059	\$ 26,176	\$ 27,529	5.6%	5.2%
Total Operating Expenses	\$ 210,089	\$ 208,555	\$ 217,289	3.4%	4.2%
Income Before Depreciation	\$ 202,946	\$ 201,530	\$ 201,110	-0.9%	-0.2%
Depreciation	110,250	\$ 114,735	\$ 120,392	9.2%	4.9%
Income from Operations	\$ 92,696	\$ 86,795	\$ 80,718	-12.9%	-7.0%
Non-Operating Revenues ¹	\$ 16,354	\$ 15,766	\$ 8,172	-50.0%	-48.2%
Non-Operating Expenses ²	\$ 17,601	\$ 40,566	\$ 8,847	-49.7%	-78.2%
Net Income	\$ 91,449	\$ 61,995	\$ 80,043	-12.5%	29.1%
Note: Figures in this chart may differ from the Comparative Statement of Operations (Transmittal 1) due to rounding.					
¹ Includes interest income, investment income, operating grant receipts, settlements, rebates, and other reimbursements.					
² Includes interest expenses, commercial paper liquidity provider fees, debt issuance costs, bond counsel fees, and debt related advisory fees.					

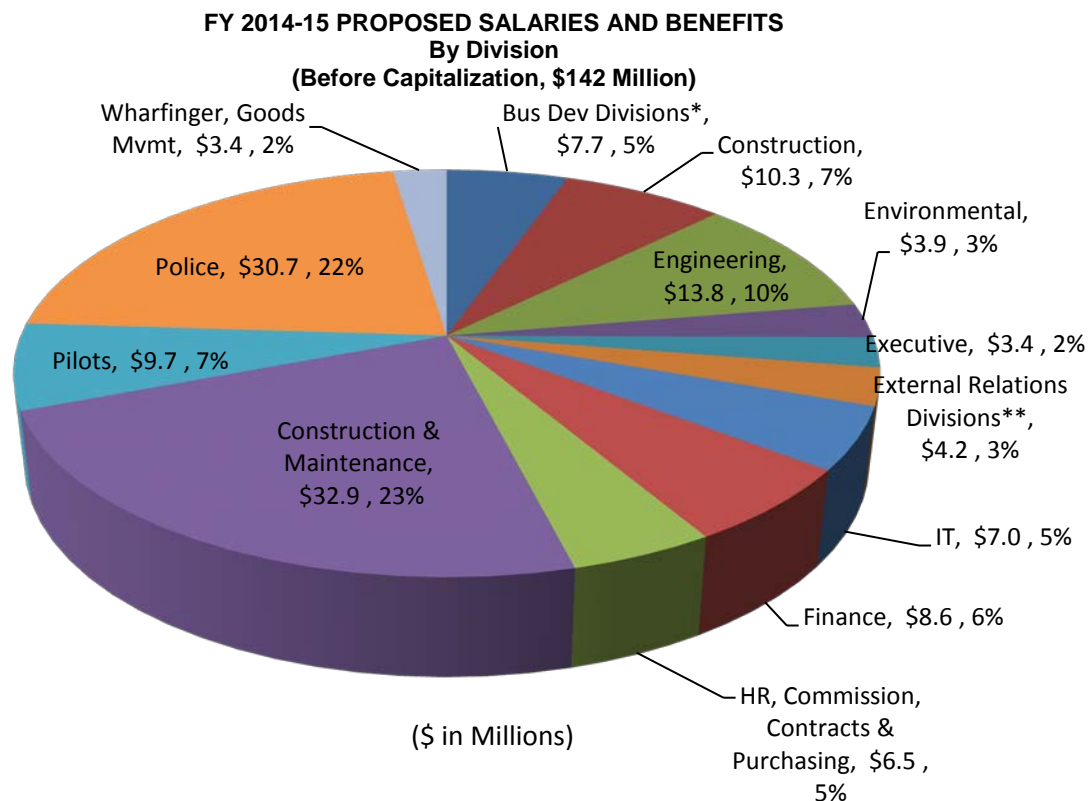
Operating Revenue Budget – The proposed operating revenue budget totals \$418.4 million and is \$5.4 million or 1.3% higher compared to the FY 2013/14 Adopted Budget and \$8.3 million or 2.0% higher than FY 2013/14 estimates. In both cases, the higher growth is driven by higher TEU volumes estimated to grow by 3.8% compared to Adopted Budget and 3.0% year-on-year primarily as a result of organic growth and the Carrier Incentive Program. Shipping Services revenue, which comprise close to 90% of total operating revenue, moves in tandem with container volume; each TEU generates

