



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: JANUARY 17, 2017

TO: BOARD OF HARBOR COMMISSIONERS

**SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR
FISCAL YEAR 2016/17 ENDED DECEMBER 31, 2016**

Financial performance results for the first half 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 December, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 27.2% relative to December 2015. In summary, performance results for the Harbor Department are as follows:

FYTD December 2016	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	4,723	↑ 8.2%	↑ 11.0%
Operating Revenues	\$ 246.7	↑ 10.4%	↑ 18.7%
Operating Expenses	\$ 101.3	↓ (14.9%)	↑ 2.8%
Operating Income	\$ 145.4	↑ 39.2%	↑ 33.0%
Net Income	\$ 59.1	↑ 202.9%	↑ 120.9%

Due to the heavy cargo volumes processed from October through December, overall cargo volumes through the first half of FY 2016/17 have exceeded budget and the prior fiscal year-to-date period by 8.2% and 11.0%, respectively. Despite lower utility reimbursements, these higher cargo volumes as well as the receipt of a one-time legal settlement and higher rental receipts led to a 10.4% increase in fiscal year-to-date Total Operating Revenues relative to budget and an 18.7% 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 invoicing delays with respect to outside services, lower average staffing levels, lower utility expenses as well as higher overhead capitalization drove Total Operating Expenses 14.9% below budget. Relative to the

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

prior fiscal year-to-date period, Total Operating Expenses increased by 2.8% as higher average headcounts, higher city services payments, and Memorandum of Understanding salary increases were only partially offset by lower legal settlement expenses, lower utility expenses as well as lower outside services.

Operating margins for the fiscal year-to-date period were reported at 58.9% versus a budget of 46.7% and a prior year figure of 52.6%. 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 December 31, 2016 based on internal estimates reached \$51.3 million or about 35% of the total \$146.1 million CIP adopted budget. Harbor Department CIP spending is expected to fall slightly below the total CIP adopted budget by fiscal year-end.



EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD December 2016
2. Actual-to-Budget FY 2016/17 – December
3. Year-to-Year Performance Report YTD December 31, 2016 and 2015

Author: M. Marchese

MB

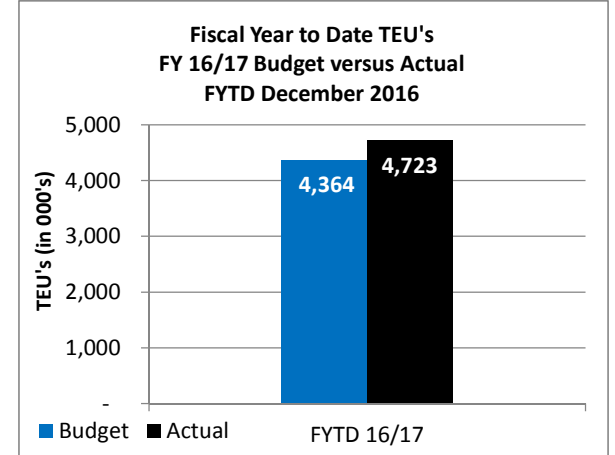
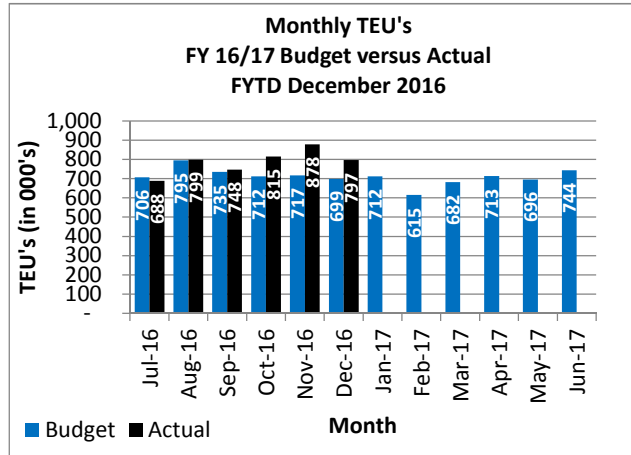
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cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD DECEMBER 2016

