



THE PORT  
OF LOS ANGELES  
Executive Director's  
Report to the

Board of Harbor Commissioners

**DATE: MARCH 25, 2015**

**FROM: FINANCE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - REQUEST FOR  
BUDGETARY TRANSFER**

**SUMMARY:**

The City of Los Angeles Harbor Department (Harbor Department) proposes the following budgetary transfers:

1. Transfer \$6,971,457 from the Fiscal Year (FY) 2014/15 Adopted Capital Improvement Program Budget (Adopted Capital Budget) to meet a shortfall in the FY 2014/15 Adopted Operating Expense Budget's (Adopted Operating Expense Budget) "Other Operating Expenses" category; and
2. Transfer \$325,000 from the Adopted Capital Budget to the Adopted Operating Expense Budget's "Materials & Supplies" category.

The anticipated shortfall within the Other Operating Expenses category is a result of higher payouts than budgeted for the Ocean Common Carrier Incentive Program (Carrier Incentive Program). The anticipated shortfall within the Materials & Supplies category is a result of the greater amounts of materials required for the Construction & Maintenance (C&M) Division to perform its growing level of maintenance responsibilities. Sufficient funds are available within the Adopted Capital Budget for this budgetary transfer. As of February 28, 2015, we anticipate a surplus of approximately \$36 million will exist by fiscal year-end. Payment for the expected Carrier Incentive Program and Materials & Supplies expenses is the financial responsibility of the Harbor Department.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners (Board):

1. Approve the following budgetary transfers:
  - a. Transfer \$6,971,457 from the Adopted Capital Budget, Account 13807, Center 1000, Program 000 to Other Operating Expenses (Program 000), Center 0422, Account 59964 to resolve a projected shortfall in the respective operating expense account; and
  - b. Transfer \$325,000 from the Adopted Capital Budget, Account 13807, Center 1000, Program 000 to Materials & Supplies (Program 000) as follows:
    - a. \$300,000 to Center 0510, Account 55010; and

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- b. \$25,000 to Center 0510, Account 55030.
- 2. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;
- 3. Direct the Board Secretary to notify the City Clerk of such transfer pursuant to Section 343(d) of the City Charter at the time such transfer is made; and
- 4. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION OF CARRIER INCENTIVE PROGRAM:**

Background and Context – Based on fiscal year-to-date ended February 28, 2015 data, Harbor Department projections indicate that spending for the expense category of Other Operating Expenses will be greater than what was budgeted. The projected additional expenses result from higher than budgeted payouts associated with the Carrier Incentive Program.

Approved as Item #11 during the November 7, 2013 Board Meeting, Permanent Order No. 13-7148 and Ordinance 182943 amended Port of Los Angeles (Port) Tariff No. 4 (Tariff No. 4) to include the Carrier Incentive Program. The Carrier Incentive Program provided Ocean Common Carriers (Carriers) with the opportunity to earn a tiered incentive of \$5.00 or \$15.00 per Twenty-Foot Equivalent Unit (TEU) for every incremental loaded and empty TEU moved through the Port of Los Angeles (Port) during Calendar Year (CY) 2014 compared to CY 2013, further described as follows:

<b>Volume Tiers in TEU</b>	<b>Incentive Amount per TEU</b>
1 to 99,999	\$5.00
100,000 +	\$15.00 per TEU for all TEUs

At the time Permanent Order No. 13-7148 and Ordinance 182943 were adopted, the Harbor Department expected that the Carrier Incentive Program would achieve 575,000 incremental TEUs and estimated gross revenues of approximately \$23,000,000 at an incentive cost of \$5,425,000, resulting in estimated net revenue to the Harbor Department of \$17,575,000. Given the difficulty in definitively predicting precisely which terminals would achieve incremental TEUs, it was expected that each of the 575,000 incremental TEUs would generate incremental gross revenues of \$40.00 per TEU at an incremental cost of \$9.43 per TEU (\$5,425,000/575,000). For budgeting purposes, \$3,500,000 of the \$5,425,000 incentive cost was appropriated to the FY 2014/15 Adopted Budget.

The actual results of the Carrier Incentive Program were significantly different:

- **Incremental TEUs:** Based upon final 2014 TEU counts, 834,925 incremental TEUs were processed by Carriers during CY 2014.

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- **Incremental Revenues:** After performing a terminal by terminal analysis which accounted for: (i) the number of incremental TEUs processed at each terminal, (ii) whether these incremental TEUs were full versus empty, and (iii) compensation rates specific to each terminal, the Carrier Incentive Program generated incremental revenues of \$13,939,395.
- **Incentive Payouts:** 15 of 32 Carriers moved more TEUs during CY 2014 relative to CY 2013. Of these 15 Carriers, ten qualified for the \$5.00 incentive amount per incremental TEU, while five Carriers qualified for the enhanced incentive of \$15.00 per incremental TEU. Assuming that each of these 15 Carriers will have provided a written request to the Executive Director by April 30, 2015 for payment of the respective incentive due (as per terms of the Carrier Incentive Program), then the Harbor Department’s maximum payout obligation for the Carrier Incentive Program would be \$10,471,457. As of the date of this report, no payouts have been made to any of these 15 Carriers.

