

DATE: MAY 26, 2016

FROM: FINANCIAL MANAGEMENT

SUBJECT: RESOLUTION NO. _____ - ADOPTION OF PROPOSED FISCAL YEAR 2016/17 ANNUAL BUDGET

SUMMARY:

Staff requests approval of the Fiscal Year (FY) 2016/17 Proposed Annual Budget (Proposed Budget) of \$1,169,047,636. The Proposed Budget is aligned with the Updated 2012 – 2017 Strategic Plan (Strategic Plan Update) and will enable the City of Los Angeles Harbor Department (Harbor Department) to meet its commitments in the upcoming fiscal year. Adoption of the Proposed Budget will position the Port of Los Angeles (Port) to deliver value to its customers by providing superior infrastructure and promoting efficient operations as well as forging strong, lasting relationships with its stakeholders.

The Proposed Budget includes sources and appropriations of funds as follows:

TABLE 1: SOURCES AND APPROPRIATIONS OF FUNDS

Sources:		Appropriations:	
Operating Receipts	\$ 452,808,652	Operating Expenses	\$ 249,041,764
Non-Operating Receipts	16,830,926	Non-Operating Expenses	14,000,857
Grant Receipts (Capital)	31,936,754	Capital Budget	210,261,708
Debt Issuance Proceeds	108,985,000	Debt Repayments	160,940,000
		Accrual Adjustments	12,503,307
Available Cash:		Projected Year-End Balances:	
Unrestricted Funds	432,084,652	Unappropriated Balance	425,000,000
Restricted Funds	126,401,652	Restricted Cash	97,300,000
Total Sources	\$1,169,047,636	Total Appropriations	\$1,169,047,636

The Proposed Budget represents the ongoing commitment of Harbor Department staff to operate and maintain the Port in a fiscally sound manner according to the guidelines, policies and direction set forth by the Board of Harbor Commissioners (Board). Furthermore, the Proposed Budget complies with the Board-approved Financial Policies that relate to debt rating, debt service coverage, and reserve levels.

RECOMMENDATIONS:

It is recommended that the Board of Harbor Commissioners:

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;

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2. Adopt the Fiscal Year 2016/17 Proposed Annual Budget for the City of Los Angeles Harbor Department and appropriate funds in accordance herewith;
3. Authorize the Executive Director, or his designee, to make any technical adjustments consistent with the Board action(s) to the Fiscal Year 2016/17 Proposed Annual Budget documents in the implementation of this budget; and
4. Adopt Resolution No. _____.

DISCUSSION:**Financial Performance Goals**

Projected financial performance for FY 2016/17 relative to the current year is summarized below:

TABLE 2: KEY BUDGET COMPONENTS

	FY 2015/16 Adopted Budget	FY 2015/16 Estimates	FY 2016/17 Proposed Budget	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Cargo Volumes (TEUs)	8.37M	8.48M	8.53M	1.9%	0.5%
Operating Revenues	\$428.6M	\$435.3M	\$452.8M	5.7%	4.0%
Operating Expenses	240.3M*	233.1M	249.0M	3.6%	6.8%
Income before Depreciation	188.3M	202.2M	203.8M	8.2%	0.8%
Net Income	58.9M	39.2M	34.6M	(41.3%)	(11.8%)
Capital Improvement Program	192.0M*	158.9M	146.1M	(23.9%)	(8.1%)

* Includes \$6.8 million in Capital Budget transfers to the Operating Expenses Budget, approved by the Board in FY 2015/16.

The Proposed Budget enables the Harbor Department to meet key financial metrics including those set forth in its Financial Policies and Strategic Plan Update.

TABLE 3: KEY FINANCIAL METRICS

Key Financial Metric	Minimum	Proposed FY 2016/17
Debt Rating	AA	AA
Debt Service Coverage	2.0x	2.3x
Operating Margin	45%	45%

Consistent with the four primary objectives outlined within the Strategic Plan Update, the Proposed Budget facilitates: (i) development of a world-class infrastructure that promotes growth; (ii) implementation of an efficient, secure and environmentally sustainable supply chain; (iii) improved financial performance of Port assets; and (iv) strengthened relationships with stakeholders. Refer to the narrative provided within the FY 2016/17 Budget Discussion (Transmittal 1) for further details as to how the Proposed Budget supports the Strategic Plan Update.

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Budget Development Process

Staff finalized budget priorities and targets in late October 2015, and divisions submitted their proposed budgets in December 2015. After holding internal discussions with senior management, Harbor Department staff presented the Proposed Budget to the Board in April 2016.

