



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: OCTOBER 12, 2017

TO: THE BOARD OF HARBOR COMMISSIONERS

SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR ENDED JUNE 30, 2017

SUMMARY:

This report discusses key factors that impacted the unaudited Fiscal Year (“FY”) 2017 financial performance of the City of Los Angeles (“City”) Harbor Department (“Harbor Department” or “Department”). Furthermore, this report compares the Harbor Department’s FY 2017 financial performance to the results projected within its adjusted Adopted FY 2017 Budget as well as the prior fiscal year.

Overall cargo volumes (as measured by TEUs or twenty-foot equivalent units) totaled 9.2 million TEUs in FY 2017 and represented an 8.0% increase relative to budget as well as a 9.7% increase relative to FY 2016. In summary, performance results for the Harbor Department are as follows:

FY Ended June 2017*	Actuals - UNAUDITED (in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	9.206	↑ 8.0%	↑ 9.7%
Operating Revenues	\$474.5	↑ 4.8%	↑ 7.5%
Operating Expenses	\$227.7	↓ (8.6%)	↓ (0.6%)
Operating Income	\$246.8	↑ 21.1%	↑ 14.8%
Net Income	\$ 84.6	↑ 186.9%	↑ 44.5%

* FY 2017 financial information is UNAUDITED and subject to change.

FY 2017 represented a record year for the Port of Los Angeles (“Port”). After experiencing severe service disruption in late-2014 and early-2015, the Port has facilitated the development of various supply chain initiatives and has continued its involvement in domestic and international supply chain optimization efforts aimed at increasing terminal velocity and elevating the Port’s competitive position. These efforts have continued bearing fruit as cargo volumes increased 2.4% in FY 2016 and in FY 2017 cargo volumes totaling 9,205,755 TEUs represented not only a 9.7% increase

SUBJECT: FINANCIAL PERFORMANCE RESULTS

over FY 2016, but also a new annual record for most container throughput for a Western Hemisphere port.

These record cargo volumes led to the collection of higher Shipping Services revenues relative to the prior fiscal year, and total Operating Revenues increased by 7.5% versus FY 2016. Total Operating Expenses increased by 0.6% relative to the prior fiscal year as Memorandum of Understanding salary increases, higher workers' compensation provisioning and higher city services expenditures were only partially offset by lower pollution remediation provisioning, lower shed demolition costs and lower materials and supplies spending. Relative to the prior fiscal year, this increase in total Operating Expenses was more than offset by the increase in total Operating Revenues such that Operating Income (before depreciation) increased by 14.8% relative to FY 2016.

DISCUSSION:

As of June 30, 2017, the Harbor Department meets or exceeds the following key performance metrics indicative of healthy operations:

TABLE 1: KEY FINANCIAL METRICS

Performance Metric	Minimum	As of 6/30/17
Debt Rating	AA	✓ AA
Debt Service Coverage	2.0x	✓ 3.1x
Operating Margin	45%	✓ 52%

As noted within Table 1 above, as of June 30, 2017, the Harbor Department has continued to maintain its AA debt rating. Additionally, the Department's 3.1x debt service coverage ratio exceeds the 2.0x minimum required under the Port's Financial Policies as well as the 1.25x minimum coverage required under the Port's Bond Indenture. Furthermore, the Harbor Department's 52% operating margin (calculated as operating income before depreciation divided by total Operating Revenues) exceeded a separately established key financial metric to maintain a minimum operating margin of 45%.

CARGO VOLUMES:

FY 2017 cargo volumes of 9,205,755 TEUs represented a 9.7% increase relative to FY 2016 levels and an 8.0% increase relative to budget. Total loaded containers of 6,584,517 represented a 9.9% increase relative to the prior year, and this increase was driven by a 13.6% increase in loaded exports which totaled 1,921,635 as well as an 8.5% increase in loaded imports which totaled 4,662,882 in FY 2017. Empty containers totaling 2,621,239 represented a year-over-year increase of 9.2%.

SUBJECT: FINANCIAL PERFORMANCE RESULTS

Many of the largest global container shipping lines, such as Maersk, China-COSCO Shipping, CMA CGM/APL, Evergreen, NYK, MOL and Yang Ming have interests in the Port's major container leaseholds. While their collective efforts drove the success of the Harbor Department's TEU results, a significant contributor to the increase in container volumes was the shift of cargo from the Port of Long Beach to the Eagle Marine Services facility at the Port of Los Angeles following the acquisition of APL by CMA CGM. Please refer to Transmittal 1 for a detailed monthly breakout of FY 2017 TEUs relative to both budget and the prior fiscal year.

OPERATING REVENUES:

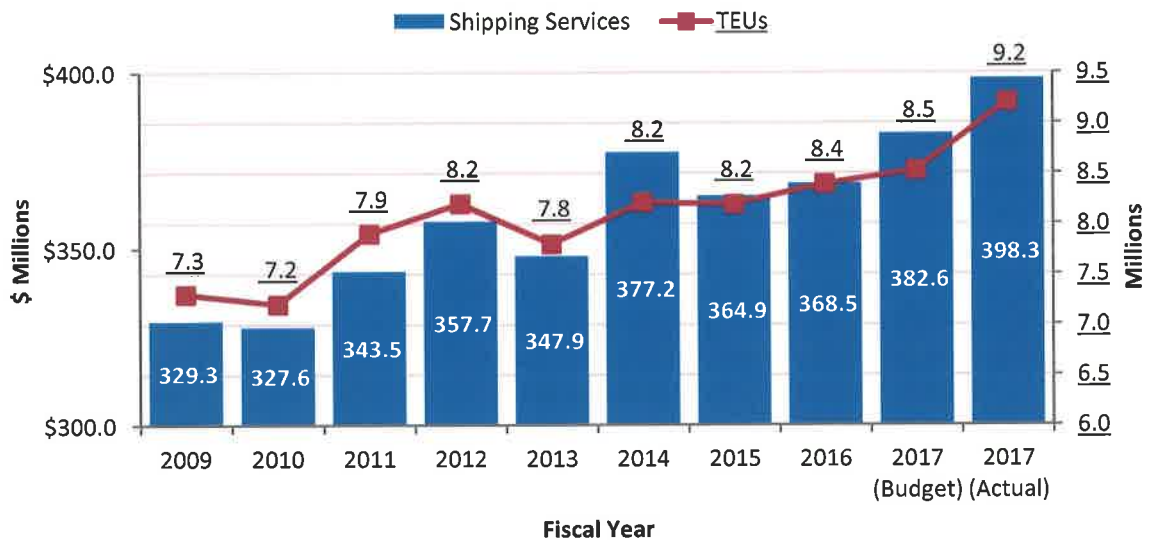
TABLE 2: FY 2017 OPERATING REVENUES

FY 2017 – Ended June 30 Unaudited (\$ in thousands)	FY 2017 Actual	FY 2017 Budget	FY 2016 Prior Year	% Variance vs. Budget	% Variance vs. Prior Year
Shipping Services	398,255	382,617	368,469	↑ 4.1%	↑ 8.1%
Rentals	51,257	41,706	46,571	↑ 22.9%	↑ 10.1%
Royalties, Fees and Other Revenues	22,679	26,222	23,824	↓ (13.5%)	↓ (4.8%)
Clean Truck Program Revenues	2,340	2,264	2,384	↑ 3.3%	↓ (1.9%)
Total Operating Revenues	474,531	452,809	441,248	↑ 4.8%	↑ 7.5%

Cargo Volume Growth Drives Operating Revenue Growth – FY 2017 cargo volumes exceeded 9.2 million TEUs, and these TEU levels represented an 8.0% increase relative to budget as well as a 9.7% increase relative to the prior fiscal year. These increased TEU volumes led to higher wharfage receipts as Shipping Services revenues increased 4.1% relative to budget and 8.1% relative to the prior fiscal year.

As noted within Table 3 below, TEU volumes have historically been and continue to be the key driver of shipping services revenues at the Port.

TABLE 3: SHIPPING SERVICES AND TEU TRENDS: FY 2009 – FY 2017



SUBJECT: FINANCIAL PERFORMANCE RESULTS

This growth in Shipping Services revenues was the key driver leading total Operating Revenues to increase 4.8% relative to budget and 7.5% relative to FY 2016. Further details regarding variances within other revenue accounts are provided below:

- **Rentals**

- Actuals vs. Budget: Rentals increased by \$9.6 million relative to budget primarily due to \$2.0 million in higher than budgeted receipts from three oil terminal tenants, \$1.8 million in higher rent from Ports O' Call tenants following the assignment of subleases from Ports O' Call Restaurant Corporation, \$1.6 million in higher gross receipts at Cabrillo Way Marina, \$1.5 million in higher various rents which were initially unbudgeted, \$1.4 million in higher receipts following the cancellation of Exxon Mobil's permit and subsequent reassignment to PBF Energy and \$1.3 million in higher rents paid for facilities occupied by the City of Los Angeles.
- Actuals vs. Prior Year: Rentals increased by \$4.7 million as \$4.1 million in net rental rate increases, \$1.2 million in higher rent from Ports O' Call tenants, \$0.9 million in new permits issued and \$0.5 million in higher net rent from the assignment of Exxon Mobil's permit to PBF Energy were only slightly offset by the non-recurrence of a \$1.4 million, one-time payment by Ardagh¹ in the prior fiscal year and \$0.6 million in other permit terminations.

- **Royalties, Fees and Other Revenues**

- Actuals vs. Budget: Royalties, fees and other revenues decreased by \$3.5 million, broken out as follows:
 - \$3.0 million in lower utility reimbursements², \$2.6 million in higher credits for tenant services³ and \$2.3 million in lower miscellaneous revenues; partially offset by
 - \$3.0 million Harbor Maintenance Tax receipt, one-time legal and insurance settlements totaling \$0.9 million, higher port police services of \$0.3 million and \$0.2 million of higher railroad lease receipts.

¹ In FY 2016, a one-time adjustment related to Revocable Permit No. 14-11 with Ardagh Metal Packaging USA Inc. was recorded. This lump sum adjustment recovered rent retroactive to December 11, 2012.

² Utility reimbursements were lower than budgeted primarily because AMPTM-related electricity expenses were lower than budgeted. AMPTM-related electricity expenses are initially paid by the Harbor Department, and then reimbursed by terminal operators.

³ FY 2017 credits for tenant services totaled \$3.2 million, and, of this total, \$2.9 million related to Westrec Marina Management, Inc. ("Westrec"). As per the terms of Agreement No. 13-3125, Westrec operates, manages and maintains the Cabrillo Way Marina on behalf of the Harbor Department. For accounting purposes, the operating expenses incurred by Westrec are booked as credits for tenant services while the corresponding gross revenues collected by Westrec are recorded as rental revenues. In FY 2017, Westrec collected \$4.6 million in gross revenues at Cabrillo Way Marina relative to incurring \$2.9 million in operating expenses.

SUBJECT: FINANCIAL PERFORMANCE RESULTS

- Actuals vs. Prior Year: Royalties, fees and other revenues decreased by \$1.1 million, broken out as follows:
 - \$5.4 million in lower one-time refunds and reimbursements and \$0.3 million in lower parking fees which were partially offset by
 - \$3.0 million Harbor Maintenance Tax receipt, \$1.2 million of higher utility reimbursements, \$0.2 million in higher miscellaneous permits and fees and \$0.2 million of higher railroad lease receipts.
- **Clean Truck Program (“CTP”) Revenues**
 - Actuals vs. Budget: CTP revenues increased by \$76 thousand relative to budget as \$56 thousand in higher annual truck fees and \$47 thousand in higher concession application fees were only slightly offset by \$27 thousand in lower day pass fees. It is important to note that CTP revenues tend to be cyclical contingent upon a five-year renewal cycle with the most recent CTP revenue peak occurring in FY 2015.
 - Actuals vs. Prior Year: CTP revenues decreased by \$45 thousand as \$126 thousand in lower concession application and day pass fees were only partially offset by \$81 thousand in higher annual truck fees.

