



## AUDIT COMMITTEE

Report to the  
Board of Harbor Commissioners

### “FOR INFORMATION ONLY”

**DATE: APRIL 11, 2018**

**TO: BOARD OF HARBOR COMMISSIONERS**

**SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR  
FISCAL YEAR 2017/18 ENDED MARCH 31, 2018**

Financial performance results for the first three quarters of Fiscal Year (“FY”) 2017/18 are listed below and have been summarized relative to both budget and the prior fiscal year. For the month of March, cargo volumes (as measured by TEUs or twenty-foot equivalent units) decreased by 26.7% relative to March 2017. However, despite this monthly decline in cargo volumes, fiscal year-to-date (“FYTD”) TEUs exceeded prior FYTD results by 0.1%. In summary, FYTD performance results for the Harbor Department are as follows:

FYTD March 2018	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	6,972	↑ 1.9%	↑ 0.1%
Operating Revenues	\$380.4	↑ 5.6%	↑ 7.1%
Operating Expenses	\$158.8	↓ (17.1%)	↑ 4.1%
Operating Income	\$221.6	↑ 31.4%	↑ 9.3%
Net Income	\$107.1	↑ 160.7%	↑ 36.9%

Through the first three quarters of FY 2017/18, cargo volume growth has led to an increase in Shipping Services relative to both budget and the prior FYTD period. Relative to budget, Total Operating Revenues increased by 5.6% as the aforementioned increase in Shipping Services, higher land rentals as well as the receipt of Harbor Maintenance Tax funds were only partially offset by higher credits for tenant services and lower utility reimbursements. Relative to the prior fiscal year, Total Operating Revenues increased by 7.1% as higher Shipping Services, higher land rentals and higher utility reimbursements were only slightly offset by higher credits for tenant services.

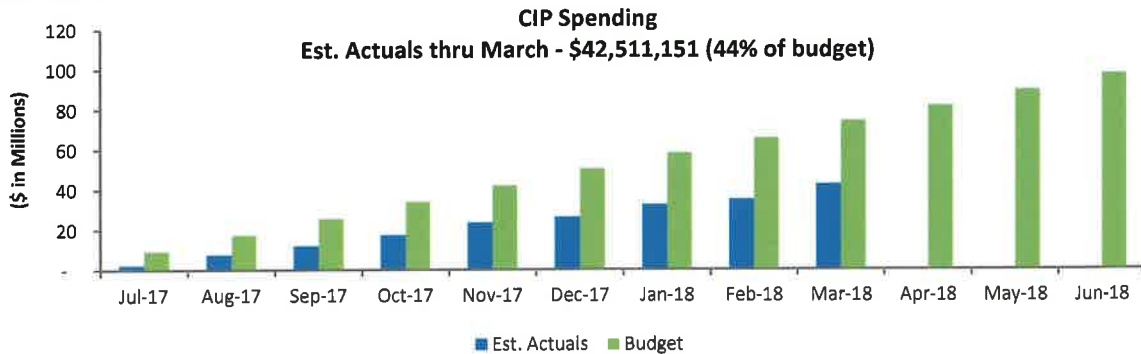
SUBJECT: FINANCIAL PERFORMANCE RESULTS

Operating Expenses were favorably impacted as lower headcounts, invoicing delays with respect to outside services and city services as well as lower electricity expenses drove total Operating Expenses 17.1% below budget. Relative to the prior fiscal year, total Operating Expenses increased by 4.1% as MOU salary increases, lower salary capitalization, higher construction and maintenance materials spending, higher port information portal pilot project spending and higher electricity costs were only partially offset by city services invoicing delays and lower average filled positions.

Operating margins for the FYTD period were reported at 58.3% versus a budget of 46.8% and a prior year figure of 57.1%. However, it is important to note that as vacancies are filled, and, as invoicing delays are resolved, operating expenses are anticipated to trend towards budget as FY 2017/18 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended March 31, 2018 based on internal estimates reached \$42.5 million or about 44% of the total \$97.7 million CIP adopted budget. The Harbor Department expects CIP spending to fall below the adopted budget by fiscal year-end.



