



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: APRIL 19, 2017

TO: BOARD OF HARBOR COMMISSIONERS

SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR
FISCAL YEAR 2016/17 ENDED MARCH 31, 2017

Financial performance results for the first three quarters 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 March, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 28.7% relative to March 2016, and March 2017 volumes represented the second highest level for the month of March in the Port’s 109-year history. In summary, performance results for the Harbor Department are as follows:

FYTD March 2017	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	6,964	↑ 9.3%	↑ 10.7%
Operating Revenues	\$ 380.2	↑ 13.0%	↑ 18.1%
Operating Expenses	\$ 152.5	↓ (14.6%)	↑ 1.7%
Operating Income	\$ 227.7	↑ 44.3%	↑ 32.5%
Net Income	\$ 103.2	↑ 242.3%	↑ 86.0%

Due to the heavy cargo volumes processed from October through March, overall cargo volumes through nine months of FY 2016/17 have exceeded budget and the prior fiscal year-to-date period by 9.3% and 10.7%, respectively. Despite lower utility reimbursements and higher credits for tenant services, these higher cargo volumes as well as the receipt of a large, one-time legal settlement and higher rental receipts led to a 13.0% increase in fiscal year-to-date Total Operating Revenues relative to budget and an 18.1% 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

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

capitalization drove Total Operating Expenses 14.6% below budget. Relative to the prior fiscal year-to-date period, Total Operating Expenses increased by 1.7% as higher city services payments, Memorandum of Understanding salary increases, higher average headcounts and higher overtime expenses were only partially offset by lower legal settlement expenses.

Operating margins for the fiscal year-to-date period were reported at 59.9% versus a budget of 46.9% and a prior year figure of 53.4%. 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 draws to a close.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended March 31, 2017 based on internal estimates reached \$76.0 million or about 52% 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.



EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD March 2017
2. Actual-to-Budget FY 2016/17 – March
3. Year-to-Year Performance Report YTD March 31, 2017 and 2016

Author: M. Marchese

MB:JS:MM/Finance

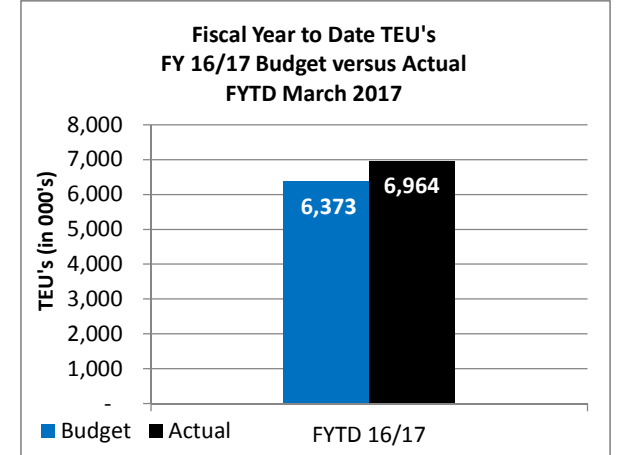
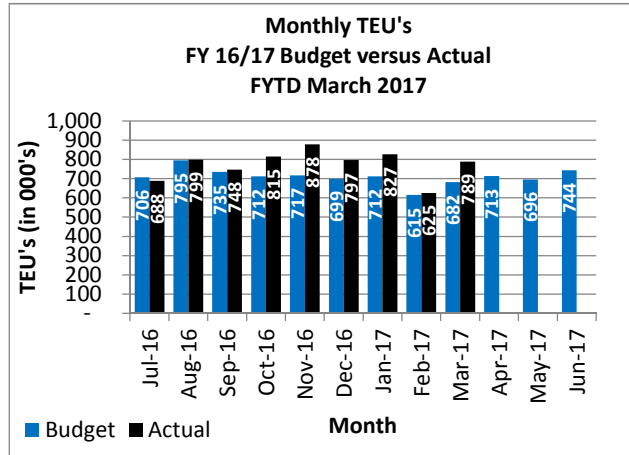
cc: Deputy Executive Directors

