



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: MARCH 15, 2018

TO: BOARD OF HARBOR COMMISSIONERS

SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR 2017/18 ENDED FEBRUARY 28, 2018

Financial performance results for the first eight months of Fiscal Year (“FY”) 2017/18 are listed below and have been summarized relative to both budget and the prior fiscal year. For the month of February, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased by 15.9% relative to February 2017, and fiscal year-to-date (“FYTD”) TEUs exceeded prior FYTD results by 3.5%. In summary, FYTD performance results for the Harbor Department are as follows:

FYTD February 2018	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	6,394	↑ 3.3%	↑ 3.5%
Operating Revenues	\$350.3	↑ 8.1%	↑ 13.6%
Operating Expenses	\$139.7	↓ (16.9%)	↑ 4.0%
Operating Income	\$210.6	↑ 34.9%	↑ 21.0%
Net Income	\$109.3	↑ 162.9%	↑ 75.0%

Through the first eight months of FY 2017/18, cargo volume growth has led to an increase in Shipping Services relative to both budget and the prior FYTD period. Relative to budget, Total Operating Revenues increased by 8.1% as the aforementioned increase in Shipping Services, higher land rentals as well as the receipt of Harbor Maintenance Tax funds were only partially offset by higher credits for tenant services and lower utility reimbursements. Relative to the prior fiscal year, Total Operating Revenues increased by 13.6% as higher Shipping Services, higher land rentals, the receipt of Harbor Maintenance Tax funds and higher utility reimbursements were only slightly offset by higher credits for tenant services.

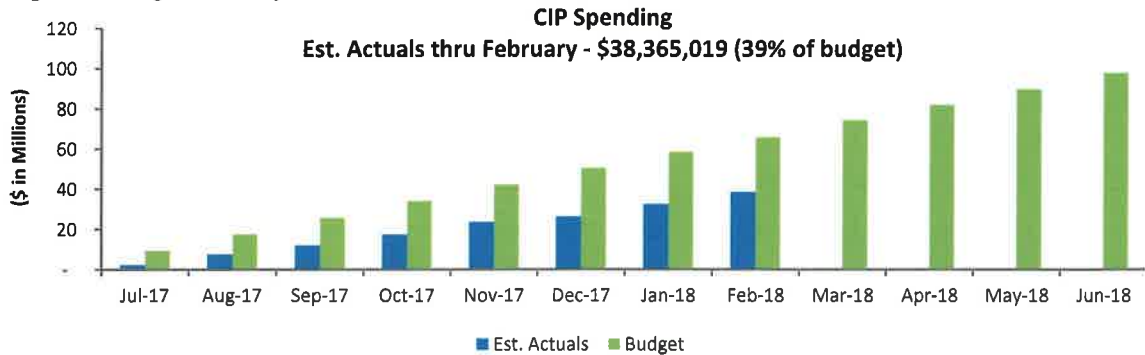
SUBJECT: FINANCIAL PERFORMANCE RESULTS

Operating Expenses were favorably impacted as lower headcounts, invoicing delays with respect to outside services and city services as well as lower electricity drove total Operating Expenses 16.9% below budget. Relative to the prior fiscal year, total Operating Expenses increased by 4.0% as lower salary capitalization, MOU salary increases, higher construction and maintenance materials spending, higher port information portal pilot project spending and higher electricity costs were only partially offset by city services invoicing delays and lower average filled positions.

Operating margins for the FYTD period were reported at 60.1% versus a budget of 48.2% and a prior year figure of 56.5%. However, it is important to note that as vacancies are filled, and, as invoicing delays are resolved, operating expenses are anticipated to trend towards budget as FY 2017/18 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended February 28, 2018 based on internal estimates reached \$38.4 million or about 39% of the total \$97.7 million CIP adopted budget. The Harbor Department currently expects to stay within the CIP adopted budget through fiscal year-end.