*Mark Blewett for*

EUGENE D. SEROKA  
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD March 2018
2. Actual-to-Budget FY 2017/18 – March
3. Year-to-Year Performance Report YTD March 31, 2018 and 2017

Author: M. Marchese

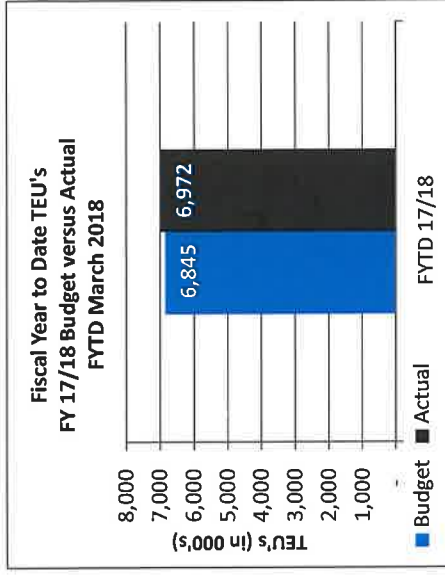
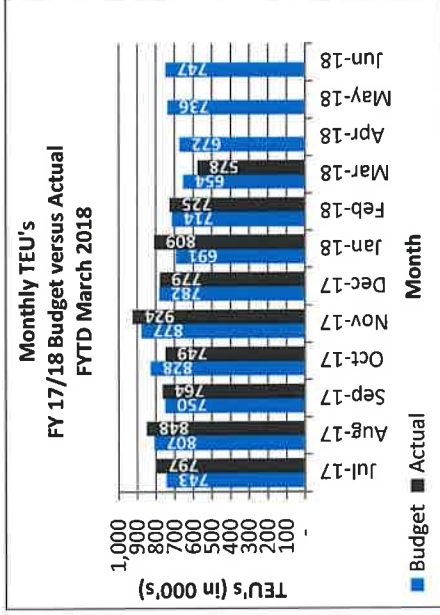
*MB*

MB:MM/Finance

cc: Deputy Executive Directors

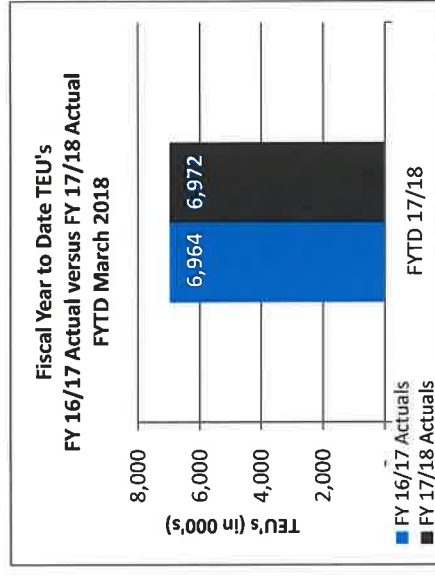
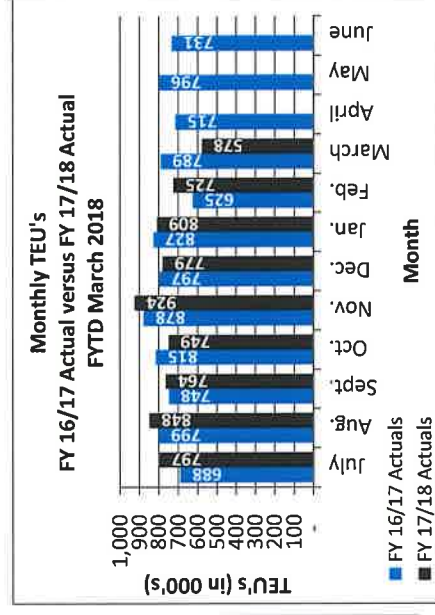
Budget versus Actuals Comparison  
FY 17/18 Budget vs. FY 17/18 Actuals

(in 000's)	TEU's		% Δ
Month	FY 17/18 Budget	FY 17/18 Actuals	
Jul-17	743	797	7.2%
Aug-17	807	848	5.1%
Sep-17	750	764	1.9%
Oct-17	828	749	-9.5%
Nov-17	877	924	5.4%
Dec-17	782	779	-0.3%
Jan-18	691	809	17.0%
Feb-18	714	725	1.6%
Mar-18	654	578	-11.6%
Apr-18	672		
May-18	736		
Jun-18	747		
FYTD 17/18	6,845	6,972	1.9%
FY 17/18 Budget	9,000		