Following the presentation of the Proposed Budget, FY 2015/16 Estimates (Estimates) for Capital Grant Receipts were revisited. Based upon the current run-rate of grant receipts, approximately \$15 million in grants receipts which had been initially expected to be received in FY 2015/16 are now more likely to be received in the subsequent fiscal year. Therefore, FY 2015/16 Estimated Capital Grant Receipts were reduced by approximately \$15 million while FY 2016/17 Proposed Capital Grant Receipts were increased by approximately \$15 million.

The Proposed Budget was then submitted to the City of Los Angeles (City) City Administrative Officer (CAO) for its review and inclusion in the Mayor's budget submission to the Council. Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2016 through June 30, 2017.

Sources of Funds for Proposed Budget

Sources of funds for the Proposed Budget are expected to increase relative to both the FY 2015/16 Adopted Budget (Adopted Budget) and Estimates due to higher debt issuance proceeds as well as higher expected operating receipts from anticipated growth in Shipping Services revenues derived from expected growth in cargo volumes.

**TABLE 4: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS
TO THE FY 2015/16 ADOPTED BUDGET AND ESTIMATES**

(\$ in Thousands)	Adopted Budget FY 2015/16	Estimates FY 2015/16	Proposed Budget FY 2016/17	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Operating Receipts	\$ 428,588	\$ 435,314	\$ 452,809	5.7%	4.0%
Non-Operating Receipts	8,633	11,646	16,831	95.0%	44.5%
Grant Receipts (Capital)	49,273	44,730	31,937	(35.2%)	(28.6%)
Proceeds from Debt Issuance	-	45,260	108,985	n/a	140.8%
Unrestricted Funds	401,846	441,834	432,084	7.5%	(2.2%)
Restricted Funds	112,746	132,224	126,402	12.1%	(4.4%)
Total Sources	\$ 1,001,086	\$ 1,111,008	\$ 1,169,048	16.8%	5.2%

Operating Receipts

Comprising 38.7% of funding sources within the Proposed Budget, operating receipts represent one of the principal mechanisms used by the Harbor Department to fund its day-to-day operations. Refer to the table below for a summary of the key components of proposed operating receipts, as well as a comparison to the Adopted Budget and Estimates.

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TABLE 5: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS
TO THE FY 2015/16 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2015/16	Estimates FY 2015/16	Proposed Budget FY 2016/17	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Shipping Services	\$ 364,574	\$ 371,056	\$ 382,617	4.9%	3.1%
Rentals	36,001	40,174	41,706	15.8%	3.8%
Royalties and Fees	9,307	10,220	10,326	11.0%	1.0%
Clean Truck Fees	1,976	2,242	2,264	14.6%	1.0%
Other Operating	16,730	11,622	15,896	(5.0%)	36.8%
Total Operating Receipts	\$ 428,588	\$ 435,314	\$ 452,809	5.7%	4.0%
Cargo Volumes (TEUs in thousands)	8,365	8,480	8,525	1.9%	0.5%

During FY 2015/16, cargo volumes have increased relative to both budget and prior year. This increase in cargo volumes has largely resulted from the easing of congestion throughout the Port complex following the resolution of labor-related issues in early 2015, the implementation of initiatives such as the chassis “pool of pools” and the “Peel-Off” Program as well as the Port’s continued involvement in supply chain optimization efforts at both the domestic and international levels. Although shipping industry consolidation, the reorganization of shipper alliances and the cascading of larger ships onto the Trans-Pacific trade lane could each pose risks to future cargo volume growth at the Port, the continued implementation of initiatives targeting improved terminal velocity are expected to beneficially impact organic cargo volume growth through the Port complex. Looking forward to FY 2016/17, cargo volumes are expected to grow by 1.9% relative to the FY 2015/16 Adopted Budget and increase by 0.5% relative to FY 2015/16 Estimates.

Operating Receipts will continue to be driven by cargo-related activities as Shipping Services Revenues are anticipated to comprise approximately 85% of \$452.8 million in projected total Operating Receipts. The increase in total Operating Receipts as compared to the FY 2015/16 Adopted Budget primarily results from anticipated growth in Shipping Services revenues derived from expected growth in cargo volumes as well as higher rental revenues. Shipping Services revenue growth is expected to account for much of the \$17.5 million increase in total Operating Revenues relative to FY 2015/16 Estimates, while the remainder of this dollar increase is forecasted to be driven by increased reimbursements for Alternative Maritime Power (AMP™) usage and environmental document preparation, as well as higher pilotage revenues and increased space assignment charges.

