THE PORT OF LOS ANGELES

Executive Director's
Report to the
Board of Harbor Commissioners

"FOR INFORMATION ONLY"

DATE: **AUGUST 14, 2015**

TO: **THE BOARD OF HARBOR COMMISSIONERS**

SUBJECT: **FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR ENDED JUNE 30, 2015**

SUMMARY

This report discusses key factors which impacted the unaudited Fiscal Year ("FY") 2014/15 financial performance of the City of Los Angeles ("City") Harbor Department ("Harbor Department" or "Department"). Furthermore, this report compares the Harbor Department's FY 2014/15 financial performance to the results projected within its adjusted Adopted FY 2014/15 Budget as well as the prior fiscal year.

Despite cargo volumes falling slightly below budget and prior fiscal year figures (as measured by TEUs or twenty-foot equivalent units), the Harbor Department generated Operating Income (before Depreciation) of $255.3 million for FY 2014/15 (unaudited). In summary, performance results for the Harbor Department are as follows:

FY Ended June 2015	Actuals - Unaudited (in Millions)	Actual-to-Budget Comparison	Year-on-Year Comparison
Cargo Volumes	8.191	↓ (0.3%)	↓ (0.2%)
Operating Revenues	$446.9	↑ 6.8%	↑ 4.9%
Operating Expenses*	$191.6	↓ (19.4%)	↓ (6.7%)
Operating Income	$255.3	↑ 41.3%	↑ 15.7%
Net Income	$123.0	↑ 106.2%	↑ 65.6%

* Note: FY 2014/15 Operating Expenses include a pension adjustment which reduced total Operating Expenses by $23.5 million and was not included in either the FY 2014/15 Adopted Budget or prior fiscal year figures. Had this pension expense adjustment not been included, FY 2014/15 Operating Expenses would have totaled $215.1 million or 9.5% below the adjusted FY 2014/15 Adopted Budget and 4.7% above prior fiscal year figures.

Throughout the majority of FY 2014/15, Shipping Services revenues were negatively impacted by TEUs qualifying for lower rates as higher cargo volumes moved through terminals with lower overall TEU rates and lower cargo volumes moved through terminals with higher overall TEU rates. In spite of this, total Operating Revenues ultimately exceeded budget and prior year figures due to one-time revenue "catch-up" billings related to compensation resets in certain leases, higher than budgeted

BNSF/SCIG facility license fees (as further discussed on p.5), higher Alternative Maritime Power ("AMP™") reimbursements and higher legal settlement proceeds. Furthermore, total Operating Expenses fell 19.4% below budget and 6.7% below prior fiscal year due mostly to the recording of a $23.5 million pension-related adjustment in June. Absent this adjustment, total Operating Expenses would have continued to fall below budget but would have increased by 4.7% relative to prior year. Due primarily to higher Operating Revenues and lower Operating Expenses, unaudited Operating Income and Net Income ultimately increased relative to both budget and prior fiscal year.

In addition to being positively impacted by better-than-expected Operating Income and Net Income, the Harbor Department's balance of unrestricted cash also benefitted from lower capital spending and higher grant receipts relative to prior year. Furthermore, nearly $200 million in new borrowing and refunding of existing bonds issued in September 2014 further strengthened the Harbor Department's unrestricted cash position over the course of FY 2014/15. After beginning FY 2014/15 with an unrestricted cash balance of $262.7 million, the Harbor Department ended the fiscal year with unrestricted cash totaling $436.4 million, or 682 days cash-on-hand[1].

DISCUSSION:

As of June 30, 2015, the Harbor Department meets or exceeds the following key performance metrics indicative of healthy operations:

TABLE 1: KEY FINANCIAL METRICS

Performance Metric	Minimum	As of 6/30/15
Debt Rating	AA	√ AA
Debt Service Coverage	2.0x	√ 3.8x
Operating Margin	45%	√ 57%

As noted within Table 1 above, as of June 30, 2015, the Harbor Department has continued to maintain its AA debt rating. Additionally, the Department's 3.8x debt service coverage ratio exceeds the 2.0x minimum required under the Port's Financial Policies. Furthermore, the Harbor Department's 57% operating margin (calculated as operating income before depreciation divided by total Operating Revenues) exceeded a separately established key financial metric to maintain a minimum operating margin of 45%.

As further discussed below, the Harbor Department met or exceeded the key financial metrics noted above in spite of significant operational issues caused by congestion. In

[1] Days cash-on-hand calculated using the FY 2015/16 Adopted Budget total Operating Expenses of $233.5 million.

addition, the Harbor Department's FY 2014/15 financial performance greatly benefitted from one-time and unbudgeted revenue receipts as well as a favorable pension expense adjustment and lower-than-budgeted operating expenses which further enhanced both debt service coverage as well as operating margin.

CARGO VOLUMES:

TABLE 2: FY 2014/15 CARGO VOLUMES

FYTD Cargo Volumes (TEUs in thousands)	FY 2014/15 Actual	FY 2014/15 Budget	FY 2013/14 Prior Year	% Variance vs. Budget	% Variance vs. Prior Year
1st Quarter (Q1)	2,250	2,200	2,136	2.3%	5.3%
2nd Quarter (Q2)	4,288	4,282	4,158	0.1%	3.1%
February 2015	5,320	5,641	5,403	(5.7%)	(1.5%)
3rd Quarter (Q3)	6,112	6,175	6,078	(1.0%)	0.6%
4th Quarter (Q4)	8,191	8,216	8,210	(0.3%)	(0.2%)

Operational Impact of Congestion – Cargo volumes exhibited significant volatility relative to both budget and prior fiscal year figures over the course of FY 2014/15. After the July 1, 2014 expiration of the labor contract between the International Longshore and Warehouse Union ("ILWU") and the Pacific Maritime Association ("PMA"), cargo handling activities continued to occur with the majority of arriving ships proceeding directly to berth. Despite (i) bigger ships bringing larger quantities of cargo in one specific time period, (ii) greater complexity in cargo sorting when discharging large volumes of containers for multiple alliance members, (iii) chassis dislocations and provisioning gaps, and (iv) truck driver gate turn-time challenges at container terminals among other operational issues, FY 2014/15 First Quarter (Q1), cargo volumes were 2.3% above budget and 5.3% above prior year figures.