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on average \$40 in revenue. In FY 2014/15, the combination of organic growth and the Carrier Incentive Program is estimated to generate approximately \$8 million in additional Shipping Services revenue. It is estimated that payments of \$3.5 million will be made as a result of the Carrier Incentive Program. Other operating revenue components remain relatively flat compared to the Adopted Budget and year-on-year.

Operating Expense Budget – The proposed operating expense budget of \$217.3 million is \$7.2 million or 3.4% higher than the FY 2013/14 Adopted Budget and \$8.7 million or 4.2% higher than estimates. Operating expenses continue to be driven primarily by Salaries and Benefits, City Services, Outside Services, and for one year only, the \$3.5 million in costs associated with the Carrier Incentive Program. When compared to the Adopted Budget, the \$7.2 million increase in operating expenses is a net result of a \$10.4 million increase in Salaries and Benefits, \$3.2 million in additional customer incentives for the Carrier Incentive Program, \$900 thousand in lower capital allocations, and \$3.6 million in additional expenses for new initiatives all partly offset by reductions made during the budget process primarily to Outside Services. (See Transmittal 2 for details.)

Salaries and Benefits of \$122.5 million (net of \$19.6 million in capitalization) budgeted for filled positions supports 974 authorized positions, with a 3.5% attrition factor included in the budget for an average of 940 filled positions. It supports 19 Department-wide divisions, with Construction and Maintenance and Port Police comprising the largest salaries and benefits budgets among the 19 divisions:



Note: Includes attrition savings applied proportionately across division budgets.

*Includes Business & Trade, Planning & Economic Development, and Real Estate Divisions.

**Includes Public Relations, Media Relations, Graphic Services, and Government Affairs Divisions.

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The Proposed Salaries and Benefits Budget of \$122.5 million (net) increased by \$10.4 million or 9.2% compared to the Adopted Budget and \$4.6 million or 3.9% compared to current fiscal year estimates. It comprises over 56% of the proposed operating expense budget. In addition to a managed hiring process, the Harbor Department took further steps to control this expense category by reviewing and prioritizing all authorized positions, reducing the current fiscal year's authorized level of 994 to 974, and carefully managing the hiring process. Prioritization considerations include increasing the staffing of Port Police Officers to the authorized number (130), but keeping the Harbor Department to an average 940 filled positions. The latter is 1.6% lower than a 955 average over the past four years. Despite this lower level of filled positions, compared to the Adopted Budget, this category is projected to increase by \$10.4 million due to:

- \$4.8 million in higher Memorandum of Understanding (MOU) mandated increases to salaries;
- \$2.4 million in higher pension and health care contributions;
- \$2.8 million in lower allocations to capital as Construction and Maintenance personnel are devoting more time to maintenance operations;
- \$750 thousand in higher overtime needs for Port Police and Port Pilots;
- \$200 thousand in higher overtime for Construction and Maintenance to service Alternative Marine Power™ (AMP™) connections; partially offset by
- \$500 thousand in reductions for other employee programs including tuition reimbursement (by \$200 thousand), perfect attendance program (by \$20 thousand), employee organization subsidies (by \$30 thousand), and set-aside for promotions (by \$250 thousand).

Overtime – The Proposed Budget includes \$5.6 million in overtime funding (net of \$675.7 thousand in capitalization), which is higher than the Adopted Budget by \$1.0 million or 23.4% and \$0.5 million or 9.5% compared to current fiscal year estimates. The primary drivers of overtime usage are for Port Police, Construction and Maintenance, and Port Pilots operations.

