



**“FOR INFORMATION ONLY”**

**DATE: NOVEMBER 19, 2015**

**TO: BOARD OF HARBOR COMMISSIONERS**

**SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR  
FISCAL YEAR 2015/16 ENDED OCTOBER 31, 2015**

Financial performance results for the first four months of Fiscal Year 2015/16 have been provided below and have been summarized relative to both budget and prior year. Cargo volumes (as measured by TEUs or twenty-foot equivalent units) in the month of October declined 1.6% relative to October 2014 such that cargo volumes for the Fiscal Year-to-Date (FYTD) period are now 1.5% below the prior FYTD period. In summary, performance results for the Harbor Department are as follows:

<b>FYTD October 2015</b>	<b>Actuals</b> (Cargo Volumes in Thousands, \$ in Millions)	<b>Actual-to- Budget Comparison</b>	<b>Year-on-Year Comparison</b>
<b>Cargo Volumes</b>	2,921	↓ (3.5%)	↓ (1.5%)
<b>Operating Revenues</b>	\$141.7	↓ (2.4%)	↓ (4.1%)
<b>Operating Expenses</b>	\$ 67.6	↓ (11.8%)	↑ 5.5%
<b>Operating Income</b>	\$ 74.1	↑ 8.2%	↓ (11.5%)
<b>Net Income</b>	\$ 17.4	↓ (29.6%)	↓ (60.6%)

Despite cargo volumes exceeding 700,000 TEUs in each of the previous 3 months, FYTD cargo volumes have declined relative to prior year as declines in loaded imports and loaded exports were only partially offset by an increase in empty cargo shipments. Given that changes in cargo volumes directly impact Shipping Services revenues, and Shipping Services tend to comprise around 80% of total Operating Revenues, the aforementioned decline in cargo volumes adversely impacted total Operating Revenues relative to the prior fiscal year. Shipping Services revenues were further negatively impacted as reduced volumes at terminals with higher TEU rates and increased volumes at terminals with lower TEU rates continued to persist.

SUBJECT: FINANCIAL PERFORMANCE RESULTS

Although land rental compensation rate resets have been executed at higher rental rates than budgeted, and despite the booking of one-time settlements related to the September 2014 Pasha terminal fire, total Operating Revenues fell short of budgeted results due to the aforementioned Shipping Services revenue shortfalls and lower than budgeted utility reimbursements. Relative to prior FYTD results, total Operating Revenues declined not only due to Shipping Services revenue shortfalls, but also due to lower Clean Truck Program concession application fees as well as the recording of one-time catch-up payments in the prior fiscal year.

Total FYTD Operating Expenses were favorably impacted as lower average headcounts, timing differences with respect to outside services spending and lower than budgeted electricity expenses drove total FYTD Operating Expenses 11.8% below budget. FYTD total Operating Expenses have increased by 5.5% relative to the prior fiscal year as Memorandum of Understanding salary increases, lower salary and overhead capitalization and higher city services expenditures more than offset salary savings from lower average headcounts.

Relative to budgeted figures, lower total Operating Expenses mitigated the unfavorable impact of lower total Operating Revenues such that FYTD operating margins were reported at 52.3% versus a budget of 47.2%. It is important to note that as vacancies are filled, and, as timing issues with respect to outside services are resolved, total Operating Expenses would approach budget as FY 2015/16 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended October 31, 2015 based on internal estimates reached \$45.1 million or about 23% of the total \$198.8 million CIP adopted budget. Total projected Harbor Department CIP spending is currently expected to approximate the total CIP adopted budget by fiscal year-end.