Non-Operating Receipts

Proposed non-operating receipts include \$10.3 million in grants and fees, \$6.1 million in investment/interest income, and \$0.4 million in other non-operating revenues. Proposed non-operating receipts are anticipated to increase relative to both the Adopted Budget and FY 2015/16 Estimates due to higher pass-through grant receipts.

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Anticipated to comprise \$31.9 million of the Proposed Budget, capital grant receipts are expected to decline by \$17.3 million relative to the Adopted Budget as certain grant programs, such as the \$19.3 million South Wilmington Grade Separation – Proposition C Program, will conclude in FY 2015/16.

Available Cash-on-Hand

The Proposed Budget includes unrestricted funds and restricted funds which comprise 37.0% and 10.8% of the total budget, respectively. Restricted funds pertain to certain cash holdings and investments that have limitations or constraints on how these funds may be used pursuant to commitments, bond indenture requirements, agreements, or legislation. The Proposed Budget includes restricted funds totaling \$126.4 million for purposes such as debt service reserves, mitigation projects related to the China Shipping Mitigation Fund and customer security deposits, among others.

Conversely, unrestricted funds are not dedicated or limited to any one particular use so long as provisions of the Tidelands Trust are maintained. The Port has made unrestricted funds available within the Unappropriated Balance in order to meet needs that were unanticipated when the budget was being developed or that were insufficiently defined to allow for a more specific appropriation. In FY 2016/17, the Unappropriated Balance may be used, pending Board approval of each request, to fund unbudgeted expenses which may arise due to unforeseen or extraordinary events.

Additionally, unrestricted funds provide sufficient liquidity to support one of the Port's key financial metrics which is to maintain strong credit ratings. The Proposed Budget includes \$432.1 million in unrestricted cash which, based upon proposed operating expenses of \$249.0 million, would be sufficient to meet one of the criteria necessary to maintain the Port's current "AA" debt rating.

Proposed Budget Appropriations

Proposed Budget Appropriations are expected to increase relative to the FY 2015/16 Adopted Budget as well as FY 2015/16 Estimates due primarily to higher FY 2016/17 debt repayments as the Department plans to refinance certain redeemable debt at lower market interest rates. Approximately \$109.0 million of proposed debt repayments and accruals relate to this anticipated refinancing transaction.

**TABLE 6: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS
TO THE FY 2015/16 ADOPTED BUDGET AND ESTIMATES**

(\$ in Thousands)	Adopted Budget FY 2015/16	Estimates FY 2015/16	Proposed Budget FY 2016/17	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Operating Expenses	\$ 240,301	\$ 233,097	\$ 249,042	3.6%	6.8%
Capital Budget	256,418	223,041	210,262	(18.0%)	(5.7%)
Non-Operating Expenses	7,886	7,342	14,000	77.5%	90.7%
Debt Repayments and Accruals	44,981	89,041	173,443	285.6%	94.8%
Unappropriated Balance	354,000	432,085	425,000	20.1%	(1.6%)
Restricted Cash	97,500	126,402	97,300	(0.2%)	(23.0%)
Total Appropriations	\$ 1,001,086	\$ 1,111,008	\$ 1,169,048	16.8%	5.2%

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Operating Expenses

The FY 2016/17 Proposed Budget includes total Operating Expenses of \$249.0 million which represent a 3.6% increase relative to the FY 2015/16 Adopted Budget and a 6.8% increase relative to FY 2015/16 Estimates. The increases in total Operating Expenses relative to both the FY 2015/16 Adopted Budget and FY 2015/16 Estimates are expected to be driven mostly by increases in Salaries & Benefits and a reduction in capitalized expenditures.

