



AUDIT COMMITTEE

Report to the Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: SEPTEMBER 30, 2016

TO: BOARD OF HARBOR COMMISSIONERS

SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR 2016/17 ENDED AUGUST 31, 2016

Financial performance results for the first two months of Fiscal Year (FY) 2016/17 are below and have been summarized relative to both budget and the prior fiscal year. For the month of August, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 1.6% relative to the August 2015 due to higher loaded import and export volumes. In summary, performance results for the Harbor Department are as follows:

FYTD August 2016	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to-Budget Comparison	Year-on-Year Comparison
Cargo Volumes	1,487	↓ (0.9%)	↑ 0.1%
Operating Revenues	\$ 71.7	↓ (5.6%)	↑ 7.1%
Operating Expenses	\$ 31.8	↓ (18.9%)	↑ 0.1%
Operating Income	\$ 39.9	↑ 8.6%	↑ 13.5%
Net Income	\$ 14.6	↑ 83.8%	↑ 31.4%

Despite August being the second busiest month in the Port’s 109-year history, fiscal year-to-date cargo volumes fell 0.9% below budget. Total Operating Revenues declined versus budget due to these lower cargo volumes as well as the delayed implementation of various container terminal rate resets and increases which are currently in negotiation in addition to lower electricity reimbursements. Relative to the prior fiscal year-to-date period, cargo volumes were approximately flat; however, Shipping Services revenues increased as higher pricing at certain terminals offset the effects of volume declines¹. This increase in Shipping Services revenues was the

¹ This higher pricing relative to prior year is primarily due to a change in lease terms at a major container terminal. This container terminal tenant had previously compensated the Department based upon revenue tons, but going forward will compensate the Department based upon TEUs. Over the remainder of calendar year 2016, the Department expects this change in lease terms to be revenue neutral.

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

primary driver leading total Operating Revenues to increase 7.1% relative to the prior fiscal year-to-date period.

Operating Expenses were favorably impacted as invoicing delays with respect to outside services, lower average headcounts, higher salary and overhead capitalization as well as lower electricity expenses drove total Operating Expenses 18.9% below budget. Relative to the prior fiscal year, total Operating Expenses increased by 0.1% as higher average headcounts and Memorandum of Understanding salary increases were almost completely offset by higher salary and overhead capitalization and lower electricity expenses.

Operating margins for the current fiscal year-to-date period were reported at 55.6% versus a budget of 48.4% and a prior year figure of 52.5%. However, it is important to note that as vacancies are filled, and, as invoicing issues are resolved, operating expenses are anticipated to trend towards budget as FY 2016/17 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended August 31, 2016 based on internal estimates reached \$16.3 million or about 11% of the total \$146.1 million CIP adopted budget. The Harbor Department is projecting to spend close to the total CIP adopted budget by fiscal year-end.


FOR EUGENE D. SEROKA
Executive Director

Transmittals:

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

Author: M. Marchese

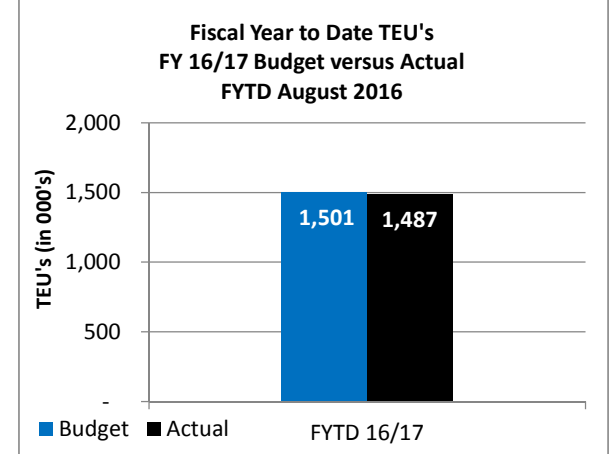
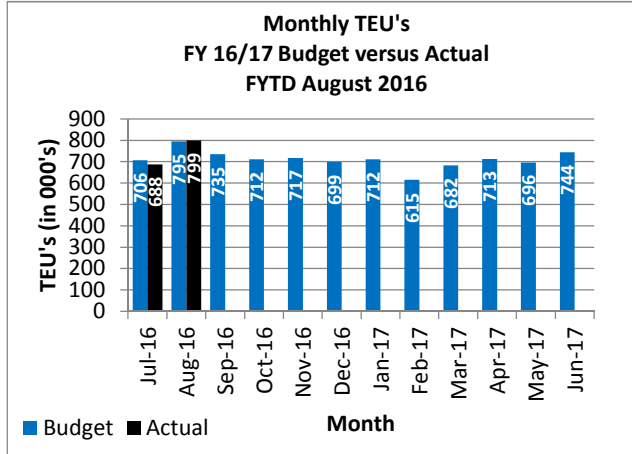
MB:MM/Finance