OPERATING EXPENSES:


TABLE 4: FY 2017 OPERATING EXPENSES

FY 2017 – Ended June 30 UNAUDITED* (\$ in thousands)	FY 2017 Actual*	FY 2017 Budget	FY 2016 Prior Year	% Variance vs. Budget	% Variance vs. Prior Year
Net Salaries & Benefits	118,582	130,536	114,719	↓ (9.2%)	↑ 3.4%
Marketing & Public Relations	2,583	3,269	2,567	↓ (21.0%)	↑ 0.6%
Travel	536	916	611	↓ (41.5%)	↓ (12.3%)
Outside Services	25,022	36,118	28,970	↓ (30.7%)	↓ (13.6%)
Materials & Supplies	5,314	7,266	6,340	↓ (26.9%)	↓ (16.2%)
City Services	39,554	45,741	37,421	↓ (13.5%)	↑ 5.7%
Allocations to Capital - Overhead	-	(13,697)	-	n/a	n/a
Other Operating Expenses	35,381	37,949	34,736	↓ (6.8%)	↑ 1.9%
Clean Truck Program Expenses	704	944	897	↓ (25.5%)	↓ (21.5%)
Total Operating Expenses	227,676	249,042	226,261	↓ (8.6%)	↑ 0.6%

*Note: FY 2017 Operating Expenses are UNAUDITED and subject to change.




OPERATING EXPENSES (vs. Budget):

Decreased Spending on Outside Services and Lower Average Filled Positions Drive Total Operating Expenses below Budget – Total Operating Expenses of \$227.7 million fell 8.6% or \$21.4 million below budget. Details for each major Operating Expense category and a comparison relative to their respective budgets are as follows:




- **Net Salaries & Benefits: \$118.6 million**  **by \$12.0 million or 9.2%.**
Net Salaries & Benefits expenses declined relative to budget primarily due to lower average filled positions of 892 relative to a budget of 930. This lower level of average filled positions accounted for approximately \$5.7 million of overall savings. Net Salaries & Benefits declined by an additional \$10.1 million due to indirect

SUBJECT: FINANCIAL PERFORMANCE RESULTS

allocations to overhead. These indirect allocations to overhead serve to reduce Net Salaries & Benefits expenses; however, they are budgeted within a separate operating expense account outside of Net Salaries & Benefits expenses. The favorable variance generated by lower average filled position levels and overhead capitalization were only partially offset by unfavorable variances related to higher average salaries per person (-\$2.0), less than budgeted capitalization of salaries directly to CIP projects (-\$1.1) and higher overtime charges (-\$0.7).

- **Marketing and Public Relations: \$2.6 million**  **by \$0.7 million or 21.0%.**
Spending fell below budget due to \$0.4 million in lower promotional, sponsorship and advertising spending. In addition, \$0.3 million of greater than budgeted overhead costs were capitalized over the course of FY 2017.
- **Travel: \$0.5 million**  **by \$0.4 million or 41.5%.**
Lower spending relative to budget was the result of fewer trips than expected for both business development and training and employee development purposes.
- **Outside Services: \$25.0 million**  **by \$11.1 million or 30.7%.**
Primary drivers of the lower spending in Outside Services are as follows:
 - **Environmental Assessments** (lower by \$4.0 million) due to project cancellations, changes in project scopes, project delays, better tracking/management of waste management services throughout the Port and cost savings achieved for coordination with government agencies;
 - **Overhead Capitalization** (higher by \$1.6 million) as overhead capitalization was not budgeted for outside services;
 - **Legal Services** (lower by \$1.5 million) due to less spending on outside counsel and expert witnesses than anticipated;
 - **Maintenance Services** (lower by \$1.1 million) due to lower spending on the demolition of a transit shed which had been damaged by fire as well as lower spending on deferred maintenance;
 - **Waterfront and Commercial Real Estate Services** (lower by \$0.8 million) due to lower cruise terminal staging expenses at the SSA fruit terminal on days where three or more ships are docked at the same time;
 - **Security** (lower by \$0.7 million) due to lower spending on security camera maintenance and repair;
 - **Cargo Marketing** (lower by \$0.3 million) due to lower spending on Mayoral Trade Missions;
 - **Contracts and Purchasing** (lower by \$0.3 million) primarily due to delayed payment of contract compliance costs related to the Bond Assistance Program;
 - **Government Affairs** (lower by \$0.2 million) due to lower federal and state advocacy spending;
 - **Engineering** (lower by \$0.2 million) due to lower bike share maintenance expenses; and


SUBJECT: FINANCIAL PERFORMANCE RESULTS

- **Cargo and Industrial Real Estate** (lower by \$0.1 million) due to lower title, insurance, escrow, transfer tax and appraisal fees as well as lower costs to collect rents on properties owned jointly with the Port of Long Beach.
- **Materials and Supplies: \$5.3 million**  **by \$2.0 million or 26.9%.**
The lower than budget result in this category is primarily driven by materials and supplies spending within the Development Bureau (which accounted for more than 80% of all materials and supplies spending throughout the Department) that was \$0.9 million lower than budgeted. Materials and supplies spending was further driven lower by \$0.8 million in higher capitalization of materials and supplies expenses than budgeted. Lastly, spending on information technology, Port Police materials and general supplies throughout the Department was \$0.3 million below budget.
- **City Services: \$39.6 million**  **by \$6.2 million or 13.5%.**
Lower expenses were primarily driven by \$3.6 million in higher capitalization of overhead allocations. In addition, recreation and parks spending was \$1.7 million lower than budgeted; miscellaneous spending was \$0.5 million lower than budgeted; CAO spending was \$0.2 million lower than budgeted; and City Attorney spending was \$0.2 million lower than budgeted. However, it is important to note that the overall city services budget was increased by \$3.3 million as approved by the Board in April 2017.
- **Other Operating Expenses: \$35.4 million**  **by \$2.6 million or 6.8%.**
Primary drivers of the lower spending in Other Operating Expenses are as follows:
 - **Electricity** (lower by \$3.0 million) due to \$2.9 million in lower spending on AMPTM-related electricity expenses;
 - **Capitalization** (higher by \$1.8 million) as overhead capitalization was not budgeted for other operating expenses;
 - **Bad Debt** (lower by \$0.5 million) due to higher than expected receivable collections;
 - **Rentals** (lower by \$0.5 million) primarily due to a lease incentive earned at the Topaz building following the execution of a new lease in October 2016;
 - **Environmental Incentives** (lower by \$0.3 million) due to fluctuations in billing from eligible participants in the Vessel Speed Reduction Program; and
 - **Insurance** (lower by \$0.3 million) due to lower than expected premiums negotiated over the fiscal year.

