



“FOR INFORMATION ONLY”

DATE: MAY 14, 2015

TO: BOARD OF HARBOR COMMISSIONERS

**SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR
FISCAL YEAR-TO-DATE 2014/15 ENDED APRIL 30, 2015**

Through the Fiscal Year-to-Date (FYTD) 2014/15 period ending April 30, 2015, overall congestion within the Port complex has continued to subside such that vessels have begun to move directly to berth, rather than anchor, upon arrival. Despite congestion easing, cargo volumes (as measured by TEUs or twenty-foot equivalent units) for the month of April fell 2.4% below the April 2015 budget and 6.1% below April 2014 volumes. As a result, cargo volumes continue to trail budget on a FYTD basis, and current FYTD volumes now trail prior FYTD figures. Transmittals 1, 2 and 3 provide financial performance results, and the chart below summarizes those results:

FYTD April 2015	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Container Cargo Volumes	6,775	↓ (1.2%)	↓ (0.1%)
Operating Revenues*	\$ 366.2	↑ 3.9%	↑ 2.5%
Operating Expenses*	\$ 162.3	↓ (14.4%)	↑ 0.2%
Operating Income	\$ 203.9	↑ 25.4%	↑ 4.5%
Net Income	\$ 105.1	↑ 70.3%	↑ 33.4%

* Note: Operating Expenses include \$12.5 million in electricity expenses, of which \$10.1 million are AMP-related. The majority (about 98%) of AMP electricity expenses are reimbursed by AMP-capable customers and reflected in Operating Revenues.

Although the easing of congestion throughout the Port has favorably impacted Shipping Services revenues relative to budget and prior fiscal year, this revenue category continues to trail budget and prior fiscal year-to-date figures as reduced volumes at terminals with higher TEU rates and increased volumes at terminals with lower TEU rates have continued to persist. Despite lower Shipping Services revenues, one-time revenue “catch-up” billings related to compensation resets in certain leases and higher Alternative Maritime Power (AMP™) reimbursements drove total operating revenues to exceed FYTD budget and prior year figures. While the expectation is that total Operating Revenues for Fiscal Year (FY) 2014/15 will be in line with budget, we will continue to monitor container traffic and the corresponding impact on revenues.

SUBJECT: FINANCIAL PERFORMANCE RESULTS

Operating Expenses increased 0.2% year-on-year as Memorandum of Understanding salary increases, lower direct salary capitalization and higher AMP™-related electricity costs more than offset lower average headcount, timing of expense recognition and higher indirect overhead capitalization. Operating Expenses were 14.4% below budget due to the timing of expense recognition, lower than budgeted salaries, higher indirect overhead capitalization and timing of capitalization adjustments.

The favorable variances relative to prior year and budget are primarily the result of timing of expense recognition. For instance, during April, the Board of Harbor Commissioners approved a budgetary transfer to fund a \$7.0 million differential between the initial \$3.5 million provision and the final cost of the Ocean Common Carrier Incentive Program (Carrier Incentive Program). While the fiscal year-to-date budget for payouts related to the Carrier Incentive Program now stands at \$10.5 million, the payout requests related to this program are currently being processed, and \$0 of these payouts is currently reflected within fiscal year-to-date actual performance. If these \$10.5 million in payouts were to be added into FYTD April results, FYTD Operating Expenses would continue to fall 8.9% below FYTD budget due mostly to lower average headcount and the timing in recognition of other expenses. Although we expect total operating expenses to ultimately exceed prior year total operating expenses once all anticipated expenses are incurred, total operating expenses are anticipated to ultimately remain within their annual budgetary limits.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ending April 2015 based on internal estimates reached \$168.5 million or about 60% of the total \$281.0 million CIP adopted budget. The Harbor Department expects CIP spending to approximate \$247 million by Fiscal Year-End.



EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD April 2015
2. Actual-to-Budget FY 2014/15 – April 2015
3. Year-to-Year Performance Report YTD April 30, 2015 and 2014

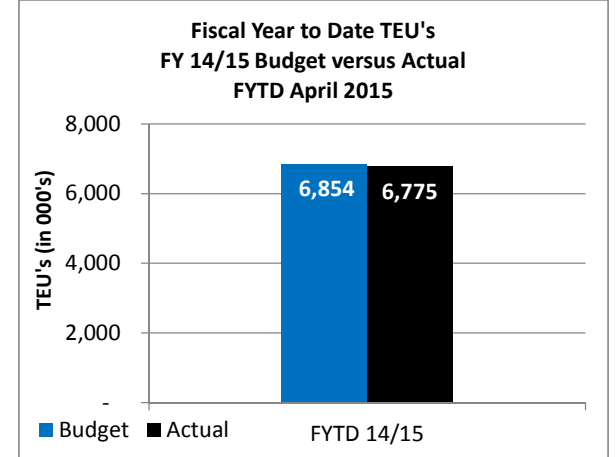
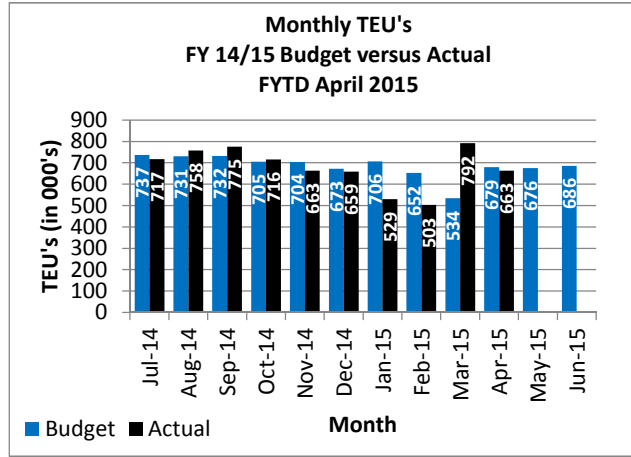
Author: M. Marchese

MB:MM/Finance 
cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD APRIL 2015

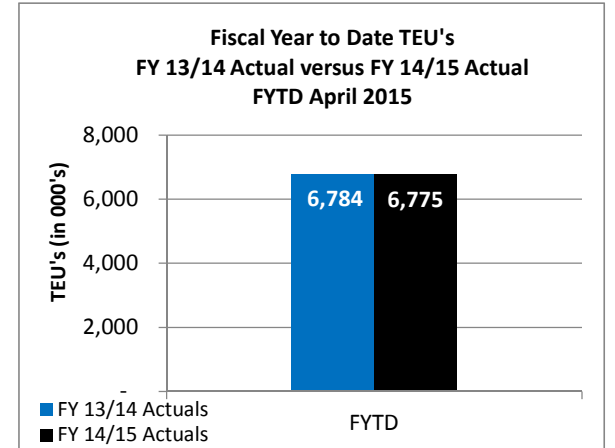
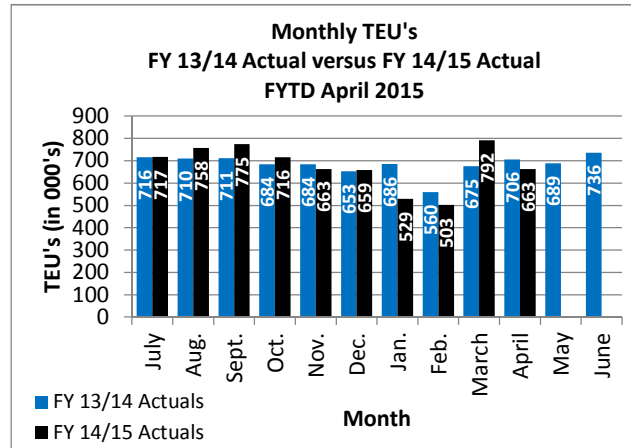
Budget versus Actuals Comparison
FY 14/15 Budget vs. FY 14/15 Actuals

