



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: OCTOBER 28, 2014

FROM: FINANCE

**SUBJECT: RESOLUTION NO. _____ ADOPT THE UPDATED
FINANCIAL POLICIES OF THE CITY OF LOS ANGELES HARBOR
DEPARTMENT**

SUMMARY:

Staff recommends that the Board of Harbor Commissioners (Board) review and approve the proposed updated Financial Policies of the City of Los Angeles Harbor Department (Harbor Department). These policies, consisting of Fiscal (Budgetary, Revenues, and Expense Policies), Leasing, Capital Improvement Plan Funding, Financial Reserve, Risk Management, Disclosure, and Debt Management Policies, codify and reinforce the Harbor Department's continuing practice of fiscal responsibility.

This set of policies will promote consistent and efficient financial procedures and operational efficiencies, and assist in compliance with applicable laws, regulations, and accounting and reporting standards. There are no substantive changes to the policies other than the deletion of the section related to using bond insurance to enhance the credit risks of a bond issue, and the insertion under the Debt Management Policy section, an article for Post-Issuance Tax Compliance to follow new regulations for tax-exempt bond issuers. Other alterations relate primarily to formatting and style. The approval of the financial policies complies with the Los Angeles City Council motion, Council File No. 04-1822-S3, in which the Harbor Department is urged to implement certain financial policies that more closely align with those of the City of Los Angeles' Financial Policies as adopted by the City Council and approved by the Mayor. Adherence to the Financial Policies is the responsibility of the Harbor Department.

The approval of these policies does not cause the Harbor Department to incur any financial expenditures.

RECOMMENDATIONS:

It is recommended that the Los Angeles Board of Harbor Commissioners:

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UPDATED FINANCIAL POLICIES**

1. Approve and adopt the Harbor Department's Financial Policies as outlined in this report for the following: Fiscal (Budgetary, Revenues, and Expense Policies), Leasing, Capital Improvement Plan Funding, Financial Reserve, Risk Management, Disclosure, and Debt Management Policies; and
2. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – In April 2005, the Los Angeles City Council adopted, and the Mayor approved, a comprehensive set of financial policies for the City of Los Angeles (City). On November 21, 2006, the City Council requested the Boards of the proprietary departments to adopt a comprehensive application of the City's Financial Policies "at their first opportunity". Although the Harbor Department had a Debt Management Policy in place at that time approved by the Board in August 2002, it had not formally adopted a set of financial policies.

Subsequent to the City's action in 2006, the Harbor Department created a set of financial policies appropriate for a proprietary department, operating independently, using its own resources and administering and controlling its fiscal activities. The key objective of the Financial Policies is to balance the Harbor Department's core business requirements and strategic objectives with its financial resources and reinforce the Harbor Department's continuing practice of fiscal responsibility.

In September 2008, the Board approved and adopted the Harbor Department's Financial Policies. The approved policies incorporated the previously established Debt Management Policy. In each subsequent year since, the Board has reviewed and approved such policies, as required under the policies themselves. In March 2009, the City's Budget and Finance Committee requested that the Harbor Department report its financial policies annually to the Budget and Finance Committee; the Committee cancelled this standing order in 2013, when the Committee changed leadership.

Recommended Policy Update –There are two proposed changes to the policies:

1. Delete the language related to bond insurance under the Debt Management Policy Section, Structural Features, Section I. The section previously addressed the possibility of selecting and using a bond insurer to provide credit enhancement to any bond offering. In doing so, a non-"AAA" rated issuer would enjoy lower rates of borrowing than otherwise possible. Since the recession of 2008, the vast majority of the bond insurers have become either insolvent or ineffective in their ability to provide such insurance. The deletion of the section reflects this reality. If market conditions ever change, the Port will reconsider the possibility of using bond insurance to enhance the creditworthiness of bonds.

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2. The inclusion of an article under Debt Management Policy for Post-Issuance Tax Compliance procedures established by the Securities Exchange Commission (SEC) that are now required for tax-exempt bond issuers.

There are no other significant changes. The key elements to the document remain: 1) Holding of a minimum ratio of 2.0 in debt service coverage, which is the ability of the Port to repay its debt obligations as measured by its operating income divided by its annual interest and principal due on its debt outstanding and 2) the methodology used to calculate the level of reserves required as stated in the Reserve Policy.

Transmittal 1 contains the Financial Policies with the proposed changes highlighted. Transmittal 2 is the proposed Financial Policies in its final form.

The proposed policies of the Harbor Department when compared to those of the Los Angeles World Airport (LAWA), Department of Water and Power (DWP), and the Port of Long Beach (POLB) are similar in the areas of Fiscal Policy, CIP Funding, Financial Reserve, and Risk Management Policies. The policies of DWP and POLB focus primarily on their Debt Management Policies, and do not include guidelines relating to other policies listed earlier (Transmittal 3).

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of updates to the Harbor Department's Financial Policies. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed updates will have no employment impact.

FINANCIAL IMPACT:

If approved, there is no immediate impact to the financial condition of the Harbor Department; however, the policies as proposed will provide direction and performance targets relative to maintaining a steady and strong financial position. Such policies establish defined parameters of financial and operational transparency, consistent with SEC guidelines and will help to engender consistent adherence to good financial practices and sensible management of financial risk.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed the proposed Financial Policies updates and the proposed action raises no legal issues at this time.

TRANSMITTALS:

1. Highlighted changes to the Financial Policies for the City of Los Angeles Harbor Department
2. Proposed Financial Policies for the City of Los Angeles Harbor Department
3. Comparison Matrix

FIS Approval: WP (initials)

CA Approval: JS (initials)



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APPROVED:



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