Eugene D. Seroka

EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD February 2018
2. Actual-to-Budget FY 2017/18 – February
3. Year-to-Year Performance Report YTD February 28, 2018 and 2017

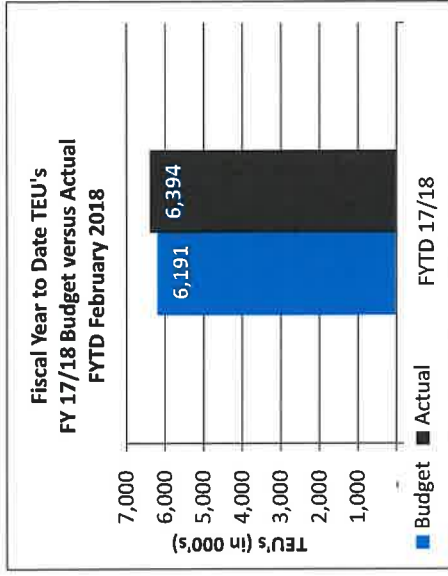
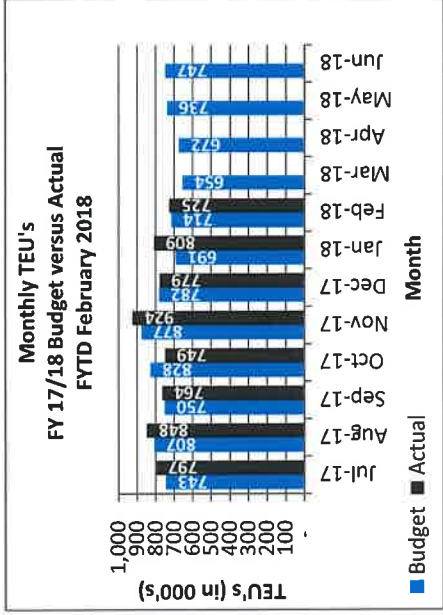
Author: M. Marchese

MB:MM/Finance

cc: Deputy Executive Directors

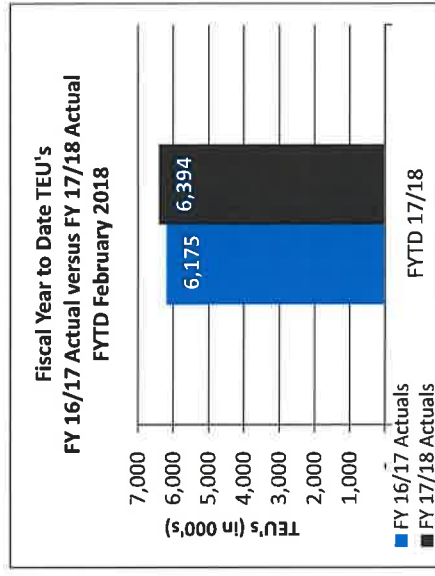
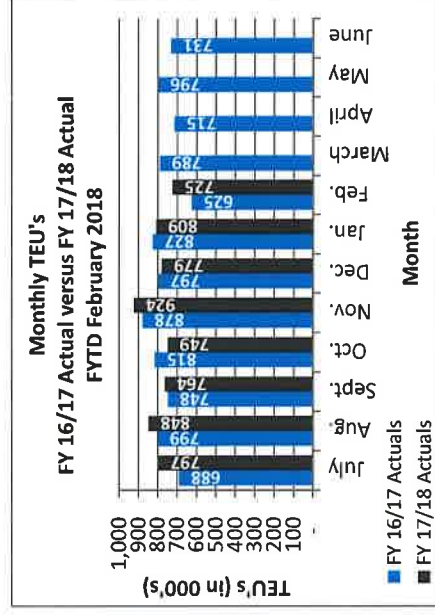
Budget versus Actuals Comparison
FY 17/18 Budget vs. FY 17/18 Actuals

(in 000's)	TEU's		% Δ
Month	FY 17/18 Budget	FY 17/18 Actuals	
Jul-17	743	797	7.2% ↑
Aug-17	807	848	5.1% ↑
Sep-17	750	764	1.9% ↑
Oct-17	828	749	-9.5% ↓
Nov-17	877	924	5.4% ↑
Dec-17	782	779	-0.3% ↓
Jan-18	691	809	17.0% ↑
Feb-18	714	725	1.6% ↑
Mar-18	654		
Apr-18	672		
May-18	736		
Jun-18	747		
FYTD 17/18	6,191	6,394	3.3% ↑
FY 17/18 Budget	9,000		



