



## AUDIT COMMITTEE

Report to the  
Board of Harbor Commissioners

### “FOR INFORMATION ONLY”

**DATE: MAY 16, 2017**

**TO: BOARD OF HARBOR COMMISSIONERS**

**SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR  
FISCAL YEAR 2016/17 ENDED APRIL 30, 2017**

Financial performance results through April 2017, for the first ten 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 April, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 8.9% relative to April 2016, and April 2017 volumes represented the highest level for the month of April in the Port's 110-year history. In summary, performance results for the Harbor Department are as follows:

FYTD April 2017	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	7,679	↑ 8.4%	↑ 10.6%
Operating Revenues	\$ 430.0	↑ 14.0%	↑ 19.0%
Operating Expenses	\$ 166.6	↓ (16.0%)	↓ (0.9%)
Operating Income	\$ 263.4	↑ 47.3%	↑ 36.3%
Net Income	\$ 126.3	↑ 241.2%	↑ 92.7%

Due to the heavy cargo volumes processed from October through April, overall cargo volumes through ten months of FY 2016/17 have exceeded budget and the prior fiscal year-to-date period by 8.4% and 10.6%, respectively. Despite lower utility reimbursements and higher credits for tenant services, these higher cargo volumes as well as the receipts of large legal and insurance settlements and higher rental receipts led to a 14.0% increase in fiscal year-to-date Total Operating Revenues relative to budget and a 19.0% increase relative to the prior fiscal year-to-date period.

Although city services payments are on an upward trend, Total Operating Expenses were favorably impacted as lower average staffing levels, invoicing delays with respect to outside services, lower utility expenses as well as higher overhead capitalization

**SUBJECT: FINANCIAL PERFORMANCE RESULTS**

drove Total Operating Expenses 16.0% below budget. Relative to the prior fiscal year-to-date period, Total Operating Expenses decreased by 0.9% as higher city services payments, Memorandum of Understanding salary increases, higher overtime expenses, and higher outside services were offset by lower travel, lower materials and supplies expenses, and lower legal settlement expenses.

Operating margins for the fiscal year-to-date period were reported at 61.3% versus a budget of 47.4% and a prior year figure of 53.5%. 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 draws to a close.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended April 30, 2017 based on internal estimates reached \$85.7 million or about 58.7% of the total \$146.1 million CIP adopted budget. Harbor Department CIP spending is expected to fall below the total CIP adopted budget by fiscal year-end.



EUGENE D. SEROKA FOR  
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD April 2017
2. Actual-to-Budget Performance Report FYTD 2016/17 – April
3. Year-to-Year Performance Report FYTD April 30, 2017 and 2016

Author: J. Strafford

MB:JS:MM/Finance

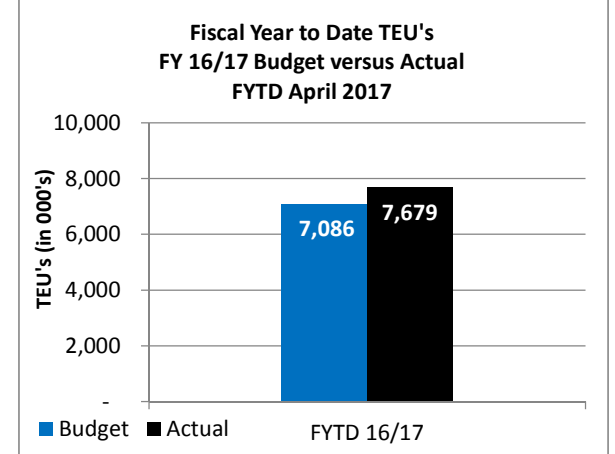
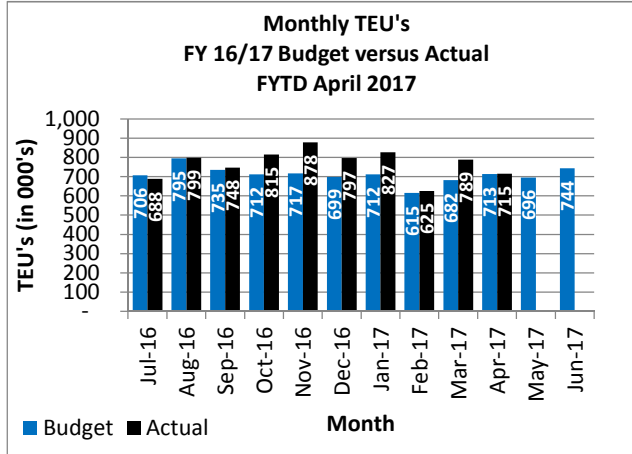
cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES  
TEU THROUGHPUT COMPARISON - FYTD APRIL 2017