Year-to-Year Actuals Comparison  
FY 16/17 Actuals vs. FY 17/18 Actuals

(in 000's)	TEU's		% Δ
Month	FY 16/17 Actuals	FY 17/18 Actuals	
July	688	797	15.8%
Aug.	799	848	6.1%
Sept.	748	764	2.2%
Oct.	815	749	-8.1%
Nov.	878	924	5.3%
Dec.	797	779	-2.2%
Jan.	827	809	-2.2%
Feb.	625	725	15.9%
March	789	578	-26.7%
April	715		
May	796		
June	731		
FYTD 17/18	6,964	6,972	0.1%
FY 16/17 Actuals	9,206		



	Fiscal Year Actual FY 2017/18		Fiscal Year Budget FY 2017/18		Actual-to-Budget Comparison		Notes (\$ in millions)
	Fiscal YTD - Mar. 2018		Fiscal YTD - Mar. 2018		\$	%	
<b>\$ in thousands</b>							
Operating Revenues							
Shipping Services	320,389		305,174		15,215	5.0%	Higher than budgeted wharfage due to higher than budgeted TELUs \$12.5, higher space assignment \$3.0 and higher dockage \$0.5, partially offset by lower pilotage <\$0.8>
Rentals	46,333		39,400		6,932	17.6%	Higher than budgeted Union Pacific Railroad \$3.5, Westrec Marina \$2.9 and higher than budgeted misc. receipts \$1.6, partially offset by lower than budgeted receipts for PBT <\$1.1>
Royalties, Fees and Other Revenues	11,795		13,836		(2,041)	(14.8%)	Higher credits for tenant services <\$4.0>, lower utility reimbursements <\$1.5> and lower parking fees <\$0.5>, partially offset by Harbor Maintenance Tax receipt \$3.3, higher misc. permits and fees \$0.3, higher one-time reimbursements \$0.2 and higher reimbursements for Port Police services \$0.2
Clean Truck Program Revenues	1,835		1,722		113	6.5%	
<b>Total Operating Revenues</b>	<b>380,351</b>		<b>360,132</b>		<b>20,219</b>	<b>5.6%</b>	
Operating Expenses							
Gross Salaries & Benefits	102,808		113,525		(10,718)	(9.4%)	Lower average filled positions and lower average salaries
Capitalization	(15,424)		(11,109)		(4,315)	38.8%	Overhead allocations <\$6.5>, partially offset by lower direct capitalization \$2.2
Net Salaries & Benefits	87,383		102,416		(15,033)	(14.7%)	
Marketing & Public Relations	2,285		2,707		(422)	(15.6%)	
Travel	548		643		(94)	(14.7%)	
Outside Services	15,620		31,914		(16,294)	(51.1%)	GE Portal Project invoicing delays <\$7.9>, dredging invoicing delays <\$2.6>, outside legal counsel invoicing delays <\$1.3>, environmental assessment invoicing delays <\$1.2>, misc. invoicing delays <\$0.7>, overhead capitalization <\$0.8>, cruise terminal invoicing delays <\$0.5>, C&M invoicing delays/lower professional services spending <\$0.4>, delayed cyber security advocacy spending <\$0.4>, engineering IT and software invoicing delays <\$0.3>, lower media relations spending <\$0.3> and rail study/transportation planning invoicing delays <\$0.2>, partially offset by higher 3rd party audit services \$0.3
Materials & Supplies	4,882		5,414		(533)	(9.8%)	Port Police invoicing delays <\$0.4>, overhead allocations <\$0.3>, misc. spending delays <0.3> and maintenance improvement program invoicing delays <\$0.1>, partially offset by higher C&M spending \$0.6
City Services	30,038		35,222		(5,184)	(14.7%)	Overhead allocation <\$2.7>, invoicing delays for fire services <\$1.5>, miscellaneous services <\$0.4>, City Attorney <\$0.2>, public works <\$0.2>, personnel <\$0.1> and Recreation and Parks <\$0.1>
(1) Allocations to Capital - Overhead	17,481		(10,288)		10,288	(100.0%)	Higher aggregate overhead allocations <\$1.5>
(2) Other Operating Expenses			22,677		(5,196)	(22.9%)	Lower electricity <\$2.2>, overhead allocations <\$1.3>, cruise incentive payout delay <\$1.0>, lower water & gas <\$0.4>, lower insurance <\$0.3> and lower litigation/claims/settlements <\$0.2>, partially offset by environmental incentive invoicing delays \$0.2
Clean Truck Program Expenses	525		828		(303)	(36.6%)	
<b>Total Operating Expenses</b>	<b>158,762</b>		<b>191,533</b>		<b>(32,771)</b>	<b>(17.1%)</b>	
<b>Income Before Depreciation</b>	<b>221,588</b>		<b>168,598</b>		<b>52,990</b>	<b>31.4%</b>	
Provision For Depreciation	122,142		134,022		(11,880)	(6.9%)	
<b>Income From Operations</b>	<b>99,446</b>		<b>34,577</b>		<b>64,870</b>	<b>187.8%</b>	
Non-Operating Revenue	12,625		16,131		(3,506)	(21.7%)	Delayed receipt of federal/state passthrough grants <\$8.7> and lower JPA income <\$0.8>, partially offset by higher interest income \$3.4, higher gain on land sale \$2.1, higher federal non-operating grants \$0.4 and higher misc. non-operating revenues \$0.1
(4) Non-Operating Expenses	(4,967)		(9,625)		4,658	(48.4%)	Lower federal/state passthrough disbursements \$5.4, lower capital projects closed to expense \$0.7 and higher interest capitalization \$0.1, partially offset by retirement of crane assets <\$1.2> and higher interest expense <\$0.3>
<b>Net Income</b>	<b>107,105</b>		<b>41,082</b>		<b>66,022</b>	<b>160.7%</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 \$11.8 million relative to a budget of \$10.3 million.

