



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

Board of Harbor Commissioners

DATE: APRIL 18, 2017

FROM: FINANCIAL MANAGEMENT

**SUBJECT: RESOLUTION NO. _____ - REQUEST FOR
BUDGETARY TRANSFER**

SUMMARY:

Staff proposes total budgetary transfers of \$3,296,009 from the Adopted Operating Expense Budget's "Salaries and Benefits" category to the Adopted Operating Expense Budget's "City Services" category. The anticipated shortfall within the City Services category results from higher than anticipated operating and maintenance expenses incurred by the Department of Recreation and Parks for recreational facilities within the Harbor area as well as additional payments which reconcile the difference between estimated and actual overhead costs incurred by the City of Los Angeles ("City"). Sufficient funds are available within the Adopted Operating Expense Budget's "Salaries and Benefits" category for this budgetary transfer as staff anticipates a surplus will exist by fiscal year end. The overall FY 2016/17 Adopted Budget will remain unchanged at \$249,041,766. Payment of City Services expenses is the financial responsibility of the Harbor Department.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners ("Board"):

1. Find 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 as determined by the Director of Environmental Management;
2. Approve the following budgetary transfers to resolve a projected shortfall in the respective operating expense accounts:
 - a. Transfer \$1,944,291 from the Adopted Operating Budget, Account 51610, Center 510, Program 000 to Account 57070, Center 900, Program 000; and
 - b. Transfer \$1,351,718 from the Adopted Operating Budget, Account 51610, Center 412, Program 000 as follows:
 - i. \$667,359 to Center 900, Account 57075;
 - ii. \$403,560 to Center 900, Account 57010; and
 - iii. \$280,799 to Center 900, Account 57065;
3. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;

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4. Direct the Board Secretary to notify the City Clerk of such transfer pursuant to Section 343(d) of the City Charter at the time such transfer is made; and
5. Adopt Resolution No. _____.

DISCUSSION:**Background/Context**

Transfer for Fire Services – The Los Angeles Fire Department (“LAFD”) provides firefighting, emergency medical and technical response services to the Harbor Department, and these Fire Services include the use of fireboats, fire engines, urban search and rescue equipment, as well as hazardous materials teams both within the immediate Harbor area and the surrounding local communities. In addition to paying the salaries of local LAFD personnel, the Harbor Department pays for overtime, LAFD medical, pension and other fringe benefits as well as overhead charges that are intended to capture central services and administrative expenses. These overhead charges are memorialized and updated in the City’s Cost Allocation Plan (“CAP”). In Fiscal Year (“FY”) 2016/17, LAFD invoices have included \$1.96 in overtime, benefits and overhead expenses for every \$1 in salaries incurred by local LAFD personnel.

The City’s CAP for a given fiscal year is typically published after that fiscal year has ended on June 30. For instance, CAP 37 was the relevant CAP for FY 2014/15; however, it was not published until September 2015. Because applicable CAP rates are unavailable throughout a given fiscal year, the most recently available CAP rates are applied to personnel salaries, overhead charges are estimated within LAFD invoices to the Harbor Department, and any differences between estimated overhead charges and applicable overhead charges are reconciled through a true-up which is paid in a subsequent fiscal year. Furthermore, due to this timing difference in which a given fiscal year’s CAP rates are not made available until after that fiscal year has ended, the CAP rates utilized for Harbor Department budgeting purposes are typically subject to at least a two-year lag, and differences between budgeted overhead expenses and billed overhead expenses do arise. As an example, the following table summarizes the differences between the CAP 36 rates that were initially used to pay LAFD invoices during FY 2014/15 and the CAP 37 rates which were ultimately effective for FY 2014/15:

	CAP 36	CAP 37	Difference
Fringe Benefits (as a % of total salaries)	69.33%	75.31%	5.98%
Central Services (as a % of total salaries)	15.82%	20.09%	4.27%
Department Administration (as a % of total salaries)	25.99%	37.67%	11.68%
Total CAP Charges*	111.14%	133.07%	21.93%

* Note: Total CAP Charges noted above do not include charges related to overtime, uniform allowances and other expenses related to the operation of emergency services.

