



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: SEPTEMBER 13, 2017

TO: BOARD OF HARBOR COMMISSIONERS

SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR FISCAL YEAR 2017/18 ENDED AUGUST 31, 2017

Financial performance results for the first two months of Fiscal Year 2017/18 are below and have been summarized relative to both budget and the prior fiscal year. For the month of August, cargo volumes (as measured by TEUs or twenty-foot equivalent units) grew 6.1% relative to August 2016 and represented the second-busiest month in the Port’s 110-year history. In summary, performance results for the Harbor Department are as follows:

FYTD August 2017	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	1,645	↑ 6.1%	↑ 10.6%
Operating Revenues	\$85.9	↑ 11.2%	↑ 19.9%
Operating Expenses	\$33.7	↓ (14.9%)	↑ 5.9%
Operating Income	\$52.2	↑ 38.7%	↑ 31.0%
Net Income	\$24.4	↑ 136.2%	↑ 67.1%

These record cargo volumes led to an increase in Shipping Services relative to both budget and the prior fiscal year-to-date (“FYTD”) period. Relative to budget, Total Operating Revenues increased by 11.2% as the aforementioned increase in Shipping Services as well as the receipt of Harbor Maintenance Tax funds were partially offset by a rental revenue invoicing delay, higher credits for tenant services as well as lower utility reimbursements. Relative to the prior fiscal year, Total Operating Revenues increased by 19.9% as higher Shipping Services, the receipt of Harbor Maintenance Tax funds, higher utility reimbursements and higher rental revenues were only slightly offset by lower permit and fee income and higher credits for tenant services.

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

Operating Expenses were favorably impacted as lower headcounts and invoicing delays with respect to outside services and other operating expenses spending drove total Operating Expenses 14.9% below budget. Relative to the prior fiscal year, total Operating Expenses increased by 5.9% as MOU salary increases, higher electricity and lower salary capitalization were only partially offset by invoicing delays and lower average filled positions.

Operating margins for the FYTD period were reported at 60.8% versus a budget of 48.7% and a prior year figure of 55.6%. 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 2017/18 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended August 31, 2017 based on internal estimates reached \$7.6 million or about 8% of the total \$97.7 million CIP adopted budget. At this early stage in the fiscal year, the Harbor Department currently expects to stay within the CIP adopted budget through fiscal year-end.



EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD August 2017
2. Actual-to-Budget FY 2017/18 – August
3. Year-to-Year Performance Report YTD August 31, 2017 and 2016

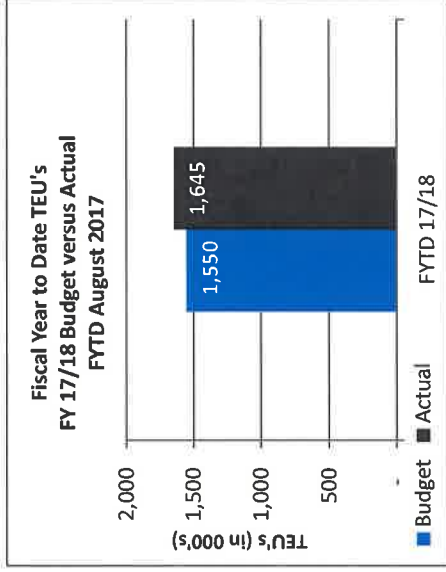
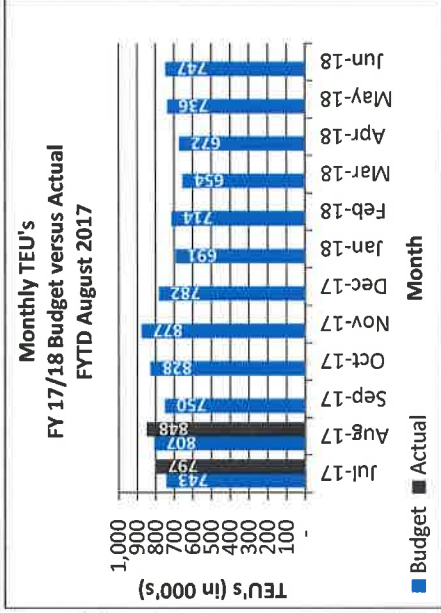
Author: M. Marchese