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

TRANSMITTAL 1

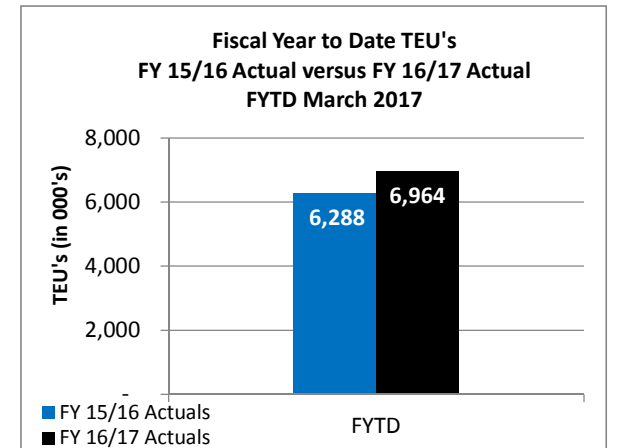
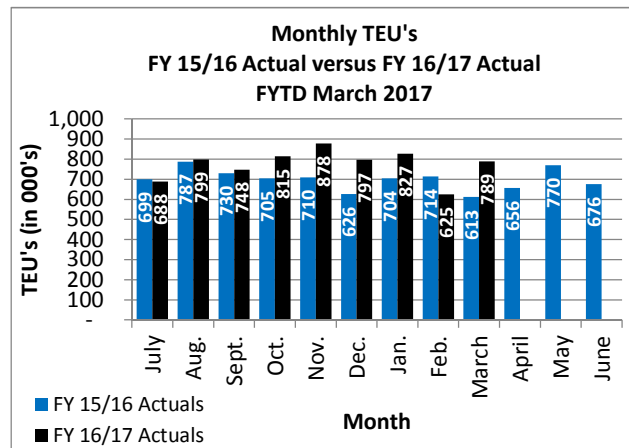
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(in 000's)	TEU's		% Δ	Δ
Month	FY 16/17 Budget	FY 16/17 Actuals		
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	789	15.6%	↑
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	6,373	6,964	9.3%	↑
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		% Δ	Δ
Month	FY 15/16 Actuals	FY 16/17 Actuals		
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	789	28.7%	↑
April	656			
May	770			
June	676			
FYTD	6,288	6,964	10.7%	↑
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 - Mar. 2017	Fiscal YTD - Mar. 2017	\$	%	
Operating Revenues					
Shipping Services	303,442	288,912	14,529	5.0%	Higher than budgeted wharfage \$16.6 and higher pilotage \$0.1, partially offset by lower dockage <\$1.4>, lower lay day fees <\$0.6> and lower space assignment <\$0.2>
Rentals	38,039	31,285	6,754	21.6%	Higher rent receipts than budgeted due to unbudgeted rent from Ports O' Call and completed resets
Royalties, Fees and Other Revenues	36,816	14,436	22,380	155.0%	One-time legal settlement \$25.0, Harbor Maintenance Tax receipt \$3.0, 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 <\$3.0>, higher credits for tenant services <\$2.0> and lower misc. revenues <\$1.4>
Clean Truck Program Revenues	1,886	1,773	113	6.4%	
Total Operating Revenues	380,182	336,406	43,776	13.0%	
Operating Expenses					
Gross Salaries & Benefits	100,610	111,306	(10,696)	(9.6%)	Lower average filled positions, partially offset by higher overtime
Capitalization	(17,028)	(10,864)	(6,164)	56.7%	Overhead allocations <\$6.7>, partially offset by lower direct capitalization \$0.5
Net Salaries & Benefits	83,582	100,442	(16,860)	(16.8%)	
Marketing & Public Relations	2,013	2,676	(663)	(24.8%)	Lower promotional/sponsorships <\$0.3>, overhead capitalization <\$0.2> and lower advertising <\$0.2>
Travel	388	707	(319)	(45.1%)	