- Port Police: \$3.3 million – Fiscal year-to-date (FYTD) March 2014, Port Police has incurred \$2.6 million of its \$2.7 million budget in overtime and is estimating to spend \$3.3 million or \$600 thousand above its FY 2013/14 overtime budget by fiscal year-end. Historically, Port Police has spent on average \$3.4 million annually in overtime for law enforcement public safety in and around the Harbor area including Port facilities, parks and other public spaces and community events. This same level of funding will be required in the coming fiscal year. Of the additional \$600 thousand in overtime funding, approximately \$550 thousand relate to general policing needs and bridging the gap between positions becoming vacant and when new officers come on board. Also included are 750 hours, or \$50 thousand to increase security at the cruise terminal. This new deployment model has been agreed upon by the Board of Harbor Commissioners, management and the Police Officers' Association. Funds are

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available this fiscal year as a result of department-wide savings and capitalization in the Salaries and Benefits category.

- Construction and Maintenance: \$1.2 million – FYTD March 2014, Construction and Maintenance has incurred \$643 thousand of its \$1.0 million budget (before capitalization) in overtime and is estimating to spend close to the budgeted level by fiscal year-end. Overtime is generally utilized for servicing requests by tenants or emergency situations which require staff to work beyond normal working hours. Additional overtime of \$200 thousand is estimated in FY 2014/15 to service the increase in AMP™ usage by Port customers, which includes connection and disconnection services.
- Port Pilots: \$850 thousand - FYTD March 2014, Port Pilots has incurred \$606.8 thousand of its \$700 thousand budget in overtime and is estimating to spend \$850 thousand or \$150 thousand above its budget by fiscal year-end. Port Pilots require \$150 thousand in additional overtime funding to fulfill watch responsibilities with minimum staffing and provide appropriate shift relief due to unanticipated absences, which is equivalent to approximately 2,631 additional support staff hours. Historically, Port Pilots have spent on average a minimum of \$700 thousand annually in paid overtime to accommodate changes in vessel traffic and to accommodate all vessel arrivals and departures with the most efficient response times possible. Similarly, funds are available this fiscal year as a result of department-wide savings and capitalization.

Marketing and Public Relations expenses of \$3.7 million include Port-wide marketing activities such as customer and community outreach and sponsorships. Expenses in this category are slightly lower compared to the Adopted Budget resulting primarily from realigning \$379 thousand in Foreign Trade Representation budgeted funds with actual spending. Organization and event sponsorships at \$1.6 million comprise about 43% of expenses in this category and are estimated to remain relatively flat to the Adopted Budget and FY 2013/14 estimates.

Travel expenses are primarily allocated towards marketing efforts to retain and grow business and promote employee development. Of the \$933 thousand in proposed travel expenses, \$302 thousand or 32.4% is budgeted in the Business and Trade Division and \$145 thousand or 15.5% in the Executive Office for marketing, trade development and retention, with the remainder budgeted in various divisions for representation, legislative, training and other business purposes. Reduction efforts resulted in proposed expenses to be slightly lower than the Adopted Budget and FY 2013/14 estimates.

Outside Services of \$35.1 million are lower compared to the Adopted Budget by \$600 thousand or 1.6% and is a net result of Harbor Department-wide efforts to realign budget with actual spending. Approximately \$4 million in reductions from the Adopted Budget were identified during the budget process, which offset \$2.5 million in new

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initiatives and \$900 thousand in lower capital allocations. The major new initiatives include:

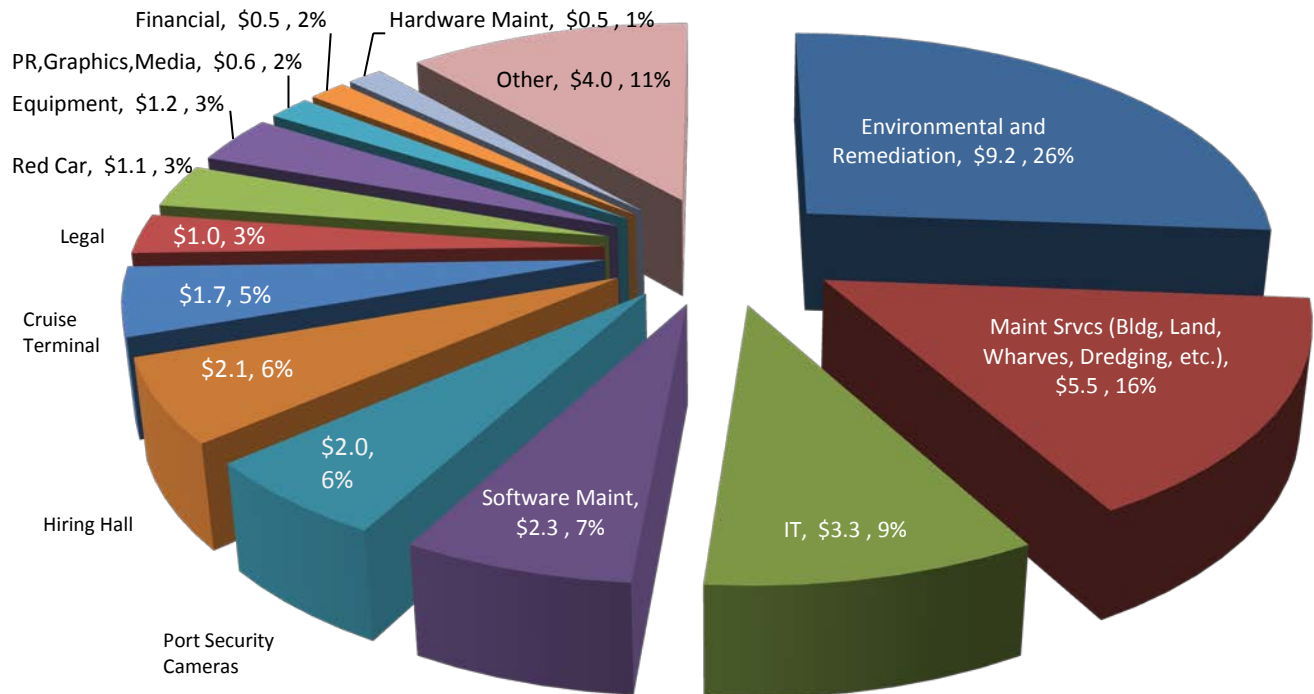
- \$1.2 million for Information Technology Division to support the newly completed Computer Aided Dispatch and Records Management System, Integrated Command and Control Center and interoperable radio system for Port Police;
- \$560 thousand for Construction and Maintenance to implement electrical safety audit recommendations and for maintenance of new AMP™ connections and other additional facilities;
- \$300 thousand in consulting services for the Ports O'Call feasibility study (\$100 thousand), cargo study cost share with Port of Long Beach (\$100 thousand), and Harbor Department-wide disaster preparedness emergency training (\$100 thousand); and
- \$200 thousand for anticipated legal services.

Compared to FY 2013/14 estimates, this category of expenses is slightly higher by \$144 thousand or 0.4% generally for higher equipment and computer hardware maintenance.

Among the larger components of the \$35.1 million in Proposed Outside Services are \$9.2 million or 26% dedicated to environmental and remediation services, \$5.5 million or 16% for maintenance services (including building land, wharves, dredging, etc.), \$6.1 million or 17% to information technology (including software and hardware maintenance), among others, as illustrated below. Approximately \$2.1 million in grant reimbursements are expected for the Port security camera maintenance services (\$2.0 million) and Port-wide emergency management training (\$100 thousand).

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FY 2014/15 PROPOSED OUTSIDE SERVICES
 \$35 Million
 By Service (\$ in Millions)



Materials and Supplies spending is budgeted to increase slightly by \$143 thousand or 1.9% compared to the Adopted Budget and \$184 thousand or 2.5% compared to FY 2013/14 estimates, primarily for higher parts and materials for Cruise Terminal maintenance and for Construction and Maintenance to service AMP™ installations and to implement electrical safety audit recommendations. Of the total \$7.5 million proposed budget, \$4.9 million or 65% is budgeted in Construction and Maintenance for Port-wide maintenance and \$1.0 million or 13% in Port Police.