However, as FY 2014/15 progressed, the aforementioned operational challenges as well as protracted labor negotiations became more of a factor for congestion not only at the Port of Los Angeles (the "Port" or "POLA"), but also at most ports along the U.S. west coast. In each of the three months during the Second Quarter (Q2) of FY 2014/15, POLA's fiscal year-to-date (FYTD) cargo volume growth declined relative to budget and prior year such that by the end of December 2014, cargo volumes were roughly flat relative to budget and only 3.1% above prior year figures.

By February 20, a tentative agreement between the PMA and ILWU was reached; however, by that point, congestion had so crippled operations within San Pedro Bay that ships which had in Q1 typically proceeded to berth now had to wait at anchor for several days prior to being unloaded. At the height of the congestion, more than 30 ships sat at anchor in San Pedro Bay awaiting berth availability. Furthermore, the aforementioned operational challenges (bigger ships, cargo sorting complexity, chassis dislocations, etc.) continued to persist once these ships reached berth such that loading and unloading activities took significantly longer than usual. By the end of February 2015 and only 5 months after being 2.3% above budget and 5.3% above prior year figures, FYTD cargo volumes had fallen 5.7% below budget and 1.5% below prior year.

Following the tentative agreement reached between the PMA and ILWU as well as the integration of new operational initiatives such as the "Peel Off" program and "Gray Chassis Fleet", cargo volumes began to rebound such that POLA handled 791,863 TEUs in March, the second highest monthly total in its history. Through the Third Quarter (Q3) of FY 2014/15, FYTD cargo volumes were 1.0% below budget, but now 0.6% above prior year.

Over the course of the Fourth Quarter of FY 2014/15, congestion throughout the Port continued to ease as: ships once again began proceeding directly to berth rather than anchor; members of the ILWU's rank-and-file voted to approve the tentative agreement with the PMA; and the aforementioned operational initiatives continued to increase the velocity at which cargo moved off of terminal docks and onto their final destinations. However, due to the diversion of non-discretionary cargo to East and Gulf Coast ports at the height of congestion and given that cargo owners had stockpiled inventory in the prior fiscal year prior to the expiration of the ILWU contract with the PMA (thus inflating prior fiscal year volumes), FY 2014/15 cargo volumes ultimately fell 0.3% below budget and 0.2% below prior year figures. Please refer to Transmittal 1 for a detailed monthly breakout of FY 2014/15 TEUs relative to both budget and prior year.

OPERATING REVENUES:

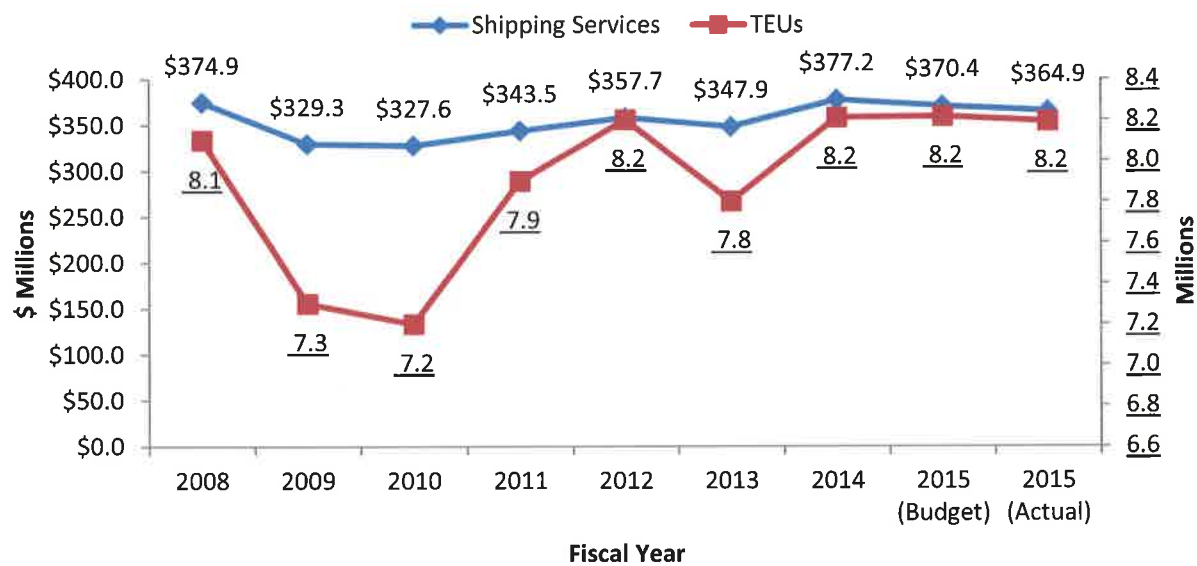
TABLE 3: FY 2014/15 OPERATING REVENUES

FY 2014/15 – Ended June 30 Unaudited ($ in thousands)	FY 2014/15 Actual	FY 2014/15 Budget	FY 2013/14 Prior Year	% Variance vs. Budget	% Variance vs. Prior Year
Shipping Services	364,899	370,414	377,213	(1.5%)	(3.3%)
Rentals	46,234	41,585	40,156	11.2%	15.1%
Royalties, Fees and Other Revenues	32,243	4,942	6,463	552.5%	398.9%
Clean Truck Program Revenues	3,520	1,459	2,119	141.3%	66.1%
Total Operating Revenues	**446,896**	**418,400**	**425,951**	**6.8%**	**4.9%**

One-time and Unbudgeted Receipts Lift Total Operating Revenues – Despite lower-than-budgeted Shipping Services, one-time compensation catch-ups and resets, higher accruals of BNSF/SCIG facility license fees, higher AMP reimbursements, unbudgeted insurance and legal settlements as well as higher Clean Truck Program ("CTP") revenues caused FY 2014/15 total Operating Revenues to exceed the FY 2014/15 Adopted Budget by 6.8%.

As noted within Table 4 below, despite FY 2014/15 TEU levels being approximately flat relative to budget and prior year, FY 2014/15 Shipping Services revenues declined by $12.3 million relative to prior year and $5.5 million relative to budget. Throughout the majority of FY 2014/15, Shipping Services revenues were negatively impacted by TEUs qualifying for lower rates as higher cargo volumes moved through terminals with lower overall TEU rates and lower cargo volumes moved through terminals with higher overall TEU rates.