(in 000's)	TEU's		% Δ	Δ
Month	FY 14/15 Budget	FY 14/15 Actuals		
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	503	-23.0%	↓
Mar-15	534	792	48.3%	↑
Apr-15	679	663	-2.4%	↓
May-15	676			
Jun-15	686			
FYTD 14/15	6,854	6,775	-1.2%	↓
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		% Δ	Δ
Month	FY 13/14 Actuals	FY 14/15 Actuals		
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	503	-10.2%	↓
March	675	792	17.3%	↑
April	706	663	-6.1%	↓
May	689			
June	736			
FYTD	6,784	6,775	-0.1%	↓
FY 13/14 Actuals	8,210			



\$ in thousands	Fiscal Year Actual	Fiscal Year Budget	Year-over-Year		Notes (\$ in millions)
	FY 2014/15	FY 2014/15	Change		
	Fiscal YTD - Apr 2015	Fiscal YTD - Apr 2015	\$	%	
Operating Revenues					
Shipping Services	302,808	310,340	(7,532)	(2.4%)	Higher volumes at terminals with lower TEU rates, lower volumes at terminals with higher TEU rates than budgeted; easing of congestion accretive to shipping revenues as delays in timing of invoicing subsidies
Rentals	41,366	36,682	4,684	12.8%	Primarily due to one-time compensation catch-ups and resets, slightly offset by lower rental receipts for buildings and warehouses than budgeted
Royalties, Fees and Other Revenues	19,060	4,061	14,999	369.4%	BNSF/SCIG facility annual license fee \$5.3 (net) and higher AMP reimbursements than budgeted \$9.5
Clean Truck Program Revenues	2,964	1,216	1,748	143.8%	Higher concession application renewals than budgeted
Total Operating Revenues	366,198	352,299	13,900	3.9%	
Operating Expenses					
Gross Salaries & Benefits	109,614	117,756	(8,142)	(6.9%)	Primarily due to lower average filled positions (914 vs. 940 budgeted), timing in benefits accruals, payouts, bonuses and other benefits
Direct Capitalization	(13,041)	(16,372)	3,330	(20.3%)	Lower direct capitalization primarily for Engineering and Construction & Maintenance as capital spending is below budgeted amounts
Net Salaries & Benefits	96,573	101,384	(4,811)	(4.7%)	
Marketing & Public Relations	2,625	3,049	(424)	(13.9%)	
Travel	472	771	(299)	(38.8%)	
Outside Services	16,527	23,950	(7,423)	(31.0%)	Timing in capitalization adjustments <\$2.9>, higher capitalization in Construction & Maintenance <\$2.1>, lower IT support <\$0.8>, project scheduling for maintenance dredging <\$0.7> and timing in City Attorney <\$0.4>, Government Affairs <\$0.3>, Marketing <\$0.3> and Audit <\$0.2> expenses as well timing of expense recognition within 7 divisions <\$0.9>, slightly offset by higher environmental assessment expenses \$1.4
Materials & Supplies*	5,475	6,264	(788)	(12.6%)	
City Services	31,102	30,643	458	1.5%	Timing in capitalization adjustments \$1.0, offset by timing of city attorney and public works accruals <\$0.6>
(1) Allocations to Capital - Overhead	(15,183)	(13,917)	(1,266)	9.1%	
(2) Other Operating Expenses**	24,081	36,854	(12,772)	(34.7%)	Timing of carrier incentives <\$9.9>, environmental remediation <\$2.9>, insurance premium recognition <\$0.9>, litigation <\$0.6> and workers' compensation payments <\$0.5> and lower permits/fees/taxes/assessments/misc. <\$0.4>, slightly offset by higher equipment purchases \$1.2, electricity \$0.6, environmental incentives \$0.5 and higher telephone \$0.2
Clean Truck Program Expenses	648	730	(83)	(11.3%)	
Total Operating Expenses	162,320	189,728	(27,408)	(14.4%)	
Income Before Depreciation	203,878	162,570	41,308	25.4%	
Provision For Depreciation	102,314	100,327	1,987	2.0%	
Income From Operations	101,564	62,244	43,295	69.6%	
(3) Non-Operating Revenue	11,182	6,810	4,373	64.2%	Primarily higher Federal/State grant receipts \$3.8, state pass-through revenues \$0.5, interest/investment income \$0.3 and gain on asset sales \$0.1, partially offset by lower non-operating settlements, rebates and misc. <\$0.3>
(4) Non-Operating Expenses	(7,691)	(7,373)	(318)	4.3%	Lower interest capitalization \$3.5, loss on asset sales \$1.4, higher capital projects cancelled or not completed \$1.3 and state pass-through expenses \$0.5, partially offset by lower interest expense <\$4.0>, lower bond/commercial paper issuance costs <\$1.9> and lower misc. expenses <\$0.4>
Net Income	105,056	61,680	43,376	70.3%	

