



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: FEBRUARY 22, 2011

FROM: FINANCE DIVISION

**SUBJECT: RESOLUTION NO. _____ UPDATES TO THE CITY OF
LOS ANGELES HARBOR DEPARTMENT FINANCIAL POLICIES**

SUMMARY:

Staff recommends that the Los Angeles Board of Harbor Commissioners (Board) review and adopt the proposed revisions to the City of Los Angeles Harbor Department's (Harbor Department) Financial Policies. These policies, consisting of Fiscal (Budgetary, Revenues, and Expense Policies), Leasing, Capital Improvement Plan Funding, Financial Reserve, Risk Management, and Debt Management Policies, codify and reinforce the Harbor Department's continuing practice of fiscal responsibility. The approval of the revised financial policies will comply with the Los Angeles City Council motion, Council File No. 09-0600-S159, in which the Harbor Department is requested to provide an annual reporting of its financial policies to the City Council by April 1st of each year.

RECOMMENDATIONS:

It is recommended that the Los Angeles Board of Harbor Commissioners:

1. Approve the updated set of the Harbor Department's Financial Policies as outlined in this report for the following: Fiscal (Budgetary, Revenues, and Expense Policies), Leasing, Capital Improvement Plan Funding, Financial Reserve, Risk Management, and Debt Management Policies; and
2. Adopt Resolution No. _____.

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DISCUSSION:

Background – In April 2005, the Los Angeles City Council adopted, and the Mayor approved, a comprehensive set of financial policies for the City in response to State budget actions and the economic downturn after September 11, 2001.

According to Council File No. 04-1822-S3, “the City’s proprietary departments are only bound by certain aspects of the Debt Management Policies unless a proposed action will directly impact the City’s General Fund or Special Funds.” However, on November 21, 2006, the City Council adopted recommendations by the Housing, Community, and Economic Development Committee, the Energy and Environment Committee, and the Trade, Commerce and Tourism Committee urging the Boards of the proprietary departments and Community Redevelopment Agency to adopt a comprehensive application of the City’s Financial Policies “at their first opportunity.” Although the Harbor Department had a Debt Management Policy in place at that time approved by the Board in August 2002, it had not formally adopted a broad set of Financial Policies.

Subsequent to the City’s action of 2006, the Harbor Department reviewed the City’s Financial Policies and created a set of financial policies appropriate for a proprietary department, operating independently, using its own resources and administering and controlling its fiscal activities. In September 2008, the Board approved and adopted the Harbor Department’s Financial Policies. The approved policies incorporated the previously established Debt Management Policy. In April 2010, the Board approved additional updates to the Financial Policies. These policies codify and reinforce the Harbor Department’s continuing practice of fiscal responsibility. The key objective of the Financial Policies is to balance the Harbor Department’s core business requirements and strategic objectives with its financial resources.

Recommended Policy Updates – The following summarizes the proposed key changes:

Update #1: Budgetary Policies, Section II, Page 5

- Updates the reporting frequency of the One-Year Cash Flow Forecast Report from monthly to quarterly. Cash flow forecasts help in the management of the Harbor Department’s financial condition. Given the relative stability of the Harbor Department’s overall operating trends and the inability of the current system to make the necessary change, quarterly reporting is recommended. Quarterly reports can provide a similar level of information without compromising usefulness. This update in reporting frequency also allows the Harbor Department to leverage staff resources for other tasks.

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Update #2: Financial Reserve Policy, Section XIII, Item A, Page 13

- Changes the “Emergency Reserve” name to “Emergency/ACTA Reserve” to reflect more clearly one of the potential uses of the fund. While the Emergency Fund was established to meet unanticipated needs, the name change signals that an identifiable need to provide funds to the Alameda Corridor Transportation Authority (ACTA) as it seeks to meet debt and interest repayments.

Update #3: Financial Reserve Policy, Section XIII, Item C, Page 14

- Changes language in the “Special Operating Fund” to align the level of reserves to the average of the two most recent prior fiscal years. The previous language focused on the specific fiscal years of 2008 and 2009. .

Update #4: Debt Management Policy, Section XV, Item C, Page 30

- Adds that the Harbor Department will post its unaudited, quarterly financial statements to the Harbor Department’s general website within sixty days after the close of each quarter. This action is being recommended to ensure that the Harbor Department provides timely information to interested parties, including the investor community, regarding its financial status. The Harbor Department is legally required to post its Continuing Disclosure Report annually.

In addition to the updates above, staff has recommended minor technical edits and formatting updates that appear throughout the document, e.g., deleting certain passages that have been stated earlier in the document. A copy of the proposed revisions in redline form is labeled as Transmittal No. 1 and the proposed Financial Policies in their final, non-redline form is set forth in Transmittal No. 2.

ENVIRONMENTAL ASSESSMENT:

The proposed action is to update the Harbor Department’s Financial Policies. 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:

Approval of the proposed updates will have no direct job impact in the five-county region.

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FINANCIAL IMPACT:

If these two updates are approved, there is no immediate dollar effect to the Harbor Department. Updating the reporting frequency of the One-Year Cash Flow Forecast to quarterly from monthly will increase the value and usefulness of the report to the Harbor Department. By posting its unaudited, quarterly financial statements to its website, the Harbor Department will appear more transparent to the investor community.

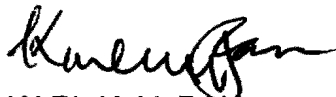
CITY ATTORNEY:

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

TRANSMITTALS:

1. Highlighted updates to the Financial Policies for the City of Los Angeles Harbor Department.
2. Proposed Financial Policies for the City of Los Angeles Harbor Department in its final form.

FIS Approval: MR



KARL K. Y. PAN
Chief Financial Officer



MOLLY CAMPBELL
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

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