The above favorable variances were partially offset by unfavorable variances related to the following:





- **Workers' Compensation** (higher by \$2.2 million) primarily due to higher provisioning for increased severity of recent claims; and
- **Pollution Remediation** (higher by \$1.5 million) primarily due to higher provisioning for remediation activities at the Southwest Marine site.

SUBJECT: FINANCIAL PERFORMANCE RESULTS




- **Clean Truck Program: \$0.7 million**  **by \$0.2 million or 25.5%**
Included in Other Operating Expenses but reported separately are Clean Truck Program administrative expenses of \$0.7 million which were lower as a result of fewer special studies being conducted over the course of the fiscal year. As a note, the \$0.7 million in expenses for this program were offset by \$2.3 million in Clean Truck Program revenues this fiscal year.

OPERATING EXPENSES (vs. Prior Year):

Memorandum of Understanding Salary Increases and Higher Workers' Compensation Provisioning Increase Total Operating Expenses versus Prior Year
– Total Operating Expenses of \$227.7 million increased 0.6% or \$1.4 million above the prior fiscal year. Details for each major Operating Expense category and a comparison relative to their respective prior fiscal year figures are as follows:


- **Net Salaries & Benefits: \$118.6 million**  **by \$3.9 million or 3.4%.**
The increase in Net Salaries & Benefits was primarily driven by \$5.4 million in MOU salary and benefit increases which represented an approximate 4.2% increase over the prior year. This increase was slightly offset by \$0.7 million in savings from lower average filled positions of 892 in FY 2017 versus the 896 average for FY 2016. Net Salaries & Benefits expenses were further driven lower by \$0.7 million in greater net allocations to overhead and \$0.1 million in lower overtime expenses.
- **Marketing and Public Relations: \$2.6 million**  **by \$0.02 million or 0.6%.**
Marketing and Public Relations spending was approximately flat relative to the prior year as \$0.2 million in higher promotional activities were almost completely offset by \$0.2 million in lower advertising, foreign trade representation and sponsorships as well as slightly higher overhead allocations relative to the prior fiscal year.
- **Travel: \$0.5 million**  **by \$0.1 million or 12.3%.**
Travel expenses marginally decreased by \$75 thousand relative to the prior fiscal year as slightly less travel was required following the higher travel requirements in FY 2016 to maintain stakeholder relationships after the period of significant service disruption experienced in January and February 2015.
- **Outside Services: \$25.0 million**  **by \$3.9 million or 13.6%.**
Outside Services expenditures declined by \$3.9 million relative to the prior fiscal year as \$5.1 million in declines were only partially offset by \$1.2 million in increases.
 - Outside Services declines of \$5.1 million were comprised of:
 - **Demolition Expenses** (lower by \$1.9 million) primarily due to higher prior year spending on demolition of a transit shed which had been damaged by fire;

SUBJECT: FINANCIAL PERFORMANCE RESULTS

- **Port Technology Security Expenses** (lower by \$0.9 million) due to lower spending on computer aided dispatch, port security and various police technology;
 - **Legal Expenses** (lower by \$0.9 million) due to lower spending on environmental legal services;
 - **Environmental Assessment Services** (lower by \$0.6 million) due to fewer requests for emergency services and more efficient oversight of waste management services;
 - **Red Car Spending** (lower by \$0.5 million) following the suspension of Red Car services in early Fall 2015;
 - **Contracts and Purchasing** (lower by \$0.2 million) due to delayed payment of contract compliance costs associated with the Bond Assistance Program; and
 - **Planning** (lower by \$0.1 million) due to lower spending on consulting assistance for long-term planning.
- Outside Services increases of \$1.2 million were comprised of:
 - **Construction and Maintenance** (higher by \$0.8 million) due to higher building maintenance costs; and
 - **Capitalization** (lower by \$0.4 million) due to lower overhead allocations.
- **Materials and Supplies: \$5.3 million**  **by \$1.0 million or 16.2%.**
The \$1.0 million decrease in this category is primarily due to \$1.0 million in lower materials and supplies purchases within the Construction and Maintenance division.
 - **City Services: \$39.6 million**  **by \$2.1 million or 5.7%.**
City services expenses increased primarily due to the application of higher Cost Allocation Plan rates and Memorandum of Understanding salary increases relative to the prior year.
 - **Other Operating Expenses: \$35.4 million**  **by \$0.7 million or 1.9%.**
Other Operating Expenses increased relative to the prior year as \$6.7 million in increases were partially offset by decreases totaling \$6.0 million across various categories.
 - Other Operating Expense increases of \$6.7 million were comprised of:
 - **Workers' Compensation** (higher by \$5.5 million) due to higher provisioning for increased severity of recent claims;
 - **Utilities** (higher by \$0.8 million) as \$1.0 million in higher water & gas expenses was only partially offset by \$0.2 million in lower electricity spending; and
 - **Other Expenses** (higher by \$0.4 million) primarily due to inventory adjustments following the sale of crane parts and materials during the fiscal year.

SUBJECT: FINANCIAL PERFORMANCE RESULTS

- Other Operating Expense declines of \$6.0 million were comprised of:
 - **Pollution Remediation** (lower by \$3.7 million) due to decreased reserve funding required to offset anticipated future pollution obligations;
 - **Litigation** (lower by \$0.8 million) due to lower settlement payouts;
 - **Provisions for Bad Debt** (lower by \$0.7 million) due to higher receivable collections;
 - **Capitalization** (higher by \$0.4 million) due to higher overhead allocations;
 - **Rentals** (lower by \$0.2 million) due to a lease incentive earned at the Topaz building following the execution of a new lease in October 2016;
 - **Environmental Incentives** (lower by \$0.1 million) as \$0.7 million in lower spending on the Vessel Speed Reduction Program was almost completely offset by \$0.6 million in higher spending on the Technology Advancement Program; and
 - **Insurance** (lower by \$0.1 million) due to lower premium costs.

