



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

Board of Harbor Commissioners

**DATE: MAY 25, 2017**

**FROM: FINANCIAL MANAGEMENT**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - ADOPTION OF  
PROPOSED FISCAL YEAR 2017/18 ANNUAL BUDGET**

**SUMMARY:**

Staff requests approval of the Fiscal Year (FY) 2017/18 Proposed Annual Budget (Proposed Budget) of \$1,174,951,829. 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**

<b>Sources:</b>		<b>Appropriations:</b>	
Operating Receipts	\$ 475,428,311	Operating Expenses	\$ 256,452,278
Non-Operating Receipts	23,516,144	Non-Operating Expenses	17,310,900
Grant Receipts (Capital)	10,152,961	Capital Budget	160,544,449
		Debt Repayments	37,615,000
Available Cash:		Projected Year-End Balances:	
Unrestricted Funds	577,070,655	Unappropriated Balance	614,245,444
Restricted Funds	88,783,758	Restricted Cash	88,783,758
<b>Total Sources</b>	<b>\$1,174,951,829</b>	<b>Total Appropriations</b>	<b>\$1,174,951,829</b>

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 2017/18 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 2017/18 Proposed Annual Budget documents in the implementation of this budget; and
4. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:****Financial Performance Goals**

Projected financial performance for FY 2017/18 relative to the current year is summarized below:

**TABLE 2: KEY BUDGET COMPONENTS**

	FY 2016/17 Adopted Budget	FY 2016/17 Estimates	FY 2017/18 Proposed Budget	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Cargo Volumes (TEUs)	8.53M	8.75M	9.00M	5.6%	2.8%
Operating Revenues	\$452.8M	\$449.3M	\$475.4M	5.0%	5.8%
Operating Expenses	\$249.0M	\$237.5M	\$256.5M	3.0%	8.0%
Income before Depreciation	\$203.8M	\$211.8M	\$219.0M	7.5%	3.4%
Net Income	\$29.5M	\$41.0M	\$46.5M	57.6%	13.3%
Capital Improvement Program	\$146.1M	\$116.4M	\$97.7M	(33.1%)	(16.1%)

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 2017/18
Debt Rating	AA	AA
Debt Service Coverage	2.0x	2.7x
Operating Margin	45%	46%

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. Transmittal 1 provides a detailed narrative 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 2016, and divisions submitted their proposed budgets in December 2016. After holding internal discussions with senior management, Harbor Department staff presented the Proposed Budget to the Board in April 2017.

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 City Council.

Since the presentation to the Board in March, subsequent adjustments and changes were made to the FY 2017/18 proposed expenses as follows:

Capital Equipment Purchases within the Capital Budget were increased by \$210,000 for storm water treatment equipment. In addition, total Operating Expenses were increased by \$433,467 as summarized below:

**TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING MARCH 2017 BOARD MEETING**

Proposed Total Operating Expenses, March 2015	\$ 256,018,811
Additions / (Subtractions):	
Provision for Workers Compensation	479,000
Outside Services – Misc. Professional Services	28,297
Salary & Benefit Changes	(73,830)
<b>Proposed Total Operating Expenses, June 2017</b>	<b>\$ 256,452,278</b>

Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2017 through June 30, 2018.

**Sources of Funds for Proposed Budget**

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2016/17 Adopted Budget (Adopted Budget) due to higher Operating Receipts from anticipated growth in Shipping Services Revenue derived from growth in cargo volumes.

**TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS TO THE FY 2016/17 ADOPTED BUDGET AND ESTIMATES**

(\$ in Thousands)	Adopted Budget FY 2016/17	Estimates FY 2016/17	Proposed Budget FY 2017/18	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Operating Receipts	\$ 452,809	\$ 449,338	\$ 475,428	5.0%	5.8%
Non-Operating Receipts	16,831	18,120	23,516	39.7%	29.8%
Grant Receipts (Capital)	31,937	33,694	10,153	(68.2%)	(69.9%)
Proceeds from Debt Issuance	108,985	229,589		n/a	n/a
Unrestricted Funds	432,084	445,289	577,071	33.6%	29.6%
Restricted Funds	126,402	127,109	88,784	(29.8%)	(30.2%)
<b>Total Sources</b>	<b>\$ 1,169,048</b>	<b>\$ 1,303,139</b>	<b>\$ 1,174,952</b>	<b>0.5%</b>	<b>(9.8%)</b>

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Operating Receipts

Comprising 40.5% of funding sources within the Proposed Budget, Operating Receipts represent the principal mechanism 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 FY 2016/17 Estimates (Estimates).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS TO THE FY 2016/17 ADOPTED BUDGET AND ESTIMATES**