  
EUGENE D. SEROKA  
Executive Director

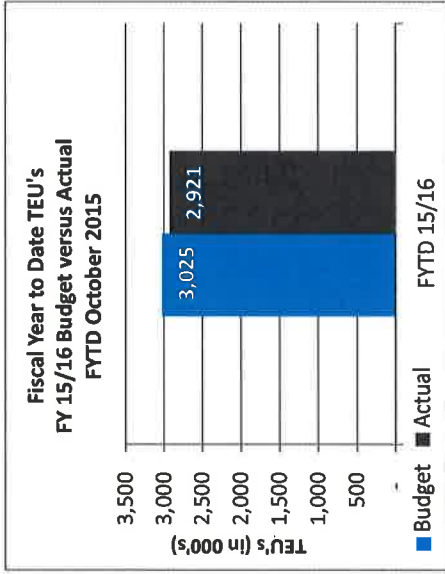
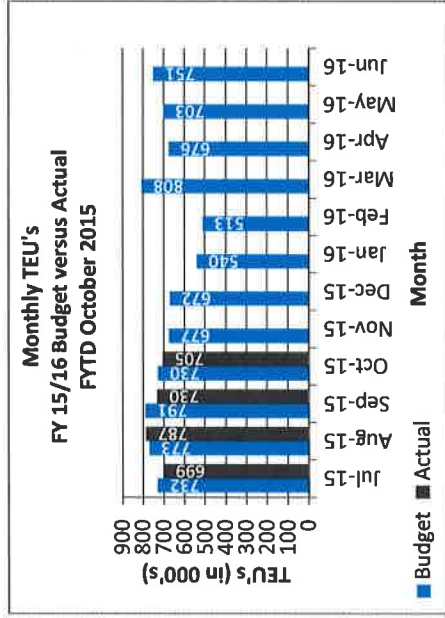
Transmittals:

1. TEU Throughput Comparison – FYTD October 2015
2. Actual-to-Budget FY 2015/16 – October
3. Year-to-Year Performance Report YTD October 31, 2015 and 2014

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MB:MM/Finance  
cc: Deputy Executive Directors

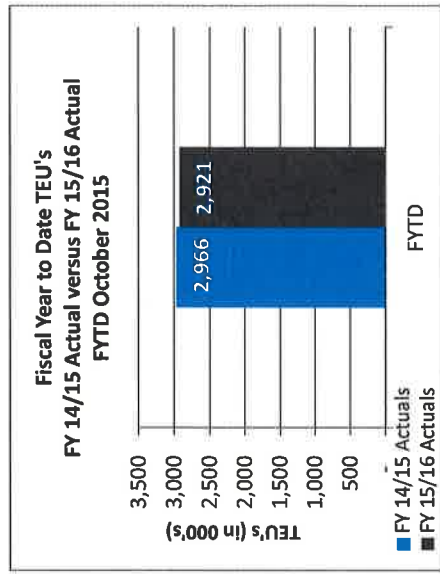
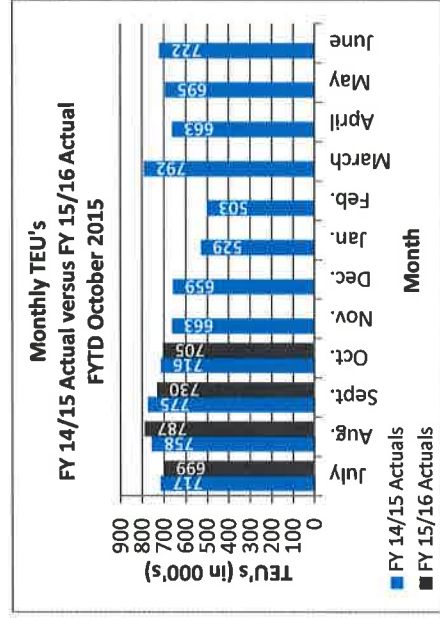
Budget versus Actuals Comparison  
FY 15/16 Budget vs. FY 15/16 Actuals

(in 000's)	TEU's		% Δ	Δ
	FY 15/16 Budget	FY 15/16 Actuals		
Month				
Jul-15	732	699	-4.5%	↓
Aug-15	773	787	1.8%	↑
Sep-15	791	730	-7.6%	↓
Oct-15	730	705	-3.5%	↓
Nov-15	677			
Dec-15	672			
Jan-16	540			
Feb-16	513			
Mar-16	808			
Apr-16	676			
May-16	703			
Jun-16	751			
FYTD 15/16	3,025	2,921	-3.5%	↓
FY 15/16 Budget	8,365			