TABLE 4: SHIPPING SERVICES AND TEU TRENDS: FY 2007/08 – FY 2014/15



The aforementioned decline in Shipping Services revenues was more than offset by increases relative to budget and prior year in rentals, CTP revenues, as well as royalties/fees/other revenues, further described as follows:

- Rentals
  - *Actuals vs. Budget:* Rentals increased by $4.6 million relative to budget primarily due to a $6.2 million one-time adjustment which recovered higher Minimum Annual Guaranteed ("MAG") rental rates and increased container charges related to the Intermodal Container Transfer Facility ("ICTF") retroactive to December 2011. This one-time adjustment was slightly offset by lower than budgeted rental receipts for buildings and warehouses.
  - *Actuals vs. Prior Year:* Rentals increased by $6.1 million relative to prior year primarily due to the aforementioned one-time, ICTF payment of $6.2 million.

- Royalties, Fees and Other Revenues
  - *Actuals vs. Budget:*
    - Royalties, fees and other revenues increased by $27.3 million relative to budget due to $11.6 million in higher utility reimbursements primarily related to AMP™ as well as the issuance of $10.9 million in unbudgeted invoices for license fees related to the BNSF/SCIG facility.
      - It is important to note that AMP™-related utility reimbursements cover only 98% of the corresponding

AMP^{TM}-related electricity expenses which results in a net decline in operating income.

- Furthermore, an allowance for BNSF/SCIG facility license fees which may ultimately be uncollectible has been created as these license fees are not recoverable until the currently ongoing litigation related to the BNSF/SCIG facility has been resolved. Hence, BNSF/SCIG facility license fees have no impact on operating income as any invoiced license fees related to the BNSF/SCIG facility are offset by an equivalent amount of expense representing an allowance for possible non-collection of fees. For as long as the litigation is ongoing, an amount equal to fees invoiced will be expensed for the allowance of possible non-collection of revenues.

- Royalties, fees and other revenues also increased relative to budget due to the receipt of $4.3 million in unbudgeted insurance and legal settlements as well as approximately $0.5 million in remediation reimbursements at Berths 171-173.

  - *Actuals vs. Prior Year:* Royalties, fees and other revenues increased by $25.8 million relative to prior year, broken out as follows: (i) $10.9 million in higher BNSF/SCIG facility license fees, (ii) $9.4 million in higher utility reimbursements primarily related to AMP^{TM}, (iii) $5.1 million in higher refunds and reimbursements and (iv) $0.4 million in higher parking fees.

- <u>CTP Revenues</u>
  - *Actuals vs. Budget:* CTP revenues increased by $2.1 million relative to budget due mostly in part to $1.9 million in higher concession application fees while annual truck fees and day pass fees comprised the remaining $0.2 million variance relative to budget.
  - *Actuals vs. Prior Year:* CTP revenues increased by $1.4 million relative to prior year as $1.8 million in higher concession application fees and $0.1 million in annual truck and day pass fees were partially offset by a $0.5 million decline in Clean Truck fees.

$23.5 Million Pension Expense Adjustment Reduces FY 2014/15 Operating Expenses – Effective for the FY 2014/15 financial reporting period, the Harbor Department implemented the new Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). The GASB is the organization that sets standards of reporting and generally accepted accounting principles for state and local governments including the Harbor Department.

Prior to GASB 68, all pension payments made by the Harbor Department on behalf of current employees were charged to employee benefits expense in the fiscal year in which the pension payment occurred. Under GASB 68, the cut-off of the pension measurement date to comply with GASB 68 was FY 2013/14. Under GASB 68, any Harbor Department pension plan contributions made after FY 2013/14 must be reflected as a "Deferred Outflows of Resources" rather than being expensed. A Deferred Outflow of Resources means that payments are not expensed immediately, but instead treated as a future use of resources, even though an immediate cash outlay is involved. The charging to expense, therefore, is deferred or delayed to the future as services are rendered in later years to vested employees.

Based upon the above, Harbor Department pension plan contributions paid in July 2014 (start of FY 2014/15) and which, at that time, were charged entirely to employee benefits expense were subsequently reversed and reclassified to the Deferred Outflow of Resources account. This deferred account will then be periodically amortized and charged to the employee benefits expense account in the future.

In addition, the Harbor Department's share in the City's other pension costs such as pension service costs, interest on prior period pension liability and administrative costs are now taken up and also reflected as Deferred Outflow of Resources. These will likewise be charged periodically to employee benefits expense in future years.

The amount of the pension expense adjustments were determined by the City's actuary. As actuarially-determined, the net effect of GASB 68-related adjustments was to reduce FY 2014/15 salary and benefits expenses by $23.5 million, such that salaries and benefits expenses were reported to be $69.3 million. Absent any GASB 68-related adjustments, FY 2014/15 salary and benefits expenses would have been $92.8 million. Table 5 below provides a summary of key financial figures and the impact of GASB 68-related adjustments on each of these figures.

TABLE 5: FINANCIAL IMPACT OF GASB 68

($ in thousands)	FY 2014/15 Actual (As Reported)	GASB 68 Adjustment	FY 2014/15, excl. GASB 68 (As Adjusted)	(As Adjusted) % Variance vs. Budget	(As Adjusted) % Variance vs. Prior Year
Salaries and Benefits Expense	69,284	23,504	92,788	(24.2%)	(17.2%)
Total Operating Expenses	191,595	23,504	215,099	(9.5%)	4.7%
Operating Income	**255,301**	**(23,504)**	**231,797**	**28.3%**	**5.1%**
Net Income	122,951	(23,504)	99,448	66.8%	33.9%
Operating Margin	57.1%		51.9%	8.7%	0.1%

OPERATING EXPENSES:

TABLE 6: FY 2014/15 OPERATING EXPENSES

FY 2014/15 – Ended June 30 Unaudited ($ in thousands)	FY 2014/15 Actual	FY 2014/15 Budget	FY 2013/14 Prior Year	% Variance vs. Budget	% Variance vs. Prior Year
Net Salaries & Benefits	69,284	122,468	112,053	(43.4%)	(38.2%)
Marketing & Public Relations	2,771	3,734	2,711	(25.8%)	2.2%
Travel	469	933	548	(49.7%)	(14.4%)
Outside Services	27,632	35,144	26,331	(21.4%)	4.9%
Materials & Supplies	6,264	7,858	6,883	(20.3%)	(9.0%)
City Services	34,749	36,648	33,633	(5.2%)	3.3%
Allocations to Capital - Overhead	-	(16,700)	-	n/a	n/a
Other Operating Expenses	49,478	46,294	22,094	6.9%	123.9%
Clean Truck Program Expenses	949	1,314	1,100	(27.8%)	(13.8%)
Total Operating Expenses	**191,595**	**237,693**	**205,352**	**(19.4%)**	**(6.7%)**

Lower Average Filled Positions and Controlled Spending on Outside Services Spending Drive Total Operating Expenses below Budget – Total Operating Expenses of $191.6 million fell 19.4% or $46.1 million below budget. Details for each major Operating Expense category and a comparison relative to their respective budgets are as follows:

- **Net Salaries & Benefits: $69.3 million by $53.2 million or 43.4%.**
  In addition to the $23.5 million GASB 68-related pension adjustment which reduced salary and benefits expenses, salary and benefits expenses further declined relative to budget primarily due to lower average filled positions of 910 relative to a budget of 940. It is important to note that several of the positions which went unfilled throughout the course of the year were some of the highest paying positions within the Harbor Department. As these positions are filled over the course of FY 2015/16 salary and benefits expenses are anticipated to track more in line with budgeted figures.

- **Marketing and Public Relations: $2.8 million by $1.0 million or 25.8%.**
  Spending fell below budget due to $0.3 million in lower foreign trade representation and business promotional spending within the Cargo Marketing division as well as $0.3 million in lower spending on advertising within the Public Relations division. In addition, $0.3 million of greater than budgeted overhead costs were capitalized over the course of FY 2014/15.

- **Travel: $0.5 million by $0.5 million or 49.7%.**
  A department-wide effort was made to be more strategic in the usage of travel for both business development and training and employee development purposes, which resulted in lower spending.

- **Outside Services: $27.6 million by $7.5 million or 21.4%.**
  Primary drivers of the lower spending in Outside Services are as follows:

- ***Construction & Maintenance*** (lower by $2.9 million) primarily due to higher capitalization of professional services and lower spending on building maintenance services;
- ***Environmental Assessment Services*** (lower by $2.1 million) as outreach work related to water quality was delayed in order to allow tenants more time to comply with a new storm water discharge permit requirement. Additionally, costs for various special studies on Total Maximum Daily Load ("TMDL") requirements and Port-wide Air Emissions Inventory were lower than anticipated;
- ***Information Technology Services*** (lower by $1.7 million) due to delays in implementing an information technology services agreement for the Port Police division;
- ***Legal Services*** (lower by $0.5 million) due to less spending on expert witnesses than anticipated; and
- ***Maintenance Services*** (lower by $0.4 million) as facility, equipment and design support spending was lower than expected.

- **Materials and Supplies: $6.3 million by $1.6 million or 20.3%.**
  The lower than budget result in this category is primarily driven by $0.9 million in higher capitalization of materials and supplies expenses than budgeted. In addition, materials and supplies spending within the Development Bureau (which accounted for approximately 90% of all materials and supplies spending throughout the Department) was $0.3 million lower than budgeted. Lastly, spending on information technology supplies as well as Port Police materials was $0.2 million below budget.

- **City Services: $34.7 million by $1.9 million or 5.2%.**
  Lower expenses were primarily driven by $3.0 million in higher capitalization of overhead allocations which were partially offset by $1.0 million in higher paving services than budgeted.

- **Other Operating Expenses: $49.5 million by $3.2 million or 6.9%.**
  Other Operating Expenses exceeded budget primarily due to a provision for possible non-collection of BNSF/SCIG license fees of $10.9 million which was charged to expense (please refer to page 5 for further information). In addition, provisions for litigation and workers' compensation ended $0.8 million and $0.5 million respectively above budget. Lastly, utilities spending exceeded budget by $0.2 million due to higher AMP™ electricity expenses than expected. Partially offsetting these $12.4 million in overages were the following items which reduced the amount by which other Operating Expenses exceeded budget:

  - ***Pollution Remediation & Environmental Incentives*** (lower by $3.9 million) due to payments made out of the remediation liability accounts and lower than expected additional future remediation costs required;

- ***Capitalization*** (higher by $3.1 million) due to a higher amount of overhead costs being capitalized;
- ***Equipment Purchases*** (lower by $0.8 million) due to a Department-wide effort to prioritize equipment spending;
- ***Insurance*** (lower by $0.5 million) due to lower premium costs than budgeted; and
- ***Other expenses,*** e.g., property/equipment rental/licenses, permits, fees, taxes, assessments and other miscellaneous expenses (lower by $0.6 million).

- **Clean Truck Program: $0.9 million ↓ by $0.4 million or 27.8%**
  Included in Other Operating Expenses but reported separately are Clean Truck Program administrative expenses of $0.9 million which were lower as a result of fewer special studies being conducted over the course of the fiscal year. For instance, a planned Truck Maintenance Study was not conducted due to unavailability of truck sampling data from the University of California – Berkeley. As a note, the $0.9 million in expenses for this program were offset by $3.5 million in Clean Truck Program revenues this fiscal year.

Excluding the Impact of the Pension Benefit Expense Adjustment, Total Operating Expenses Would Have Increased Relative to Prior Year – As noted within Table 5 above, although total FY 2014/15 Operating Expenses were reported to be $191.6 million, total FY 2014/15 Operating Expenses would have actually been $215.1 million if the GASB 68-related pension expense adjustment is excluded. This $215.1 million level of expense would represent a 4.7% increase relative to prior year. Details of this increase are as follows:

- **Net Salaries & Benefits: $69.3 million ↓ by $42.8 million or 38.2%.**
  In addition to the $23.5 million GASB 68-related pension adjustment which reduced salary and benefits expenses, salary and benefits expenses further declined relative to prior year primarily due to lower average filled positions of 910 relative to 937 average positions in FY 2013/14. Furthermore, following retirements and departures of key employees, several of the positions which went unfilled throughout the course of the FY 2014/15 had been filled in the prior fiscal year. Given the relatively high salaries of these key employees, their departures and the savings associated with their positions being vacant while exhaustive recruitment efforts and interviews are conducted more than offset Memorandum of Understanding salary increases for employees throughout the Department.

