Item #3b

THE PORT OF LOS ANGELES

Executive Director's
Report to the
Board of Harbor Commissioners

"FOR INFORMATION ONLY"

DATE: **MARCH 12, 2015**

TO: **BOARD OF HARBOR COMMISSIONERS**

SUBJECT: **FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR 2014/15 ENDED FEBRUARY 28, 2015**

Overall congestion within the Port complex continued to drive down February container cargo volumes (as measured by TEUs or twenty-foot equivalent units) such that Fiscal Year-to-Date (FYTD) 2014/15 volumes have fallen further below budget and prior year-to-date figures. Transmittals 1, 2 and 3 provide financial performance results, and the chart below summarizes those results:

FYTD February 2015	Actuals (Cargo Volumes in Thousands, $ in Millions)	Actual-to-Budget Comparison	Year-on-Year Comparison
Container Cargo Volumes (Preliminary)	5,216	↓ (7.5%)	↓ (3.5%)
Operating Revenues*	$ 271.6	↓ (4.0%)	↑ 0.8%
Operating Expenses*	$ 125.7	↓ (11.9%)	↓ (1.3%)
Operating Income	$ 145.9	↑ 4.1%	↑ 2.6%
Net Income	$ 66.6	↑ 11.9%	↑ 28.1%

* Note: Operating Expenses include $9.9 million in electricity expenses, of which $7.6 million are AMP-related. The majority (about 98%) of AMP electricity expenses are reimbursed by AMP-capable customers and reflected in Operating Revenues.

As mentioned in prior monthly financial reports, reduced volumes at terminals with higher TEU rates and increased volumes at terminals with lower TEU rates have continued to drive down Shipping Services revenues relative to budget and prior year. Congestion continues to play a significant role in delaying container vessels from making their scheduled February calls, which in turn also delays the processing and invoicing of associated cargo. Although one-time revenue "catch-up" billings related to compensation resets in certain leases have mitigated this lower level of Shipping Services, FYTD total Operating Revenues continue to fall short of budget. While the expectation is that total Operating Revenues for Fiscal Year (FY) 2014/15 will be in line with budget as invoices are issued and revenues collected, we will continue to monitor container traffic. If ongoing labor negotiations, chassis deployment and other congestion-related logistical issues continue to affect the servicing of shipping customers, total fiscal year Operating Revenues could potentially fall short of our annual budget.

Operating Expenses were down 1.3% year-on-year as lower average headcount, timing of expense recognition and higher indirect overhead capitalization more than offset Memorandum of Understanding salary increases, lower direct salary capitalization, and higher electricity costs related to Alternative Maritime Power (AMP™). Relative to budget, Operating Expenses were 11.9% below budget due to lower than budgeted salaries, higher indirect overhead capitalization and timing of expense recognition and capitalization.

Based upon final calendar year 2014 TEU counts, we estimate that the Port's obligations under the Ocean Common Carrier Incentive Program (Carrier Incentive Program) will be $10.5 million, or $7.0 million more than budgeted, and this obligation is currently not reflected within FYTD Operating Expenses through February. If this $10.5 million expense were to be added into FYTD results, FYTD Operating Expenses would total $136.1 million, but would continue to fall 4.5% below FYTD budget due mostly to the timing in recognition of other expenses. Given that we currently do not anticipate sufficient savings within other expense categories in order to fund the Port's expected obligations under the Carrier Incentive Program, we will submit a separate board report which requests a budgetary transfer to fund the $7.0 million differential between the initial $3.5 million provision and the final cost of the Carrier Incentive Program.

Capital Improvement Program (CIP)
CIP spending for the FYTD period ending February 2015 based on internal estimates reached $127.8 million or about 45% of the total $281.0 million CIP adopted budget. The Harbor Department expects CIP spending to approximate $245 million by Fiscal Year-End.