Year-to-Year Actuals Comparison  
FY 14/15 Actuals vs. FY 15/16 Actuals

(in 000's)	TEU's		% Δ	Δ
	FY 14/15 Actuals	FY 15/16 Actuals		
Month				
July	717	699	-2.5%	↓
Aug.	758	787	3.8%	↑
Sept.	775	730	-5.8%	↓
Oct.	716	705	-1.6%	↓
Nov.	663			
Dec.	659			
Jan.	529			
Feb.	503			
March	792			
April	663			
May	695			
June	722			
FYTD	2,966	2,921	-1.5%	↓
FY 14/15 Actuals	8,191			



	Fiscal Year Actual FY 2015/16		Fiscal Year Budget FY 2015/16		Actual-to-Budget Comparison		Notes (\$ in millions)
	Fiscal YTD - Oct. 2015	Fiscal YTD - Oct. 2015	Fiscal YTD - Oct. 2015	Fiscal YTD - Oct. 2015	\$	%	
<b>\$ in thousands</b>							
<b>Operating Revenues</b>							
Shipping Services	115,402		123,690		(8,288)	(6.7%)	Higher volumes at terminals with lower overall TEU rates and lower volumes at terminals with higher overall TEU rates; lower than budgeted TEU volumes; timing of TEU rate adjustments at calendar year end
Rentals	16,594		14,587		2,007	13.8%	Primarily due to higher completion rate of compensation resets at higher rental rates than budgeted
Royalties, Fees and Other Revenues	8,936		6,430		2,506	39.0%	Higher operating refunds & reimbursements of \$5.0 and parking fees \$0.2, partially offset by lower utility reimbursements <\$2.1> and higher credits for tenant services <\$0.6>
Clean Truck Program Revenues	753		412		341	82.6%	Higher annual truck fees \$0.2 and concession application fees than budgeted \$0.1
<b>Total Operating Revenues</b>	<b>141,684</b>		<b>145,119</b>		<b>(3,434)</b>	<b>(2.4%)</b>	
<b>Operating Expenses</b>							
Gross Salaries & Benefits	44,531	48,394			(3,863)	(8.0%)	Primarily due to lower average filled positions (689 vs. 940 budgeted)
Capitalization	(7,710)	(5,843)			(1,866)	31.9%	Overhead capitalization <\$2.8>, partially offset by lower direct capitalization \$0.9
Net Salaries & Benefits	36,822		42,551		(5,729)	(13.5%)	
Marketing & Public Relations	487		1,626		(1,139)	(70.0%)	Timing of promotional & sponsorships <\$1.0>
Travel	170		365		(195)	(53.5%)	
Outside Services	5,718		11,791		(6,073)	(51.5%)	Timing of maintenance dredging/lower facility & wharf maintenance/lower hiring hall spending <\$1.3>, timing of environmental assessment services <\$1.3>, timing of legal fees & services spending <\$1.2>, higher capitalization of C&M outside services <\$0.7>, timing of construction division's share of PICS and IT services payments <\$0.2>, timing of port police services spending <\$0.2>, timing of waterfront/commercial real estate spending <\$0.2> and overhead allocations <\$0.5>
Materials & Supplies	1,700	2,264			(564)	(24.9%)	
City Services	13,485	12,556			930	7.4%	Higher fire services \$1.2, higher city attorney \$0.6 and personnel services \$0.2, partially offset by overhead allocation <\$1.1>
(1) Allocations to Capital - Overhead		(5,971)			5,971	(100.0%)	Lower aggregate overhead allocations \$1.2
(2) Other Operating Expenses	9,003	11,180			(2,178)	(19.5%)	Lower electricity <\$1.1>, higher overhead capitalization <\$0.2>, lower telephone <\$0.2>, lower water/gas <\$0.2> and lower insurance <\$0.2> as well as timing of provisioning for litigation <\$0.6>, workers' compensation <\$0.5> and bad debt <\$0.1>, partially offset by higher pollution remediation expenses \$0.7 and timing of environmental incentive payments \$0.2
Clean Truck Program Expenses	183	261			(78)	(29.8%)	
<b>Total Operating Expenses</b>	<b>67,588</b>	<b>76,623</b>			<b>(9,055)</b>	<b>(11.8%)</b>	
<b>Income Before Depreciation</b>	<b>74,116</b>	<b>68,496</b>			<b>5,620</b>	<b>8.2%</b>	
Provision For Depreciation	57,469	43,378			14,091	32.5%	
<b>Income From Operations</b>	<b>16,648</b>	<b>25,118</b>			<b>(8,470)</b>	<b>(33.7%)</b>	
(3) Non-Operating Revenue	2,888	1,517			1,370	90.3%	Higher interest/investment income \$1.4 and higher pass-through grant receipts \$0.2, partially offset by lower rebates/late charges/discounts/misc. <\$0.2>
(4) Non-Operating Expenses	(2,131)	(1,926)			(205)	10.6%	Lower interest capitalization \$0.3, bond redemption accounting adjustment \$0.3, timing of bond issuance costs \$0.2 and pass-through grant disbursements \$0.2, partially offset by lower commercial paper issuance costs <\$0.4>, lower capital projects closed to expense <\$0.3> and lower misc. non-operating expenses <\$0.1>
<b>Net Income</b>	<b>17,405</b>	<b>24,710</b>			<b>(7,305)</b>	<b>(29.6%)</b>	