City Services of \$36.6 million are for services rendered by other City departments towards Port operations. The primary drivers of this component include \$20.0 million for Fire Department services, \$8.1 million for recreational facilities operated by the Recreation and Parks Department (i.e., Cabrillo Marine Aquarium, parks, museum), \$4.6 million for City Attorney services, and other various City departments. Compared to the Adopted Budget, proposed expenses are slightly higher by \$400 thousand or 1.1%, primarily for Recreation and Parks MOU and other mandated salary adjustments. Compared to FY 2013/14 estimate, expenses are higher by \$1.1 million or 3.1%, primarily for Fire, Recreation and Parks, and various other City departments due to mandated salary adjustments.

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Other Operating Expenses of \$27.5 million are other Port-wide expenses primarily for:

- \$8.5 million – Utilities
- \$3.7 million – Insurance
- \$3.5 million – Environmental Incentives
- \$3.5 million – Carrier Incentive Program Incentives
- \$1.8 million – Telephone
- \$1.6 million – Provision for Workers Compensation
- \$1.4 million – Clean Truck Program
- \$0.6 million – Memberships, Subscriptions, Books and Manuals
- \$0.6 million – Equipment Rental
- \$2.3 million – Other (e.g., taxes, assessments, permits, fees, etc.)

Compared to the current fiscal year's budget, expenses are higher by \$1.5 million or 5.6% primarily due to an increase in customer incentives for the Carrier Incentive Program and in utilities. The increase is partially offset by reductions in environmental incentives (by \$500 thousand), Clean Truck Program administrative costs (by \$300 thousand), lower property rental (by \$300 thousand), lower memberships (by \$100 thousand), and cost of sales and other miscellaneous expenses (by \$900 thousand). Comparisons to FY 2013/14 estimates reflect similar results.

Of the \$8.5 million in utilities, \$1.3 million is estimated to be reimbursed from tenants, primarily for electricity. Of the \$360 thousand increase compared to Adopted Budget, about \$240 thousand is due to higher electricity usage and \$120 thousand for higher water service. The increase is primarily for AMP™ usage by tenants and for Port-wide facilities.

Overhead Allocations to Capital are expenses that arise in support of capital projects. This is differentiated from direct expenses allocated to capital that are charged directly to specific capital projects undertaken. Compared to the Adopted Budget, this category is increasing by \$4.5 million or 36.5% as improved accounting from the Enterprise Resource Planning software has created better tracking of costs. Compared to FY 2013/14 estimates, indirect allocations are lower by \$1.3 million or 7.2%, reflective of the lower level of capital spending anticipated.

Non-Operating Budget includes revenues and expenses that are considered not directly related to core operations.

Non-Operating Revenues include interest income, operating grant receipts and other reimbursements. Budgeted at \$8.2 million, the primary drivers are \$3.4 million in interest income, \$2.0 million in investment income, \$1.5 million in Federal operating grant receipts, and \$1.3 million in other reimbursements. Compared to the Adopted Budget, estimated revenues are lower by \$8.2 million or 50%, primarily due to \$5.0 million in lower pass-through grant receipts (which program ended in June 2013) and \$3.2 million in lower interest income given lower interest rates than expected and a greater use of

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unrestricted cash. Compared to FY 2013/14 estimates, proposed revenues are also lower by \$7.6 million primarily due to \$6.4 million in lower pass-through grant receipts and \$1.2 million in lower settlements, rebates and other reimbursements.

Non-Operating Expenses include interest expense, debt issuance costs, pass-through grant disbursements, capital projects cancelled, loss on sale of assets, and other miscellaneous items. Budgeted at \$8.8 million, the primary drivers are \$3.2 million in bond issuance costs, \$1.6 million in commercial paper issuance costs, \$2.5 million in cancelled capital projects, and \$800 thousand in commercial paper interest and other expenses.

