



## AUDIT COMMITTEE

Report to the  
Board of Harbor Commissioners

### “FOR INFORMATION ONLY”

**DATE:** NOVEMBER 14, 2016

**TO:** BOARD OF HARBOR COMMISSIONERS

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

Financial performance results for the first four 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 October, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 15.6% relative to October 2015 and marked the busiest month ever for a container port in the Western Hemisphere. In summary, performance results for the Harbor Department are as follows:

FYTD October 2016	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
<b>Cargo Volumes</b>	3,049	↑ 3.4%	↑ 4.4%
<b>Operating Revenues</b>	\$163.0	↑ 7.6%	↑ 15.1%
<b>Operating Expenses</b>	\$ 65.2	↓ (17.2%)	↓ (3.5%)
<b>Operating Income</b>	\$ 97.8	↑ 34.5%	↑ 32.0%
<b>Net Income</b>	\$ 43.9	↑ 187.6%	↑ 152.5%

Due to the heavy cargo volumes processed during the month of October, overall cargo volumes through the first four months of FY 2016/17 have exceeded budget by 3.4%. Despite these record volumes, Shipping Services revenues declined versus budget primarily due to the delayed implementation of various container terminal rate resets and increases which are currently in negotiation. Nonetheless, total Operating Revenues ultimately increased by 7.6% relative to budget as lower Shipping Services revenues were more than offset by the receipt of a one-time legal settlement as well as higher rental receipts. Relative to the prior fiscal year-to-date period, cargo volumes have increased by 4.4%. This increase in cargo volumes drove Shipping Services revenues higher, and total Operating Revenues were driven even higher by a one-time legal settlement and higher rental receipts.

DATE: NOVEMBER 14, 2016

PAGE 2 OF 2

**SUBJECT: FINANCIAL PERFORMANCE RESULTS**

Operating Expenses were favorably impacted as invoicing delays with respect to outside services, lower average staffing levels, lower electricity expenses as well as higher salary and overhead capitalization drove total Operating Expenses 17.2% below budget. Relative to the prior fiscal year, total Operating Expenses decreased by 3.5% as lower electricity expenses as well as invoicing delays with respect to outside services and services performed by other City Departments were only partially offset by higher average headcounts and Memorandum of Understanding salary increases.

Operating margins for the fiscal year-to-date period were reported at 60.0% versus a budget of 48.0% and a prior year figure of 52.3%. 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 October 31, 2016 based on internal estimates reached \$37.0 million or about 25% of the total \$146.1 million CIP adopted budget. Harbor Department CIP spending is ultimately expected to approximate the total CIP adopted budget by fiscal year-end.



EUGENE D. SEROKA  
Executive Director

Transmittals:

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

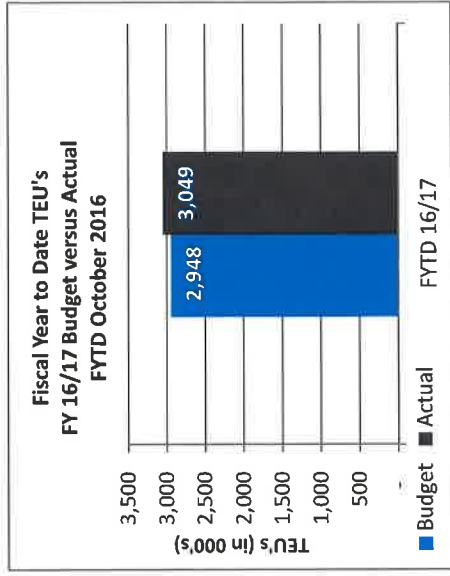
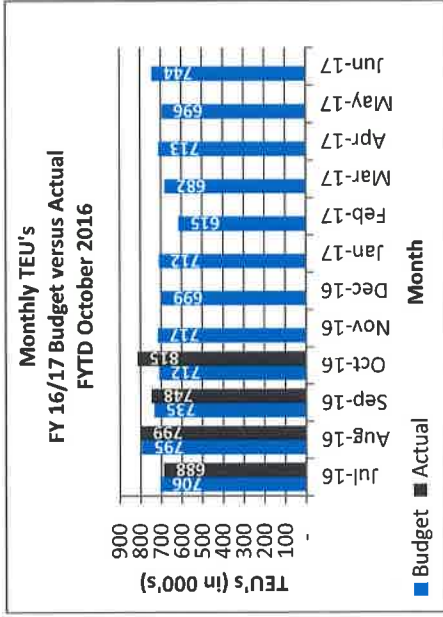
Author: M. Marchese