TABLE 7: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES TO THE FY 2015/16 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2015/16	Estimates FY 2015/16	Proposed Budget FY 2016/17	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Salaries and Benefits	\$ 127,450	\$ 119,241	\$ 133,832	5.0%	12.2%
Marketing and Public Relations	3,302	3,238	3,269	(1.0%)	1.0%
Travel	1,046	989	916	(12.4%)	(7.4%)
Outside Services	38,745	38,343	36,118	(6.8%)	(5.8%)
Materials and Supplies	7,550	7,465	7,266	(3.8%)	(2.7%)
City Services	41,793	41,782	42,445	1.6%	1.6%
Allocations to Capital	(17,912)	(16,313)	(13,697)	(23.5%)	(16.0%)
Other Operating Expenses	38,327	38,352	38,893	1.5%	1.4%
Total Operating Expenses	\$ 240,301	\$ 233,097	\$ 249,042	3.6%	6.8%

Salaries and Benefits of \$133.8 million (net of \$14.5 million in capitalization) have been included within the Proposed Budget in order to support 999 authorized positions. Based upon historical information, 6.8% of Harbor Department positions are projected to be vacant at any given point in FY 2016/17. Therefore, although 999 positions are authorized within the Proposed Budget, the \$133.8 million Salaries and Benefits budget represents funding for an average of 930 filled positions which support 27 Department-wide divisions, with Construction and Maintenance and Port Police comprising the largest Salaries and Benefits budgets among the 27 divisions.

TABLE 8: PROPOSED SALARIES AND BENEFITS (BEFORE CAPITALIZATION, \$148.3 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2015/16	Proposed Salaries & Benefits as a % of Total
Construction and Maintenance	284	\$ 32,528	21.9%
Port Police	231	32,234	21.7%
Engineering	92	15,697	10.6%
Construction	69	12,039	8.1%
Port Pilots	30	9,845	6.6%
Cargo Marketing, Planning, Real Estate, Wharfingers	68	9,683	6.5%
Finance	58	8,441	5.7%
Information Technology	45	7,879	5.3%
Human Resources, Commission, Contracts and Purchasing	44	6,661	4.5%
External Relations Divisions	32	4,806	3.2%
Environmental Management	28	4,443	3.0%
Executive	14	3,371	2.3%
Goods Movement	4	691	0.5%
Total	999	\$ 148,318	100.0%

Relative to the FY 2015/16 Adopted Budget, Proposed Salaries and Benefits are projected to increase by \$6.4 million due to:

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- + \$3.0 million in lower allocations to capital due to reduced CIP spending;
- + \$2.6 million in MOU mandated increases to salaries, salary step increases, and position upgrades; and
- + \$1.6 million in higher pension and health care contributions; partially offset by
- – \$0.6 million in lower overtime; and
- – \$0.2 million in lower miscellaneous employee benefits.

Marketing and Public Relations expenses of \$3.3 million include Port-wide marketing activities such as customer and community outreach and sponsorships. Proposed expenses in this category are approximately flat relative to the Adopted Budget and Estimates as increases in organization and event sponsorships were mostly offset by decreased advertising spending.

Travel expenses are primarily allocated towards marketing efforts to retain and grow business and promote employee development. Of the \$0.9 million in proposed travel expenses, \$334 thousand or 36.4% is budgeted in the Cargo Marketing division and \$178 thousand or 19.4% in the Executive Office for marketing, trade development and retention, with the remainder budgeted in various divisions for representation, legislative advocacy, training and other business purposes. The Proposed travel budget represents a 12.4% decrease relative to the Adopted Budget.

Outside Services of \$36.1 million are \$2.6 million lower relative to the Adopted Budget as \$1.9 million in lower outside counsel costs, \$0.9 million in lower information technology systems consulting/maintenance and \$0.9 million in lower red car operating costs are only partially offset by \$1.1 million in higher maintenance dredging as well as building, wharf, grounds and equipment maintenance costs.

Among the larger components of Proposed Outside Services are \$10.1 million or 28.1% dedicated to environmental and remediation services, \$7.5 million or 20.8% for maintenance services (including building land, wharves, dredging and underwater diving), and \$5.5 million or 15.1% to information technology (including software and hardware maintenance), among others, as illustrated below. Approximately \$1.9 million in grant reimbursements are expected to be applied against \$2.5 million in Port security camera maintenance service costs (which would result in \$0.6 million of net expense).

TABLE 9: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2016/17	Proposed as a % of total
Environmental Remediation & Site Restoration	\$ 10,136	28.1%
Maintenance Dredging, Building, Wharf, Grounds and Equipment Maintenance	7,530	20.8%
IT Systems Consulting and Hardware / Software Maintenance	5,471	15.1%
Security Camera Maintenance & Repair	2,500	6.9%
Cruise Terminal Operations	2,354	6.5%
Outside Counsel	2,125	5.9%
Hiring Hall Salaries and Benefits	2,015	5.6%
Other	3,988	11.0%
Total Outside Services	\$ 36,118	100.0%

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Materials and Supplies spending of \$7.3 million represents a \$300 thousand decrease compared to the Adopted Budget and a \$200 thousand decrease compared to Estimates due to lower spending on office equipment and supplies as well as lower spending on fuel.