- **Marketing and Public Relations: $2.8 million ↑ by $0.1 million or 2.2%.**
  Marketing and public relations spending increased relative to prior year primarily due to $0.5 million in higher organizational and event sponsorships as well as higher promotional spending relative to prior year. This was partially offset by lower foreign trade representation spending which declined by $0.3 million relative to prior year.

- **Travel: $0.5 million ↓ by $0.1 million or 14.4%.**
  A Department-wide effort was made to be more strategic in the use of travel, as previously discussed.

- **Outside Services: $27.6 million ↑ by $1.3 million or 4.9%.**
  Primary drivers of the higher spending in Outside Services are as follows:

  - ***Capitalization*** (lower by $1.7 million) primarily due to lower overall capital spending;
  - ***Environmental Assessment Services*** (higher by $1.1 million) primarily as spending which had previously been scheduled to occur in FY 2013/14 took place in FY 2014/15;
  - ***Cruise Terminal Operating Expenses*** (higher by $0.5 million) due to greater frequency of days upon which three cruise ships called in a single day relative to the prior year;
  - ***Hiring Hall Salaries*** (lower by $0.5 million) as less reliance on hiring hall labor for pile driving was required relative to the prior year;
  - ***Legal Services*** (lower by $0.4 million) due to less spending on expert witnesses than prior year;
  - ***Public Relations*** (lower by $0.3 million) due to delayed advertising and freeway clean-up spending;
  - ***Contracts and Purchasing*** (lower by $0.2 million) due to the lower spending within this division on grants monitoring, lower photocopier contract expenses and lower spending on the Bond Assistance Program;
  - ***Management Audit*** (lower by $0.2 million) due to delayed spending on external audits;
  - ***Executive Office*** (lower by $0.2 million) due to lower spending on miscellaneous professional executive services; and
  - ***Equipment Maintenance*** (lower by $0.1 million) due to lower spending on Port Pilot equipment relative to last year.

- **Materials and Supplies: $6.3 million ↓ by $0.6 million or 9.0%.**
  The lower than budget result in this category is primarily driven by $0.6 million in higher capitalization of materials and supplies expenses than prior year.

- **City Services: $34.7 million ↑ by $1.1 million or 3.3%.**
  City services expenses increased primarily due to $1.0 million in higher paving services than prior year.

- **Other Operating Expenses: $49.5 million ↑ by $27.4 million or 123.9%.**
  Other Operating Expenses exceeded prior year primarily due to the following:

- ***Provisions for Bad Debt*** (higher by $12.4 million) primarily due to the charge of $10.9 million for possible non-collection of BNSF/SCIG license fees (please refer to page 5 for further information);
- ***Operating Incentives*** (higher by $10.2 million) primarily due to payouts related to the Ocean Common Carrier Incentive Program;
- ***Electricity*** (higher by $7.7 million) due to higher AMP™-related electricity expenses;
- ***Provisions for Litigation/Claims*** (higher by $1.6 million) due to a $1.0 million provision for the anticipated payment of a Pasha fire-related insurance deductible as well as a $0.5 million deductible for a case involving a dredging and landfill issue settled in FY 2014-15;
- ***Environmental Incentives*** (higher by $0.9 million) due to a greater number of incentive requests; and
- ***Other expenses,*** e.g., property/equipment rental/licenses, permits, fees (higher by $0.4 million) increasing relative to prior year; which were partially offset by
- ***Equipment Purchases*** (lower by $2.3 million) due to due to a Department-wide effort to prioritize equipment spending;
- ***Capitalization*** (higher by $2.1 million) due to higher capitalization of overhead expenses; and
- ***Environmental Remediation*** (lower by $1.5 million) due to payments made out of the remediation liability accounts and lower additional future remediation costs required relative to prior year.

- **Clean Truck Program: $0.9 million ↓ by $0.2 million or 13.8%**
  Included in Other Operating Expenses but reported separately are Clean Truck Program administrative expenses of $0.9 million which were lower than prior year as a result of fewer special studies being conducted over the course of the fiscal year, as previously discussed.

<u>OTHER ITEMS</u>:

TABLE 7: FY 2014/15 OPERATING INCOME AND NET INCOME

FY 2014/15 – Ended June 30 Unaudited ($ in thousands)	FY 2014/15 Actual	FY 2014/15 Budget	FY 2013/14 Prior Year	% Variance vs. Budget	% Variance vs. Prior Year
Operating Income	255,301	180,707	220,598	↑ 41.3%	↑ 15.7%
Less: Depreciation	(137,384)	(120,392)	(124,221)	↑ 14.1%	↑ 10.6%
Plus: Non-Operating Revenues	13,210	8,172	20,959	↑ 61.7%	↓ (37.0%)
Less: Non-Operating Expenses	(8,176)	(8,847)	(43,070)	↓ (7.6%)	↓ (81.0%)
Net Income	122,951	59,638	74,267	↑ 106.2%	↑ 65.6%

***Depreciation, Non-Operating Revenues and Non-Operating Expenses*:**

- <u>Depreciation</u>: $137.4 million
  - Depreciation exceeded budget by $17.0 million and exceeded prior year by $13.2 million due to higher capitalization of facilities and equipment.

- Non-Operating Revenues: $13.2 million
    - *Actuals vs. Budget:* Non-Operating Revenues exceeded budget by $5.0 million due to positive variances with respect to: federal/state grant receipts (higher by $2.5 million), interest/investment income (higher by $2.2 million), federal/state pass-through revenues (higher by $0.6 million) and gain on asset sales (higher by $0.1 million). These positive variances were partially offset by non-operating settlements, rebates and misc. revenues which were lower by $0.4 million relative to budget.
    - *Actuals vs. Prior Year:* Non-Operating Revenues fell below prior year levels by $7.7 million due to unfavorable variances with respect to: pass-through grant receipts (lower by $6.3 million) and settlements/rebates/misc. (lower by $4.9 million). These unfavorable variances were partially offset by Federal/State grant receipts which were $2.7 million higher than prior year and interest/investment income which was $0.8 million above prior year levels.