MB:MM/Finance  
cc: Deputy Executive Directors

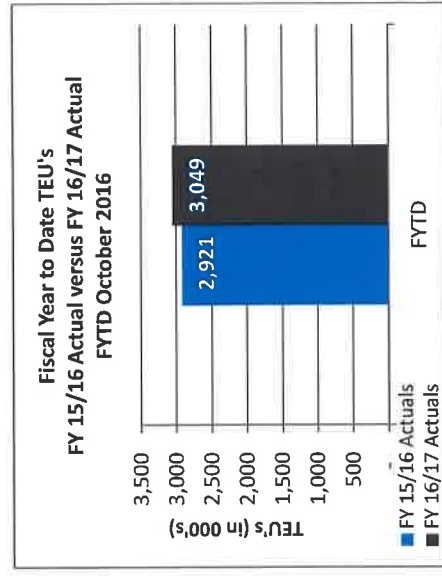
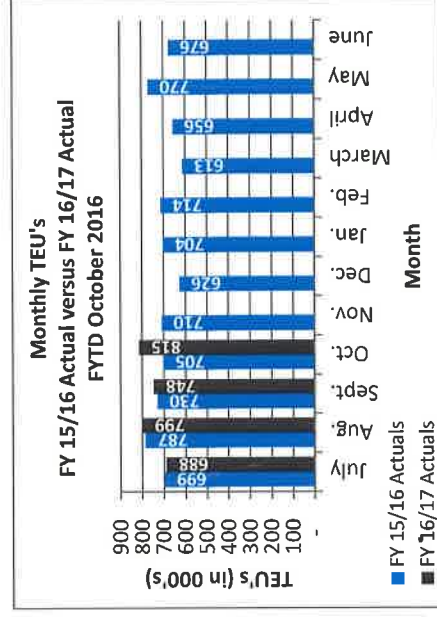
Budget versus Actuals Comparison  
FY 16/17 Budget vs. FY 16/17 Actuals

(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			
Dec-16	699			
Jan-17	712			
Feb-17	615			
Mar-17	682			
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	2,948	3,049	3.4%	↑
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			
Dec.	626			
Jan.	704			
Feb.	714			
March	613			
April	656			
May	770			
June	676			
FYTD	2,921	3,049	4.4%	↑
FY 15/16 Actuals	8,391			