EUGENE D. SEROKA
Executive Director

Transmittals:
1. TEU Throughput Comparison – FYTD February 2015 (Preliminary)
2. Actual-to-Budget FY 2014/15 – February 2015
3. Year-to-Year Performance Report YTD February 28, 2015 and 2014

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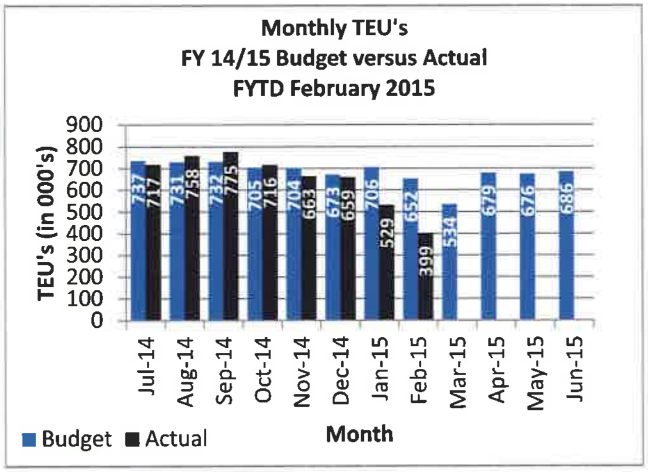
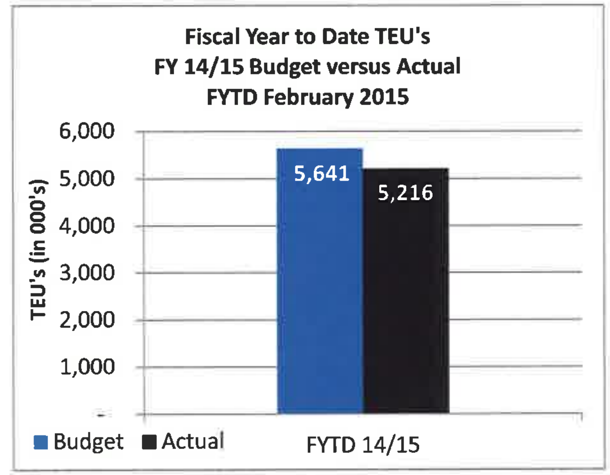
MB:MM/Finance MB
cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD FEBRUARY 2015 (PRELIMINARY as of 03-11-2015, 3:30 p.m.)

Budget versus Actuals Comparison
FY 14/15 Budget vs. FY 14/15 Actuals

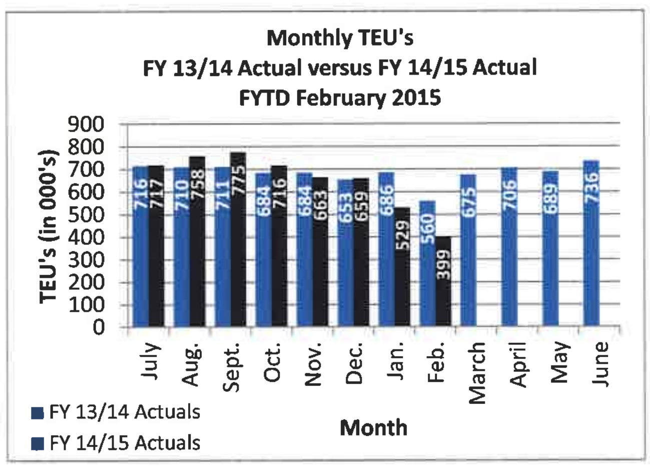
(in 000's)	TEU's			
Month	FY 14/15 Budget	FY 14/15 Actuals	% Δ	Δ
Jul-14	*737*	*717*	*-2.7%*	↓
Aug-14	*731*	*758*	*3.7%*	↑
Sep-14	*732*	*775*	*5.9%*	↑
Oct-14	*705*	*716*	*1.6%*	↑
Nov-14	*704*	*663*	*-5.8%*	↓
Dec-14	*673*	*659*	*-2.1%*	↓
Jan-15	*706*	*529*	*-25.0%*	↓
Feb-15	*652*	*399*	*-38.9%*	↓
Mar-15	534			
Apr-15	679			
May-15	676			
Jun-15	686			
FYTD 14/15	5,641	5,216	-7.5%	↓
FY 14/15 Budget	8,216			