Notes:  
 (1) Allocations to capital - overhead are allocated to individual 2-digit accounts within the presentation of actual results; however, these overhead allocations are not allocated to individual 2-digit accounts for budgetary purposes. Allocations to capital - overhead for the fiscal year-to-date period totaled \$4.8 million relative to a budget of \$6.0 million.  
 (2) Primarily for: Electricity \$4.9; Insurance \$1.0; Pollution Remediation \$0.6; Water & Gas \$0.6; Environmental Incentives \$0.6; Telephone \$0.5; Equipment Rental/Permits/License/Fees \$0.4; Memberships/Subscriptions/Books \$0.3; Overhead Allocations <\$0.2>  
 (3) Primarily for: Interest/Investment Income \$2.4; Rebates/Late Charges/Discounts/Misc. \$0.3; Pass-through Grant Receipts \$0.2  
 (4) Primarily for: Interest Expense \$14.4; Capitalized Interest <\$13.7>; Capital Projects Closed to Expense \$0.5; Bond Redemption Accounting Adjustment \$0.3; Bond Issuance Costs \$0.2; Pass-through Grant Disbursements \$0.2; Commercial Paper Costs \$0.2

	Current Fiscal Year		Prior Fiscal Year		Year-over-Year		Notes (\$ in millions)
	FY 2015/16	Fiscal YTD - Oct. 2015	FY 2014/15	Fiscal YTD - Oct. 2014	Change	%	
<b>\$ in thousands</b>							
<b>Operating Revenues</b>							
Shipping Services	115,402	119,048	119,048	119,048	(3,646)	(3.1%)	Lower overall wharfage <\$2.7>, lower space assignment <\$0.8> and lower pilotage <\$0.1>
Rentals	16,594	17,959	17,959	17,959	(1,365)	(7.6%)	Prior year one-time ICTF catch-up payment <\$2.9>, partially offset by higher land rental rates \$1.5
Royalties, Fees and Other Revenues	8,936	8,914	8,914	8,914	22	0.2%	Higher operating refunds/reimbursements \$4.4, higher parking fees \$0.3, higher utility reimbursements \$0.1 and higher Southern Pacific/Union Pacific tenant income \$0.1, almost completely offset by one-time BNSF/SCIG catch-up billing in the prior year <\$4.9>
Clean Truck Program Revenues	753	1,836	1,836	1,836	(1,083)	(59.0%)	Lower concession application fees <\$1.3>, partially offset by higher annual truck fees \$0.2
<b>Total Operating Revenues</b>	<b>141,684</b>	<b>147,757</b>	<b>147,757</b>	<b>147,757</b>	<b>(6,073)</b>	<b>(4.1%)</b>	
<b>Operating Expenses</b>							
Gross Salaries & Benefits	44,531	45,930	45,930	45,930	(1,399)	(3.0%)	Lower average filled positions (889 vs. 924 prior year) partially offset by MOU salary increases
Capitalization	(7,710)	(9,294)	(9,294)	(9,294)	1,585	(17.0%)	Lower direct capitalization \$1.1 and lower overhead capitalization \$0.5
Net Salaries & Benefits	36,822	36,636	36,636	36,636	186	0.5%	
Marketing & Public Relations	487	1,123	1,123	1,123	(636)	(56.6%)	Timing of sponsorship spending <\$0.7>
Travel	170	242	242	242	(72)	(29.8%)	
