



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: MARCH 10, 2017

TO: BOARD OF HARBOR COMMISSIONERS

**SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR
FISCAL YEAR 2016/17 ENDED FEBRUARY 28, 2017**

Financial performance results for the first eight 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 February, cargo volumes (as measured by TEUs or twenty-foot equivalent units) decreased 12.4% relative to February 2016. In summary, performance results for the Harbor Department are as follows:

FYTD February 2017	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	6,175	↑ 8.5%	↑ 8.8%
Operating Revenues	\$ 320.9	↑ 9.2%	↑ 14.9%
Operating Expenses	\$ 134.3	↓ (15.8%)	↑ 1.9%
Operating Income	\$ 186.6	↑ 38.6%	↑ 26.5%
Net Income	\$ 75.0	↑ 255.9%	↑ 73.1%

Due to the heavy cargo volumes processed from October through January, overall cargo volumes through the first eight months of FY 2016/17 have exceeded budget and the prior fiscal year-to-date period by 8.5% and 8.8%, respectively. Despite lower utility reimbursements and higher credits for tenant services, these higher cargo volumes as well as the receipt of a one-time legal settlement and higher rental receipts led to a 9.2% increase in fiscal year-to-date Total Operating Revenues relative to budget and a 14.9% increase relative to the prior fiscal year-to-date period.

Although city services payments are trending higher relative to budget, Total Operating Expenses were favorably impacted as lower average staffing levels, invoicing delays with respect to outside services, lower utility expenses as well as higher overhead capitalization drove Total Operating Expenses 15.8% below budget. Relative to the

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

prior fiscal year-to-date period, Total Operating Expenses increased by 1.9% as higher city services payments, higher average headcounts, Memorandum of Understanding salary increases and higher overtime expenses were only partially offset by lower legal settlement expenses and lower electricity expenses.

Operating margins for the fiscal year-to-date period were reported at 58.2% versus a budget of 45.8% and a prior year figure of 52.8%. 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 February 28, 2017 based on internal estimates reached \$70.6 million or about 48% of the total \$146.1 million CIP adopted budget. Harbor Department CIP spending is expected to fall below the total CIP adopted budget by fiscal year-end.



FOR

EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD February 2017
2. Actual-to-Budget FY 2016/17 – February
3. Year-to-Year Performance Report YTD February 28, 2017 and February 29, 2016

Author: M. Marchese

MM

MB:JS:MM/Finance

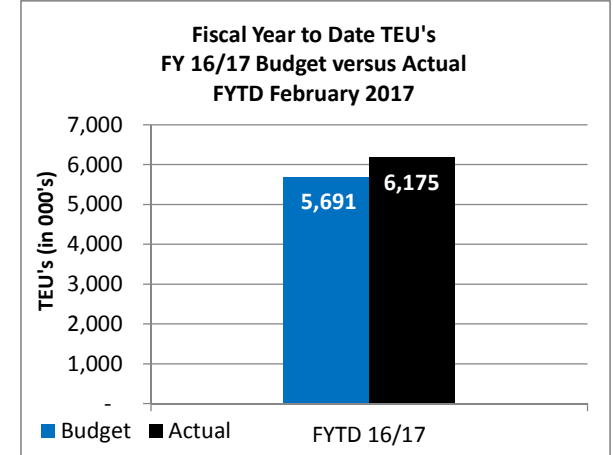
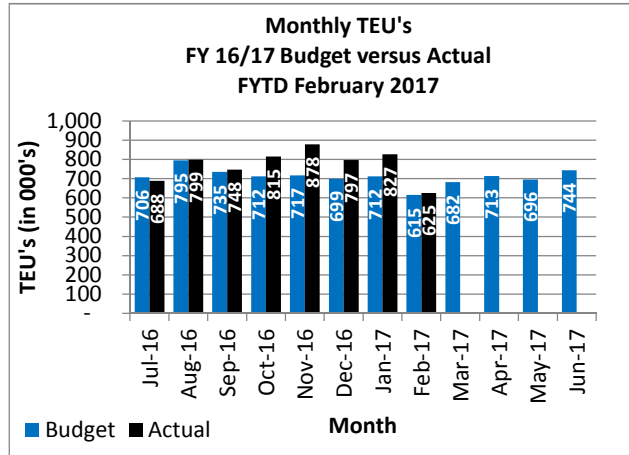
cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD FEBRUARY 2017