TRANSMITTAL 1

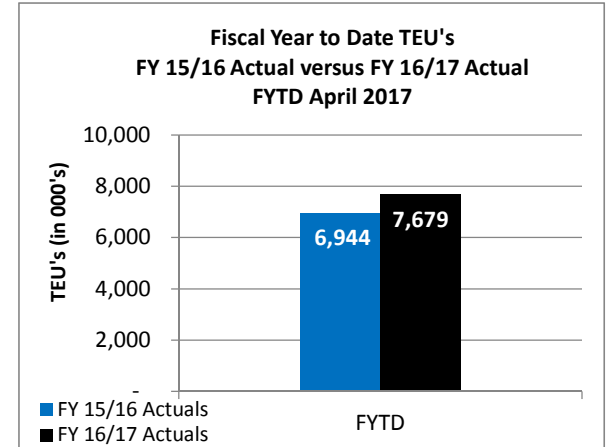
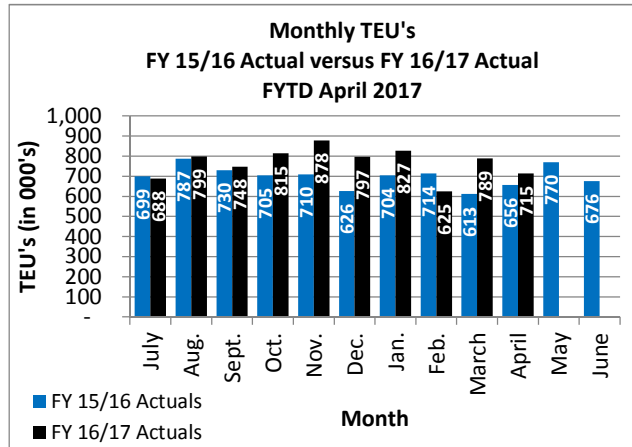
Budget versus Actuals Comparison  
FY 16/17 Budget vs. FY 16/17 Actuals

(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	878	22.4%	↑
Dec-16	699	797	14.0%	↑
Jan-17	712	827	16.1%	↑
Feb-17	615	625	1.7%	↑
Mar-17	682	789	15.6%	↑
Apr-17	713	715	0.2%	↑
May-17	696			
Jun-17	744			
FYTD 16/17	7,086	7,679	8.4%	↑
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	878	23.6%	↑
Dec.	626	797	27.2%	↑
Jan.	704	827	17.4%	↑
Feb.	714	625	-12.4%	↓
March	613	789	28.7%	↑
April	656	715	8.9%	↑
May	770			
June	676			
FYTD	6,944	7,679	10.6%	↑
FY 15/16 Actuals	8,391			