cc: Deputy Executive Directors

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

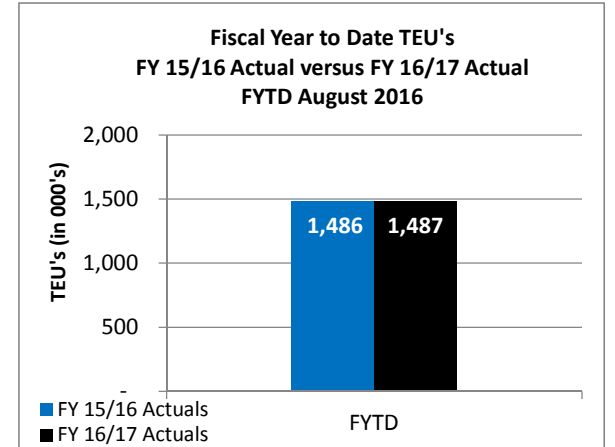
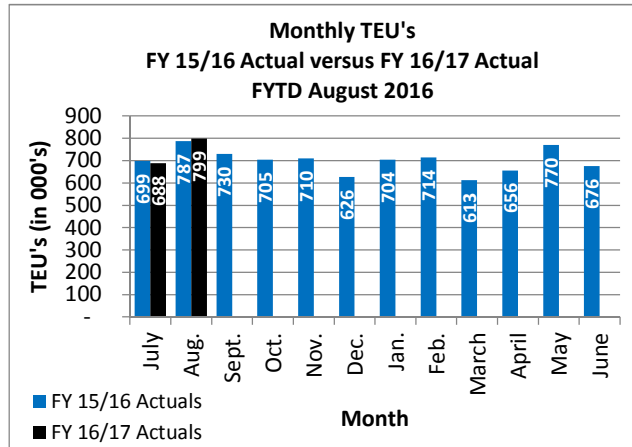
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(in 000's)	TEU's		% Δ	Δ
Month	FY 16/17 Budget	FY 16/17 Actuals		
Jul-16	706	688	-2.6%	↓
Aug-16	795	799	0.6%	↑
Sep-16	735			
Oct-16	712			
Nov-16	717			
Dec-16	699			
Jan-17	712			
Feb-17	615			
Mar-17	682			
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	1,501	1,487	-0.9%	↓
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			
Oct.	705			
Nov.	710			
Dec.	626			
Jan.	704			
Feb.	714			
March	613			
April	656			
May	770			
June	676			
FYTD	1,486	1,487	0.1%	↑
FY 15/16 Actuals	8,391			



\$ in thousands	Fiscal Year Actual	Fiscal Year Budget	Actual-to-Budget		Notes (\$ in millions)
	FY 2016/17	FY 2016/17	Comparison		
	Fiscal YTD - Aug. 2016	Fiscal YTD - Aug. 2016	\$	%	
Operating Revenues					
Shipping Services	61,182	64,506	(3,324)	(5.2%)	Lower than budgeted wharfage <\$3.3> and lower dockage <\$0.6>, partially offset by higher space assignment \$0.6
Rentals	8,465	8,313	153	1.8%	Higher land rent \$0.2, slightly offset by lower building, warehouse & wharf/shed rents
Royalties, Fees and Other Revenues	1,689	2,785	(1,096)	(39.3%)	Lower utility reimbursements <\$1.0>, lower misc. revenues <\$0.4> and higher credits for tenant services <\$0.3>, partially offset by higher permits & fees \$0.3 and higher operating refunds & reimbursements \$0.2
Clean Truck Program Revenues	327	340	(12)	(3.6%)	
Total Operating Revenues	71,664	75,943	(4,279)	(5.6%)	
Operating Expenses					
Gross Salaries & Benefits	23,257	25,324	(2,068)	(8.2%)	Lower average filled positions
Capitalization	(4,232)	(2,414)	(1,818)	75.3%	Overhead allocations <\$1.5> and higher direct capitalization <\$0.3>
Net Salaries & Benefits	19,024	22,910	(3,886)	(17.0%)	
Marketing & Public Relations	715	507	207	40.8%	Timing of sponsorship payments \$0.6, partially offset by lower promotional <\$0.2> and overhead capitalization <\$0.1>
Travel	77	92	(15)	(16.5%)	
Outside Services	1,873	3,988	(2,116)	(53.0%)	Timing of environmental assessment costs <\$0.4>, timing of software & IT consulting costs <\$0.4>, lower building maintenance costs <\$0.4>, lower port police spending <\$0.2>, lower outside counsel spending <\$0.2> and overhead allocations <\$0.1>
Materials & Supplies	467	1,148	(682)	(59.3%)	
City Services	6,511	7,190	(679)	(9.4%)	Overhead allocations <\$0.5> and lower Public Works payments <\$0.1>
(1) Allocations to Capital - Overhead		(2,283)	2,283	(100.0%)	Higher aggregate overhead allocations \$0.7
(2) Other Operating Expenses	3,115	5,510	(2,395)	(43.5%)	Lower electricity <\$1.0>, timing of environmental incentives <\$0.4>, timing of workers' compensation <\$0.3>, lower telephone expenses <\$0.2>, lower water & gas <\$0.2> and overhead allocations <\$0.2>
Clean Truck Program Expenses	13	157	(144)	(91.5%)	
Total Operating Expenses	31,794	39,221	(7,427)	(18.9%)	
Income Before Depreciation	39,869	36,722	3,147	8.6%	
Provision For Depreciation	26,472	28,667	(2,196)	(7.7%)	
Income From Operations	13,398	8,055	5,343	66.3%	
(3) Non-Operating Revenue	1,299	1,326	(27)	(2.0%)	Lower gains on asset sales <\$0.2> offset by higher reimbursable EIR expenses \$0.2
(4) Non-Operating Expenses	(120)	(1,449)	1,329	(91.7%)	Lower interest expense \$0.9, timing of bond issuance costs \$0.7, timing of capital projects closed to expense \$0.4 and lower losses on asset sales \$0.2, partially offset by lower interest capitalization <\$0.9>
Net Income	14,577	7,931	6,645	83.8%	