- Non-Operating Expenses: $8.2 million
    - *Actuals vs. Budget:* Non-Operating Expenses fell below budget by $0.7 million due to positive variances with respect to: interest expense (lower by $4.2 million), bond/commercial paper issuance costs (lower by $2.4 million) and miscellaneous expenses (lower by $0.6 million). These positive variances were partially offset by unfavorable variances with respect to: interest capitalization (lower by $3.6 million), loss on asset sales (higher by $1.4 million), capital projects cancelled or not completed (higher by $1.0 million) and federal/state pass-through expenses (higher by $0.6 million).
    - *Actuals vs. Prior Year:* Non-Operating Expenses fell below prior year levels by $34.9 million due to favorable variances with respect to: capital projects cancelled or not completed (lower by $30.3 million), pass-through grant disbursements (lower by $6.3 million) and interest capitalization (higher by $7.7 million). These favorable variances were partially offset by unfavorable variances with respect to: interest expense (higher by $6.5 million), loss on asset sales (higher by $1.8 million) and bond issuance costs (higher by $1.1 million).

CAPITAL IMPROVEMENT PROGRAM (CIP):

Budget Performance – Actual spending in FY 2014/15 was $219.4 million or 78.1% of the Adopted Capital Improvement Program budget of $281.0 million.

Major projects completed include (with amount of FY 2014/15 CIP spending in parenthesis):

- **South Wilmington Grade Separation ($19.5 million)** for construction completion of a grade separation in South Wilmington to carry vehicular traffic over railroad tracks to Port terminals; and
- **Berth 200 Rail Yard ($9.2 million)** for construction completion of yard site, tracks, yard office building, diesel engine service facility and rail yard track connections;

Major in-process projects include the following efforts which continued over the course of FY 2014/15:

- **TRAPAC – Berths 135-147 ($114.3 million)** for construction of automatic stacking crane infrastructure, backland grading and paving, TRAPAC On-Dock Rail Facility, utilities installation and the TRAPAC Administration Building; and
- **Other Transportation Improvements: ($43.9 million)** for various transportation projects including: C-Street/I-110 access ramp improvements, John S. Gibson Intersection/I-110 access ramp improvements, I-110/SR-47 connector improvements, Berth 200 rail yard track connections and Terminal Island street improvements.

EUGENE D. SEROKA
Executive Director

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

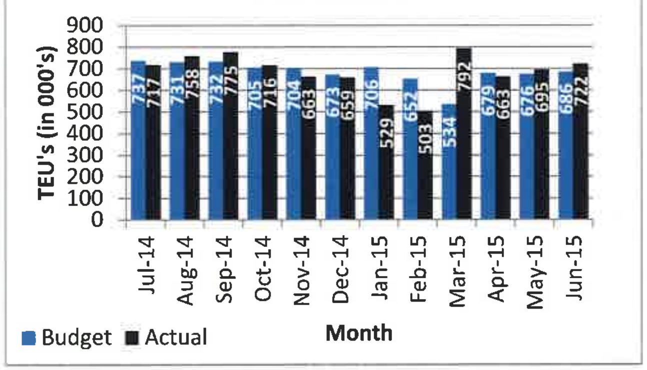
MM
Author: M. Marchese
MB:MM/Finance
cc: Deputy Executive Directors

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

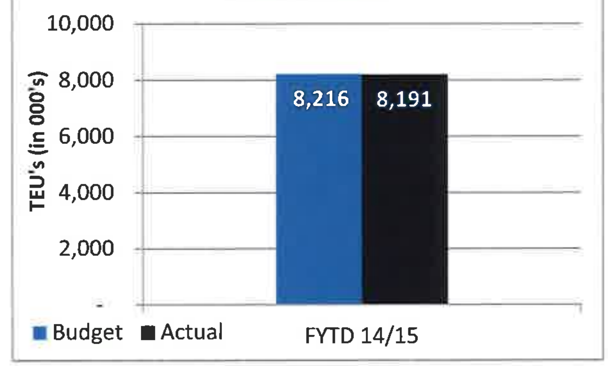
TRANSMITTAL 1

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

(in 000's)	TEU's			
Month	FY 14/15 Budget	FY 14/15 Actuals	% Δ	Δ
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	695	2.8%	↑
Jun-15	686	722	5.2%	↑
FYTD 14/15	8,216	8,191	-0.3%	↓
FY 14/15 Budget	8,216			



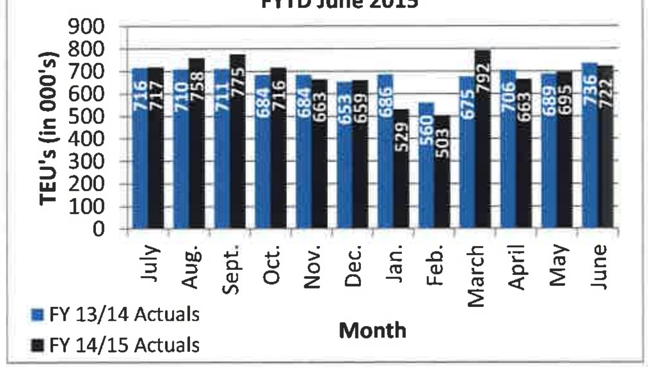
Monthly TEU's
FY 14/15 Budget versus Actual
FYTD June 2015



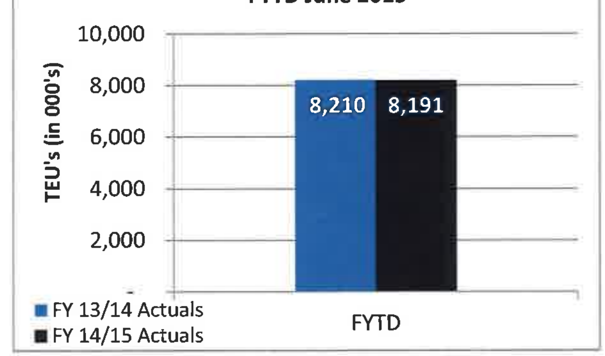
Fiscal Year to Date TEU's
FY 14/15 Budget versus Actual
FYTD June 2015