* Includes \$325 thousand Capital Improvement Program (CIP) transfer for materials, supplies and tools purchases within the Construction and Maintenance division which were originally not adopted within the FY 2014/15 Budget.

** Includes \$18.2 million in transfers for the following items which were originally not adopted within the FY 2014/15 Budget:

- Unappropriated Balance transfer for unbudgeted Alternative Maritime Power expenses: \$8.3 million
- CIP transfer for unbudgeted SCIG remediation and Front Street Beautification expenses: \$2.9 million
- CIP transfer for unbudgeted carrier incentive program expenses: \$7.0 million

Notes:

- (1) Overhead allocations are eventually charged directly to each operating expense category at fiscal year end and are presented here in total for comparison purposes. FYTD allocation by expense component is as follows: Salaries & Benefits <\$8.2>; Marketing & Public Relations <\$0.2>; Travel <\$0.05>; Outside Services <\$1.3>; Materials & Supplies <\$0.4>; City Services <\$2.7>; Other Operating Expenses <\$2.2>
- (2) Primarily for: Electricity \$12.5; Insurance \$2.6; Environmental incentives \$2.5; Water & gas \$1.9; Telephone \$1.5; Equipment purchases \$1.1; Property/equipment rental/license/misc. \$1.0; Memberships, subscriptions, books \$0.5; Taxes & assessments \$0.4
- (3) Primarily for: Interest expense \$34.9; Capitalized interest <\$34.6>; Capital projects closed to expense \$3.4; Loss on sale of assets \$1.4; Bond issuance costs \$1.1; Commercial paper issuance costs \$1.0; Pass-through grant disbursements \$0.5
- (4) Primarily for: Federal/State grant receipts \$5.1; Interest/investment income \$4.8; Rebates, late charges, discounts, misc. \$0.7; Pass-through grant receipts \$0.5; Gain on asset sales \$0.1