- **Clean Truck Program: \$0.7 million**  **by \$0.2 million or 21.5%**
 Included in Other Operating Expenses but reported separately are Clean Truck Program administrative expenses of \$0.7 million which were lower than prior year as a result of fewer special studies being conducted over the course of the fiscal year, as previously discussed.

OTHER ITEMS:

TABLE 5: FY 2017 OPERATING INCOME AND NET INCOME

FY 2017 – Ended June 30 Unaudited (\$ in thousands)	FY 2017 Actual	FY 2017 Budget	FY 2016 Prior Year	% Variance vs. Budget	% Variance vs. Prior Year
Operating Income	246,855	203,767	214,987	 21.1%	 14.8%
Less: Depreciation	(172,895)	(172,005)	(163,933)	 0.5%	 5.5%
Plus: Non-Operating Revenues	22,425	16,831	16,273	 33.2%	 37.8%
Less: Non-Operating Expenses	(11,744)	(19,094)	(8,760)	 (38.5%)	 34.1%
Net Income	88,641	29,499	58,567	 186.9%	 44.5%

Depreciation, Non-Operating Revenues and Non-Operating Expenses:

- **Depreciation:** \$172.9 million
 - Depreciation exceeded budget by \$0.9 million and exceeded prior year by \$9.0 million due to higher capitalization of facilities and equipment as more assets were placed into service after recent construction completions.

- **Non-Operating Revenues:** \$22.4 million
 - *Actuals vs. Budget:* Non-Operating Revenues exceeded budget by \$5.6 million due to positive variances with respect to: the Pasha fire insurance settlement (higher by \$9.1 million), interest income (higher by \$2.9 million), federal/state pass-through revenues (higher by \$0.9 million),

SUBJECT: FINANCIAL PERFORMANCE RESULTS

higher environmental insurance reimbursements related to the 2011 ACTA/Dominguez Oil Release (higher by \$0.2 million) and higher income related to the Department's investment in the Intermodal Container Transfer Facility ("ICTF") (higher by \$0.2 million). These positive variances were partially offset by greater mark-to-market losses on pooled investments (unfavorable by \$5.9 million), lower gains on asset sales and miscellaneous non-operating revenues (lower by \$1.1 million) and federal/state grant receipts which were lower by \$0.7 million relative to budget.

- *Actuals vs. Prior Year:* Non-Operating Revenues increased by \$6.2 million relative to prior year levels due to favorable variances with respect to: the Pasha fire insurance settlement (higher by \$9.2 million) federal/state pass-through revenues (higher by \$6.4 million), interest income (higher by \$1.7 million), federal grants (higher by \$0.5 million) and higher environmental insurance reimbursements related to the 2011 ACTA/Dominguez Oil Release (higher by \$0.2 million). These favorable variances were partially offset by greater mark-to-market losses on pooled investments (unfavorable by \$9.9 million), lower gains on asset sales (lower by \$1.6 million) and lower income related to the Department's investment in the ICTF (lower by \$0.4 million).
- Non-Operating Expenses: \$11.7 million
 - *Actuals vs. Budget:* Non-Operating Expenses decreased by \$7.3 million relative to budget due to favorable variances with respect to: interest expense (lower by \$9.7 million), pass-through grant disbursements (lower by \$4.5 million), capital projects cancelled or not completed (lower by \$1.7 million), miscellaneous non-operating expenses (lower by \$0.3 million), bond/commercial paper administration costs (lower by \$0.3 million) and losses on asset sales (lower by \$0.1 million). These favorable variances were partially offset by an unfavorable variance with respect to interest capitalization which was lower by \$9.3 million.
 - *Actuals vs. Prior Year:* Non-Operating Expenses increased by \$3.0 million relative to prior year due to unfavorable variances with respect to: federal/state pass-through grant disbursements (higher by \$6.4 million), interest capitalization (lower by \$5.7 million), losses on asset sales (higher by \$0.8 million) and bond/commercial paper administration costs (higher by \$0.5 million). These unfavorable variances were partially offset by favorable variances with respect to: interest expense (lower by \$5.6 million), capital projects cancelled or not completed (lower by \$4.5 million) and a prior year accounting adjustment related to the redemption of Series 2005 C-1 bonds (lower by \$0.3 million).

SUBJECT: FINANCIAL PERFORMANCE RESULTS

CAPITAL IMPROVEMENT PROGRAM (CIP):

Budget Performance – Unaudited spending in FY 2017 was \$91.6 million or 63% of the Adopted Capital Improvement Program Budget of \$146.1 million. CIP spending fell below budget due to lower than budgeted spending in FY 2017 on certain key terminal projects such as Phases 2-4 of Backland Improvements at the Trapac Terminal, AMP upgrades and retrofitting at the Cruise Terminal as well as wharf rehabilitation efforts at the WWL Terminal.

Major projects completed include (with amount of FY 2017 CIP spending in parenthesis):

- **YTI Redevelopment (Berth 214-220 Redevelopment, AMP™ Improvements, 480-volt Main Breakers Replacement, etc.) (\$24.3 million)** for construction improvements which will enable the tenant, YTI, to service larger ships as well as provide ships calling at YTI with better AMP™ service while docked;
- **Berth 142-143 Backland Improvements – Phases 2-4 (\$16.2 million)** for construction completion of additional automation capabilities at the Trapac terminal;
- **Transportation Improvements:**
 - **C Street / I-110 Access Ramp Improvements (\$8.5 million)** for construction completion of a realignment of the I-110 off-ramp to accommodate heavy truck volumes and provide improved connectivity to Harry Bridges Boulevard;
 - **John S. Gibson Intersection & NB I-110 Ramp Access Improvements (\$1.9 million)** for construction completion of the John S. Gibson Blvd. on-ramp and off-ramp that will provide better access to and from the I-110 freeway; and
 - **I-110 / SR 47 Connector Improvement (\$0.9 million)** for construction completion of an additional lane to the State Route-47 Connector to the northbound I-110 freeway; and
- **Berth 200 Rail Yard Track Connections (\$0.6 million)** for construction completion of rail connections which will improve rail efficiency in the port complex and increase service for the West Basin and Mormon Island tenants.