Year-to-Year Actuals Comparison
FY 16/17 Actuals vs. FY 17/18 Actuals

(in 000's)	TEU's		% Δ
Month	FY 16/17 Actuals	FY 17/18 Actuals	
July	688	797	15.8% ↑
Aug.	799	848	6.1% ↑
Sept.	748	764	2.2% ↑
Oct.	815	749	-8.1% ↓
Nov.	878	924	5.3% ↑
Dec.	797	779	-2.2% ↓
Jan.	827	809	-2.2% ↓
Feb.	625	725	15.9% ↑
March	789		
April	715		
May	796		
June	731		
FYTD 17/18	6,175	6,394	3.5% ↑
FY 16/17 Actuals	9,206		



	Fiscal Year Actual FY 2017/18		Fiscal Year Budget FY 2017/18		Actual-to-Budget Comparison		Notes (\$ in millions)
	Fiscal YTD - Feb. 2018	Fiscal YTD - Feb. 2018	Fiscal YTD - Feb. 2018	Fiscal YTD - Feb. 2018	\$	%	
\$ in thousands							
Operating Revenues							
Shipping Services	296,233	274,617	274,617	274,617	21,616	7.9%	Higher than budgeted wharfage due to higher than budgeted TEUs \$19.2, higher space assignment \$2.7 and higher dockage \$0.4, partially offset by lower pilotage <\$0.7>
Rentals	42,137	35,619	35,619	35,619	6,518	18.3%	Higher than budgeted Union Pacific Railroad \$3.4, Westrec Marina \$2.6 and higher than budgeted misc. receipts \$1.6, partially offset by lower than budgeted receipts for PBF <\$1.1>
Royalties, Fees and Other Revenues	10,685	12,634	12,634	12,634	(1,948)	(15.4%)	Higher credits for tenant services <\$4.1>, lower utility reimbursements <\$1.3> and lower parking fees <\$0.4>, partially offset by Harbor Maintenance Tax receipt \$3.3, higher one-time reimbursements \$0.3, higher reimbursements for Port Police services \$0.2 and higher misc. permits and fees \$0.1
Clean Truck Program Revenues	1,275	1,275	1,275	1,275	0	0.0%	
Total Operating Revenues	350,330	324,144	324,144	324,144	26,186	8.1%	
Operating Expenses							
Gross Salaries & Benefits	90,859	100,977	100,977	100,977	(10,118)	(10.0%)	Lower average filled positions and lower average salaries
Capitalization	(13,728)	(9,875)	(9,875)	(9,875)	(3,854)	39.0%	Overhead allocations <\$6.0>, partially offset by lower direct capitalization \$2.1
Net Salaries & Benefits	77,131	91,102	91,102	91,102	(13,971)	(15.3%)	
Marketing & Public Relations	2,083	2,477	2,477	2,477	(393)	(15.9%)	
Travel	511	553	553	553	(42)	(7.6%)	
Outside Services	13,170	26,044	26,044	26,044	(12,874)	(49.4%)	GE Portal Project invoicing delays <\$5.2>, dredging invoicing delays <\$2.0>, outside legal counsel invoicing delays <\$1.2>, environmental assessment invoicing delays <\$1.2>, misc. invoicing delays <\$0.8>, overhead capitalization <\$0.7>, C&M invoicing delays/lower professional services spending <\$0.4>, delayed cyber security advocacy spending <\$0.4>, cruise terminal invoicing delays <\$0.3>, engineering IT and software invoicing delays <\$0.3>, lower media relations spending <\$0.2> and rail study/transportation planning invoicing delays <\$0.2>
Materials & Supplies	4,258	4,816	4,816	4,816	(557)	(11.6%)	Port Police invoicing delays <\$0.4>, overhead allocations <\$0.3>, misc. spending delays <0.3> and maintenance improvement program invoicing delays <\$0.1>, partially offset by higher C&M spending \$0.5
City Services	26,570	31,302	31,302	31,302	(4,732)	(15.1%)	Overhead allocation <\$2.5>, invoicing delays for fire services <\$1.4>, misc. <\$0.4>, public works <\$0.2> and City Attorney <\$0.2>
Allocations to Capital - Overhead	15,498	(9,145)	(9,145)	(9,145)	9,145	(100.0%)	Higher aggregate overhead allocations <\$1.7>
Other Operating Expenses	15,498	20,147	20,147	20,147	(4,649)	(23.1%)	Lower electricity <\$1.3>, overhead allocations <\$1.2>, cruise incentive payout delay <\$1.0>, environmental incentive invoicing delays <\$0.5>, lower insurance <\$0.3>, lower water & gas <\$0.2> and lower litigation/claims/settlements <\$0.1>
Clean Truck Program Expenses	433	723	723	723	(290)	(40.1%)	
Total Operating Expenses	139,655	168,018	168,018	168,018	(28,363)	(16.9%)	
Income Before Depreciation	210,675	156,126	156,126	156,126	54,548	34.9%	
Provision For Depreciation	107,881	119,130	119,130	119,130	(11,249)	(9.4%)	
Income From Operations	102,794	36,996	36,996	36,996	65,798	177.9%	
Non-Operating Revenue	11,350	13,959	13,959	13,959	(2,609)	(18.7%)	Delayed receipt of federal/state passthrough grants <\$7.6> and lower JPA income <\$0.2>, partially offset by higher interest income \$2.9, higher gain on land sale \$2.1, higher misc. non-operating revenues \$0.1 and higher federal non-operating grants \$0.1
Non-Operating Expenses	(4,806)	(9,366)	(9,366)	(9,366)	4,559	(48.7%)	Lower federal/state passthrough disbursements \$5.4 and lower capital projects closed to expense \$0.5, partially offset by retirement of crane assets <\$1.2>, higher interest expense <\$0.1> and lower interest capitalization <\$0.1>
Net Income	109,338	41,589	41,589	41,589	67,748	162.9%	