\$ in thousands	Fiscal Year Actual FY 2016/17		Fiscal Year Budget FY 2016/17		Actual-to-Budget Comparison		Notes (\$ in millions)
	Fiscal YTD - Oct. 2016	Fiscal YTD - Oct. 2016	Fiscal YTD - Oct. 2016	Fiscal YTD - Oct. 2016	\$	%	
<b>Operating Revenues</b>							
Shipping Services	127,454	128,506	(1,053)	(0.8%)			Lower than budgeted wharfage <\$0.8>, lower dockage <\$0.7>, lower pilotage <\$0.2> and lower lay day fees <\$0.2>, partially offset by higher space assignment \$0.8
Rentals	17,856	16,322	1,534	9.4%			Higher land rent \$1.6, offset by slightly lower building, warehouse & wharf/ished rents
Royalties, Fees and Other Revenues	17,039	5,862	11,177	190.7%			One-time legal settlement \$12.5, higher other one-time settlements and refunds \$1.0, higher permits & fees \$0.3, higher parking fees \$0.2 and higher railroad lease accruals \$0.2, partially offset by lower utility reimbursements <\$1.6>, higher credits for tenant services <\$0.8> and lower misc. revenues <\$0.7>
Clean Truck Program Revenues	676	760	(84)	(11.0%)			
<b>Total Operating Revenues</b>	<b>163,025</b>	<b>151,450</b>	<b>11,575</b>	<b>7.6%</b>			
<b>Operating Expenses</b>							
Gross Salaries & Benefits	47,748	49,842	(2,094)	(4.2%)			Lower average filled positions
Capitalization	(8,397)	(4,829)	(3,568)	73.9%			Overhead allocations <\$3.1> and higher direct capitalization <\$0.5>
Net Salaries & Benefits	39,351	45,013	(5,663)	(12.6%)			
Marketing & Public Relations	1,058	854	204	23.8%			Timing of sponsorship payments \$0.5, partially offset by lower promotional <\$0.2> and overhead capitalization <\$0.1>
Travel	164	331	(167)	(50.4%)			
Outside Services	4,553	9,430	(4,877)	(51.7%)			Timing of environmental assessment costs <\$1.3>, lower outside counsel spending <\$0.7>, timing of software & IT consulting costs <\$0.6>, lower building maintenance costs <\$0.5>, lower port police spending <\$0.4>, lower C&M maintenance services <\$0.2>, lower cruise operator costs <\$0.2>, timing of government affairs spending <\$0.1> and overhead allocations <\$0.3>
Materials & Supplies	1,312	2,229	(917)	(41.1%)			Overhead allocations <\$0.5> and lower C&M spending <\$0.4>
City Services	12,318	14,279	(1,961)	(13.7%)			Overhead allocations <\$1.0>, timing of Recreation and Parks payments <\$0.5>, timing of Fire payments <\$0.3> and lower Public Works payments <\$0.2>
(1) Allocations to Capital - Overhead	6,318	(4,566)	4,566	(100.0%)			Higher aggregate overhead allocations \$0.9
(2) Other Operating Expenses		10,851	(4,533)	(41.8%)			Lower electricity <\$1.7>, timing of workers' compensation <\$0.6>, timing of environmental incentives <\$0.6>, lower water & gas <\$0.5>, lower telephone expenses <\$0.4>, lower memberships/subscriptions/books <\$0.1>, timing of litigation/claims <\$0.1> and overhead allocations <\$0.5>
Clean Truck Program Expenses	141	315	(174)	(55.2%)			
<b>Total Operating Expenses</b>	<b>65,214</b>	<b>78,737</b>	<b>(13,522)</b>	<b>(17.2%)</b>			
<b>Income Before Depreciation</b>	<b>97,811</b>	<b>72,713</b>	<b>25,098</b>	<b>34.5%</b>			
Provision For Depreciation	56,063	57,335	(1,272)	(2.2%)			
<b>Income From Operations</b>	<b>41,748</b>	<b>15,378</b>	<b>26,369</b>	<b>171.5%</b>			
Non-Operating Revenue	2,968	4,402	(1,434)	(32.6%)			Lower pass-through grant receipts <\$1.7>, lower gains on asset sales <\$0.4> and lower interests/investment income <\$0.2>, partially offset by higher federal/state operating grants \$0.5, higher reimbursable EIR expenses \$0.2 and higher delinquency fees \$0.2
(4) Non-Operating Expenses	(766)	(4,496)	3,730	(83.0%)			Lower interest expense \$2.3, lower pass-through grant disbursements \$1.8, timing of capital projects closed to expense \$0.8, timing of bond administration costs \$0.6, lower losses on asset sales \$0.3 and lower misc. non-operating expenses \$0.2, partially offset by lower interest capitalization <\$2.3>
<b>Net Income</b>	<b>43,949</b>	<b>15,284</b>	<b>28,666</b>	<b>187.6%</b>			

## 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 \$5.5 million relative to a budget of \$4.6 million.
- (2) Primarily for: Electricity \$3.7; Insurance \$1.0; Water & Gas \$0.6; Equipment/Rental/Permits/License/Fees \$0.4; Environmental Incentives \$0.4; Telephone \$0.3; Memberships/Subscriptions/Books \$0.3; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.5)
- (3) Primarily for: Interest/Investment Income \$1.8; Federal/State Operating Grants \$0.5; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$13.0; Capitalized Interest <\$12.8>; Bond Administration Costs \$0.4; Commercial Paper Costs \$0.2