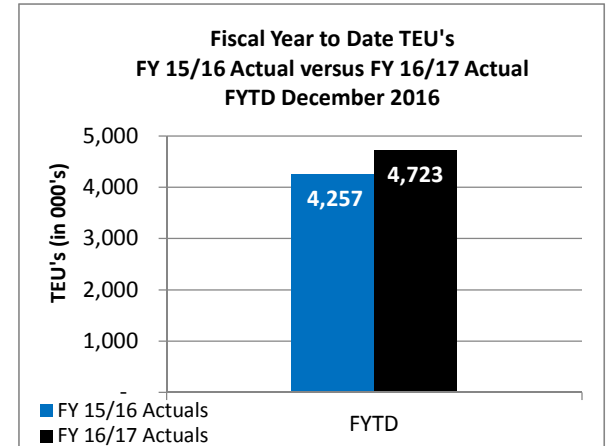
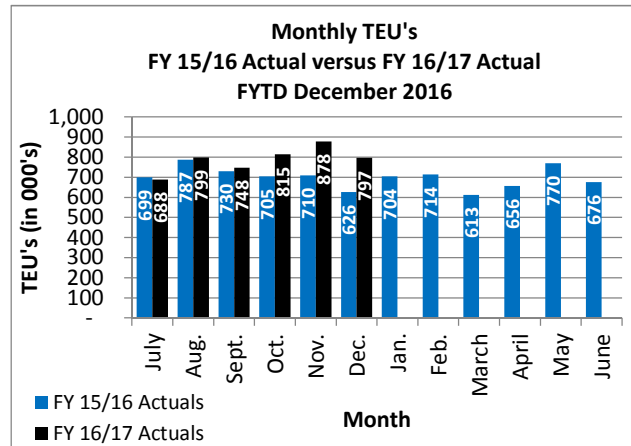
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(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			
Feb-17	615			
Mar-17	682			
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	4,364	4,723	8.2%	↑
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			
Feb.	714			
March	613			
April	656			
May	770			
June	676			
FYTD	4,257	4,723	11.0%	↑
FY 15/16 Actuals	8,391			



\$ in thousands	Fiscal Year Actual	Fiscal Year Budget	Actual-to-Budget Comparison		Notes (\$ in millions)
	FY 2016/17	FY 2016/17			
	Fiscal YTD - Dec. 2016	Fiscal YTD - Dec. 2016	\$	%	
Operating Revenues					
Shipping Services	201,728	191,507	10,221	5.3%	Higher than budgeted wharfage \$10.2 and higher space assignment \$1.0, partially offset by lower dockage <\$0.7> and lower lay day fees <\$0.3>
Rentals	26,188	21,297	4,891	23.0%	Higher land rent for Westrec \$1.5, PBF Energy \$1.3, Ports O' Call tenants \$1.0, Phillips 66 \$0.5 and Kinder Morgan \$0.5
Royalties, Fees and Other Revenues	17,823	9,743	8,080	82.9%	One-time legal settlement \$12.5, higher other one-time settlements and refunds \$0.4 and higher railroad lease accruals \$0.2, partially offset by lower utility reimbursements <\$2.2>, higher credits for tenant services <\$1.4>, lower misc. revenues <\$1.2> and lower parking fees <\$0.2>
Clean Truck Program Revenues	952	985	(33)	(3.3%)	
Total Operating Revenues	246,691	223,532	23,159	10.4%	
Operating Expenses					
Gross Salaries & Benefits	67,853	74,437	(6,584)	(8.8%)	Lower average filled positions, partially offset by higher overtime
Capitalization	(11,592)	(7,243)	(4,349)	60.0%	Overhead allocations <\$4.7>, partially offset by lower direct capitalization \$0.4
Net Salaries & Benefits	56,262	67,194	(10,932)	(16.3%)	
Marketing & Public Relations	1,564	1,624	(59)	(3.7%)	Overhead capitalization <\$0.2> and lower advertising <\$0.1>, partially offset by higher sponsorships \$0.2
Travel	211	505	(294)	(58.3%)	
Outside Services	8,649	15,608	(6,958)	(44.6%)	Lower shed demolition costs <\$1.5>, outside legal counsel invoicing delays <\$1.3>, environmental assessment invoicing delays <\$1.2>, software & IT consulting invoicing delays <\$0.9>, lower port police spending <\$0.6>, lower cruise operator costs <\$0.3>, contract compliance invoicing delays <\$0.1>, lower federal/state advocacy spending <\$0.1> and overhead allocations <\$0.5>
Materials & Supplies	2,231	3,619	(1,388)	(38.4%)	C&M invoicing delays <\$0.6>, Port Police invoicing delays <\$0.1> and overhead allocations <\$0.6>
City Services	21,628	21,271	358	1.7%	Higher Fire \$1.8 and City Attorney services \$0.4, partially offset by overhead allocations <\$1.6> and Public Works invoicing delay <\$0.2>
(1) Allocations to Capital - Overhead		(6,849)	6,849	(100.0%)	Higher aggregate overhead allocations \$1.5
(2) Other Operating Expenses	10,503	15,662	(5,159)	(32.9%)	Lower electricity <\$1.7>, workers' compensation payment delay <\$0.9>, lower water & gas <\$0.6>, environmental incentive payment delays <\$0.6>, lower telephone expenses <\$0.3>, litigation/claims payment delays <\$0.1>, lower insurance expense <\$0.1>, lower bad debt provisioning <\$0.1> and overhead allocations <\$0.8>
Clean Truck Program Expenses	299	472	(173)	(36.6%)	
Total Operating Expenses	101,347	119,105	(17,758)	(14.9%)	
Income Before Depreciation	145,344	104,426	40,918	39.2%	
Provision For Depreciation	88,779	86,002	2,777	3.2%	
Income From Operations	56,565	18,424	38,141	207.0%	
(3) Non-Operating Revenue	4,060	8,415	(4,356)	(51.8%)	Lower pass-through grant receipts <\$3.5>, lower ICTF/JPA investment income <\$1.0>, lower gains on asset sales <\$0.6> and lower federal/state operating grants <\$0.4>, partially offset by higher interest income \$0.8, higher reimbursable EIR expenses \$0.2 and higher delinquency fees \$0.2
(4) Non-Operating Expenses	(1,534)	(7,333)	5,798	(79.1%)	Lower interest expense \$4.3, lower pass-through grant disbursements \$3.5, timing of capital projects closed to expense \$1.3, lower losses on asset sales \$0.5, lower misc. non-operating expenses \$0.3 and lower bond administration costs \$0.1, partially offset by lower interest capitalization <\$4.2>
Net Income	59,090	19,507	39,583	202.9%	

