



**DATE: DECEMBER 1, 2014**

**FROM: FINANCE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - REQUEST FOR  
BUDGETARY TRANSFER**

**SUMMARY:**

The City of Los Angeles Harbor Department (Harbor Department) proposes a budgetary transfer of \$10.2 million from the Unappropriated Balance (UB) to meet an anticipated shortfall in the Fiscal Year (FY) 2014-15 Adopted Operating Expense Budget's "Other Operating Expenses" category. The anticipated shortfall is a result of higher electricity expenses than budgeted for the Alternative Maritime Power™ (AMP™) program that are paid by the Harbor Department and passed through to and reimbursed at a total rate of approximately 98% by its AMP™ customers; the proceeds from the reimbursements reside in Operating Revenues. As a result, while the UB transfer to Other Operating Expenses will increase the overall Operating Expense Budget by \$10.2 million to \$227.5 million, customer reimbursements are expected to also increase Operating Revenues by an estimated \$10.0 million, increasing budgeted Operating Revenues to \$428.4 million. Sufficient UB funds are available for this budgetary transfer; as of October 31, 2014, the UB level stood at \$430.9 million. While payment for the expected AMP expenses is the financial responsibility of the Harbor Department, its customers will reimburse approximately 98% of such payments.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners (Board):

1. Approve the following budgetary transfer to resolve a projected shortfall in the respective operating expense account:
  - a. Transfer \$10.2 million from the Unappropriated Balance to Other Operating Expenses (Program 000), Center 0900, Account 59510;
2. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;
3. Direct the Board Secretary to notify the City Clerk of such transfer pursuant to Section 343(d) of the City Charter at the time such transfer is made; and
4. Adopt Resolution No. \_\_\_\_\_.

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**DISCUSSION:**

Background and Context – Based on fiscal year-to-date ended October 31, 2014 data, Harbor Department projections indicate that spending for the expense category of Other Operating Expenses will be beyond what has been budgeted. The projected additional expenses result from higher than budgeted electricity costs associated with the AMP™ program. Electricity expenses include AMP™ usage by Harbor Department customers as well as all other electricity usage at the Harbor Department.

The AMP™ program allows ships to be powered by shore-supplied electrical power while at berth for the benefit of improving air quality. In May 2004, the Harbor Department commenced implementing this technology beginning with one terminal (China Shipping). Today, all container terminals and Berths 91-93 at the World Cruise Center are AMP™ capable. As part of the AMP™ program, the Harbor Department is billed by and pays the associated electricity charges to the Los Angeles Department of Water and Power (DWP); the Harbor Department then bills its customers the same amount the Harbor Department paid to DWP, with the exception of China Shipping and the cruise lines. Cruise line AMP™ electricity costs are reimbursed through billings based on kilowatt hours used by cruise ships using AMP™ and AMP™ systems cost passenger fees resulting in the AMP™ electricity charges being cost neutral to the Harbor Department. Container ships calling at the China Shipping terminal are billed based on the kilowatt hours consumed and have cost neutrality permit terms. As a result, about 98% of AMP™ electricity expenses are reimbursed by Harbor Department customers and reflected in Operating Revenues.

For FY 2014-15, \$5.8 million was budgeted for electricity expenses, of which \$1.4 million was targeted for AMP™ with \$1.4 million in AMP™ reimbursements, based on cost trends available at the time of budget formulation. Subsequent to budget adoption, the Harbor Department received billing adjustments for the previous six months related to AMP™ usage from DWP. The updated data indicates a much higher cost for electricity than had been budgeted. Fiscal year-to-date October 2014 electricity expenses for the first four months reached \$3.9 million or 63% of the \$5.8 million budgeted; in October 2014 alone, AMP™ usage increased by 43% relative to September 2014. Current spending rate and trends anticipate about \$16.0 million in electricity expenses by fiscal year-end of which \$11.6 million is for AMP™; at that level of usage, customer reimbursements are projected to be about \$11.4 million. The UB budgetary transfer of \$10.2 million is the approximate shortfall between the \$16.0 million in total estimated electricity expenses and the budgeted \$5.8 million. Upon transfer from the UB, the Operating Expense Budget will increase by \$10.2 million to a total of \$227.5 million in order to meet the anticipated AMP™ electricity costs.

Based upon current electricity expense spending rates and trends, through the end of January 2015, we do anticipate a shortfall within the utility expenses sub-component of the Other Operating Expenses category; however, we do not anticipate a shortfall within the broader category of Other Operating Expenses.

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**ENVIRONMENTAL ASSESSMENT**

The proposed action is to transfer funds from the UB to Other Operating Expenses to resolve a projected shortfall in that operating expense category. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS**

The Board action will have no employment effect.

**FINANCIAL IMPACT**

The transfer of monies from the UB to Other Operating Expenses will increase the overall Operating Expense Budget by \$10.2 million from \$217.3 million to \$227.5 million. The actual AMP electrical expenses paid to DWP by the Harbor Department will be reimbursed by Harbor Department customers up to approximately 98% of the total and are expected to result in an estimated additional \$10.0 million recognized as Operating Revenues. As reimbursements are received from our customers, the cash received will go back to the Harbor Revenue Fund, which is a component of the UB.

The Harbor Department's UB is comprised of funds that are not specifically budgeted for expenses or capital. The UB level at the end of October 2014 stood at \$430.9 million and is comprised of the Harbor Revenue Fund, Emergency/Alameda Corridor Transportation Authority (ACTA) Fund, and Special Operating Fund. For the latter two, as per Harbor Department Financial Policies, a minimum financial reserve is maintained and currently set at \$207 million for unanticipated expenditures, disaster related recovery and ACTA revenue shortfalls, leaving a balance of \$223.9 million available for the requested \$10.2 million UB transfer. In accordance with City Charter Section 343, this budgetary transfer requires the approval of the Board of Harbor Commissioners and Mayor.

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CITY ATTORNEY

The Office of the City Attorney has reviewed this report, and the proposed action raises no legal issues at this time.

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



KARL K. Y. PAN  
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APPROVED:



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