	Current Fiscal Year		Prior Fiscal Year		Year-over-Year		Notes (\$ in millions)
	FY 2016/17	Fiscal YTD - Oct. 2016	FY 2015/16	Fiscal YTD - Oct. 2015	Change	%	
\$ in thousands					\$	%	
<b>Operating Revenues</b>							
Shipping Services	127,454	115,402	115,402	115,402	12,052	10.4%	Higher overall wharfage \$11.6, higher space assignment \$0.8, and higher pilorage \$0.4, partially offset by lower dockage <\$0.7>
Rentals	17,856	16,594	16,594	16,594	1,262	7.6%	Permit assignment to PBF Energy \$1.9 as well as new permits issued and rental rate increases \$3.1, partially offset by cancellation of Exxon Mobil permit <\$2.5> and other land rental declines <\$1.2>
Royalties, Fees and Other Revenues	17,039	8,936	8,936	8,936	8,103	90.7%	Higher one-time refunds & reimbursements \$8.5 and higher permits & fees \$0.3, partially offset by lower utility reimbursements <\$0.5> and credits for tenant services <\$0.2>
Clean Truck Program Revenues	676	753	753	753	(77)	(10.2%)	
<b>Total Operating Revenues</b>	<b>163,025</b>	<b>141,684</b>	<b>141,684</b>	<b>141,684</b>	<b>21,341</b>	<b>15.1%</b>	
<b>Operating Expenses</b>							
Gross Salaries & Benefits	47,748	44,531	44,531	44,531	3,216	7.2%	Higher average filled positions
Capitalization	(8,397)	(7,710)	(7,710)	(7,710)	(687)	8.9%	Higher salary capitalization <\$0.5> and higher overhead capitalization <\$0.2>
Net Salaries & Benefits	39,351	36,822	36,822	36,822	2,529	6.9%	
Marketing & Public Relations	1,058	487	487	487	571	117.1%	Timing of sponsorship and promotional payments \$0.7, partially offset by higher overhead capitalization <\$0.1>
Travel	164	170	170	170	(5)	(3.2%)	
Outside Services	4,553	5,718	5,718	5,718	(1,165)	(20.4%)	Lower I.T. software and consulting costs <\$0.4>, lower red car spending <\$0.4>, timing of environmental assessment services <\$0.4> and lower cruise terminal operator costs <\$0.2> partially offset by lower overhead capitalization \$0.2
Materials & Supplies	1,312	1,700	1,700	1,700	(388)	(22.8%)	Higher overhead capitalization <\$0.4>
City Services	12,318	13,485	13,485	13,485	(1,167)	(8.7%)	Timing of City Attorney <\$0.5>, Fire <\$0.4> and Recreation and Parks <\$0.2> accruals
Other Operating Expenses	6,318	9,003	9,003	9,003	(2,685)	(29.8%)	Lower electricity <\$1.2>, timing of pollution remediation expenses <\$0.8>, higher overhead allocations <\$0.2>, timing of environmental incentives <\$0.2>, lower telephone <\$0.2> and lower water/gas <\$0.1>
Clean Truck Program Expenses	141	183	183	183	(42)	(23.1%)	
<b>Total Operating Expenses</b>	<b>65,214</b>	<b>67,568</b>	<b>67,568</b>	<b>67,568</b>	<b>(2,354)</b>	<b>(3.5%)</b>	
<b>Income Before Depreciation</b>	<b>97,811</b>	<b>74,116</b>	<b>74,116</b>	<b>74,116</b>	<b>23,694</b>	<b>32.0%</b>	
Provision For Depreciation	56,063	57,469	57,469	57,469	(1,405)	(2.4%)	
<b>Income From Operations</b>	<b>41,748</b>	<b>16,648</b>	<b>16,648</b>	<b>16,648</b>	<b>25,100</b>	<b>150.8%</b>	
Non-Operating Revenue	2,968	2,888	2,888	2,888	80	2.8%	Higher federal grants \$0.5, higher reimbursable EIR expenses \$0.2 and higher misc. non-operating revenues \$0.1, almost completely offset by lower interest income <\$0.6> and lower pass-through grant
Non-Operating Expenses	(766)	(2,131)	(2,131)	(2,131)	1,365	(64.0%)	Lower interest expense \$1.4, 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 <\$0.9> and higher bond administration costs <\$0.1>
<b>Net Income</b>	<b>43,949</b>	<b>17,405</b>	<b>17,405</b>	<b>17,405</b>	<b>26,544</b>	<b>152.5%</b>	

Notes:

- (1) Primarily for: Electricity \$3.7; Insurance \$1.0; Water & Gas \$0.6; Equipment Rental/Permits/License/Fees \$0.4; Environmental Incentives \$0.4; Telephone \$0.3; Memberships/Subscriptions/Books \$0.3; Taxes & Assessments \$0.1; Overhead Capitalization (\$0.5)
- (2) Primarily for: Interest/Investment Income \$1.8; Federal/State Operating Grants \$0.5; Rebates/Late Charges/Discounts/Misc. \$0.4; Reimbursable EIR Expenses \$0.2
- (3) Primarily for: Interest Expense \$13.0; Capitalized Interest <\$12.8>; Bond Administration Costs \$0.4; Commercial Paper Costs \$0.2