MB:MM/Finance

cc: Deputy Executive Directors

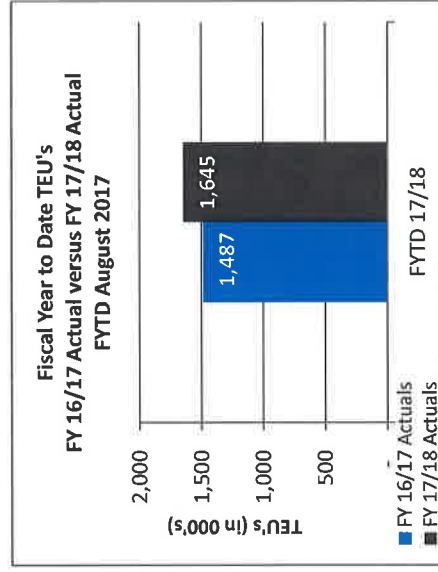
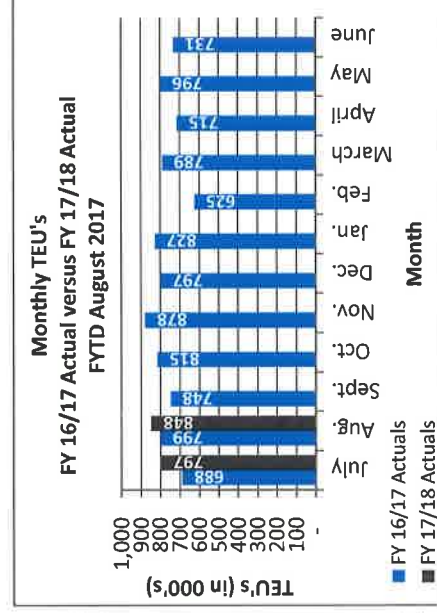
Budget versus Actuals Comparison
FY 17/18 Budget vs. FY 17/18 Actuals