Year-to-Year Actuals Comparison
FY 13/14 Actuals vs. FY 14/15 Actuals

(in 000's)	TEU's			
Month	FY 13/14 Actuals	FY 14/15 Actuals	% Δ	Δ
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	695	0.8%	↑
June	736	722	-2.0%	↓
FYTD	8,210	8,191	-0.2%	↓
FY 13/14 Actuals	8,210			



Monthly TEU's
FY 13/14 Actual versus FY 14/15 Actual
FYTD June 2015



Fiscal Year to Date TEU's
FY 13/14 Actual versus FY 14/15 Actual
FYTD June 2015

$ in thousands	Fiscal Year Actual FY 2014/15 Fiscal YTD - June 2015 (Preliminary - Unaudited)	Fiscal Year Budget FY 2014/15 Fiscal YTD - June 2015	Actual-to-Budget Comparison $	Actual-to-Budget Comparison %	Notes ($ in millions)
Operating Revenues					
Shipping Services	364,899	370,414	(5,515)	(1.5%)	Slightly lower TEUs than budgeted, higher volumes at terminals with lower TEU rates, lower volumes at terminals with higher TEU rates than budgeted
Rentals	46,234	41,585	4,649	11.2%	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	32,243	4,941	27,302	552.6%	Higher permit fees (primarily BNSF/SCIG license) $11.6, higher utility reimbursements (primarily AMP) $11.6, higher refunds/reimbursements $5.1, higher parking fees $0.7 and higher movie permits/fees $0.1, partially offset by higher tenant reimbursements (net) <$2.0>
Clean Truck Program Revenues	3,520	1,459	2,061	141.3%	Higher concession application renewals than budgeted
Total Operating Revenues	**446,896**	**418,399**	**28,497**	**6.8%**	
Operating Expenses					
Gross Salaries & Benefits	117,854	142,114	(24,260)	(17.1%)	Primarily due to lower average filled positions (910 vs. 940 budgeted)
Pension Expense Adjustment	(23,504)	0	(23,504)		GASB 68-related pension adjustment which became effective for financial statement periods beginning after June 15, 2014.
Capitalization	(25,067)	(19,646)	(5,421)	27.6%	Higher indirect capitalization <$9.6>, partially offset by lower direct capitalization $4.2
Net Salaries & Benefits	69,284	122,468	(53,184)	(43.4%)	
Marketing & Public Relations	2,771	3,734	(963)	(25.8%)	Lower business promotional / trade representation <$0.3>, lower advertising <$0.3> and higher indirect capitalization <$0.3>
Travel	469	933	(464)	(49.7%)	
Outside Services	27,632	35,144	(7,512)	(21.4%)	Higher capitalization in Construction & Maintenance <$2.9>, lower environmental assessment expenses <$2.1>, higher indirect capitalization <$1.9>, lower IT support/software maintenance <$1.7>, lower City Attorney spending on expert witnesses <$0.5>, lower facility, equipment and design support spending <$0.4>, lower Mayoral Trade Mission spending <$0.3>, lower government affairs spending <$0.3>, delayed external audit spending <$0.2>, lower Port Police equipment maintenance spending <$0.2>, lower public relations spending on advertising and freeway clean-up <$0.2>, and lower spending in 8 divisions <$0.9>, partially offset by lower expense capitalization in divisions other than C&M $4.1
Materials & Supplies*	6,264	7,858	(1,595)	(20.3%)	Higher expense capitalization <$0.9> as well as lower Development Bureau <$0.3>, lower IT <$0.1> and lower Port Police <$0.1> spending
City Services	34,749	36,648	(1,899)	(5.2%)	Higher indirect overhead capitalization <$3.0>, partially offset by higher spending on Paving $1.0
Allocations to Capital - Overhead		(16,700)	16,700	(100.0%)	Represents overhead expenses which are ultimately capitalized
(1) Other Operating Expenses**	49,478	46,294	3,184	6.9%	Higher provision for bad debt $10.6, higher provisions for litigation/claims $0.8, higher provisions for workers' compensation $0.5, higher water/gas $0.5, partially offset by lower environmental remediation & environmental incentives <$3.9>, higher indirect overhead capitalization <$3.1>, lower equipment purchases <$0.8>, insurance premium recognition <$0.5>, lower property/equipment rental/license/misc. <$0.4>, lower permits/fees/taxes/assessments <$0.3>, lower electricity <$0.2>
Clean Truck Program Expenses	949	1,314	(365)	(27.8%)	
Total Operating Expenses	**191,595**	**237,693**	**(46,098)**	**(19.4%)**	
Income Before Depreciation	**255,301**	**180,706**	**74,594**	**41.3%**	
Provision For Depreciation	137,384	120,392	16,992	14.1%	
Income From Operations	**117,917**	**60,314**	**91,586**	**151.8%**	
(2) Non-Operating Revenue	13,210	8,172	5,039	61.7%	Primarily higher federal/state grant receipts $2.5, interest/investment income $2.2, federal/state pass-through revenues $0.6, and gain on asset sales $0.1, partially offset by lower non-operating settlements, rebates and misc. <$0.4>
(3) Non-Operating Expenses	(8,176)	(8,847)	672	(7.6%)	Lower interest expense <$4.2>, lower bond/commercial paper issuance costs <$2.4> and lower misc. expenses <$0.6>, partially offset by lower interest capitalization $3.6, greater loss on asset sales $1.4, higher capital projects cancelled or not completed $1.0 and higher federal/state pass-through expenses $0.6
Net Income	**122,951**	**59,638**	**63,313**	**106.2%**	

* 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 $20.1 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: $10.2 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) Primarily for: Electricity $16.4; Provision for Bad Debts $10.8; Container Incentives $10.5, Insurance $3.1; Environmental Incentives $2.7; Water & Gas $2.5; Workers' Compensation $2.1; Telephone $1.8; Litigation/Claims $1.6; Memberships/Subscriptions/Books $0.6; Taxes & Assessments $0.4; Indirect capitalization <$3.1>