(\$ in Thousands)	Adopted Budget FY 2016/17	Estimates FY 2016/17	Proposed Budget FY 2017/18	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Shipping Services	\$ 382,617	\$ 374,034	\$ 396,531	3.6%	6.0%
Rentals	41,706	47,148	51,603	23.7%	9.5%
Royalties and Fees	10,326	10,431	10,484	1.5%	0.5%
Clean Truck Fees	2,264	2,319	2,388	5.5%	3.0%
Other Operating	15,896	15,407	14,422	(9.3)	(6.4%)
<b>Total Operating Receipts</b>	<b>\$ 452,809</b>	<b>\$ 449,339</b>	<b>\$ 475,428</b>	<b>5.0%</b>	<b>5.8%</b>
<b>Cargo Volumes (TEUs in Thousands)</b>	<b>8,525</b>	<b>8,754</b>	<b>9,000</b>	<b>5.6%</b>	<b>2.8%</b>

During FY 2016/17, cargo volumes have increased relative to both budget and prior year, and looking forward to FY 2017/18, cargo volumes are expected to grow by 5.6% relative to the Adopted Budget and 2.8% relative to Estimates.

Operating Receipts will continue to be driven by cargo-related activities as Shipping Services Revenue is anticipated to comprise approximately 83.4% of \$475.4 million in projected total Operating Receipts. The increase in total Operating Receipts as compared to the Adopted Budget primarily results from anticipated growth in Shipping Services Revenue derived from growth in cargo volumes as well as higher rental revenues. Shipping Services Revenue growth is expected to account for 86.2% of the \$26.1 million increase in total Operating Revenues relative to Estimates, which is primarily driven by Wharfage fee increases related to cargo growth, and also a 27.1% increase in Pilotage fees.

Non-Operating Receipts

Proposed Non-Operating Receipts include \$15.4 million in grants (including pass-through grants) and fees, \$7.5 million in investment/interest income, and \$0.3 million in other non-operating revenues. Proposed Non-Operating Receipts are anticipated to increase relative to both the Adopted Budget and Estimates primarily due to higher pass-through grant receipts.

Capital Grant Receipts

Anticipated to comprise \$10.2 million of the Proposed Budget, Capital Grant Receipts are expected to decline by \$21.8 million relative to the Adopted Budget as certain grant programs will conclude in FY 2016/17 including the West basin Rail Yard and a variety of components of the Trade Corridor Improvement Fund Program (TCIF). The final

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remaining components of the TCIF are scheduled to be completed in FY 2017/18 in the amount of \$4.2 million.

*Available Cash-on-Hand*

The Proposed Budget includes Unrestricted Funds and Restricted Funds which comprise 49.1% and 7.6% 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 \$88.8 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 Harbor Department has made Unrestricted Funds available within the Unappropriated Balance (UB) in order to meet needs that were unanticipated during budget development or that were insufficiently defined to allow for a more specific appropriation. In FY 2017/18, the UB 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 the Harbor Department's key financial metric to maintain strong credit ratings. The Proposed Budget includes \$577.1 million in unrestricted cash which, based upon proposed Operating Expenses of \$256.5 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 slightly relative to the Adopted Budget by 0.5% due primarily to an increase in the UB resulting from the receipts of debt issuances in FY 2016/17 and lower overall funding for the Capital Budget in FY 2017/18.

**TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS  
TO THE FY 2016/17 ADOPTED BUDGET AND ESTIMATES**

(\$ in Thousands)	Adopted Budget FY 2016/17 *	Estimates FY 2016/17	Proposed Budget FY 2017/18	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Operating Expenses	\$ 249,042	\$ 237,516	\$ 256,452	3.0%	8.0%
Capital Budget	210,262	176,014	160,544	(23.7%)	(8.8%)
Non-Operating Expenses *	19,094	11,991	17,311	(9.3%)	44.4%
Debt Repayments and Accruals	173,443	211,763	37,615	(78.3%)	(82.2%)
Unappropriated Balance (UB) *	419,907	577,071	614,245	46.3%	6.4%
Restricted Cash	97,300	88,784	88,784	(8.8%)	0.0%
<b>Total Appropriations</b>	<b>\$ 1,169,048</b>	<b>\$ 1,303,139</b>	<b>\$ 1,174,952</b>	<b>0.5%</b>	<b>(9.8%)</b>

\* Includes a \$5.1M Mid-Year Transfer from the UB to Non-Operating Expenses for pass-through grants expenses.