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2014/15	FY 2013/14	Change		
	Fiscal YTD - Apr 2015	Fiscal YTD - Apr 2014	\$	%	
Operating Revenues					
Shipping Services	302,808	314,914	(12,105)	(3.8%)	Higher volumes at terminals with lower TEU rates, lower volumes at terminals with higher TEU rates <\$13.6> and lower pilotage <\$0.5>, partially offset by higher space assignment \$1.1 and dockage \$0.9
Rentals	41,366	36,175	5,191	14.3%	Intermodal customer rate increase and minimum annual guarantee (MAG) payment \$5.4, slightly offset by lower rental receipts for buildings and warehouses <\$0.8>
Royalties, Fees and Other Revenues	19,060	4,397	14,664	333.5%	Higher utility reimbursements mostly related to AMP \$8.8, BNSF/SCIG facility annual license fee \$4.7 (net) and refunds related to environmental projects \$0.9
Clean Truck Program Revenues	2,964	1,702	1,262	74.1%	Higher concession application fees with some renewals and higher day pass fees \$1.7, slightly offset by lower clean truck fees <\$0.5>
Total Operating Revenues	366,198	357,187	9,011	2.5%	
Operating Expenses					
Gross Salaries & Benefits	109,614	112,041	(2,426)	(2.2%)	Primarily due to lower average filled positions (914 vs. 938 prior year) slightly offset by MOU salary increases
Direct Capitalization	<u>(13,041)</u>	<u>(15,782)</u>	2,741	(17.4%)	
Net Salaries & Benefits	96,573	96,259	314	0.3%	
Marketing & Public Relations	2,625	2,324	301	12.9%	Higher promotional and sponsorship spending for Public Relations \$0.5, partially offset by lower foreign trade representation <\$0.2>
Travel	472	554	(83)	(14.9%)	
Outside Services	16,527	19,910	(3,383)	(17.0%)	Timing in capitalization adjustments <\$4.4>, lower maintenance dredging <\$0.5>, outside counsel <\$0.4>, Contracts and Purchasing services <\$0.2>, C&M hiring hall salaries <\$0.2>, executive services <\$0.2> and public relations <\$0.2> spending, partially offset by higher environmental assessment services \$1.8 and Port Police security camera maintenance \$0.9
Materials & Supplies	5,475	5,593	(118)	(2.1%)	
City Services	31,102	28,850	2,251	7.8%	Timing in capitalization \$1.0 and higher fire \$0.7, recreation and parks \$0.4 and personnel services \$0.2
(1) Allocations to Capital - Overhead	(15,183)	(8,980)	(6,203)	69.1%	Higher operating base subject to overhead capitalization
(2) Other Operating Expenses	24,081	16,912	7,169	42.4%	Higher electricity (primarily for AMP) \$6.9, equipment purchases \$1.6, environmental incentives \$1.2, partially offset by timing of workers' compensation payouts <\$1.6>, property rental/license user fees <\$0.6>, higher capitalization <\$0.2> and lower permits/fees/taxes/assessments <\$0.1>
Clean Truck Program Expenses	648	622	26	4.2%	
Total Operating Expenses	162,320	162,044	275	0.2%	
Income Before Depreciation	203,878	195,143	8,736	4.5%	
Provision For Depreciation	102,314	97,367	4,947	5.1%	
Income From Operations	101,564	97,776	3,788	3.9%	
(3) Non-Operating Revenue	11,182	16,897	(5,715)	(33.8%)	Lower pass-through grant receipts <\$6.3>, settlements/rebates/misc. <\$4.4>, environmental reimbursements <\$0.2> and lower gain on asset sales <\$0.1>, partially offset by higher Federal/State grant receipts \$4.2 and higher interest/investment income \$1.0
(4) Non-Operating Expenses	(7,691)	(35,928)	28,237	(78.6%)	Lower capital projects cancelled or not completed <\$21.6> and pass-through grant disbursements <\$6.3> as well as higher capitalization of interest <\$6.5>, partially offset by higher interest expense \$4.1, new bond issuance costs \$1.1 and higher loss on asset sales/misc. \$1.0
Net Income	105,056	78,745	26,311	33.4%	

Notes:

- (1) Overhead allocations are eventually charged directly to each operating expense category at fiscal year end and are presented here in total for comparison purposes. FYTD allocation by expense component is as follows: Salaries & Benefits <\$8.2>; Marketing & Public Relations <\$0.2>; Travel <\$0.05>; Outside Services <\$1.3>; Materials & Supplies <\$0.4>; City Services <\$2.7>; Other Operating Expenses <\$2.2>
- (2) Primarily for: Electricity \$12.5; Insurance \$2.6; Environmental incentives \$2.5; Water & gas \$1.9; Telephone \$1.5; Equipment purchases \$1.1; Property/equipment rental/license/misc. \$1.0; Memberships, subscriptions, books \$0.5; Taxes & assessments \$0.4
- (3) Primarily for: Interest expense \$34.9; Capitalized interest <\$34.6>; Capital projects closed to expense \$3.4; Loss on sale of assets \$1.4; Bond issuance costs \$1.1; Commercial paper issuance costs \$1.0; Pass-through grant disbursements \$0.5
- (4) Primarily for: Federal/State grant receipts \$5.1; Interest/investment income \$4.8; Rebates, late charges, discounts, misc. \$0.7; Pass-through grant receipts \$0.5; Gain on asset sales \$0.1