Major in-process projects include the following efforts which continued over the course of FY 2017:

- **Trapac Container Terminal Redevelopment (\$9.3 million)** for continued construction of the crane maintenance building, terminal buildings, main gate and ICTF at Berths 134-147 leased by Trapac;
- **San Pedro Waterfront Redevelopment (\$5.0 million)** for the continuation of development efforts along the San Pedro Waterfront, including but not limited to: Sampson Way roadway improvements, Ports O' Call Promenade and Town Square design, retrofitting the Berth 57 wharf and Signal Street improvements; and
- **Wilmington Waterfront Redevelopment (\$1.9 million)** for the continuation of development efforts along the Wilmington Waterfront, including but not limited to:

DATE: OCTOBER 12, 2017

PAGE 13 OF 13

SUBJECT: FINANCIAL PERFORMANCE RESULTS

The Wilmington Waterfront Promenade, the Avalon Promenade and Gateway, Wilmington Waterfront Park Slope Improvements and the Harry Bridges Boulevard Buffer.

Mark Blewett FOR

EUGENE D. SEROKA
Executive Director

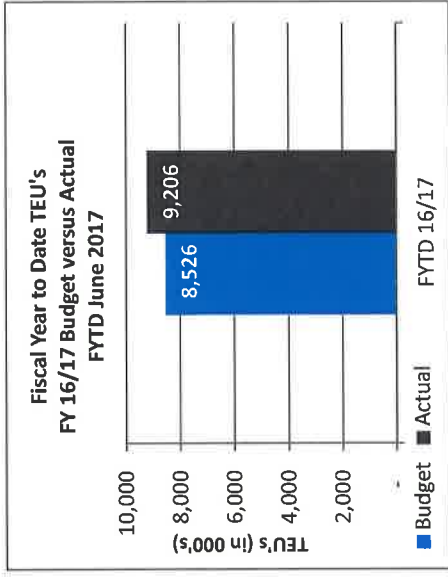
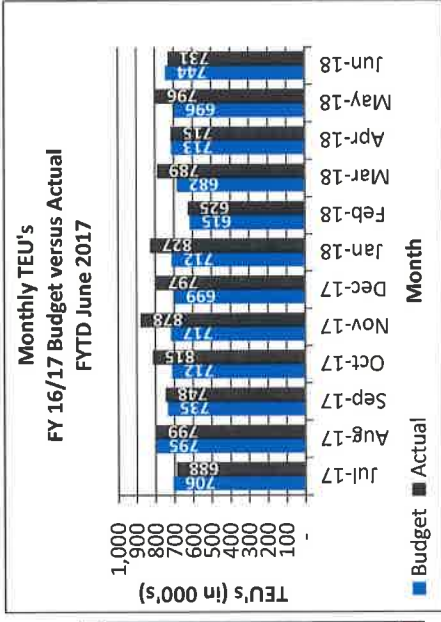
Transmittals:

1. TEU Throughput Comparison – FY Ended June 30, 2017
2. Actual-to-Budget FY 2017 – June
3. Year-to-Year Performance Report YTD June 30, 2017 and 2016

Author: M. Marchese
MB:MM/Finance
cc: Deputy Executive Directors

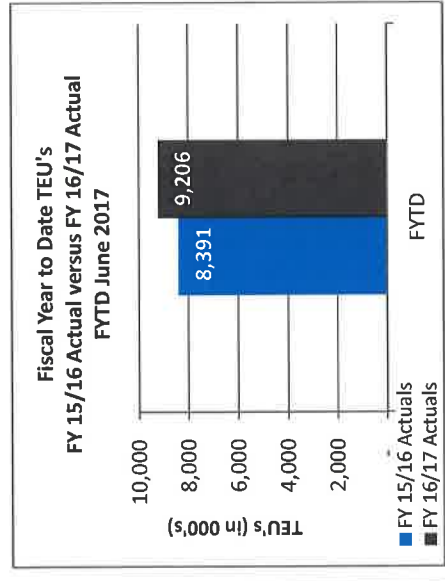
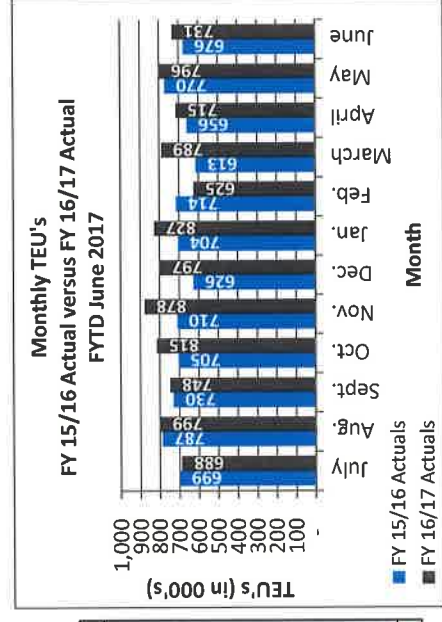
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(in 000's)	TEU's		% Δ	Δ
Month	FY 16/17 Budget	FY 16/17 Actuals		
Jul-17	706	688	-2.6%	↓
Aug-17	795	799	0.6%	↑
Sep-17	735	748	1.7%	↑
Oct-17	712	815	14.5%	↑
Nov-17	717	878	22.4%	↑
Dec-17	699	797	14.0%	↑
Jan-18	712	827	16.1%	↑
Feb-18	615	625	1.7%	↑
Mar-18	789	682	-15.6%	↓
Apr-18	713	715	0.2%	↑
May-18	696	796	14.4%	↑
Jun-18	744	731	-1.7%	↓
FYTD 16/17	8,526	9,206	8.0%	↑
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	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	796	3.3%	↑
June	676	731	8.1%	↑
FYTD	8,391	9,206	9.7%	↑
FY 15/16 Actuals	8,391			