\$ in thousands	Fiscal Year Actual	Fiscal Year Budget	Actual-to-Budget Comparison		Notes (\$ in millions)
	FY 2016/17	FY 2016/17	\$	%	
	Fiscal YTD - April 2017	Fiscal YTD - April 2017			
<b>Operating Revenues</b>					
Shipping Services	335,147	322,814	12,333	3.8%	Higher than budgeted wharfage \$14.7 (due to higher TEU volume than budgeted) and higher pilotage \$0.1, partially offset by lower dockage <\$1.8> and lower lay day fees <\$0.7>
Rentals	44,473	36,447	8,026	22.0%	Higher rent receipts than budgeted due to unbudgeted rent from Ports O' Call and completed resets
Royalties, Fees and Other Revenues	48,440	16,079	32,361	201.3%	One-time legal and Insurance settlements \$36.2, Harbor Maintenance Tax receipt \$3.0, higher railroad lease accruals \$0.3, higher parking fees \$0.1, and higher other misc. fee & royalties \$0.3, partially offset by lower utility reimbursements <\$3.5>, higher credits for tenant services <\$2.2>, and lower misc. revenues <\$1.9>
Clean Truck Program Revenues	1,958	1,788	170	9.5%	Higher CTP-related fees than budgeted, primarily due to higher throughput realized
<b>Total Operating Revenues</b>	<b>430,018</b>	<b>377,129</b>	<b>52,890</b>	<b>14.0%</b>	
<b>Operating Expenses</b>					
Gross Salaries & Benefits	110,429	123,532	(13,103)	(10.6%)	Lower average filled positions, partially offset by higher overtime and miscellaneous employee benefits
Capitalization	(18,616)	(12,071)	(6,545)	54.2%	Overhead (OH) allocations <\$7.3>, partially offset by lower direct capitalization \$0.8
Net Salaries & Benefits	91,813	111,461	(19,648)	(17.6%)	
Marketing & Public Relations	2,093	2,926	(833)	(28.5%)	Lower promotional/sponsorships <\$0.4>, OH capitalization <\$0.2> and lower advertising/representation <\$0.2>
Travel	417	800	(383)	(47.9%)	
Outside Services	16,519	26,410	(9,890)	(37.4%)	Outside legal counsel invoicing delays <\$2.7>, environmental assessment invoicing delays <\$1.9>, lower shed demolition costs and deferred maintenance invoicing delays <\$1.4>, lower misc. consulting services <\$1.3>, OH allocations <\$1.0>, software & IT consulting invoicing delays <\$0.7>, lower cruise operator costs <\$0.3>, contract compliance invoicing delays <\$0.2>, lower federal/state advocacy spending <\$0.2>, and lower external auditor spending <\$0.2>
Materials & Supplies	3,863	5,909	(2,046)	(34.6%)	C&M invoicing delays <\$1.1>, overhead allocations <\$0.7>, and Engineering & Const. invoicing delays <\$0.2>
City Services	34,116	35,314	(1,198)	(3.4%)	Overhead allocations <\$2.6>, Rec and Parks invoicing delay <\$0.3>, and Public Works invoicing delay <\$0.1>, partially offset by higher Fire \$1.4 and City Attorney services \$0.4
(1) Allocations to Capital - Overhead	(0)	(11,414)	11,414	(100.0%)	Higher aggregate overhead allocations \$1.7
(2) Other Operating Expenses	17,210	26,147	(8,937)	(34.2%)	Lower electricity <\$3.8>, workers' compensation payment delay <\$1.5>, OH allocations <\$1.3>, lower water & gas <\$0.8>, lower bad debt provision, taxes, & fees <\$0.5>, timing for Env. Incentives <\$0.3>, lower telephone expenses <\$0.3>, lower insurance expense <\$0.3>, and litigation/claims payment delays <\$0.2>
Clean Truck Program Expenses	576	787	(210)	(26.7%)	
<b>Total Operating Expenses</b>	<b>166,608</b>	<b>198,338</b>	<b>(31,730)</b>	<b>(16.0%)</b>	
<b>Income Before Depreciation</b>	<b>263,410</b>	<b>178,791</b>	<b>84,620</b>	<b>47.3%</b>	
Provision For Depreciation	142,564	143,337	(774)	(0.5%)	
<b>Income From Operations</b>	<b>120,847</b>	<b>35,453</b>	<b>85,393</b>	<b>240.9%</b>	
(3) Non-Operating Revenue	8,171	12,817	(4,647)	(36.3%)	Lower pass-through grant receipts <\$5.2>, lower gains on asset sales <\$1.1>, lower penalties <\$0.2>, lower Joint Powers Authority Income <\$0.1>, and lower federal/state operating grants <\$0.1>, partially offset by higher interest income \$1.5, higher other non-op rev., \$0.4, and higher reimbursable EIR expenses \$0.2
(4) Non-Operating Expenses	(2,731)	(11,254)	8,523	(75.7%)	Lower interest expense \$8.1, lower pass-through grant disbursements \$5.2, timing of capital projects closed to expense \$1.3, lower losses on asset sales \$0.8, lower misc. non-operating expenses \$0.5, and lower bond/commercial paper administration costs \$0.3, partially offset by lower interest capitalization <\$7.7>
<b>Net Income</b>	<b>126,286</b>	<b>37,016</b>	<b>89,269</b>	<b>241.2%</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 \$13.1 million relative to a budget of \$11.4 million.
- (2) Primarily for: Electricity \$9.9; Insurance \$2.5; Environmental Incentives \$1.8; Water & Gas \$1.4; Telephone \$1.2; Equipment Rental/Permits/License/Fees \$0.8; Memberships/Subscriptions/Books \$0.7; Taxes & Assessments \$0.2; Overhead Capitalization (\$1.3)
- (3) Primarily for: Interest Income \$5.0; Joint Powers Authority Income \$1.6; Federal/State Operating Grants \$0.9; Rebates/Late Charges/Discounts/Misc. \$0.5; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$30.0; Capitalized Interest <\$29.6>; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8, Commercial Paper Costs \$0.5