(2) Primarily for: Electricity \$9.8; Insurance \$2.2; Environmental Incentives \$1.8; Water & Gas \$1.5; Telephone \$1.3; Equipment Rental/Permits/License/Fees \$0.9; Membership/Subscriptions/Books \$0.8; Cruise Incentives \$0.2; Taxes/Assessments \$0.2; Overhead Capitalization (\$1.2)

(3) Primarily for: Interest Income \$7.2; Gain on Land Sale \$2.2; State Passthrough Revenue \$1.3; JPA Income \$1.0; Late Charges/Discounts/Misc. \$0.5; Federal Non-Operating Grant Revenue \$0.4

(4) Primarily for: Interest Expense \$24.8; Capitalized Interest <\$24.2>; State Passthrough Expenses \$1.3; Retirement of Crane Assets \$1.3; Capital Projects Closed to Expense \$1.2; Commercial Paper Admin. Costs \$0.6

	Current Fiscal Year FY 2017/18		Prior Fiscal Year FY 2016/17		Year-over-Year Change		Notes (\$ in millions)
	Fiscal YTD - Mar. 2018	Fiscal YTD - Mar. 2017	Fiscal YTD - Mar. 2017	Fiscal YTD - Mar. 2017	\$	%	
<b>\$ in thousands</b>							
<b>Operating Revenues</b>							
Shipping Services	320,389	303,442	303,442	303,442	16,947	5.6%	Higher overall wharfage \$15.9, higher pilotage \$1.0 and higher dockage \$0.5, partially offset by lower space assignments <\$0.3> and lower lay day fees <\$0.2>
Rentals	46,333	38,039	38,039	38,039	8,294	21.8%	Union Pacific compensation reset and catch-up payment \$4.4, Eagle Marine land rent (booked as space assignment in prior FY) \$2.3, general CPI increases \$1.0, higher gross receipts at Westrec Marina \$0.7, ITS CPI increase \$0.2, Faslane CPI increase \$0.2, Tri Marine CPI increase \$0.2, and Shore Terminals holdover payment \$0.2, partially offset by a prior year catchup in PBF Energy rentals <\$0.7> and Vopak prior year catch-up payment <\$0.2>
Royalties, Fees and Other Revenues	11,795	11,860	11,860	11,860	(65)	(0.5%)	Higher credits for tenant services <\$1.2>, lower misc. permits and fees <\$0.2>, lower parking fees <\$0.2>, lower accommodation work revenues <\$0.2> and lower railroad leases <\$0.1>, almost completely offset by higher utility reimbursements \$1.4, higher Harbor Maintenance Tax receipts \$0.3 and higher port police services \$0.1
Clean Truck Program Revenues	1,835	1,886	1,886	1,886	(51)	(2.7%)	
<b>Total Operating Revenues</b>	<b>380,351</b>	<b>355,226</b>	<b>355,226</b>	<b>355,226</b>	<b>25,125</b>	<b>7.1%</b>	
<b>Operating Expenses</b>							
Gross Salaries & Benefits	102,808	100,610	100,610	100,610	2,197	2.2%	MOU salary and benefit increases, partially offset by lower average filled positions
Capitalization	(15,424)	(17,028)	(17,028)	(17,028)	1,604	(9.4%)	Lower direct capitalization \$1.4 and lower overhead capitalization \$0.2
Net Salaries & Benefits	87,383	83,582	83,582	83,582	3,801	4.5%	
Marketing & Public Relations	2,285	2,013	2,013	2,013	272	13.5%	
Travel	548	388	388	388	160	41.4%	
Outside Services	15,620	15,163	15,163	15,163	457	3.0%	Higher GE Portal project spending \$1.1, higher 3rd party audit services \$0.4, higher security camera maintenance spending \$0.3, Bond Assistance Program catch-up payments \$0.3 and higher waterfront and commercial real estate expenses \$0.3, partially offset by lower building maintenance/hiring hall spending <\$0.8>, lower equipment maintenance <\$0.6>, lower environmental assessment services spending <\$0.2>, lower outside counsel costs <\$0.2> and community relations invoicing delays <\$0.1>