TRANSMITTAL 1

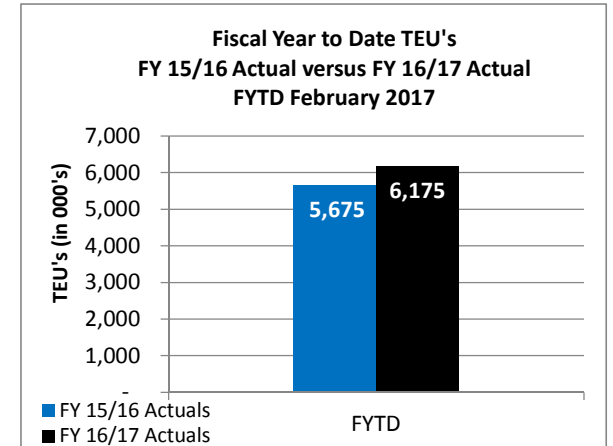
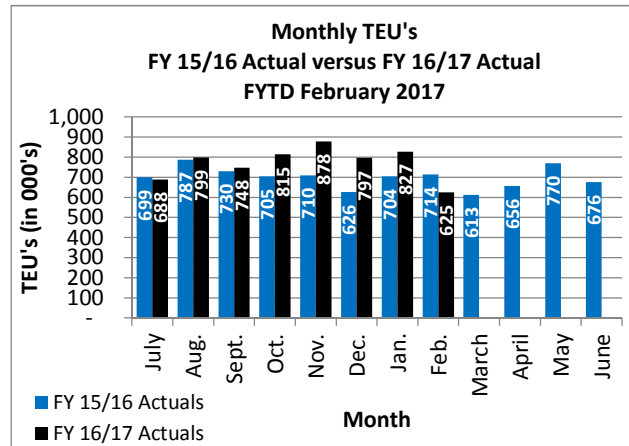
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(in 000's)	TEU's			
Month	FY 16/17 Budget	FY 16/17 Actuals	% Δ	Δ
Jul-16	706	688	-2.6%	↓
Aug-16	795	799	0.6%	↑
Sep-16	735	748	1.7%	↑
Oct-16	712	815	14.5%	↑
Nov-16	717	878	22.4%	↑
Dec-16	699	797	14.0%	↑
Jan-17	712	827	16.1%	↑
Feb-17	615	625	1.7%	↑
Mar-17	682			
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	5,691	6,175	8.5%	↑
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			
Month	FY 15/16 Actuals	FY 16/17 Actuals	% Δ	Δ
July	699	688	-1.6%	↓
Aug.	787	799	1.6%	↑
Sept.	730	748	2.4%	↑
Oct.	705	815	15.6%	↑
Nov.	710	878	23.6%	↑
Dec.	626	797	27.2%	↑
Jan.	704	827	17.4%	↑
Feb.	714	625	-12.4%	↓
March	613			
April	656			
May	770			
June	676			
FYTD	5,675	6,175	8.8%	↑
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 - Feb. 2017	Fiscal YTD - Feb. 2017	\$	%	
Operating Revenues					
Shipping Services	264,165	250,949	13,217	5.3%	Higher than budgeted wharfage \$15.1 and higher pilotage \$0.1, partially offset by lower dockage <\$1.1>, lower space assignment <\$0.5> and lower lay day fees <\$0.4>
Rentals	35,013	29,111	5,902	20.3%	Higher land rent due to quicker than expected implementation of CPI provisions in lease renewals as well as higher unbudgeted rentals
Royalties, Fees and Other Revenues	20,484	12,669	7,816	61.7%	One-time legal settlement \$12.5, higher other one-time settlements and refunds \$0.5, higher railroad lease accruals \$0.2 and higher parking fees \$0.1, partially offset by lower utility reimbursements <\$2.4>, higher credits for tenant services <\$1.8> and lower misc. revenues <\$1.3>
Clean Truck Program Revenues	1,262	1,282	(20)	(1.6%)	
Total Operating Revenues	320,925	294,011	26,914	9.2%	
Operating Expenses					
Gross Salaries & Benefits	88,787	98,977	(10,189)	(10.3%)	Lower average filled positions, partially offset by higher overtime
Capitalization	(14,968)	(9,657)	(5,311)	55.0%	Overhead allocations <\$5.9>, partially offset by lower direct capitalization \$0.6
Net Salaries & Benefits	73,819	89,320	(15,500)	(17.4%)	
Marketing & Public Relations	1,894	2,605	(711)	(27.3%)	Lower promotional/sponsorships <\$0.4>, overhead capitalization <\$0.2> and lower advertising <\$0.1>
Travel	312	586	(274)	(46.8%)	