Compared to the current year's Adopted Budget, this category is lower by \$8.7 million or 49.7% primarily due to lower interest expenses, \$5 million in lower Federal pass-through grant receipts, partially offset by \$2.5 million more in expected cancelled capital projects, and \$3.2 million in bond issuance costs. Compared to FY 2013/14 estimates, this category is lower by \$31.7 million, primarily due to \$27.5 million in lower cancelled capital projects, \$6.4 million in lower Federal and State pass-through grant receipts, partially offset by expected higher interest expenses and bond issuance costs given additional contemplated debt.

Cancelled Capital Projects – In the current FY 2013/14, it is estimated that \$30 million in capital projects that have been cancelled will have to be expensed. This will result in a direct impact to the Harbor Department's bottom line net income. Given that a bulk of these expenses stem from Environmental Impact Reports on projects that will not be moving forward, staff is developing a policy for the payment or reimbursement of Environmental Impact Report expenses that are incurred for capital projects. Compared to historical spending, which has averaged \$2.6 million annually over the past three years, this high level of cancellations is due to the clearing of several older projects. In FY 2014/15, \$2.5 million is estimated, a level more in line with historical spending.

Capital Budget – Comprising close to 40% of the total budget, the \$349.9 million Capital Budget includes \$281.0 million of direct costs in the Capital Improvement Program and indirect costs of \$62.9 million in capitalized interest and overhead allocations, and \$6.0 million in capital equipment. This includes expenditures for projects that have been approved, those that are pending, and proposed equipment purchases.

Capital Improvement Program - The \$281.0 million CIP is \$119 million or 29.8% lower compared to the \$399.9 million Adopted Budget and \$66 million or 19.0% lower than FY 2013/14 spending estimates of \$347 million. The latter represents an approximate 87% spend rate of the CIP Adopted Budget. Approximately \$136.3 million or 48.5% of the CIP Proposed Budget is devoted to terminal improvements, including \$100.4 million for the TraPac Container Terminal program. In terms of the \$510 million in total estimated costs for this program, it represents the largest capital endeavor since 2004 when Pier 400 was completed. Other key CIP projects include improvements at Everport Terminal

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Services (Evergreen), West Basin Container Terminal (Yang Ming, China Shipping), Eagle Marine (APL), and Yusen Terminals, Inc. (YTI); implementation of the Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS) for six liquid bulk terminals; the Space Needs Action Plan that improves Harbor Department office building utilization; transportation projects (road improvements); AltaSea (Phase I); among others. While projects associated with the Ports O'Call redevelopment are not currently programmed into the CIP, should project development move forward next fiscal year, funds are available in the Unallocated Capital Improvement Program Fund to commence design. Transmittal 1 contains a complete listing of proposed projects.

Five-Year Capital Expenditure Plan – In conjunction with the CIP Proposed Budget for FY 2014/15, a five-year capital expenditure plan has been developed (Transmittal 3), which incorporates the proposed budget allocation for FY 2014/15 and provides estimated allocations for the next four years along with total project costs. The plan is also utilized for long-term planning; for example, it has been incorporated into the Harbor Department's ten-year financial forecast. Inasmuch as the Harbor Department budgets on an annual basis in conformance with the City Charter, it is only the FY 2014/15 portion of this plan that is before the Board for adoption.

Grants – Augmenting Harbor Department revenues, the Proposed Budget includes \$116.1 million in estimated operating and capital grant reimbursements, which is relatively flat to the Adopted Budget and lower by \$4.8 million or 4% from the current fiscal year estimates of \$120.9 million. The latter is primarily due to lower pass-through grants receipts, which program expired at the end of June 2013.