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Operating Expenses

The FY 2017/18 Proposed Budget includes total Operating Expenses of \$256.5 million which represent a 3.0% increase relative to the Adopted Budget and an 8.0% increase relative to Estimates. The increases in total Operating Expenses relative to both the Adopted Budget and Estimates are expected to be driven mostly by increases in Salaries and Benefits and City Services.

TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES TO THE FY 2016/17 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2016/17 *	Estimates FY 2016/17	Proposed Budget FY 2017/18	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Salaries and Benefits *	\$ 130,536	\$ 129,438	\$ 136,433	4.5%	5.4%
Marketing and Public Relations	3,269	3,118	3,193	(2.3%)	2.4%
Travel	916	846	905	(1.2%)	7.0%
Outside Services	36,118	32,599	34,663	(4.0%)	6.3%
Materials and Supplies	7,266	6,873	7,008	(3.6%)	2.0%
City Services *	45,741	45,001	46,902	2.5%	4.2%
Allocations to Capital	(13,697)	(16,613)	(13,718)	0.2%	(17.4%)
Other Operating Expenses	38,893	36,254	41,065	5.6%	13.3%
<b>Total Operating Expenses</b>	<b>\$ 249,042</b>	<b>\$ 237,516</b>	<b>\$ 256,452</b>	<b>3.0%</b>	<b>8.0%</b>

\*Includes a \$3.3M Mid-Year Transfer for the FY 2016/17 Adopted Budget from Salaries and Benefits to City Services.








**Salaries and Benefits** of \$136.4 million (net of \$14.8 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 2017/18. Therefore, although 999 positions are authorized within the Proposed Budget, the \$136.4 million Salaries and Benefits budget represents funding for an average of 932 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 9: PROPOSED SALARIES AND BENEFITS (BEFORE CAPITALIZATION, \$151.2 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2017/18	Proposed Salaries & Benefits as a % of Total
Construction and Maintenance	284	\$ 32,916	21.8%
Port Police	231	32,729	21.6%
Engineering	91	16,213	10.7%
Construction	69	12,341	8.2%
Port Pilots	30	10,252	6.8%
Cargo Marketing, Planning, Real Estate, Wharfingers	68	9,764	6.5%
Finance	58	8,509	5.5%
Information Technology	45	7,958	5.3%
Human Resources, & Contracts and Purchasing	39	6,148	4.1%
External Relations Divisions	38	5,498	3.6%
Environmental Management	28	4,600	3.0%
Executive	14	3,626	2.4%
Goods Movement	4	691	0.5%
<b>Total</b>	<b>999</b>	<b>\$ 151,245</b>	<b>100.0%</b>

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Relative to the Adopted Budget, Proposed Salaries and Benefits are projected to increase by \$5.8 million due to:

-  \$3.3 million for more anticipated filled positions as compared to FY 2016/17;
-  \$2.2 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, and position upgrades;
-  \$0.8 million in higher pension and health care contributions; and
-  \$0.3 million in higher bonuses and miscellaneous employee benefits pay; partially offset by:
  -  \$0.4 million in higher direct Salary and Benefits allocations to capital;
  -  \$0.3 million in a higher true-up/refund for retirement plan payments; and
  -  \$0.1 million in lower overtime.

**Marketing and Public Relations** expenses of \$3.2 million include Port-wide marketing activities such as customer and community outreach and sponsorships. Proposed expenses in this category are basically flat relative to the Adopted Budget and Estimates as increases in business and governmental promotional expenses were mostly offset by decreased spending for advertising and publications.

**Travel** expenses of \$904,711 are primarily allocated towards marketing efforts to retain and grow business and promote employee development. Of the \$833,111 in proposed domestic and foreign travel expenses, \$280,500 or 33.7% is budgeted in the Cargo Marketing division and \$207,000 or 24.8% 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 1.2% decrease relative to the Adopted Budget. This marks the second year of reductions to travel, with a reduction of 12.4% in the previous year.

**Outside Services** of \$34.7 million are \$1.5 million lower relative to the Adopted Budget as \$2.8 million in lower environmental consultant costs, \$0.4 million in lower financial services, including outside legal counsel, and \$0.3 million in miscellaneous consulting services are only partially offset by \$1.0 million in higher maintenance services costs for dredging, buildings, wharves, grounds and equipment, \$0.7 million for additional hiring hall labor expenses, and \$0.3 million in higher information technology (IT) systems consulting/maintenance.