(in 000's)	TEU's		% Δ	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			
Oct-17	828			
Nov-17	877			
Dec-17	782			
Jan-18	691			
Feb-18	714			
Mar-18	654			
Apr-18	672			
May-18	736			
Jun-18	747			
FYTD 17/18	1,550	1,645	6.1%	↑
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	Δ
Month	FY 16/17 Actuals	FY 17/18 Actuals		
July	688	797	15.8%	↑
Aug.	799	848	6.1%	↑
Sept.	748			
Oct.	815			
Nov.	878			
Dec.	797			
Jan.	827			
Feb.	625			
March	789			
April	715			
May	796			
June	731			
FYTD 17/18	1,487	1,645	10.6%	↑
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 - Aug. 2017	Fiscal YTD - Aug. 2017	Fiscal YTD - Aug. 2017	Fiscal YTD - Aug. 2017	\$	%	
\$ in thousands							
Operating Revenues							
Shipping Services	71,776	64,035	7,741	12.1%	Higher than budgeted wharfage due to higher than budgeted TEUs \$6.9, higher space assignment \$0.7 and higher dockage \$0.2, partially offset by lower pilotage <\$0.1>		
Rentals	8,946	9,772	(826)	(8.5%)	Lower than budgeted rent for PBF Energy due to an invoicing delay <\$1.1>, partially offset by higher than budgeted rent from other tenants \$0.3		
Royalties, Fees and Other Revenues	4,832	3,099	1,733	55.9%	Harbor Maintenance Tax receipt \$3.3, partially offset by higher credits for tenant services <\$0.9>, lower utility reimbursements <\$0.4> and lower misc. permits and fees <\$0.3>		
Clean Truck Program Revenues	343	337	6	1.7%			
Total Operating Revenues	85,897	77,243	8,654	11.2%			
Operating Expenses							
Gross Salaries & Benefits	23,695	25,558	(1,864)	(7.3%)	Lower average filled positions and lower average salaries		
Capitalization	(3,489)	(2,469)	(1,020)	41.3%	Overhead allocations <\$1.3>, partially offset by lower direct capitalization \$0.3		
Net Salaries & Benefits	20,205	23,090	(2,884)	(12.5%)			
Marketing & Public Relations	212	321	(108)	(33.8%)	Lower promotional/sponsorships <\$0.1>		
Travel	143	160	(17)	(10.8%)			
Outside Services	1,805	3,927	(2,122)	(54.0%)	C&M invoicing delays <\$0.4>, dredging invoicing delays <\$0.4>, misc. invoicing delays <\$0.4>, cruise terminal invoicing delays <\$0.3>, environmental assessment invoicing delays <\$0.3>, prior period adjustment related to LAREX contract <\$0.2>, and overhead capitalization <\$0.1>		
Materials & Supplies	846	1,020	(173)	(17.0%)	C&M invoicing delays <\$0.1> and overhead allocations <\$0.1>		
City Services	6,907	7,983	(1,076)	(13.5%)	Overhead allocation <\$0.8> and public works invoicing delay <\$0.2>		
(1) Allocations to Capital - Overhead		(2,286)	2,286	(100.0%)	Higher aggregate overhead allocations <\$0.3>		
(2) Other Operating Expenses	3,492	5,217	(1,725)	(33.1%)	Environmental incentive invoicing delays <\$0.5>, lower electricity <\$0.4>, telephone invoicing delays <\$0.3>, overhead allocations <\$0.2>, lower water & gas <\$0.2> and lower insurance <\$0.1>		
Clean Truck Program Expenses	66	165	(99)	(59.7%)			
Total Operating Expenses	33,679	39,597	(5,918)	(14.9%)			
Income Before Depreciation	52,218	37,646	14,572	38.7%			
Provision For Depreciation	27,097	29,783	(2,686)	(9.0%)			
Income From Operations	25,122	7,864	17,258	219.5%	Delayed receipt of state passthrough grants <\$2.1>, partially offset by higher interest income \$0.5		
(3) Non-Operating Revenue	1,559	3,138	(1,579)	(50.3%)			
(4) Non-Operating Expenses	(2,326)	(690)	(1,636)	237.1%	Higher losses on asset sales <\$1.1> and capital projects closed to expense <\$0.5>		
Net Income	24,355	10,312	14,043	136.2%			

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 \$2.6 million relative to a budget of \$2.3 million.
 (2) Primarily for: Electricity \$2.2; Insurance \$0.5; Memberships/Subscriptions/Books \$0.2; Water & Gas \$0.2; Environmental Incentives \$0.2; Equipment Rental/Permits/License/Fees \$0.2; Telephone \$0.1; Misc. \$0.1; Overhead Capitalization (\$0.2)
 (3) Primarily for: Interest Income \$1.3; Late Charges/Discounts/Misc. \$0.2; State Passthrough Revenue \$0.1
 (4) Primarily for: Interest Expense \$5.6; Capitalized Interest <\$5.5>; Loss on Asset Sales \$1.1; Capital Projects Closed to Expense \$1.0; Commercial Paper Costs/Loss on Sale of Assets/Misc. \$0.1