City Services of \$42.4 million are for services rendered by other City departments for Port operations. The primary drivers of this component include \$24.4 million for Fire Department services, \$9.1 million for recreational facilities operated by the Recreation and Parks Department (i.e., Cabrillo Marine Aquarium, parks, museums), and \$5.2 million for City Attorney services. Proposed expenses are 1.6% higher compared to the Adopted Budget and Estimates due to mandated MOU increases for Salaries and Benefits for city employees as well as increases in the City's overhead rates.

Overhead Allocations to Capital are indirect expenses that support the global CIP. Overhead allocations to capital are expected to decrease relative to the Adopted Budget and Estimates due to an anticipated decrease in capital spending.

Other Operating Expenses are summarized as follows:

TABLE 10: COMPARISON OF PROPOSED BUDGET OTHER OPERATING EXPENSES TO THE FY 2015/16 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2015/16	Estimates FY 2015/16	Proposed Budget FY 2016/17	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Utilities	\$ 20,520	\$ 16,397	\$ 19,058	(7.1%)	16.2%
Provisions for Bad Debt	2,017	6,940	6,549	224.7%	(5.6%)
Environmental Initiatives	4,094	4,087	3,694	(9.8%)	(9.6%)
Insurance	3,567	3,093	3,262	(8.6%)	5.5%
Litigation/Workers' Comp Claims	3,324	2,952	2,105	(36.7%)	(28.7%)
Telephone	1,810	1,841	1,815	0.3%	(1.4%)
Other Operating Expenses	2,995	3,042	2,410	(19.5%)	(20.8%)
Total Other Operating Expenses	\$ 38,327	\$ 38,352	\$ 38,893	1.5%	1.4%

The \$19.1 million appropriation for Utilities represents 49.0% of total other operating expenses within the Proposed Budget. Consisting primarily of \$16.5 million for electricity expenses, proposed utilities spending is budgeted to increase relative to FY 2015/16 Estimates as a greater proportion of container, cruise and reefer vessels are expected to utilize shore power versus auxiliary diesel engines while at berth in compliance with California Air Resources Board regulations. The Proposed Budget for electricity consists of \$11.9 million in AMPTM-related electricity expenses, approximately 98% of which are reimbursed by customers.

Relative to the current fiscal year budget, the overall increase in proposed provisions for bad debt is primarily driven by the inclusion of a reserve against FY 2016/17 proposed license fees related to the Southern California International Gateway facility.

The \$3.7 million appropriation for environmental initiatives includes \$1.6 million in incentive payouts related to the Vessel Speed Reduction Program, \$0.9 million for administrative costs related to the Clean Truck Program, \$0.8 million for incentive

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payouts related to the Technology Advancement Program, \$0.3 million for administrative costs associated with the Environmental Shipping Index, and \$0.1 million for incentive payouts related to the Marina Engine Exchange Program.

Capital Budget

The proposed capital budget of \$210.3 million is projected to be lower than the Adopted Budget and Estimates primarily due to less CIP spending on terminal and transportation-related projects, summarized as follows:

TABLE 11: COMPARISON OF PROPOSED CAPITAL BUDGET
TO THE FY 2015/16 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2015/16	Estimates FY 2015/16	Proposed Budget FY 2016/17	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Capital Improvement Program:					
Terminal Improvements	\$ 118,594	\$ 108,670	\$ 87,638	(26.1%)	(19.4%)
Transportation Projects	43,293	37,143	16,176	(62.6%)	(56.5%)
Security Projects	1,291	464	1,068	(17.3%)	129.9%
Public Access / Env. Enhancements	7,784	6,604	16,841	116.4%	155.0%
Maritime Services	21,058	6,015	24,368	15.7%	305.1%
Capital Improvement Program, total	192,020	158,896	146,091	(23.9%)	(8.1%)
Capitalized Expenditures	60,113	59,905	58,575	(2.6%)	(2.2%)
Equipment Purchases	4,285	4,240	5,596	30.6%	32.0%
Total Capital Budget	\$ 256,418	\$ 223,041	\$ 210,262	(18.0%)	(5.7%)

Capital Improvement Program - The \$146.1 million Proposed CIP is lower relative to the Adopted Budget and Estimates as significant terminal efforts such as construction of the Trapac terminal buildings, Trapac main gate, and the Trapac intermodal container transfer facility were completed in FY 2015/16. In addition, most of the overall project spending related to several transportation initiatives was incurred by the end of FY 2015/16. Those transportation projects include: the C-Street/Interstate-110 ramp improvements, John S. Gibson Intersection/Northbound Interstate-110 ramp access improvements, Interstate-110/State Route 47 connector improvements, and the South Wilmington Grade Separation.