Notes:

- 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 \$10.8 million relative to a budget of \$9.1 million.
- Primarily for: Electricity \$9.4; Insurance \$2.0; Water & Gas \$1.5; Telephone \$1.1; Equipment Rental/Permits/License/Fees \$0.9; Environmental Incentives \$0.7; Memberships/Subscriptions/Books \$0.7; Cruise Incentives \$0.2; Taxes/Assessments \$0.2; Overhead Capitalization (\$1.2)
- Primarily for: Interest Income \$6.3; Gain on Land Sale \$2.2; State Passthrough Revenue \$1.4; JPA Income \$1.0; Late Charges/Discounts/Misc. \$0.4; Federal Non-Operating Grant Revenue \$0.1
- Primarily for: Interest Expense \$21.9; Capitalized Interest <\$21.3>; State Passthrough Expenses \$1.3; Retirement of Crane Assets \$1.3; Capital Projects Closed to Expense \$1.1; Commercial Paper Admin. Costs \$0.5

	Current Fiscal Year FY 2017/18		Prior Fiscal Year FY 2016/17		Year-over-Year Change		Notes (\$ in millions)
	Fiscal YTD - Feb. 2018	Fiscal YTD - Feb. 2017	Fiscal YTD - Feb. 2017	Fiscal YTD - Feb. 2017	\$	%	
\$ in thousands							
Operating Revenues							
Shipping Services	296,233	264,165	264,165	264,165	32,068	12.1%	Higher overall wharfage \$0.8, higher pilotage \$1.0 and higher dockage \$0.6, partially offset by lower lay day fees <\$0.2> and lower space assignments <\$0.1>
Rentals	42,137	35,013	35,013	35,013	7,124	20.3%	Union Pacific compensation reset and catch-up payment \$3.7, Eagle Marine land rent (booked as space assignment in prior FY) \$2.0, general CPI increases \$1.3, higher gross receipts at Westrec Marina \$0.6, Fastlane CPI increase \$0.2 and Shore Terminals holdover payment \$0.2, partially offset by a prior year catchup in PBF Energy rentals <\$0.7> and Vopak prior year catch-up payment <\$0.2>
Royalties, Fees and Other Revenues	10,685	7,984	7,984	7,984	2,701	33.8%	Harbor Maintenance Tax receipt \$3.3, higher utility reimbursements \$1.2 and higher port police services \$0.1, partially offset by higher credits for tenant services <\$1.1>, lower accommodation work revenues <\$0.4>, lower misc. permits and fees <\$0.2> and lower parking fees <\$0.2>
Clean Truck Program Revenues	1,275	1,262	1,262	1,262	13	1.0%	
Total Operating Revenues	350,330	308,425	308,425	308,425	41,905	13.6%	
Operating Expenses							
Gross Salaries & Benefits	90,859	88,787	88,787	88,787	2,072	2.3%	MOU salary and benefit increases, partially offset by lower average filled positions
Capitalization	(13,728)	(14,968)	(14,968)	(14,968)	1,240	(8.3%)	Lower direct capitalization \$1.2
Net Salaries & Benefits	77,131	73,819	73,819	73,819	3,312	4.5%	
Marketing & Public Relations	2,083	1,894	1,894	1,894	189	10.0%	
Travel	511	312	312	312	199	64.0%	