Outside Services	12,918	21,514	(8,596)	(40.0%)	Outside legal counsel invoicing delays <\$2.2>, lower shed demolition costs <\$1.8>, environmental assessment invoicing delays <\$1.5>, software & IT consulting invoicing delays <\$0.8>, overhead allocations <\$0.7>, lower cruise operator costs <\$0.4>, lower port police spending <\$0.3>, contract compliance invoicing delays <\$0.2> and lower federal/state advocacy spending <\$0.2>
Materials & Supplies	3,063	4,845	(1,782)	(36.8%)	C&M invoicing delays <\$0.7>, overhead allocations <\$0.6> and Engineering invoicing delays <\$0.1>
City Services	28,017	28,283	(265)	(0.9%)	Overhead allocations <\$2.1> and Public Works invoicing delay <\$0.2>, partially offset by higher Fire \$1.6 and City Attorney services \$0.4,
(1) Allocations to Capital - Overhead		(9,132)	9,132	(100.0%)	Higher aggregate overhead allocations \$1.5
(2) Other Operating Expenses	13,782	20,724	(6,943)	(33.5%)	Lower electricity <\$2.3>, workers' compensation payment delay <\$1.2>, overhead allocations <\$1.0>, environmental incentive payment delays <\$0.9>, lower water & gas <\$0.6>, lower telephone expenses <\$0.3>, litigation/claims payment delays <\$0.3>, lower bad debt provisioning <\$0.1>, lower insurance expense <\$0.1> and lower memberships/books/subscriptions <\$0.1>
Clean Truck Program Expenses	463	629	(167)	(26.5%)	
Total Operating Expenses	134,268	159,375	(25,106)	(15.8%)	
Income Before Depreciation	186,656	134,636	52,020	38.6%	
Provision For Depreciation	115,580	114,670	911	0.8%	
Income From Operations	71,076	19,966	51,110	256.0%	
(3) Non-Operating Revenue	6,347	9,741	(3,394)	(34.8%)	Lower pass-through grant receipts <\$3.5>, lower gains on asset sales <\$0.8>, lower federal/state operating grants <\$0.3> and lower Joint Powers Authority Income <\$0.2>, partially offset by higher interest income \$1.2 and higher reimbursable EIR expenses \$0.2
(4) Non-Operating Expenses	(2,438)	(8,639)	6,201	(71.8%)	Lower interest expense \$6.2, lower pass-through grant disbursements \$3.5, timing of capital projects closed to expense \$0.9, lower losses on asset sales \$0.6, lower misc. non-operating expenses \$0.4 and lower bond/commercial paper administration costs \$0.4, partially offset by lower interest capitalization <\$5.8>
Net Income	74,985	21,069	53,916	255.9%	