Grant Reimbursements: \$116.1 Million

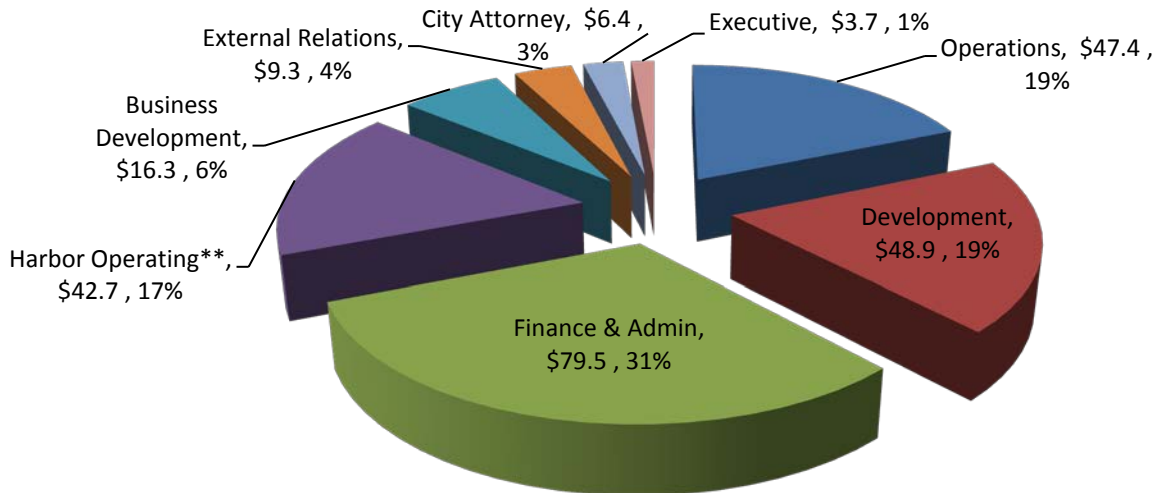
By Funding Source	By Project Category
Federal Grants: \$99.9 million	Capital: \$112.8 million
State Grants: \$16.2 million	Equipment: \$1.8 million
	Operating: \$1.5 million

The Harbor Department's grants management program is managing approximately \$300 million in its current portfolio. In the pipeline are grant seeking efforts for such projects as the YTI Terminal Program, LA Waterfront Development (Sampson Way), the Wilmington Waterfront Pedestrian Bridge, zero or near-zero emissions road trucks, and Port security projects.

Funding Highlights by Bureau/Office – The proposed operating expense budget supports seven Bureaus and Offices or primary functional areas of the Harbor Department (see chart below). Transmittal 4 provides details of funding highlights by respective Bureau/Office.

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FY 2014/15 PROPOSED OPERATING BUDGET
BY BUREAU/OFFICE
(Before Capitalization, \$254M*)
(\$ in Millions)



*Does not include \$36.8 million capitalization (\$20.1 million direct; \$16.7 indirect).

**Harbor Operating includes Port-wide expenses and is a component of the Finance & Administration Bureau budget; separated for illustration purposes.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the FY 2014/15 Annual Budget. This action does not constitute approval of specific projects. Any projects financed through the Resolution would require separate environmental analysis and Board approval. Therefore, as an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

The FY 2014/15 Proposed Annual Budget supports the creation of 6,250 jobs within the region as follows:

SUBJECT: CONSIDER FISCAL YEAR 2014/15 BUDGET

	Actual FY 2012	Actual FY 2013	Estimates FY 2014	Proposed FY 2015
Direct Jobs at the Port	954	949	939	940
Jobs Created by the Port – Capital Spending	2,100	3,400	6,200	4,600
Jobs Created by Other Port Spending	600	630	710	710
Total Jobs Created	3,654	4,979	7,849	6,250

FINANCIAL IMPACT:

Approval of the FY 2014/15 Proposed Annual Budget will authorize the Harbor Department’s Operating and Capital Budgets and appropriates the necessary funds for the Harbor Department’s operations in the next fiscal year. The proposed budget meets the financial metrics set forth in the Harbor Department’s Financial Policies. Any requirement that exceeds amounts authorized in the Annual Budget will require separate Board authorization.

CITY ATTORNEY:

The Office of the City Attorney has reviewed this board report and has no legal issues at this time.

TRANSMITTALS:


1. Fiscal Year 2014/15 Proposed Annual Budget
2. Additions and Deletions
3. Five-Year Capital Expenditure Plan
4. Funding Highlights by Bureau/Office

FIS Approval: KP (initials)
CA Approval: MC (initials)


KARL K. Y. PAN
Chief Financial Officer


MOLLY CAMPBELL
Deputy Executive Director

APPROVED:


GARY LEE MOORE, P.E.
Interim Executive Director
MC:KP:EY