Outside Services	15,163	23,928	(8,765)	(36.6%)	Outside legal counsel invoicing delays <\$2.4>, lower shed demolition costs and deferred maintenance invoicing delays <\$2.0>, environmental assessment invoicing delays <\$1.4>, overhead allocations <\$0.9>, software & IT consulting invoicing delays <\$0.7>, lower cruise operator costs <\$0.4>, contract compliance invoicing delays <\$0.2>, lower federal/state advocacy spending <\$0.2> and lower external auditor spending <\$0.2>
Materials & Supplies	3,656	5,385	(1,729)	(32.1%)	C&M invoicing delays <\$0.8>, overhead allocations <\$0.7> and Engineering invoicing delays <\$0.1>
City Services	30,992	31,777	(785)	(2.5%)	Overhead allocations <\$2.3>, Rec and Parks invoicing delay <\$0.3> 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		(10,273)	10,273	(100.0%)	Higher aggregate overhead allocations \$1.7
(2) Other Operating Expenses	16,237	23,295	(7,059)	(30.3%)	Lower electricity <\$2.8>, workers' compensation payment delay <\$1.4>, overhead allocations <\$1.2>, lower water & gas <\$0.7>, lower telephone expenses <\$0.3>, litigation/claims payment delays <\$0.3>, lower insurance expense <\$0.2> and lower bad debt provisioning <\$0.2>
Clean Truck Program Expenses	490	708	(218)	(30.8%)	
Total Operating Expenses	152,521	178,645	(26,124)	(14.6%)	
Income Before Depreciation	227,662	157,761	69,900	44.3%	
Provision For Depreciation	128,999	129,003	(5)	(0.0%)	
Income From Operations	98,663	28,758	69,905	243.1%	
(3) Non-Operating Revenue	7,205	12,154	(4,949)	(40.7%)	Lower pass-through grant receipts <\$5.2>, lower gains on asset sales <\$0.9>, lower Joint Powers Authority Income <\$0.4> and lower federal/state operating grants <\$0.1>, partially offset by higher interest income \$1.5 and higher reimbursable EIR expenses \$0.2
(4) Non-Operating Expenses	(2,667)	(10,760)	8,093	(75.2%)	Lower interest expense \$7.1, lower pass-through grant disbursements \$5.2, timing of capital projects closed to expense \$1.1, lower losses on asset sales \$0.7, lower misc. non-operating expenses \$0.5 and lower bond/commercial paper administration costs \$0.2, partially offset by lower interest capitalization <\$6.7>
Net Income	103,201	30,153	73,048	242.3%	