The Proposed CIP represents a significant commitment to Terminal Improvements, with 60.0% of the Proposed CIP Budget being dedicated to this category. Proposed funds for Terminal Improvements include \$33.5 million for the Trapac Container Terminal program, which when completed will facilitate the Port's first automated terminal operations. Other key terminal projects include improvements at Yusen Terminals, Inc. (YTI), the World Cruise Center, liquid bulk terminals, Everport Terminal Services (Evergreen) and West Basin Container Terminal (Yang Ming, China Shipping).

Transportation projects (road and rail improvements) are budgeted at \$16.2 million or 11.1% of the Proposed CIP Budget and include multiple projects to improve connections to the I-110 freeway. Overall, the Port's Transportation Improvement Program will allow for safer and more efficient port operations. \$16.8 million is budgeted in the CIP for Public Access/Environmental Enhancements including \$7.8 million for projects associated with the Ports O' Call development, and \$1.6 million for

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improvements on the Wilmington Waterfront. Other Proposed CIP components include the unallocated CIP fund, IT Security improvements, and other projects to upgrade miscellaneous facilities throughout the Port. Transmittals 1 and 2 contain a complete listing of proposed projects.

In conjunction with the Proposed FY 2016/17 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2016/17 and provides estimated allocations for the next four years along with total project costs. Over the five-year period extending from FY 2016/17 through and including FY 2020/21, the Harbor Department expects to spend approximately \$700 million on capital projects throughout the Port. The plan is also utilized for long-term planning as it has been incorporated into the Harbor Department's ten-year financial forecast. As the Harbor Department budgets on an annual basis in conformance with the City Charter, only the FY 2016/17 portion of this plan is being brought before the Board for adoption.

Capitalized Expenditures include indirect overhead allocations and capitalized interest, which are expenses that support the entire, global CIP. Capitalized expenditures within the Proposed Budget are expected to decline relative to the Adopted Budget due to lower overhead capitalization within the Proposed Budget relative to the Adopted Budget.

Equipment Purchases within the Proposed Budget are expected to increase relative to the Adopted Budget and Estimates as greater equipment needs, such as vehicle purchases, are required in FY 2016/17.

Non-Operating Expenses

Budgeted at \$14.0 million, proposed non-operating expenses are expected to be driven by \$7.0 million in state grant pass-through expenses, \$2.5 million in cancelled capital projects, \$1.0 million in bond issuance costs, \$1.0 million in debt interest expenses, \$950 thousand in losses on asset sales, \$850 thousand in commercial paper costs and \$660 thousand in other expenses. Proposed non-operating expenses are expected to be higher relative to the Adopted Budget and Estimates due primarily to increased state grant pass-through expenses.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the FY 2016/17 Annual Budget. This action does not constitute approval of specific projects. Any projects financed through the Resolution would require separate environmental analysis and Board approval. Therefore, as an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

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FINANCIAL IMPACT:

Approval of the FY 2016/17 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations in the next fiscal year. The \$1,169,047,636 Proposed Budget meets the financial metrics set forth in the Harbor Department's Financial Policies. Any expenditure that exceeds amounts authorized in the Annual Budget will require separate Board authorization.

CITY ATTORNEY:

The Office of the City Attorney has reviewed this board report and has no legal issues at this time.

TRANSMITTALS:

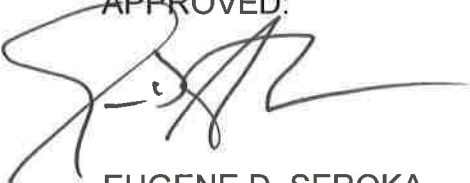
1. Fiscal Year 2016/17 Proposed Annual Budget
2. Five-Year Capital Expenditure Plan

FIS Approval: MB (initials)
CA Approval: CRB (initials)



MARLA BLEAVINS
Deputy Executive Director & Chief Financial Officer

APPROVED:



EUGENE D. SEROKA
Executive Director

Author: M. Marchese
MB:JS:JY:MM