9,206

The Port of Los Angeles - Harbor Department
FYTD June 30, 2017

Actual-to-Budget Performance Report

	UNAUDITED		ADJUSTED*		Actual-to-Budget		Notes (\$ in millions)
	Fiscal Year Actual FY 2016/17	Fiscal YTD - June 2017	Fiscal Year Budget FY 2016/17	Fiscal YTD - June 2017	\$	%	
Operating Revenues	398,255		382,617		15,639	4.1%	Higher than budgeted wharfage \$18.0, higher pilotage \$0.3 and higher space assignment \$0.1, partially offset by lower dockage -\$2.0 and lower lay day fees -\$0.8
Shipping Services	51,257		41,706		9,552	22.9%	Higher rent receipts than budgeted due to unbudgeted rent from Ports O' Call and implementation of compensation resets, including CPI escalations
Rentals	22,679		26,222		(3,544)	(13.5%)	Lower utility reimbursements -\$3.0, higher credits for tenant services -\$2.6 and lower misc. revenues -\$2.3, partially offset by Harbor Maintenance Tax receipt \$3.0, one-time legal and insurance settlements \$0.9, higher port police services \$0.3 and higher railroad lease receipts \$0.2
Clean Truck Program Revenues	2,340		2,264		76	3.3%	
Total Operating Revenues	474,531		452,809		21,722	4.8%	
Operating Expenses	142,146		145,022		(2,876)	(2.0%)	Lower average filled positions, partially offset by higher average salaries, higher overtime and miscellaneous employee benefits
Gross Salaries & Benefits	(23,563)		(14,486)		(9,078)	62.7%	Overhead allocations -\$10.1, partially offset by lower direct capitalization \$1.0
Capitalization	118,582		130,536		(11,954)	(9.2%)	Overhead capitalization -\$0.3, lower promotional/sponsorships -\$0.3, and lower advertising -\$0.1
Net Salaries & Benefits	2,983		3,269		(886)	(21.0%)	Lower environmental assessments -\$4.0, overhead allocations -\$1.6, lower outside legal counsel spending -\$1.5, lower shed demolition costs and deferred maintenance spending -\$1.1, lower cruise operator costs -\$0.8, lower port security system costs -\$0.7, lower misc. spending -\$0.3, lower mayoral trade mission spending -\$0.3, lower contract compliance costs -\$0.3, lower federal/state advocacy spending -\$0.2, lower engineering software services -\$0.2 and lower appraisals/property services -\$0.1
Marketing & Public Relations	536		916		(380)	(41.5%)	
Travel	25,022		36,118		(11,096)	(30.7%)	
Outside Services							
Materials & Supplies	5,314		7,266		(1,952)	(26.9%)	Overhead allocations -\$0.8, lower C&M spending -\$0.7 and lower misc. spending -\$0.4
City Services	39,554		45,741		(6,187)	(13.5%)	Overhead allocations -\$3.6, lower recreation and parks spending -\$1.7, lower misc. spending -\$0.5, lower CAO spending -\$0.2 and lower City Attorney spending -\$0.2
(1) Allocations to Capital - Overhead	35,380		(13,697)		13,697	(100.0%)	Higher aggregate overhead allocations \$4.6
(2) Other Operating Expenses			37,949		(2,569)	(6.8%)	Lower electricity -\$3.0, overhead allocations -\$1.8, lower bad debt expense -\$0.5, lower equipment rentals -\$0.5, lower environmental incentives -\$0.3, lower insurance expense -\$0.3, lower water & gas -\$0.3 and lower telephone expenses -\$0.2, partially offset by higher workers' compensation provision \$2.2, higher pollution remediation provisioning \$1.5, higher inventory adjustments \$0.4 and higher litigation/claims \$0.3
Clean Truck Program Expenses	704		944		(240)	(25.5%)	
Total Operating Expenses	227,676		249,042		(21,366)	(8.6%)	
Income Before Depreciation	246,855		205,767		43,088	21.1%	
Provision For Depreciation	172,895		172,005		890	0.5%	
Income From Operations	73,960		31,762		42,198	132.9%	
(3) Non-Operating Revenue	22,425		16,831		5,594	33.2%	Pasha fire insurance settlement \$9.1, higher interest income \$2.9, higher passthrough grant receipts \$0.9, higher environmental insurance reimbursements (ACTA/Dominguez Oil Release) \$0.2 and higher JPA income \$0.2, partially offset by higher mark-to-market losses on pooled investments -\$5.9, lower gains on asset sales/misc. non-operating revenues -\$1.1 and lower federal operating grants -\$0.7
(4) Non-Operating Expenses	(11,744)		(19,094)		7,350	(38.5%)	Lower interest expense \$9.7, lower passthrough grant disbursements \$4.5, lower capital projects closed to expense \$1.7, lower misc. non-operating expenses \$0.3, lower bond/commercial paper administration costs \$0.3 and lower losses on asset sales \$0.1, partially offset by lower interest capitalization -\$9.3
Net Income	84,641		29,499		55,142	186.9%	

Adjusted Budget Details:
In June 2017, \$3,296,009 was transferred from Salaries and Benefits to City Services.