Materials & Supplies	4,882	3,656	3,656	3,656	1,226	33.5%	Higher C&M materials spending \$1.1, lower overhead capitalization \$0.3, higher engineering materials spending \$0.1 and higher waterfront & commercial real estate spending \$0.1, partially offset by port police invoicing delays <\$0.4>
City Services	30,038	30,992	30,992	30,992	(954)	(3.1%)	Invoicing delays with respect to fire services <\$1.3>, city attorney <\$0.3> and personnel services <\$0.2> as well as higher overhead accruals <\$0.3>, partially offset by higher Rec and Parks accruals \$1.1
Other Operating Expenses	17,481	16,237	16,237	16,237	1,244	7.7%	Higher electricity \$0.5, higher cruise incentives \$0.2, higher water & gas \$0.2, higher equipment rentals \$0.2, higher telephone \$0.2, higher memberships/subscriptions/books \$0.1, partially offset by higher overhead capitalization <\$0.1> and lower environmental incentives <\$0.1>
Clean Truck Program Expenses	525	490	490	490	36	7.3%	
<b>Total Operating Expenses</b>	<b>158,762</b>	<b>152,521</b>	<b>152,521</b>	<b>152,521</b>	<b>6,242</b>	<b>4.1%</b>	
<b>Income Before Depreciation</b>	<b>221,588</b>	<b>202,705</b>	<b>202,705</b>	<b>202,705</b>	<b>18,883</b>	<b>9.3%</b>	
Provision For Depreciation	122,142	128,999	128,999	128,999	(6,857)	(5.3%)	
<b>Income From Operations</b>	<b>99,446</b>	<b>73,706</b>	<b>73,706</b>	<b>73,706</b>	<b>25,740</b>	<b>34.9%</b>	
Non-Operating Revenue	12,625	7,205	7,205	7,205	5,420	75.2%	Higher interest income \$2.7, higher gain on land sale \$2.1 and higher state passthrough income \$1.3, partially offset by lower federal non-operating grants <\$0.5> and lower environmental insurance reimbursements (ACTA/Dominguez Oil Release) <\$0.2>
Non-Operating Expenses	(4,967)	(2,667)	(2,667)	(2,667)	(2,299)	86.2%	Lower interest expense capitalization <\$2.7>, higher state passthrough disbursements <\$1.3>, higher retirement of crane assets <\$1.3> and higher capital projects closed to expense <\$0.4>, partially offset by lower interest expense \$2.5 and bond administration costs \$0.9
<b>Net Income</b>	<b>107,105</b>	<b>78,245</b>	<b>78,245</b>	<b>78,245</b>	<b>28,860</b>	<b>36.9%</b>	

Notes:

- (1) Primarily for: Electricity \$9.8; Insurance \$2.2; Environmental Incentives \$1.9; Water & Gas \$1.5; Telephone \$1.3; Equipment Rental/Permit/License/Fees \$0.9; Memberships/Subscriptions/Books \$0.8; Cruise Incentives \$0.2; Taxes/Assessments \$0.2; Overhead Capitalization (\$1.2)
- (2) Primarily for: Interest Income \$7.2; Gain on Land Sale \$2.2; State Passthrough Revenue \$1.3; JPA Income \$1.0; Late Charges/Discounts/Misc. \$0.5; Federal Non-Operating Grant Revenue \$0.4
- (3) Primarily for: Interest Expense \$24.8; Capitalized Interest <\$24.2>; State Passthrough Expenses \$1.3; Retirement of Crane Assets \$1.3; Capital Projects Closed to Expense \$1.2; Commercial Paper Admin. Costs \$0.6