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 \$3.0 million relative to a budget of \$2.3 million.
- (2) Primarily for: Electricity \$1.6; Insurance \$0.6; Water & Gas \$0.4; Equipment Rental/Permits/License/Fees \$0.2; Environmental Incentives \$0.2; Telephone \$0.2; Memberships/Subscriptions/Books \$0.1; Overhead Capitalization (\$0.2)
- (3) Primarily for: Interest/Investment Income \$0.9; Reimbursable EIR Expenses \$0.2; Rebates/Late Charges/Discounts/Misc. \$0.2
- (4) Primarily for: Interest Expense \$6.7; Capitalized Interest <\$6.7>; Commercial Paper Costs \$0.1

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - Aug. 2016	Fiscal YTD - Aug. 2015	\$	%	
Operating Revenues					
Shipping Services	61,182	56,268	4,914	8.7%	Higher overall wharfage \$4.6, higher space assignment \$0.5, and higher pilotage \$0.3, partially offset by lower dockage <\$0.5>
Rentals	8,465	8,388	78	0.9%	New permits issued and rental rate increases \$1.7 and permit assignment to PBF Energy \$0.8, partially offset by cancellation of Exxon Mobil permit <\$1.7> and other permit terminations <\$0.7>
Royalties, Fees and Other Revenues	1,689	1,896	(207)	(10.9%)	Lower utility reimbursements <\$0.3> and higher credits for tenant services <\$0.1>, partially offset by higher permits & fees \$0.2
Clean Truck Program Revenues	327	336	(9)	(2.6%)	
Total Operating Revenues	71,664	66,888	4,776	7.1%	
Operating Expenses					
Gross Salaries & Benefits	23,257	22,631	626	2.8%	Higher average filled positions
Capitalization	(4,232)	(3,723)	(509)	13.7%	Higher salary capitalization <\$0.3> and higher overhead capitalization <\$0.2>
Net Salaries & Benefits	19,024	18,908	116	0.6%	
Marketing & Public Relations	715	200	514	256.8%	Timing of sponsorship payments \$0.6, partially offset by higher overhead capitalization <\$0.1>
Travel	77	102	(25)	(24.4%)	
Outside Services	1,873	1,950	(77)	(3.9%)	
Materials & Supplies	467	808	(341)	(42.2%)	Higher overhead capitalization <\$0.4>, partially offset by higher spending on maintenance supplies \$0.1
City Services	6,511	5,912	599	10.1%	Timing of accruals related to fire payments \$0.5
(1) Other Operating Expenses	3,115	3,858	(743)	(19.3%)	Lower electricity <\$0.4>, lower environmental incentives <\$0.3> and higher overhead allocations <\$0.2>, partially offset by higher equipment rental \$0.1 and higher water & gas \$0.1
Clean Truck Program Expenses	13	30	(17)	(55.3%)	
Total Operating Expenses	31,794	31,768	27	0.1%	
Income Before Depreciation					
	39,869	35,120	4,749	13.5%	
Provision For Depreciation	26,472	24,348	2,123	8.7%	
Income From Operations	13,398	10,772	2,626	24.4%	
(2) Non-Operating Revenue	1,299	950	349	36.7%	Higher reimbursable EIR expenses \$0.2 and higher interest income \$0.1
(3) Non-Operating Expenses	(120)	(625)	505	(80.8%)	Lower interest expense \$0.7 and timing of capital projects closed to expense \$0.2, partially offset by lower interest capitalization <\$0.3> and higher commercial paper costs <\$0.1>
Net Income	14,577	11,097	3,479	31.4%	

Notes:

(1) Primarily for: Electricity \$1.6; Insurance \$0.6; Water & Gas \$0.4; Equipment Rental/Permits/License/Fees \$0.2; Environmental Incentives \$0.2; Telephone \$0.2; Memberships/Subscriptions/Books \$0.1; Overhead Capitalization (\$0.2)

(2) Primarily for: Interest/Investment Income \$0.9; Reimbursable EIR Expenses \$0.2; Rebates/Late Charges/Discounts/Misc. \$0.2

(3) Primarily for: Interest Expense \$6.7; Capitalized Interest <\$6.7>; Commercial Paper Costs \$0.1