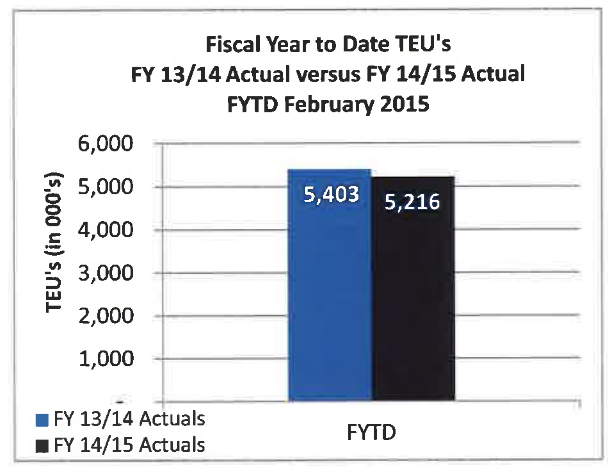




Year-to-Year Actuals Comparison
FY 13/14 Actuals vs. FY 14/15 Actuals

(in 000's)	TEU's			
Month	FY 13/14 Actuals	FY 14/15 Actuals	% Δ	Δ
July	*716*	*717*	*0.2%*	↑
Aug.	*710*	*758*	*6.8%*	↑
Sept.	*711*	*775*	*9.0%*	↑
Oct.	*684*	*716*	*4.6%*	↑
Nov.	*684*	*663*	*-3.0%*	↓
Dec.	*653*	*659*	*0.8%*	↑
Jan.	*686*	*529*	*-22.8%*	↓
Feb.	*560*	*399*	*-28.8%*	↓
March	675			
April	706			
May	689			
June	736			
FYTD	5,403	5,216	-3.5%	↓
FY 13/14 Actuals	8,210			





TRANSMITTAL 2

Harbor Department

Actual-to-Budget

Fiscal Year 2014/15 - February

(Data in thousands of $, comments in millions of $)

(000s)	Actual (Unaudited) FY 2014/15 (Fiscal YTD Feb 2015) (Preliminary)		Adopted Budget FY 2014/15 (Fiscal YTD Feb 2015)		Δ	Δ%
Operating Revenues						
Shipping Services	$	219,913	$	248,757	(28,844)	-11.6%
Rentals		33,722		29,785	3,937	13.2%
Royalties, fees and other revenues		15,537		3,306	12,231	369.9%
Clean Truck Program Revenues		2,426		973	1,453	149.4%
Total Operating Revenues	**$**	**271,598**	**$**	**282,821**	(11,223)	-4.0%
Operating Expenses						
Salaries & Benefits						
Gross Salaries & Benefits	87,519		94,472		(6,953)	-7.4%
Capitalization (direct)	(10,597)		(13,097)		2,501	-19.1%
Net Salaries & Benefits (Operating)		76,922		81,374	(4,452)	-5.5%
Marketing and Public Relations		2,278		2,743	(465)	-16.9%
Travel		378		595	(216)	-36.4%
Outside Services		11,201		18,135	(6,934)	-38.2%
Materials & Supplies		4,054		4,603	(549)	-11.9%
City Services		24,759		24,502	258	1.1%
Allocations to Capital - Overhead		(12,340)		(11,133)	(1,207)	10.8%
Other Operating Expenses*		18,018		21,289	(3,271)	-15.4%
Clean Truck Program Expenses		393		505	(112)	-22.2%
Total Operating Expenses	**$**	**125,664**	**$**	**142,613**	(16,949)	-11.9%
Income Before Depreciation	**$**	**145,934**	**$**	**140,208**	5,726	4.1%
Provision for Depreciation		81,583		80,261	1,322	1.6%
Income from Operations	**$**	**64,351**	**$**	**59,947**	4,404	7.3%
Non-Operating Revenue (interest income, grant receipts, etc.)		8,911		5,448	3,463	63.6%
Non-Operating Expenses (bonds/notes/interest expense, etc.)		6,669		5,898	771	13.1%
Net Income	**$**	**66,593**	**$**	**59,496**	7,096	11.9%

* Includes Unappropriated Balance transfer for unbudgeted Alternative Maritime Power expenses ($5.9 million)

Higher volumes at terminals with lower TEU rates, lower volumes at terminals with higher TEU rates than budgeted, congestion delaying timing of invoicing and pending true-up's of TEU rate adjustments

Primarily due to one-time compensation catch-ups and resets, slightly offset by lower rental receipts for buildings and warehouses than budgeted

BNSF/SCIG facility annual license fee $4.7 (net) and higher AMP reimbursements than budgeted