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 \$10.6 million relative to a budget of \$9.1 million.
- (2) Primarily for: Electricity \$8.5; Insurance \$2.0; Water & Gas \$1.1; Telephone \$1.0; Equipment Rental/Permits/License/Fees \$0.7; Environmental Incentives \$0.6; Memberships/Subscriptions/Books \$0.6; Taxes & Assessments \$0.2; Overhead Capitalization (\$1.0)
- (3) Primarily for: Interest Income \$3.9; Joint Powers Authority Income \$1.1; Federal/State Operating Grants \$0.6; Rebates/Late Charges/Discounts/Misc. \$0.5; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$24.3; Capitalized Interest <\$24.0>; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8, Commercial Paper Costs \$0.4

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - Feb. 2017	Fiscal YTD - Feb. 2016	\$	%	
Operating Revenues					
Shipping Services	264,165	233,156	31,010	13.3%	Higher overall wharfage \$29.9, higher space assignment \$1.2 and higher pilotage \$1.3, partially offset by lower dockage <\$1.1> and lower lay day fees <\$0.3>
Rentals	35,013	30,714	4,299	14.0%	Permit assignment to PBF Energy \$3.0, rental rate increases \$2.7, new permits issued \$1.1 and assignment of subleases at Ports O' Call \$0.7, partially offset by cancellation of Exxon Mobil permit <\$3.2>
Royalties, Fees and Other Revenues	20,484	14,129	6,356	45.0%	Higher one-time refunds & reimbursements \$7.2, higher railroad lease accruals \$0.2 and higher misc. fees \$0.2, partially offset by lower utility reimbursements <\$0.7> and higher credits for tenant services <\$0.5>
Clean Truck Program Revenues	1,262	1,270	(8)	(0.6%)	
Total Operating Revenues	320,925	279,268	41,657	14.9%	
Operating Expenses					
Gross Salaries & Benefits	88,787	86,512	2,275	2.6%	MOU salary increases, higher average filled positions and higher overtime
Capitalization	(14,968)	(14,470)	(498)	3.4%	Higher overhead allocations \$0.5
Net Salaries & Benefits	73,819	72,042	1,777	2.5%	
Marketing & Public Relations	1,894	1,817	77	4.2%	
Travel	312	378	(66)	(17.6%)	
Outside Services	12,918	13,285	(367)	(2.8%)	Lower red car spending <\$0.5>, lower I.T. software and consulting costs <\$0.5>, lower outside legal counsel costs <\$0.3>, lower environmental assessment costs <\$0.2>, lower street and bridge maintenance <\$0.1>, lower external auditor spending <\$0.1>, lower cruise terminal operator costs <\$0.1> and lower cargo forecast costs <\$0.1>, partially offset by higher C&M building services \$0.7, lower capitalization of C&M services \$0.5 and lower overhead capitalization \$0.3
Materials & Supplies	3,063	3,722	(659)	(17.7%)	
City Services	28,017	25,683	2,334	9.1%	Higher Fire services \$2.3, higher Rec & Parks \$0.2, partially offset by delayed Public Works invoicing <\$0.2>
Allocations to Capital - Overhead		(1,083)	1,083	(100.0%)	
(1) Other Operating Expenses	13,782	15,501	(1,719)	(11.1%)	Lower litigation/claims expenses <\$0.8>, lower electricity <\$0.4>, lower environmental incentives <\$0.3> and higher overhead allocations <\$0.3>, partially offset by higher water and gas \$0.1
Clean Truck Program Expenses	463	358	105	29.4%	
Total Operating Expenses	134,268	131,705	2,564	1.9%	
Income Before Depreciation	186,656	147,563	39,093	26.5%	
Provision For Depreciation	115,580	108,752	6,829	6.3%	
Income From Operations	71,076	38,812	32,264	83.1%	
(2) Non-Operating Revenue	6,347	7,500	(1,152)	(15.4%)	Lower gains on asset sales <\$1.7>, lower ICTF/JPA payments <\$0.3> and lower pass-through grant receipts <\$0.2>, partially offset by higher federal grants \$0.3, higher interest income \$0.3, higher reimbursable EIR expenses \$0.2 and higher delinquency penalty receipts \$0.2
(3) Non-Operating Expenses	(2,438)	(2,989)	550	(18.4%)	Lower interest expense \$3.4, timing of capital projects closed to expense \$0.5, lower bond redemption accounting adjustment \$0.3, lower pass-through grant disbursements \$0.2 and lower commercial paper monitoring costs \$0.2, partially offset by lower interest capitalization <\$3.4> and higher bond administration costs <\$0.6>
Net Income	74,985	43,323	31,662	73.1%	

Notes:

(1) Primarily for: Electricity \$8.5; Insurance \$2.0; Water & Gas \$1.1; Telephone \$1.0; Equipment Rental/Permits/License/Fees \$0.7; Environmental Incentives \$0.6; Memberships/Subscriptions/Books \$0.6; Taxes & Assessments \$0.2; Overhead Capitalization (\$1.0)

(2) Primarily for: Interest Income \$3.9; Joint Powers Authority Income \$1.1; Federal/State Operating Grants \$0.6; Rebates/Late Charges/Discounts/Misc. \$0.5; Reimbursable EIR Expenses \$0.2

(3) Primarily for: Interest Expense \$24.3; Capitalized Interest <\$24.0>; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8, Commercial Paper Costs \$0.4