



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: APRIL 17, 2024

FROM: ACCOUNTING

**SUBJECT: RESOLUTION NO. _____ - APPROVAL OF WRITE-OFF OF
\$5,852,838 IN VARIOUS UNCOLLECTIBLE RECEIVABLES**

SUMMARY:

Staff requests approval of the write-off of uncollectible receivables in accordance with US Generally Accepted Accounting Principles (US GAAP). The total amount of the proposed write-off is \$5,852,838.21 which consists of 88 items in various permits and lease agreements. These receivables are deemed uncollectible due to settlement agreements with tenants, business closure and/or bankruptcy, or statute of limitation. It is recommended for best practices to periodically review aged delinquent receivables and perform write-offs of uncollectible receivables to ensure that accounts receivable and related allowance balances are properly managed and recorded.

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f), of the Los Angeles City CEQA Guidelines;
2. Approve the write-off of \$5,852,838.21 in unpaid rent, dockage, accommodation work order, utilities, and penalty charges to be written-off from the accounts noted within Transmittal 1, in accordance with the Harbor Department's financial policies; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – The receivables requested for write-off are deemed uncollectible for the following reasons: (i) the balance resulted from a settlement agreement; (ii) the ability to collect is no longer within the Harbor Department's statutory authority; (iii) the company is out of business or bankruptcy has been filed.

A comprehensive list of receivables proposed write-off has been attached within Transmittal 1. The largest sum proposed for write-off is for BNSF Railway Company (BNSF) - the Southern California International Gateway (SCIG) Facility in the amount of \$3,090,698.44, representing 52.8% of total write-offs. In May 2013, the Port signed a Site

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Preparation and Access Agreement (SPAA) #13-3121 with BNSF Railway Company for developing SCIG facility near-dock intermodal rail project. While license fees were billed in an aggregate amount of \$29,963,990.44, BNSF's obligation to pay them was tolled once litigation commenced, pursuant to the terms of the SPAA. During this period of tolling, the SPAA was set aside, i.e., invalidated, by court order. Once the SPAA was set aside, the amount of license fees invoiced to BNSF was compared to the amount of rent collected by BNSF from subtenants operating at the proposed SCIG premises while the SPAA was being litigated. The subtenant rents collected by BNSF from the effective date of the SPAA up to the set-aside date have been paid to the Harbor Department, in the amount of \$26,873,292.00. Therefore, the remaining balance of \$3,090,698.44 has been deemed uncollectible.

As of December 31, 2023, total accounts receivable were \$32.4 million, of which \$21.8 million, or 67.3% were current and \$10.6 million, or 32.7% were past due (i.e., 1+ days beyond the due date). As summarized in the table below, the percentage of accounts receivable classified as past due as of December 31, 2023, were below the average figure observed over the past three years.

| \$ in millions, unless otherwise stated | Amount as of 12/31/2023 | Common Size % As of 12/31/2023 | 3-Year Average |
|--|--------------------------------|---------------------------------------|-----------------------|
| Current Accounts | \$21.8 | 67.3% | 59.3% |
| Plus: Past Due Accounts | \$10.6 | 32.7% | 40.7% |
| Equals: Total Accounts Receivable | \$32.4 | 100.0% | 100.0% |

The proposed write-off of \$5,852,838.21 represents approximately 55% of the \$10.6 million in past due accounts as of December 31, 2023. Write-off of the recommended accounts receivable will reduce the amount of past due accounts to approximately \$4.7 million, as summarized in the table below:

| \$ in millions, unless otherwise stated | Amount as of 12/31/2023 | Less: Proposed Write-Offs | Equals: Amount, after Write-Offs | Common Size %, after Write-Offs |
|--|--------------------------------|----------------------------------|---|--|
| Current Accounts | \$21.8 | \$- | \$21.8 | 82.1% |
| Plus: Past Due Accounts | \$10.6 | (\$5.9) | \$4.7 | 17.9% |
| Equals: Total | \$32.4 | (\$5.9) | \$26.5 | 100.0% |

The Harbor Department estimates an allowance for doubtful accounts based on a formula that takes into consideration the aging of receivables and past collection statistical trends. As of June 30, 2023, the allowance for doubtful accounts stands at approximately \$8.5 million.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval to write-off delinquent invoices for land and space assignment rents, dockage, accommodation work orders, utilities, and penalties unpaid, which is an administrative exemption. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

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FINANCIAL IMPACT:

Approval of the proposed action will result in a write-off of \$5,852,838.21 of accounts receivable which are currently past due. As of December 31, 2023, the Harbor Department maintains an \$8,500,000 allowance for doubtful accounts. This allowance sufficiently covers the proposed \$5,852,838.21 write-off; therefore, staff does not anticipate incurring additional bad debt expenses in Fiscal Year 2023/2024 beyond its customary annual provision for an allowance for doubtful accounts.

It is worth noting that the annual provision for doubtful accounts is dependent upon the level of delinquent accounts at any given time, and the proportionate amounts of past-due accounts comprising overall accounts receivable will continue to be monitored. In the event a budgetary adjustment to set aside a provision to replenish the allowance is necessary, it will be submitted to the Board for approval under a separate action.

CITY ATTORNEY:

The Office of the City Attorney concurs that efforts to collect money due the Harbor Department would be disproportionately costly relative to the probable outcome of the collection efforts and that it is otherwise in the City's best interest to write off the subject accounts. Although the Office of the City Attorney pursued cost recovery for environmental cleanup from insurers that issued liability policies to Colonial Yacht, San Pedro Boat Works and Wilmington Marine Service, such policies do not cover rent or penalties for unpaid rent.

TRANSMITTALS:

1. Uncollectible Receivables Proposed for Write-off
2. Write-off of Uncollectible Receivables Presentation

FIS Approval: *MB* (initials)
CA Approval: *JC* (initials)


Digitally signed by Frank
Liu
Date: 2024.04.18
11:11:14 -07'00'
FRANK LIU
Director of Accounting


Marla Bleavins
deputy, do=land, ou=HQ,
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MARLA BLEAVINS
Deputy Executive Director and
Chief Financial Officer

APPROVED:


EUGENE D. SEROKA *FOR*
Executive Director

MB:FL:lh