\$ in thousands	Current Fiscal Year		Prior Fiscal Year		Year-over-Year		Notes (\$ in millions)
	FY 2017/18 Fiscal YTD - Aug. 2017	FY 2016/17 Fiscal YTD - Aug. 2016	Change	%	\$	%	
Operating Revenues							
Shipping Services	71,776	61,182	10,594	17.3%			Higher overall wharfrage \$9.7, higher pilotage \$0.5 and higher dockage \$0.5, partially offset by lower space assignments <\$0.1>
Rentals	8,946	8,465	481	5.7%			General CPI increases \$0.8, higher gross receipts at Westrec Marina \$0.2, Vopak CPI increase \$0.1, Shore Terminals holdover payment \$0.1 and San Pedro Fish Markets gross receipt catch-up payment \$0.1, partially offset by PBF Energy invoicing delay <\$0.8>
Royalties, Fees and Other Revenues	4,832	1,689	3,142	186.0%			Harbor Maintenance Tax receipt \$3.3 and higher utility reimbursements \$0.5, partially offset by lower misc. permits & fees <\$0.3>, higher credits for tenant services <\$0.2> and lower one-time refunds & reimbursements <\$0.2>
Clean Truck Program Revenues	343	327	16	4.8%			
Total Operating Revenues	85,897	71,664	14,233	19.9%			
Operating Expenses							
Gross Salaries & Benefits	23,695	23,257	438	1.9%			MOU salary and benefit increases, partially offset by lower average filled positions
Capitalization	(3,489)	(4,232)	743	(17.6%)			Lower direct capitalization \$0.5 and lower overhead allocations \$0.2
Net Salaries & Benefits	20,205	19,024	1,181	6.2%			
Marketing & Public Relations	212	715	(502)	(70.3%)			Sponsorship invoicing delays <\$0.6>, partially offset by lower overhead allocations \$0.1
Travel	143	77	66	86.5%			
Outside Services	1,805	1,873	(68)	(3.6%)			Lower hiring hall expenses <\$0.2>, prior period adjustment related to LAREX contract <\$0.2> and lower cruise terminal operator costs <0.1>, partially offset by higher information technology spending \$0.4
Materials & Supplies	846	467	380	81.3%			Lower overhead capitalization <\$0.4>
City Services	6,907	6,511	396	6.1%			Higher accruals for Fire \$0.4, Recreation & Parks \$0.2 and Personnel \$0.1 services, partially offset by higher overhead accruals <\$0.3>
Other Operating Expenses	3,492	3,115	378	12.1%			Higher electricity \$0.6 and higher memberships/subscriptions/books \$0.1, partially offset by lower water and gas <\$0.2> and lower insurance <\$0.1>
Clean Truck Program Expenses	66	13	53	396.1%			
Total Operating Expenses	33,679	31,794	1,884	5.9%			
Income Before Depreciation	52,218	39,869	12,349	31.0%			
Provision For Depreciation	27,097	26,472	625	2.4%			
Income From Operations	25,122	13,398	11,724	87.5%			
Non-Operating Revenue	1,559	1,299	260	20.0%			Higher interest income \$0.4 and higher state passthrough revenues \$0.1, partially offset by lower environmental insurance reimbursements (ACTA/Dominguez Oil Release) <\$0.2>
Non-Operating Expenses	(2,326)	(120)	(2,205)	1834.1%			Lower interest expense capitalization <\$1.3>, higher losses on asset sales <\$1.1> and higher capital projects closed to expense <\$1.0>, partially offset by lower interest expense \$1.1 and lower commercial paper program costs \$0.1
Net Income	24,355	14,577	9,779	67.1%			

Notes:

- (1) Primarily for: Electricity \$2.2; Insurance \$0.5; Memberships/Subscriptions/Books \$0.2; Water & Gas \$0.2; Environmental Incentives \$0.2; Equipment Rental/Permits/Licenses/Fees \$0.2; Telephone \$0.1; Misc. \$0.1; Overhead Capitalization (\$0.2)
- (2) Primarily for: Interest Income \$1.3; Late Charges/Discounts/Misc. \$0.2; State Passthrough Revenue \$0.1
- (3) Primarily for: Interest Expense \$5.6; Capitalized Interest <\$5.5>; Loss on Asset Sales \$1.1; Capital Projects Closed to Expense \$1.0; Commercial Paper Costs/Loss on Sale of Assets/Misc. \$0.1