Outside Services	13,170	12,918	12,918	12,918	252	1.9%	Higher GE Portal project spending \$1.0, higher security camera maintenance spending \$0.4, higher waterfront and commercial real estate expenses \$0.3, Bond Assistance Program catch-up payments \$0.3 and higher cyber security advocacy spending \$0.1, partially offset by lower building maintenance/leasing hall spending <\$0.8>, lower equipment maintenance <\$0.7>, lower outside counsel costs <\$0.2> and community relations invoicing delays <\$0.1>
Materials & Supplies	4,258	3,063	3,063	3,063	1,195	39.0%	Higher C&M materials spending \$1.0 and lower overhead capitalization \$0.4, partially offset by port police invoicing delays <\$0.2>
City Services	26,570	28,017	28,017	28,017	(1,447)	(5.2%)	Invoicing delays with respect to fire services <\$1.4>, city attorney <\$0.3> and personnel services <\$0.2> as well as higher overhead accruals <\$0.4>, partially offset by higher Rec and Parks accruals \$0.8
Other Operating Expenses	15,498	13,782	13,782	13,782	1,716	12.5%	Higher electricity \$0.9, higher water & gas \$0.4, higher cruise incentives \$0.2, higher equipment rentals \$0.2, higher telephone \$0.1, higher memberships/subscriptions/books \$0.1, partially offset by higher overhead capitalization <\$0.1> and lower insurance <\$0.1>
Clean Truck Program Expenses	433	463	463	463	(30)	(6.4%)	
Total Operating Expenses	139,655	134,268	134,268	134,268	5,387	4.0%	
Income Before Depreciation	210,675	174,156	174,156	174,156	36,518	21.0%	
Provision For Depreciation	107,881	115,580	115,580	115,580	(7,699)	(6.7%)	
Income From Operations	102,794	58,576	58,576	58,576	44,218	75.5%	
Non-Operating Revenue	11,350	6,347	6,347	6,347	5,003	78.8%	Higher interest income \$2.3, higher gain on land sale \$2.1, higher state passthrough income \$1.3 and higher misc. non-operating revenues \$0.1, partially offset by lower federal non-operating grants <\$0.6> and lower environmental insurance reimbursements (ACTA/Dominguez Oil Release) <\$0.2>
Non-Operating Expenses	(4,806)	(2,438)	(2,438)	(2,438)	(2,368)	97.1%	Lower interest expense capitalization <\$2.6>, higher state passthrough disbursements <\$1.3>, higher retirement of crane assets <\$1.2>, higher capital projects closed to expense <\$0.4>, and higher commercial paper administration <\$0.2>, partially offset by lower interest expense \$2.4 and bond administration costs \$0.9
Net Income	109,338	62,485	62,485	62,485	46,853	75.0%	

Notes:

- (1) Primarily for: Electricity \$9.4; Insurance \$2.0; Water & Gas \$1.5; Telephone \$1.1; Equipment Rental/Permits/License/Fees \$0.9; Environmental Incentives \$0.7; Memberships/Subscriptions/Books \$0.7; Cruise Incentives \$0.2; Taxes/Assessments \$0.2; Overhead Capitalization (\$1.2)
- (2) Primarily for: Interest Income \$6.3; Gain on Land Sale \$2.2; State Passthrough Revenue \$1.4; JPA Income \$1.0; Late Charges/Discounts/Misc \$0.4; Federal Non-Operating Grant Revenue \$0.1
- (3) Primarily for: Interest Expense \$21.9; Capitalized Interest <\$21.3>; State Passthrough Expenses \$1.3; Retirement of Crane Assets \$1.3; Capital Projects Closed to Expense \$1.1; Commercial Paper Admin. Costs \$0.5