Outside Services	5,718	4,341	4,341	4,341	1,378	31.7%	Lower direct expense capitalization \$1.8, higher C&M building services \$0.3, higher environmental assessment services \$0.3, higher misc. maintenance services (MIP) \$0.2, partially offset by lower cruise terminal services <\$0.4>, higher overhead capitalization <\$0.2> and timing of engineering services spending <\$0.2>
Materials & Supplies	1,700	2,068	2,068	2,068	(368)	(17.8%)	
City Services	13,485	12,034	12,034	12,034	1,452	12.1%	Higher fire services \$1.6, higher city attorney \$0.7, higher personnel services \$0.2 and lower overhead capitalization \$0.1, partially offset by lower paving services <\$0.9> and higher services capitalization <\$0.2>
Other Operating Expenses	9,003	7,444	7,444	7,444	1,558	20.9%	Timing of electricity accruals \$1.0, higher pollution remediation expenses \$0.8 and lower overhead capitalization \$0.5, partially offset by lower equipment rentals/purchases <\$0.5> and water & gas <\$0.2>
Clean Truck Program Expenses	183	133	133	133	50	37.3%	
<b>Total Operating Expenses</b>	<b>67,568</b>	<b>64,021</b>	<b>64,021</b>	<b>64,021</b>	<b>3,547</b>	<b>5.5%</b>	
<b>Income Before Depreciation</b>	<b>74,116</b>	<b>83,736</b>	<b>83,736</b>	<b>83,736</b>	<b>(9,620)</b>	<b>(11.5%)</b>	
Provision For Depreciation	57,469	41,549	41,549	41,549	15,919	38.3%	
<b>Income From Operations</b>	<b>16,648</b>	<b>42,187</b>	<b>42,187</b>	<b>42,187</b>	<b>(25,539)</b>	<b>(60.5%)</b>	
Non-Operating Revenue	2,888	4,359	4,359	4,359	(1,472)	(33.8%)	Lower federal/state operating grants <\$2.6>, partially offset by higher interest/investment income \$1.1
Non-Operating Expenses	(2,131)	(2,362)	(2,362)	(2,362)	231	(9.8%)	Higher interest capitalization <\$1.0>, lower bond issuance costs <\$0.9> and lower commercial paper issuance costs <\$0.2>, partially offset by higher interest expense \$1.6 and bond redemption accounting adjustment \$0.3
<b>Net Income</b>	<b>17,405</b>	<b>44,184</b>	<b>44,184</b>	<b>44,184</b>	<b>(26,779)</b>	<b>(60.6%)</b>	

Notes:

- (1) Primarily for: Electricity \$4.9; Insurance \$1.0; Pollution Remediation \$0.8; Water & Gas \$0.6; Environmental Incentives \$0.6; Telephone \$0.5; Equipment Rental/Permit/License/Fees \$0.4; Memberships/Subscriptions/Books \$0.3; Overhead Allocations <\$0.2>
- (2) Primarily for: Interest/Investment Income \$2.4; Rebates/Late Charges/Discounts/Misc. \$0.3; Pass-through Grant Receipts \$0.2
- (3) Primarily for: Interest Expense \$14.4; Capitalized Interest <\$13.7>; Capital Projects Closed to Expense \$0.5; Bond Redemption Accounting Adjustment \$0.3; Bond Issuance Costs \$0.2; Pass-through Grant Disbursements \$0.2; Commercial Paper Costs \$0.2