Higher concession application renewals than budgeted

Primarily due to lower average filled positions (919 vs. 940 budgeted), timing in benefits accruals, payouts, bonuses and other benefits

Lower direct capitalization primarily for Engineering and Construction & Maintenance as capital spending is below budgeted amounts

Timing in capitalization adjustments <$3.1>, higher capitalization in Construction & Maintenance <$1.7>, project scheduling for maintenance dredging <$0.9> and timing in Information Technology <$0.6>, Marketing <$0.3>, City Attorney <$0.3>, Government Affairs <$0.2>, Planning <$0.1>, Goods Movement <$0.1>, Contracts & Purchasing <$0.1> and Audit <$0.1> expenses, slightly offset by higher environmental assessment expenses $0.6

Timing in capitalization adjustments $1.1, offset by timing of city attorney, public works and water accruals <$0.8>

Timing of carrier incentives <$2.3>, insurance premium recognition <$1.5>, litigation <$0.4> and workers' compensation <$0.4> payments, lower water <$1.0> and lower permits/fees/taxes/assessments <$0.2> slightly offset by higher electricity $1.6 and equipment purchases $0.9

Primarily higher Federal/State grant receipts $2.7 (previously budgeted as capital, reclassified from capital to operating), higher interest/investment income $0.6 and higher state pass-through revenues $0.4, partially offset by lower non-operating settlements, rebates and misc. <$0.3>

Lower interest capitalization $3.5, higher capital projects cancelled or not completed $1.2 and higher loss on asset sales $1.1, partially offset by lower interest expense <$3.8>, lower bond/commercial paper issuance costs <$1.1> and timing of environmental incentives <$0.1>

Overhead allocations are eventually charged directly to each operating expense category at fiscal year end; presented here in total for comparison purposes. FYTD allocation by expense component is as follows:
- <$6.9> Salaries & Benefits
- <$0.2> Marketing & Public Relations
- <$0.04> Travel
- <$0.9> Outside Services
- <$0.4> Materials & Supplies
- <$2.2> City Services
- <$1.7> Other Operating Expenses

Primarily for:
- $9.9 Electricity
- $2.1 Insurance
- $1.7 Water & gas
- $1.2 Telephone
- $0.9 Environmental incentives
- $0.9 Equipment purchases
- $0.8 Property/equipment rental/license
- $0.4 Memberships, subscriptions, books

Primarily for:
- $27.3 Interest expense
- <$27.0> Capitalized interest
- $2.9 Capital projects closed to expense
- $1.1 Bond issuance costs
- $1.1 Loss on sale of assets
- $1.0 Commercial paper issuance costs
- $0.4 Pass-through grant disbursements

Primarily for:
- $4.2 Interest/investment income
- $3.7 Federal/State grant receipts
- $0.6 Rebates, late charges, gain on asset sales, misc.
- $0.4 Pass-through grant receipts

Year-to-Year Performance Report
YTD February 28, 2015 and 2014
(Data in thousands of $, comments in millions of $)

(000s)	Actual (Unaudited) FY 2014/15 (Fiscal YTD Feb 2015) (Preliminary)		Actual (Unaudited) FY 2013/14 (Fiscal YTD)		Δ	Δ%
Operating Revenues						
Shipping Services	$	219,913	$	235,950	(16,036)	-6.8%
Rentals		33,722		29,373	4,349	14.8%
Royalties, fees and other revenues		15,537		3,014	12,524	415.6%
Clean Truck Program Revenues		2,426		1,196	1,230	102.9%
Total Operating Revenues	**$**	**271,598**	**$**	**269,531**	2,066	0.8%
Operating Expenses						
Salaries & Benefits						
Gross Salaries and Benefits	87,519		89,311		(1,792)	-2.0%
Capitalization (direct)	(10,597)		(13,101)		2,505	-19.1%
Net Salaries & Benefits (Operating)		76,922		76,210	713	0.9%
Marketing and Public Relations		2,278		1,757	522	29.7%
Travel		378		866	(488)	-56.4%
Outside Services		11,201		14,796	(3,595)	-24.3%
Materials & Supplies		4,054		4,525	(471)	-10.4%
City Services		24,759		22,842	1,918	8.4%
Allocations to Capital - Overhead		(12,340)		(7,161)	(5,180)	72.3%
Other Operating Expenses		18,018		12,990	5,028	38.7%
Clean Truck Program Expenses		393		520	(128)	-24.5%
Total Operating Expenses	**$**	**125,664**	**$**	**127,345**	(1,681)	-1.3%
Income Before Depreciation	**$**	**145,934**	**$**	**142,186**	3,748	2.6%
Provision for Depreciation		81,583		76,684	4,899	6.4%
Income from Operations	**$**	**64,351**	**$**	**65,502**	(1,151)	-1.8%
Non-Operating Revenue (interest Income, grant receipts,etc.)		8,911		12,436	(3,525)	-28.3%
Non-Operating Expenses (bonds/notes/interest Expense, etc.)		6,669		25,948	(19,279)	-74.3%
Net Income	**$**	**66,593**	**$**	**51,989**	14,603	28.1%