	<b>Expected</b>	<b>Actual</b>	<b>Difference Favorable / (Unfavorable)</b>
TEUs @ \$5 Threshold	320,000	204,897	(115,103)
TEUs @ \$15 Threshold	255,000	630,028	375,028
<b>Incremental TEUs (A)</b>	<b>575,000</b>	<b>834,925</b>	<b>259,925</b>
<b>Incremental Revenue (B)</b>	<b>\$23,000,000</b>	<b>\$13,939,395</b>	<b>(\$9,060,605)</b>
Rate per TEU (B / A)	\$40.00 per TEU	\$16.70 per TEU	(\$23.30) per TEU
\$5 Incentive Payouts	\$1,600,000	\$1,021,041	\$578,959
\$15 Incentive Payouts	\$3,825,000	\$9,450,416	(\$5,625,416)
<b>Total Incentive Payout (C)</b>	<b>\$5,425,000</b>	<b>\$10,471,457</b>	<b>(\$5,046,457)</b>
<b>Net Benefit (B – C)</b>	<b>\$17,575,000</b>	<b>\$3,467,938</b>	<b>(\$14,107,062)</b>

**DISCUSSION OF TRANSFER FOR MATERIALS & SUPPLIES:**

Adopted as part of Resolution No. 14-7665, the Adopted Capital Budget included funding of \$281.0 million for approved capital expenditures incurred during FY 2014/15. As of February 28, 2015, the Harbor Department estimates that actual annual capital expenditures will be approximately \$245.0 million during FY 2014/15, resulting in a surplus of approximately \$36.0 million.

In accordance with Objective 1, Initiative 3 of the 2014 Strategic Plan Update, the C&M Division has optimized maintenance requirements in order to extend infrastructure life and utility of certain Port assets. Additionally, performance of this maintenance in the near-term is expected to ultimately provide long-term savings. In order to address these maintenance needs, the C&M Division requires additional materials and supplies that

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were not originally budgeted. As of February 28, 2015, Harbor Department anticipates deficits in certain Materials & Supplies accounts which reside within the C&M Division's Adopted Operating Expense Budget. These deficits have arisen primarily due to higher work requests coming into C&M than originally budgeted, and are further described as follows:

- Account 55010 – Parts & Materials: \$300,000
  - A transfer of \$300,000 is being requested from the Adopted Capital Budget to fund a projected \$300,000 deficit within Account 55010 – Parts & Materials.
  - C&M uses parts and materials to perform nearly all of its many functions. Additional funding in Account 55010 is required due to a significant increase in the amount of work performed. In CY 2010, C&M opened 10,794 work requests; by CY 2012, the number of new work requests increased to 14,070 as new buildings like the Port Police Headquarters and public areas such as the Wilmington Waterfront Park became part of C&M's daily maintenance responsibilities. By CY 2014, C&M opened 14,453 new work requests, and that figure is expected to continue to grow in 2015. Without the requested funding, some requests will be deferred until sufficient funding is made available.
  - Historically, spending within C&M's Account 55010 has averaged 100% of budget over the past two fiscal years (FY 2012/13 – FY 2013/14). The Adopted Operating Expense Budget included \$2,530,268 for annual parts & materials needs within C&M for FY 2014/15. Through February 2015, \$1,809,145 or 71.5% of the annual budget for this account has been spent to date.
- Account 55030 – Tools & Equipment: \$25,000
  - A transfer of \$25,000 is being requested from the Adopted Capital Budget to fund a projected \$25,000 deficit within Account 55030 – Tools & Equipment.
  - C&M uses Account 55030 to track tools, small equipment, as well as materials for vehicle and vessel repair. In the last three years, the number of vessels maintained by C&M has increased from 40 to 61, and sufficient availability of tools and equipment are critical to ensuring these vessels remain seaworthy.
  - Historically, spending within C&M's Account 55030 has averaged 99% of budget over the past two fiscal years (FY 2012/13 – FY 2013/14). The Adopted Operating Expense Budget initially included \$573,000 for annual tools & equipment needs within C&M for FY 2014/15. Through February

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2015, \$418,045 or 73.0% of the annual budget for this account has been spent to date.

**ENVIRONMENTAL ASSESSMENT**

The proposed actions are to transfer funds from the Adopted Capital Budget to the Adopted Operating Expense Budget to resolve a projected shortfall in the Other Operating Expenses and Materials & Supplies categories. As an administrative action, the Director of Environmental Management has determined 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.

**ECONOMIC BENEFITS**

The Board action will have no employment effect.

**FINANCIAL IMPACT**

The transfer of monies from the Adopted Capital Budget, Account 13807, Center 1000, Program 000 to the Adopted Operating Expense Budget will increase the Adopted Operating Expense Budget by \$7,296,457 from \$230,396,165 to \$237,692,622. The transfer of monies from the Adopted Capital Budget to the Adopted Operating Expense Budget will reduce the Adopted Capital Budget by \$7,296,457, and increase the Adopted Operating Expense Budget by the same dollar amount. This increase to Operating Expenses will reduce FY 2014/15 Estimated Operating Margins from 46.3% to 45.5% and FY 2014/15 Estimated Debt Service Coverage Ratio from 2.78x to 2.74x. In accordance with City Charter Section 343, this budgetary transfer requires the approval of the Board of Harbor Commissioners and the Mayor.

**CITY ATTORNEY**

The Office of the City Attorney has reviewed this report, and the proposed action raises no legal issues at this time.

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



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