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During FY 2016/17, the LAFD invoiced the Harbor Department for a true-up of \$1,944,291 in overhead costs related to the FY 2014/15 billing cycle (“FY 2014/15 True-Up”) because applicable overhead rates exceeded the overhead rates estimated and applied over the course of FY 2014/15. A budget transfer in the amount of \$1,944,291 is being requested at this time because the aforementioned CAP rate increases were not contemplated when the FY 2016/17 Budget was adopted.

Transfer for Recreation and Parks – The Department of Recreation and Parks (“RAP”) provides operational and maintenance services (“RAP Services”) at various locations throughout the Harbor area. In exchange for these RAP Services, the Harbor Department reimburses the RAP for the salaries, benefits and overhead related to providing RAP Services at the following Harbor-area locations:

- Cabrillo Marine Aquarium
- Cabrillo Beach Lifeguard
- Cabrillo Beach Maintenance
- Cabrillo Parking Operations
- Maritime Museum
- Point Fermin Lighthouse
- Gaffey Street Greenbelt

In addition, the Harbor Department reimburses the RAP for a proportionate share of City-wide construction costs as well as a proportionate share of Pacific Region Ranger expenses.

The RAP Services FY 2016/17 Adopted Budget of \$9,122,245 was derived by applying an 8.7% growth rate to FY 2014/15 Actual costs. In FY 2015/16, actual expenses of \$8,681,653 were incurred for RAP Services, and this level of expenses exceeded the budget that had been originally adopted for FY 2015/16. Based upon RAP invoices received through December 2016, the Harbor Department anticipates that expenses of \$9,789,604 will be incurred during FY 2016/17. The increase relative to FY 2015/16 has been primarily driven by higher salaries, benefits and overhead expenses being incurred at the Cabrillo Marine Aquarium, Cabrillo Beach (for maintenance, lifeguard and parking services), Point Fermin Lighthouse and other facilities.

As discussed above, the FY 2016/17 Estimate of \$9,789,604 exceeds the FY 2016/17 Adopted Budget of \$9,122,245. Therefore, a budget transfer in the amount of \$667,359 is being requested at this time.

Transfer for City Attorney – The City of Los Angeles Office of the City Attorney (“City Attorney”) provides legal services (“Legal Services”) to the Harbor Department. In exchange for these Legal Services, the Harbor Department reimburses the City Attorney for the related salaries, benefits and overhead incurred by City Attorney staff.

Similar to how a true-up is required to offset the difference between estimated overhead expenses and actual overhead expenses incurred for Fire Services (described previously), a true-up is required to offset the difference between estimated overhead and actual overhead expenses incurred for Legal Services.

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Specifically, a budget transfer in the amount of \$403,560 is being requested at this time because the aforementioned CAP rate increases were not contemplated when the FY 2016/17 Budget was adopted.

Transfer for Personnel Services – The City of Los Angeles Personnel Department provides workforce management as well as employee support and development services to the Harbor Department. In exchange for these services, the Harbor Department reimburses the Personnel Department for the related salaries, benefits and overhead incurred by Personnel Department staff. An additional \$280,799 in funds are being requested due to a higher than budgeted run-rate in Personnel Services expenses.

Salaries and Benefits Surplus – Adopted as part of Resolution No. 16-7951, the Adopted Operating Expense Budget included funding of \$133.8 million for Departmental Salaries and Benefits expenses incurred during FY 2016/17. As of March 31, 2017, staff estimates that salaries and benefits surpluses will be available within the Construction and Maintenance as well as the Port Police divisions.

ENVIRONMENTAL ASSESSMENT

The proposed actions are to transfer funds from the Salaries and Benefits category of the Adopted Operating Expense Budget to resolve a projected shortfall in the City Services category of the Adopted Operating Expense Budget. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA under Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT

The transfer of funds from the Salaries and Benefits Operating Expense category to the City Services Operating Expense category will not result in an increase to the FY 2016/17 Operating Expense Budget as funds are being transferred from different categories within the Adopted Budget. The City Services category will increase by \$3,296,009 from \$42,444,639 to \$45,740,648, while the Salaries and Benefits category will decrease by \$3,296,009 from \$133,832,067 to \$130,536,058. The overall FY 2016/17 Adopted Budget will remain unchanged at \$249,041,766.

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CITY ATTORNEY

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

FIS Approval: MB (initials)
CA Approval: MB (initials)

Marla Bleavins

MARLA BLEAVINS
Deputy Executive Director and
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APPROVED:

Marla Bleavins FOR

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