(2) Primarily for: Interest/Investment Income $7.6; Federal/State Grant Receipts $4.0; Rebates/Late Charges/Discounts/Misc. $0.9; Pass-through Grant Receipts $0.6; Gain on Asset Sales $0.2

(3) Primarily for: Interest Expense $42.5; Capitalized Interest <$42.1>; Capital Projects Closed to Expense $3.5; Loss on Sale of Assets $1.4; Commercial Paper Issuance Costs $1.2; Bond Issuance Costs $1.1; Pass-through Grant Disbursements $0.6

The Port of Los Angeles - Harbor Department
FYTD June 30, 2015 and 2014

	$ in thousands	Current Fiscal Year FY 2014/15 Fiscal YTD - June 2015 (Preliminary - Unaudited)		Prior Fiscal Year FY 2013/14 Fiscal YTD - June 2014		Year-over-Year Change $	Year-over-Year Change %	Notes ($ in millions)
	Operating Revenues							
	Shipping Services		364,899		377,213	(12,314)	(3.3%)	Higher voumes at terminals with lower TEU rates, lower volumes at terminals with higher TEU rates <$13.9> and lower pilotage <$0.4>, partially offset by higher dockage $1.2 and space assignment $0.8
	Rentals		46,234		40,156	6,078	15.1%	Intermodal customer rate increase / minimum annual guarantee (MAG) payment $6.2, and other land rental receipts $0.9, slightly offset by lower rental receipts for buildings and warehouses <$1.0>
	Royalties, Fees and Other Revenues		32,243		6,463	25,780	398.9%	BNSF/SCIG facility annual license fee $10.9 (net), higher utility reimbursements mostly related to AMP $9.4, higher refunds/reimbursements $5.1 and higher parking fees $0.4
	Clean Truck Program Revenues		3,520		2,119	1,401	66.1%	Higher concession application fees with some renewals and higher day pass fees $1.9, slightly offset by lower clean truck fees <$0.5>
	Total Operating Revenues		**446,896**		**425,951**	**20,945**	**4.9%**	
	Operating Expenses							
	Gross Salaries & Benefits	117,854		130,252		(12,398)	(9.5%)	Primarily due to lower average filled positions (910 vs. 937 prior year) slightly offset by MOU salary increases
	Pension Expense Adjustment	(23,504)		0		(23,504)		GASB 68-related pension adjustment which became effective for financial statement periods beginning after June 15, 2014.
	Capitalization	(25,067)		(18,199)		(6,867)	37.7%	Higher indirect capitalization <$9.6>, partially offset by lower direct capitalization $2.7
	Net Salaries & Benefits		69,284		112,053	(42,769)	(38.2%)	
	Marketing & Public Relations		2,771		2,711	61	2.2%	Higher promotional and sponsorship spending for Public Relations $0.5, partially offset by lower foreign trade representation <$0.3> and higher indirect overhead capitalization <$0.1>
	Travel		469		548	(79)	(14.4%)	
	Outside Services		27,632		26,331	1,300	4.9%	Lower expense capitalization $1.7, higher environmental assessment services $1.1 and cruise terminal operation expenses $0.5, partially offset by lower hiring hall salaries <$0.5>, lower use of expert witnesses <$0.4>, lower Public Relations spending <$0.3>, lower Contracts and Purchasing spending <$0.2>, delayed external audit spending <$0.2>, lower executive services <$0.2>, and lower Port Pilot equipment maintenance <$0.1>
	Materials & Supplies		6,264		6,883	(620)	(9.0%)	
	City Services		34,749		33,633	1,116	3.3%	Higher spending on Paving $1.0, Fire $0.8 and Rec/Parks $0.5, partially offset by higher indirect overhead capitalization <$1.3>
(1)	Other Operating Expenses		49,478		22,094	27,384	123.9%	Higher provisions for bad debt $12.4, higher container incentives $10.2, higher electricity $7.7, higher provisions for litigation/claims $1.6, higher environmental incentives $0.9 and higher equipment rental/license/fees $0.4, partially offset by lower equipment purchases <$2.3>, higher indirect overhead capitalization <$2.1> and lower environmental remediation <$1.5>
	Clean Truck Program Expenses		949		1,100	(152)	(13.8%)	
	Total Operating Expenses		**191,595**		**205,352**	**(13,757)**	**(6.7%)**	
	Income Before Depreciation		**255,301**		**220,598**	**34,702**	**15.7%**	
	Provision For Depreciation		137,384		124,221	13,163	10.6%	
	Income From Operations		**117,917**		**96,377**	**47,865**	**49.7%**	
(2)	Non-Operating Revenue		13,210		20,959	(7,749)	(37.0%)	Lower pass-through grant receipts <$6.3> and settlements/rebates/misc. <$4.9>, partially offset by higher Federal/State grant receipts $2.7 and higher interest/investment income $0.8
(3)	Non-Operating Expenses		(8,176)		(43,070)	34,894	(81.0%)	Lower capital projects cancelled or not completed <$30.3> and pass-through grant disbursements <$6.3> as well as higher capitalization of interest <$7.7>, partially offset by higher interest expense $6.5, higher loss on asset sales/misc. $1.8 and higher bond issuance costs $1.1
	Net Income		**122,951**		**74,267**	**48,685**	**65.6%**	

Notes:

(1) Primarily for: Electricity $16.4; Provision for Bad Debts $10.8; Container Incentives $10.5, Insurance $3.1; Environmental Incentives $2.7; Water & Gas $2.5; Workers' Compensation $2.1; Telephone $1.8; Litigation/Claims $1.6; Memberships/Subscriptions/Books $0.6; Taxes & Assessments $0.4; Indirect capitalization <$3.1>

(2) Primarily for: Interest/Investment Income $7.6; Federal/State Grant Receipts $4.0; Rebates/Late Charges/Discounts/Misc. $0.9; Pass-through Grant Receipts $0.6; Gain on Asset Sales $0.2

(3) Primarily for: Interest Expense $42.5; Capitalized Interest <$42.1>; Capital Projects Closed to Expense $3.5; Loss on Sale of Assets $1.4; Commercial Paper Issuance Costs $1.2; Bond Issuance Costs $1.1; Pass-through Grant Disbursements $0.6