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 \$8.3 million relative to a budget of \$6.8 million.
- (2) Primarily for: Electricity \$6.5; Insurance \$1.5; Water & Gas \$0.9; Telephone \$0.7; Environmental Incentives \$0.6; Equipment Rental/Permits/License/Fees \$0.6; Memberships/Subscriptions/Books \$0.4; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.8)
- (3) Primarily for: Interest/Investment Income \$2.9; Federal/State Operating Grants \$0.6; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$18.5; Capitalized Interest <\$18.3>; Bond Administration Costs \$0.9; 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 - Dec. 2016	Fiscal YTD - Dec. 2015	\$	%	
Operating Revenues					
Shipping Services	201,728	172,881	28,847	16.7%	Higher overall wharfage \$28.0, higher space assignment \$1.0, and higher pilotage \$0.8, partially offset by lower dockage <\$1.0>
Rentals	26,188	22,081	4,107	18.6%	New permits issued and rental rate increases \$3.6 as well as permit assignment to PBF Energy \$3.0, partially offset by cancellation of Exxon Mobil permit <\$2.5>
Royalties, Fees and Other Revenues	17,823	11,929	5,894	49.4%	Higher one-time refunds & reimbursements \$7.2 and higher railroad lease accruals \$0.2, partially offset by lower utility reimbursements <\$0.6>, higher credits for tenant services <\$0.4>, lower parking fees <\$0.4> and lower permits and fees <\$0.1>
Clean Truck Program Revenues	952	975	(23)	(2.4%)	
Total Operating Revenues	246,691	207,867	38,824	18.7%	
Operating Expenses					
Gross Salaries & Benefits	67,853	66,066	1,787	2.7%	MOU salary increases, higher average filled positions and higher overtime
Capitalization	(11,592)	(11,787)	195	(1.7%)	Lower overhead capitalization <\$0.2>
Net Salaries & Benefits	56,262	54,279	1,983	3.7%	
Marketing & Public Relations	1,564	1,433	132	9.2%	
Travel	211	285	(74)	(25.9%)	
Outside Services	8,649	8,828	(178)	(2.0%)	Lower I.T. software and consulting costs <\$0.6>, lower red car spending <\$0.4>, lower cruise terminal operator costs <\$0.4>, lower port police spending <\$0.3> and lower outside legal counsel costs <\$0.1>, partially offset by higher C&M building services \$0.5, lower capitalization of C&M services \$0.5, higher equipment servicing costs \$0.2 and lower overhead capitalization \$0.4
Materials & Supplies	2,231	2,408	(177)	(7.3%)	
City Services	21,628	19,152	2,476	12.9%	Higher Fire services \$2.0, higher Rec & Parks \$0.3 and lower overhead allocations \$0.1
(1) Other Operating Expenses	10,503	11,936	(1,434)	(12.0%)	Lower litigation/claims expenses <\$0.8>, lower electricity <\$0.4> and higher overhead allocations <\$0.2>
Clean Truck Program Expenses	299	256	44	17.1%	
Total Operating Expenses	101,347	98,576	2,771	2.8%	
Income Before Depreciation	145,344	109,291	36,053	33.0%	
Provision For Depreciation	88,779	83,661	5,119	6.1%	
Income From Operations	56,565	25,630	30,935	120.7%	
(2) Non-Operating Revenue	4,060	4,329	(270)	(6.2%)	Delayed ICTF/JPA payments <\$0.7> and lower pass-through grant receipts <\$0.2>, partially offset by higher reimbursable EIR expenses \$0.2, higher interest income \$0.2 and higher federal grants \$0.2
(3) Non-Operating Expenses	(1,534)	(3,212)	1,678	(52.2%)	Lower interest expense \$2.6, timing of capital projects closed to expense \$1.2, lower bond redemption accounting adjustment \$0.3 and lower pass-through grant disbursements \$0.2, partially offset by lower interest capitalization <\$2.1> and higher bond administration costs <\$0.6>
Net Income	59,090	26,747	32,343	120.9%	

Notes:

- (1) Primarily for: Electricity \$6.5; Insurance \$1.5; Water & Gas \$0.9; Telephone \$0.7; Environmental Incentives \$0.6; Equipment Rental/Permits/License/Fees \$0.6; Memberships/Subscriptions/Books \$0.4; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.8)
- (2) Primarily for: Interest/Investment Income \$2.9; Federal/State Operating Grants \$0.6; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2
- (3) Primarily for: Interest Expense \$18.5; Capitalized Interest <\$18.3>; Bond Administration Costs \$0.9; Commercial Paper Costs \$0.4