- 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 \$18.3 million relative to a budget of \$13.7 million.
 - (2) Primarily for: Electricity \$12.6; Bad Debt \$8.0; Workers' Compensation \$4.3; Insurance \$3.0; Environmental Incentives \$2.6; Water & Gas \$2.4; Telephone \$1.6; Pollution Remediation \$1.5; Equipment Rental/Permits/License/Fees \$0.9; Memberships/Subscriptions/Books \$0.9; Litigation/Claims \$0.6; Taxes & Assessments \$0.4; Inventory Adjustments \$0.4; Overhead Capitalization (\$1.8)
 - (3) Primarily for: Settlements/Rebates: \$9.2; Federal/State Passthrough Receipts \$7.9; Interest Income \$7.1; ICTF/JPA Income \$2.2; Federal/State Operating Grants \$1.2; Late Charges/Discounts/Misc. \$0.6; Environmental Insurance Reimbursements \$0.2; Pooled Investments Mark-to-Market (\$6.0)
 - (4) Primarily for: Interest Expense \$36.1; Capitalized Interest: -\$35.5; Federal/State Passthrough Expenses \$7.9; Bond Administration Costs \$0.9; Loss on Sale of Assets \$0.8; Commercial Paper Costs \$0.7

UNAUDITED

	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	Fiscal YTD - June 2017	Fiscal YTD - June 2016	\$	%	
\$ in thousands					
Operating Revenues					
Shipping Services	398,255	368,469	29,786	8.1%	Higher overall wharfrage \$27.7, higher pilotage \$2.5 and higher space assignment \$1.8, partially offset by lower dockage <\$1.5> and lower lay day fees <\$0.7>
Rentals	51,257	46,571	4,686	10.1%	Permit assignment to PBF Energy \$5.3, net rental rate increases \$4.1, assignment of subleases at Ports O' Call \$1.2 and new permits issued \$0.9, partially offset by cancellation of Exxon Mobil permit <\$4.8>, one-time Ardagh payment in the prior fiscal year <\$1.4> and other permit terminations <\$0.6>
Royalties, Fees and Other Revenues	22,679	23,824	(1,146)	(4.8%)	Lower one-time refunds & reimbursements <\$5.4> and lower parking fees <\$0.3>, partially offset by Harbor Maintenance Tax receipt \$3.0, higher utility reimbursements \$1.2, higher misc. permits & fees \$0.2 and higher railroad lease receipts \$0.2
Clean Truck Program Revenues	2,340	2,384	(45)	(1.9%)	
Total Operating Revenues	474,531	441,249	33,282	7.5%	
Operating Expenses					
Gross Salaries & Benefits	142,146	137,551	4,594	3.3%	MOU salary increases partially offset by lower average filled positions and lower overtime
Capitalization	(23,563)	(22,832)	(731)	3.2%	Higher overhead allocations <\$1.2>, partially offset by lower direct capitalization \$0.5
Net Salaries & Benefits	118,582	114,719	3,863	3.4%	
Marketing & Public Relations	2,583	2,567	16	0.6%	
Travel	536	611	(75)	(12.3%)	
Outside Services	25,022	28,970	(3,948)	(13.6%)	Lower shed demolition costs <1.9>, lower security camera spending <\$0.9>, lower outside legal counsel costs <\$0.9>, lower environmental assessment spending <\$0.6>, lower red car spending <\$0.5>, lower Bond Assistance Program payment <\$0.2> and lower cargo forecast costs <\$0.1>, partially offset by higher C&M building services \$0.8 and lower overhead capitalization \$0.4
Materials & Supplies	5,314	6,340	(1,025)	(16.2%)	Lower construction and maintenance spending <\$1.0>
City Services	39,554	37,421	2,133	5.7%	Higher Fire services \$3.3 and higher personnel services \$0.2, partially offset by lower recreation and parks <\$0.6>, higher overhead allocations <\$0.4>, lower city attorney <\$0.3> and lower public works spending <\$0.1>
(1) Other Operating Expenses	35,380	34,736	644	1.9%	Higher workers' compensation provisioning \$5.5, higher water & gas \$1.0 and higher inventory adjustments \$0.4, partially offset by lower pollution remediation provisioning <\$3.7>, lower litigation/claims expenses <\$0.8>, lower bad debt expense <\$0.7>, higher overhead allocations <\$0.4>, lower equipment rentals/permits/license/fees <\$0.2>, lower electricity <\$0.2>, lower environmental incentives <\$0.1> and lower insurance <\$0.1>
Clean Truck Program Expenses	704	897	(193)	(21.5%)	
Total Operating Expenses	227,676	226,261	1,414	0.6%	
Income Before Depreciation	246,855	214,987	31,868	14.8%	
Provision For Depreciation	172,895	163,933	8,961	5.5%	
Income From Operations	73,960	51,054	22,906	44.9%	
(2) Non-Operating Revenue	22,425	16,273	6,152	37.8%	Higher settlements/rebates \$9.2, higher federal/state passthrough revenues \$6.4, higher interest income \$1.7, higher federal grants \$0.5 and higher environmental insurance reimbursements (ACTA/Dominguez Oil Release) \$0.2, partially offset by higher mark-to-market losses on pooled investments <\$9.9>, lower gains on asset sales <\$1.6> and lower ICTF/JPA investment income <\$0.4>
(3) Non-Operating Expenses	(11,744)	(8,760)	(2,984)	34.1%	Higher federal/state passthrough expenses <\$6.4>, lower interest capitalization <\$5.7>, higher losses on asset sales <\$0.8> and higher bond/commercial paper administration costs <\$0.5>, partially offset by lower interest expense \$5.6, lower capital projects closed to expense \$4.5 and lower bond redemption accounting adjustment \$0.3
Net Income	84,641	58,567	26,075	44.5%	

Notes:

- (1) Primarily for: Electricity \$12.6; Bad Debt \$6.0; Workers' Compensation \$4.3; Insurance \$3.0; Environmental Incentives \$2.6; Water & Gas \$2.4; Telephone \$1.5; Equipment Rental/Permits/License/Fees \$0.9; Memberships/Subscriptions/Books \$0.9; Litigation/Claims \$0.6; Taxes & Assessments \$0.4; Inventory Adjustments \$0.4; Overhead Capitalization (\$1.8)
- (2) Primarily for: Settlements/Rebates: \$9.2; Federal/State Passthrough Receipts \$7.9; Interest Income \$7.1; ICTF/JPA Income \$2.2; Federal/State Operating Grants \$1.2; Late Charges/Discounts/Misc. \$0.6; Environmental Insurance Reimbursements \$0.2; Pooled Investments Mark-to-Market (\$6.0)
- (3) Primarily for: Interest Expense \$36.1; Capitalized Interest <\$35.5>; Federal/State Passthrough Expenses \$7.9; Bond Administration Costs \$0.9; Loss on Sale of Assets \$0.8; Capital Projects Closed to Expense \$0.6; Commercial Paper Costs \$0.7