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 \$12.0 million relative to a budget of \$10.3 million.
- (2) Primarily for: Electricity \$9.4; Insurance \$2.2; Environmental Incentives \$1.8; Water & Gas \$1.3; Telephone \$1.1; Equipment Rental/Permits/License/Fees \$0.8; Memberships/Subscriptions/Books \$0.6; Taxes & Assessments \$0.2; Overhead Capitalization (\$1.2)
- (3) Primarily for: Interest Income \$4.6; Joint Powers Authority Income \$1.0; Federal/State Operating Grants \$0.9; Rebates/Late Charges/Discounts/Misc. \$0.5; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$27.3; Capitalized Interest <\$26.9>; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8, Commercial Paper Costs \$0.5

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - Mar. 2017	Fiscal YTD - Mar. 2016	\$	%	
Operating Revenues					
Shipping Services	303,442	270,436	33,005	12.2%	Higher overall wharfage \$31.6, higher pilotage \$1.6 and higher space assignment \$1.4, partially offset by lower dockage <\$1.2> and lower lay day fees <\$0.4>
Rentals	38,039	34,850	3,189	9.1%	Permit assignment to PBF Energy \$4.2, rental rate increases \$2.3, assignment of subleases at Ports O' Call \$0.7 and new permits issued \$0.6, partially offset by cancellation of Exxon Mobil permit <\$3.2> and one-time Ardagh payment in the prior fiscal year <\$1.4>
Royalties, Fees and Other Revenues	36,816	14,817	21,999	148.5%	Higher one-time refunds & reimbursements \$19.6, Harbor Maintenance Tax receipt \$3.0, higher railroad lease accruals \$0.2 and higher misc. fees \$0.2, partially offset by lower utility reimbursements <\$0.7> and lower parking fees <\$0.3>
Clean Truck Program Revenues	1,886	1,717	168	9.8%	Higher annual truck fees \$0.3, offset by lower concession fees and day-pass fees <\$0.1>
Total Operating Revenues	380,182	321,821	58,361	18.1%	
Operating Expenses					
Gross Salaries & Benefits	100,610	98,754	1,857	1.9%	MOU salary increases, higher average filled positions and higher overtime
Capitalization	(17,028)	(16,969)	(59)	0.3%	
Net Salaries & Benefits	83,582	81,785	1,797	2.2%	
Marketing & Public Relations	2,013	2,020	(7)	(0.3%)	
Travel	388	569	(181)	(31.8%)	
Outside Services	15,163	14,945	218	1.5%	Higher C&M building services \$0.9, lower capitalization of C&M services \$0.5, higher security camera spending \$0.4 and lower overhead capitalization \$0.4, partially offset by lower I.T. software and consulting costs <\$0.6>, lower red car spending <\$0.4>, lower outside legal counsel costs <\$0.3>, lower building maintenance <\$0.3>, lower external auditor spending <\$0.1>, timing of Bond Assistance Program payment <\$0.1>, lower cruise terminal operator costs <\$0.1> and lower cargo forecast costs <\$0.1>
Materials & Supplies	3,656	4,190	(534)	(12.7%)	
City Services	30,992	28,494	2,498	8.8%	Higher Fire services \$2.5 and higher Personnel services \$0.2, partially offset by delayed Public Works invoicing <\$0.2>
(1) Other Operating Expenses	16,237	17,508	(1,271)	(7.3%)	Lower litigation/claims expenses <\$0.8>, higher overhead allocations <\$0.2>, lower environmental incentives <\$0.1>, lower insurance <\$0.1> and lower electricity <\$0.1>
Clean Truck Program Expenses	490	493	(4)	(0.7%)	
Total Operating Expenses	152,521	150,003	2,517	1.7%	
Income Before Depreciation	227,662	171,818	55,844	32.5%	
Provision For Depreciation	128,999	121,238	7,761	6.4%	
Income From Operations	98,663	50,580	48,083	95.1%	
(2) Non-Operating Revenue	7,205	7,989	(783)	(9.8%)	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 interest income \$0.6, higher federal grants \$0.5, higher reimbursable EIR expenses \$0.2 and higher delinquency penalty receipts \$0.1
(3) Non-Operating Expenses	(2,667)	(3,088)	421	(13.6%)	Lower interest expense \$3.9, timing of capital projects closed to expense \$0.5, lower bond redemption accounting adjustment \$0.3 and lower pass-through grant disbursements \$0.2, partially offset by lower interest capitalization <\$3.9> and higher bond administration costs <\$0.6>
Net Income	103,201	55,480	47,721	86.0%	

Notes:

(1) Primarily for: Electricity \$9.4; Insurance \$2.2; Environmental Incentives \$1.8; Water & Gas \$1.3; Telephone \$1.1; Equipment Rental/Permits/License/Fees \$0.8; Memberships/Subscriptions/Books \$0.6; Taxes & Assessments \$0.2; Overhead Capitalization (\$1.2)

(2) Primarily for: Interest Income \$4.6; Joint Powers Authority Income \$1.0; Federal/State Operating Grants \$0.9; Rebates/Late Charges/Discounts/Misc. \$0.5; Reimbursable EIR Expenses \$0.2

(3) Primarily for: Interest Expense \$27.3; Capitalized Interest <\$26.9>; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8; Commercial Paper Costs \$0.5