Higher volumes at terminals with lower TEU rates, lower volumes at terminals with higher TEU rates, lower overall TEU volumes <$16.9 (aggregate)> and lower pilotage <$0.5>, partially offset by higher space assignment $0.9, dockage $0.4 and layday fees $0.1

Intermodal customer rate increase and minimum annual guarantee (MAG) payment $4.9, slightly offset by lower rental receipts for buildings and warehouses <$0.7>

Higher utility reimbursements mostly related to AMP $6.9, BNSF/SCIG facility annual license fee $4.7 (net), refunds related to environmental projects $0.7 and higher parking fees $0.3

Higher concession application fees with some renewals, and higher annual truck fees and day pass fees

Primarily due to lower average filled positions (919 vs. 940 prior year) slightly offset by MOU salary increases

Higher promotional and sponsorship spending for Public Relations $0.6, partially offset by lower foreign trade representation <$0.1>

Timing in capitalization adjustments <$4.8>, lower hiring hall salaries in Construction & Maintenance <$0.6>, lower outside counsel <$0.3>, lower Contracts and Purchases services <$0.2> and lower executive services <$0.2> spending , partially offset by higher environmental assessment services $0.7 and maintenance program spending $0.2 as well as timing in Information Technology $0.9 and Port Police $0.7 expense recognition

Timing in capitalization and timing in Fire and Rec/Parks accruals

Higher operating expense base subject to overhead capitalization

Higher electricity (primarily for AMP) $5.6 and environmental incentives $0.5 as well as lower capitalization $1.2, partially offset by lower provision for workers' compensation <$1.6>, property rental/license user fees <$0.5> and lower permits/fees <$0.2>

Lower pass-through grant receipts <$6.3>, settlements/rebates/misc. <$1.7> and environmental reimbursements <$0.2>, partially offset by higher Federal/State grant receipts $3.1 and higher interest/investment income $1.6

Lower capital projects cancelled or not completed <$12.5>, pass-through grant disbursements <$6.3> and higher capitalization of interest <$5.7>, partially offset by higher interest expense $2.8, new bond issuance costs $1.1, higher loss on asset sales $1.1 and higher commercial paper issuance costs $0.2

Overhead allocations are eventually charged directly to each operating expense category at fiscal year end; presented here in total for comparison purposes. FYTD allocation by expense component is as follows:

<$6.9>	Salaries & Benefits
<$0.2>	Marketing & Public Relations
<$0.04>	Travel
<$0.9>	Outside Services
<$0.4>	Materials & Supplies
<$2.2>	City Services
<$1.7>	Other Operating Expenses

Primarily for:

$9.9	Electricity
$2.1	Insurance
$1.7	Water & gas
$1.2	Telephone
$0.9	Environmental incentives
$0.9	Equipment purchases
$0.8	Property/equipment rental/license
$0.4	Memberships, subscriptions, books

Primarily for:

$27.3	Interest expense
<$27.0>	Capitalized interest
$2.9	Capital projects closed to expense
$1.1	Bond issuance costs
$1.1	Loss on sale of assets
$1.0	Commercial paper issuance costs
$0.4	Pass-through grant disbursements

Primarily for:

$4.2	Interest/investment income
$3.7	Federal/State grant receipts
$0.6	Rebates, late charges, gain on asset sales, misc.
$0.4	Pass-through grant receipts