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - April 2017	Fiscal YTD - April 2016	\$	%	
<b>Operating Revenues</b>					
Shipping Services	335,147	302,772	32,375	10.7%	Higher overall wharfage \$30.8, higher pilotage \$1.9 and higher space assignment \$1.7, partially offset by lower dockage <\$1.5>, and lower lay day fees <\$0.5>
Rentals	44,473	40,816	3,657	9.0%	Rental rate increases \$4.3, assignment of subleases at Ports O' Call \$0.8, new permits issued \$0.7, and permit assignment from Exxon Mobil to PBF Energy \$0.2 net increase, partially offset by one-time Ardagh payment in the prior fiscal year <\$1.4>, termination of permits for Port's O'Call Restaurant <\$0.4> and Catalina Freight Line <\$0.2>, and lower rental rate at Kinder Morgan Liquids Terminal <\$0.3>
Royalties, Fees and Other Revenues	48,440	16,082	32,358	201.2%	Higher one-time refunds & reimbursements \$29.8, Harbor Maintenance Tax receipt \$3.0, higher railroad lease accruals \$0.2, and higher miscellaneous permits & fees \$0.2, partially offset by lower utility reimbursements <\$0.6> and lower parking fees <\$0.3>
Clean Truck Program Revenues	1,958	1,792	166	9.3%	Higher annual truck fees \$0.3, offset by lower concession fees <\$0.1>
<b>Total Operating Revenues</b>	<b>430,018</b>	<b>361,462</b>	<b>68,556</b>	<b>19.0%</b>	
<b>Operating Expenses</b>					
Gross Salaries & Benefits	110,429	111,279	(850)	(0.8%)	MOU salary increases and higher overtime, offset by lower average filled positions
Capitalization	(18,616)	(18,447)	(169)	0.9%	
Net Salaries & Benefits	91,813	92,832	(1,019)	(1.1%)	
Marketing & Public Relations	2,093	2,125	(32)	(1.5%)	
Travel	417	732	(314)	(43.0%)	
Outside Services	16,519	17,071	(551)	(3.2%)	Higher C&M building services \$1.4, higher security camera spending \$0.7, lower capitalization of C&M services \$0.5, and lower overhead capitalization \$0.3, partially offset by lower I.T. software and consulting costs <\$0.7>, lower hiring hall spending <\$0.7>, lower outside legal counsel costs <\$0.5>, lower environmental assessment spending <\$0.4>, lower red car spending <\$0.4>, lower open facility maintenance <\$0.4>, lower external auditor spending <\$0.1>, timing of Bond Assistance Program payment <\$0.1>, lower cruise terminal operator costs <\$0.1>, and lower cargo forecast costs <\$0.1>
Materials & Supplies	3,863	4,976	(1,113)	(22.4%)	
City Services	34,116	31,955	2,162	6.8%	Higher Fire services \$2.6 and higher Personnel services \$0.2, partially offset by delayed Public Works, Controller, ITA, Rec & Park, and City Attorney invoicing <\$0.6>
Allocations to Capital	0	(1,622)	1,622		
(1) Other Operating Expenses	17,210	19,529	(2,319)	(11.9%)	Lower litigation/claims expenses <\$0.8>, lower environmental incentives <\$0.6>, lower electricity <\$0.5> higher overhead allocations <\$0.3>, and lower insurance <\$0.1>
Clean Truck Program Expenses	576	548	28	5.2%	
<b>Total Operating Expenses</b>	<b>166,608</b>	<b>168,144</b>	<b>(1,536)</b>	<b>(0.9%)</b>	
<b>Income Before Depreciation</b>	<b>263,410</b>	<b>193,318</b>	<b>70,092</b>	<b>36.3%</b>	
Provision For Depreciation	142,564	133,792	8,772	6.6%	
<b>Income From Operations</b>	<b>120,847</b>	<b>59,526</b>	<b>61,321</b>	<b>103.0%</b>	
(2) Non-Operating Revenue	8,171	9,135	(964)	(10.6%)	Lower gains on asset sales <\$1.7>, lower ICTF/JPA payments <\$0.4>, and lower pass-through grant receipts <\$0.2>, partially offset by higher interest income \$0.5, higher federal grants \$0.5, higher reimbursable EIR expenses \$0.2, and higher delinquency penalty receipts \$0.1
(3) Non-Operating Expenses	(2,731)	(3,137)	406	(12.9%)	Lower interest expense \$4.5, 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 <\$4.5> and higher bond administration costs <\$0.6>
<b>Net Income</b>	<b>126,286</b>	<b>65,523</b>	<b>60,763</b>	<b>92.7%</b>	

**Notes:**

- (1) Primarily for: Electricity \$9.4; Insurance \$2.2; Environmental Incentives \$1.8; Water & Gas \$1.3; Telephone \$1.1; Equipment Rental/Permits/License/Fees \$0.8; Memberships/Subscriptions/Books \$0.6; Taxes & Assessments \$0.2; Overhead Capitalization (\$1.2)  
(2) Primarily for: Electricity \$9.9; Insurance \$2.5; Environmental Incentives \$1.8; Water & Gas \$1.4; Telephone \$1.2; Equipment Rental/Permits/License/Fees \$0.8; Memberships/Subscriptions/Books \$0.7; Taxes & Assessments \$0.2; Overhead Capitalization (\$1.3)  
(3) Primarily for: Interest Expense \$30.0; Capitalized Interest <\$29.6>; Bond Administration Costs \$0.9; Capital Projects Closed to Expense \$0.8, Commercial Paper Costs \$0.5