



DATE: JULY 16, 2013

FROM: DEBT & TREASURY

**SUBJECT: RESOLUTION NO. _____ APPROVE AND ADOPT THE
UPDATED FINANCIAL POLICIES OF THE CITY OF LOS ANGELES
HARBOR DEPARTMENT**

SUMMARY:

Staff recommends that the Board of Harbor Commissioners (Board) approve and adopt the proposed updated Financial Policies of the City of Los Angeles Harbor Department (Harbor Department). These policies, consisting of Fiscal (Budgetary, Revenues, and Expense Policies), Leasing, Capital Improvement Plan Funding, Financial Reserve, Risk Management, Disclosure, and Debt Management Policies, codify and reinforce the Harbor Department's continuing practice of fiscal responsibility. There are two proposed updates to the policies: establishing a Disclosure Policy and specifying how to set the total reserve target for the Financial Reserve policy. The approval and adoption of the financial policies will comply with the Los Angeles City Council motion, Council File No. 04-1822-S3, in which the Harbor Department is urged to implement certain financial policies that more closely align with those of the City of Los Angeles' Financial Policies as adopted by the City Council and approved by the Mayor.

RECOMMENDATIONS:

It is recommended that the Los Angeles Board of Harbor Commissioners:

1. Approve and adopt the Harbor Department's Financial Policies as outlined in this report for the following: Fiscal (Budgetary, Revenues, and Expense Policies), Leasing, Capital Improvement Plan Funding, Financial Reserve, Risk Management, Disclosure, and Debt Management Policies; and
2. Adopt Resolution No. _____.

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DISCUSSION:

Background/Context – In April 2005, the Los Angeles City Council adopted, and the Mayor approved, a comprehensive set of financial policies for the City of Los Angeles (City) in response to State budget actions and the economic downturn after September 11, 2001.

Under Council File No. 04-1822-S3, “the City’s proprietary departments are bound by certain aspects of the Debt Management Policies unless a proposed action will directly impact the City’s General Fund or Special Funds.” However, on November 21, 2006, the City Council requested the Boards of the proprietary departments to adopt a comprehensive application of the City’s Financial Policies “at their first opportunity”. Although the Harbor Department had a Debt Management Policy in place at that time approved by the Board in August 2002, it had not formally adopted a broad set of financial policies.

Subsequent to the City’s action in 2006, the Harbor Department created a set of financial policies appropriate for a proprietary department, operating independently, using its own resources, and administering and controlling its fiscal activities. The key objective of the Financial Policies is to balance the Harbor Department’s core business requirements and strategic objectives with its financial resources and reinforce the Harbor Department’s continuing practice of fiscal responsibility.

In September 2008, the Board approved and adopted the Harbor Department’s Financial Policies. The approved policies incorporated the previously established Debt Management Policy. In each subsequent year through 2012, the Board approved additional updates to the Financial Policies. In March 2009, the City’s Budget and Finance Committee requested that the Harbor Department begin reporting its financial policies annually to the Budget and Finance Committee; the Committee cancelled this standing order in 2013, when the Committee changed leadership.

Recommended Policy Update – There are two proposed changes to the policies: (1) the insertion of a Disclosure Policy, and (2) the addition of language to clarify portions of the Financial Reserve Policy.

(1) Disclosure Policy: The U.S. Securities and Exchange Commission (SEC) now encourages municipal issuers of securities to improve the quality and practices associated with disclosure. To that end, the Disclosure Policy directs the Chief Financial Officer or designee to establish and maintain such procedures to ensure compliance.

(2) Financial Reserve Policy: The second recommended update to the Financial Policies is a clarification of portions of the Financial Reserve Policy, Section 5, A & C, the Emergency/ACTA and the Special Operating Funds. The additional language now specifies a methodology as to how the two financial reserve targets are set. In addition,

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the word "minimum" is inserted before the required reserve amount for the Emergency/ACTA Fund.

The proposed update clarifies the Financial Reserve Policy by defining the methodology used to establish the total combined minimum reserve. The process uses the average five years of operating expenses comprising of the Harbor Department's audited, *actual* operating expenses for the four most recent fiscal years and the adopted *budget* immediately following the last fiscal year for which audited data is available. Using such a methodology, the current required combined minimum reserve would be \$217 million (inclusive of \$47 million in the Emergency/ACTA Fund). This recalculated reserve is approximately \$29 million lower than the current balance in the two accounts. As of May 31, 2013, there was \$199 million in the Special Operating Fund and \$47 million in the Emergency/ACTA Fund representing a total of \$246 million in reserve. The reasons for the decline in the combined reserve results primarily from the lower levels of operating expenses over the course of the past four years, as the Harbor Department controlled its expenditures and the costs associated with the clean truck program diminished. Any transfers of funds that would reduce the amounts below the \$47 million Emergency/ACTA minimum or the combined \$217 million minimum require the approval of the Board.

There are no other significant changes.

Transmittal 1 contains the Financial Policies with the proposed changes highlighted. Transmittal 2 is the proposed final version of the Financial Policies document.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval and adoption of updates to the Harbor Department's Financial Policies. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed updates will have no employment impact.

FINANCIAL IMPACT:

If approved, there is no immediate impact to the financial condition of the Harbor Department; however, the policies as proposed will provide clear direction and performance targets relative to maintaining a steady and strong financial position. Such

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policies establish defined parameters of financial and operational transparency, consistent with SEC guidelines and will help to engender consistent adherence to good financial practices and sensible management of financial risk.

CITY ATTORNEY:

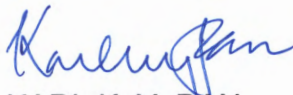
The Office of the City Attorney has reviewed the proposed Financial Policies updates and the proposed action raises no legal issues at this time.

TRANSMITTALS:

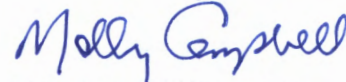
1. Highlighted updates to the Financial Policies for the City of Los Angeles Harbor Department.
2. Proposed Financial Policies for the City of Los Angeles Harbor Department in its final form.

FIS Approval:  (initials)

CA Approval:  (initials)



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APPROVED:



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DM 13023 FY12/13

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