



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MARCH 12, 2014

FROM: FINANCE

**SUBJECT: RESOLUTION NO. _____ - PRELIMINARY FISCAL
YEAR 2014/15 PROPOSED ANNUAL BUDGET DOCUMENT**

SUMMARY:

Attached for your input and review is the preliminary draft document to be provided to the City of Los Angeles City Administrative Officer (CAO) for its review and inclusion in the budget submittal of the Mayor to the Council as required in accordance with Article III of the Charter of the City of Los Angeles. Section 312 of Article III requires on or before April 20 of each year that the Mayor submit to the Council a budget for the next fiscal year. While the City Charter requires final adoption of the annual budget by the Board of Harbor Commissioners (Board), the Board may consider feedback provided during the City budget discussions prior to final adoption, which usually occurs in June.

It is recommended that the preliminary Fiscal Year (FY) 2014/15 proposed annual budget document (Transmittal 1) be transmitted to the CAO following the March 20, 2014 discussion with the Board. The due date to the CAO this year is March 24, 2014.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Authorize the Executive Director to transmit the Harbor Department's preliminary proposed budget document to the CAO (Transmittal 1);
2. Authorize the Executive Director, or designee, to make any technical adjustments consistent with Board feedback to the preliminary Fiscal Year 2014/15 proposed budget document as discussed on March 20, 2014;
3. Instruct the Executive Director to report back within 90 days with additional recommendations on revenue enhancements and expense reductions as it relates to the budget; and
4. Adopt Resolution No. _____.

SUBJECT: PRELIMINARY FY 2014/15 PROPOSED ANNUAL BUDGET DOCUMENT

DISCUSSION:

Background/Context – The preliminary proposed budget is comprised of three primary components: operating revenues, operating expenses and capital expenditures. Based on assumptions that reflect the current economic trends, compared to the FY 2013/14 adopted budget, the proposed budget estimates operating revenues to grow at approximately 1.3%, while expenses at a gross level are estimated to grow at about 2.5% for the FY 2014/15. Capital Improvement Program (CIP) expenditures are proposed to be at \$289.6 million and with equipment, total capital spending is expected to exceed \$340 million.

Operating revenues are expected to be higher than the FY 2013/14 adopted budget by \$5.4 million or 1.3% driven primarily by higher TEU (Twenty-foot Equivalent Unit) volumes generated by the container incentive program and to a lesser extent organic growth. Operating expenses continue to be driven by Salaries and Benefits, City Services, and Outside Services and for one year only, the \$3.5 million in costs associated with the container incentive program. Despite reductions to operating expenses during the budget process, increases resulting from higher benefit costs and Memorandum of Understanding mandated increases to salaries drove that category higher.

Key CIP projects within the \$289.6 million FY 2014/15 proposed budget include improvements at TraPac, Evergreen, Yang Ming, APL, YTI, and China Shipping terminals; MOTEMS (Marine Oil Terminal Engineering and Maintenance Standards); SNAP (Space Needs Action Plan); transportation projects (road improvements); AltaSea (Phase I); among others.

During the next five years, the Harbor Department projects that it will spend, on average, close to \$265 million a year towards its CIP. While the level of projected and proposed operating revenue and expenses next fiscal year continue to reflect an overall healthy financial condition, given the level, type and timing of the CIP contemplated and the level of borrowings required to support it, the Harbor Department will be facing challenging decisions as to prioritizing its expenditures. Towards that end, the Harbor Department is reviewing and assessing additional revenue enhancements and expenditure reductions that it will bring forward to the Board for consideration within the next 90 days.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval to transmit the preliminary FY 2014/15 proposed annual budget document to the CAO. 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.

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ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

The proposed action will result in the transmittal of the Harbor Department's preliminary FY 2014/15 proposed annual budget document to the CAO; it does not result in approval of the preliminary FY 2014/15 annual proposed budget. For the latter, a separate action by the Board is required to adopt the proposed budget, which normally occurs annually in June. Therefore, transmittal of the document will have no financial impact on the Harbor Department at this time.


CITY ATTORNEY:

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

TRANSMITTAL:


1. Harbor Revenue Fund Report – Preliminary FY 2014/15 Proposed Annual Budget

FIS Approval:  (initials)
CA Approval:  (initials)


KARL K.Y. PAN
Chief Financial Officer


MOLLY CAMPBELL
Deputy Executive Director

APPROVED:


GARY LEE MOORE, P.E.
Interim Executive Director

GLM:MC:KP:EY