Among the larger components of proposed Outside Services are \$7.9 million or 22.8% for maintenance services (including building, land, wharves, dredging, and underwater diving), \$7.3 million or 21.1% for environmental and remediation services, and \$5.8 million or 16.6% for IT (including systems consulting and maintenance for software and hardware), 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).

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TABLE 10: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2017/18	Proposed as a % of total
Maintenance Dredging, Building, Wharf, Grounds and Equipment Maintenance	\$ 7,914	22.8%
Environmental Remediation & Site Restoration	7,310	21.1%
IT Systems Consulting and Hardware / Software Maintenance	5,762	16.6%
Hiring Hall Salaries and Benefits	2,695	7.8%
Security Camera Maintenance & Repair	2,500	7.2%
Cruise Terminal Operations	1,927	5.6%
Outside Counsel	1,712	4.9%
Other	4,843	14.0%
<b>Total Outside Services</b>	<b>\$ 34,663</b>	<b>100.0%</b>

**Materials and Supplies** spending of \$7.0 million represents approximately a \$258,000 decrease compared to the Adopted Budget and almost a \$136,000 increase compared to Estimates. The year-to-year Adopted-to-Proposed Budget reduction is driven by an overall reduction in operating supplies and equipment fuels, which is partially offset by an increase in parts & materials.

**City Services** of \$46.9 million are for services rendered by other City departments for Port operations. The primary drivers of this component include \$26.6 million for Fire Department services, \$10.4 million for recreational facilities operated by the Recreation and Parks Department (i.e., Cabrillo Marine Aquarium, parks, museums), and \$5.6 million for City Attorney services. Proposed expenses are 2.5% higher compared to the Adopted Budget and 4.2% higher compared to 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 Capital Improvement Program (CIP). Overhead allocations to capital are expected to decrease relative Adopted Budget and remain flat to Estimates as the Capital Budget continues in a cycle of lower spending.

**Other Operating Expenses** are summarized as follows:

TABLE 11: COMPARISON OF PROPOSED BUDGET OTHER OPERATING EXPENSES TO THE FY 2016/17 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2016/17	Estimates FY 2016/17	Proposed Budget FY 2017/18	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Utilities	\$ 19,058	\$ 15,747	\$ 18,661	(2.1%)	18.5%
Provisions for Bad Debt	6,549	6,710	7,111	8.6%	6.0%
Environmental Initiatives	3,694	4,170	3,873	4.9%	(7.1%)
Insurance	3,262	3,175	3,335	2.2%	5.0%
Litigation/Workers' Comp Claims	2,105	2,105	2,329	10.6%	10.6%
Telephone	1,815	1,866	1,752	(3.4%)	(6.1%)
Other Operating Expenses	2,410	2,480	4,003	66.1%	61.5%
<b>Total Other Operating Expenses</b>	<b>\$ 38,893</b>	<b>\$ 36,254</b>	<b>\$ 41,065</b>	<b>5.6%</b>	<b>13.3%</b>

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The \$18.7 million appropriation for Utilities represents 45.4% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$16.1 million for electricity expenses, proposed utility spending is budgeted to increase relative to 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. Proposed electricity expenses consist of \$11.9 million in Alternative Maritime Power (AMP<sup>TM</sup>) related expenses, approximately 95% of which are reimbursed by customers.

Relative to the Adopted Budget, the overall increase in proposed provisions for bad debt is primarily driven by an increase to the reserve against FY 2017/18 proposed license fees related to the Southern California International Gateway facility.

The \$3.9 million appropriation for environmental initiatives includes \$1.6 million in incentive payouts for the Vessel Speed Reduction Program, \$1.1 million for administrative costs for the Clean Truck Program, \$0.8 million for incentive payouts for the Technology Advancement Program, \$0.3 million for incentive payouts related to the Environmental Shipping Index, and \$0.1 million for incentive payouts for the Marina Engine Exchange Program.

Capital Budget

The proposed Capital Budget of \$160.5 million is projected to be lower than the Adopted Budget and Estimates primarily due to less CIP spending on terminal and transportation-related projects partially offset by increases for equipment purchases and land acquisition, summarized as follows:

TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET  
TO THE FY 2016/17 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2016/17	Estimates FY 2016/17	Proposed Budget FY 2017/18	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Estimates
Capital Improvement Program:					
Terminal Improvements	\$ 87,638	\$ 73,672	\$ 41,637	(52.5%)	(43.5%)
Transportation Projects	16,176	20,111	7,809	(51.7%)	(61.2%)
Security Projects	1,068	1,146	2,219	107.8%	93.6%
Public Access / Env. Enhancements	16,841	7,017	18,174	7.9%	159.0%
Maritime Services	24,368	14,441	27,830	14.2%	92.7%
<b>Capital Improvement Program, Total</b>	<b>146,091</b>	<b>116,387</b>	<b>97,669</b>	<b>(33.1%)</b>	<b>(16.1%)</b>
Capitalized Expenditures	58,575	54,157	45,863	(21.7%)	(15.3%)
Land & Property Acquisition			1,000		
Equipment Purchases	5,596	5,471	16,012	186.1%	192.7%
<b>Total Capital Budget</b>	<b>\$ 210,262</b>	<b>\$ 176,014</b>	<b>\$ 160,544</b>	<b>(23.6%)</b>	<b>(8.8%)</b>

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**Capital Improvement Program** - The \$97.7 million proposed CIP is lower relative to both the Adopted Budget and Estimates. In FY 2017/18, the annual budget for terminal projects is being reduced by 52.5% or \$46.0 million as compared to the Adopted Budget. Significant terminal improvement efforts nearing completion in FY 2016/17 include the Trapac container terminal's crane maintenance building and 72 acres of backland development. Also, major construction at the Yusen container terminal (YTI) took place in FY 2016/17 with the annual budget decreasing by 75.9% in FY 2017/18 as construction at the site begins to enter into its final phases; major projects continuing into FY 2017/18 include the expansion of the Terminal Island Container Transfer Facility (TICTF) and preparation for wharf improvements.

The proposed CIP dedicates 42.6% of funding to Terminal Improvements. Proposed funds for Terminal Improvements include \$11.2 million for the World Cruise Center comprising an AMP™ upgrade and retrofit, and other facility improvements; \$8.1 million for the YTI program's AMP™, TICTF, and wharf improvements; and \$7.9 million for the design of improvements at liquid bulk oil cargo handling facilities in compliance with Marine Oil Terminal Engineering Maintenance Standards (MOTEMS). Other key terminal projects include improvements and environmental document preparation at the Everport Terminal Services (Evergreen) and West Basin Container Terminal (Yang Ming and China Shipping).

Transportation projects (roadway and rail improvements) are budgeted at \$7.8 million or 8.0% of the proposed CIP budget and include multiple resurfacing projects and construction of enhancements for the Berth 200 rail yard. Overall, the Harbor Department's Transportation Improvement Program will allow for safer and more efficient port operations. Also in the CIP, there is \$18.2 million for Public Access/Environmental Enhancements, including \$13.2 million for projects at the San Pedro Waterfront with \$8.7 million dedicated to the Harbor Blvd. Roadway Improvement Project which will streamline traffic flow and reduce congestion for the planned San Pedro Public Market. Approximately \$3.0 million is funded for the design of improvements on the Wilmington Waterfront including \$1.7 million for the design of the Wilmington Waterfront Promenade. 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 2017/18 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2017/18 and provides estimated allocations for the next four years along with total project costs. Over the five-year period, extending from FY 2017/18 through and including FY 2021/22, the Harbor Department expects to spend approximately \$482.8 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 2017/18 portion of this plan is being brought before the Board for adoption.

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**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 capitalization of interest expenses.

**Land and Property Acquisition** include \$1.0 million in FY 2017/18 for the acquisition of land in Wilmington to be utilized as part of the development of the Wilmington Waterfront.

**Equipment Purchases** within the Proposed Budget are expected to increase substantially relative to the Adopted Budget and Estimates as previously deferred equipment needs, such as vehicle purchases, are funded in FY 2017/18.

**Non-Operating Expenses**

Budgeted at \$17.3 million, proposed Non-Operating Expenses are expected to be driven by \$13.5 million in state and federal grant pass-through expenses, \$2.5 million in cancelled capital projects, \$0.7 million in commercial paper issuance costs, \$0.5 million in debt interest expenses, and \$110,000 in other non-operating 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 2017/18 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.

**FINANCIAL IMPACT:**

Approval of the FY 2017/18 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations in the next fiscal year. The \$1,174,951,829 Proposed Budget is aligned with the Port's updated Strategic Plan and meets or exceeds 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.

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2017/18 BUDGET

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 2017/18 Proposed Annual Budget
- 2. Five-Year Capital Expenditure Plan

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



JEFFREY STRAFFORD  
 Budget Manager



MARLA BLEAVINS  
 Deputy Executive Director & Chief Financial Officer

APPROVED:



EUGENE D. SEROKA <sup>FOR</sup>  
 Executive Director

Author: J. Stafford  
 MB:JS:MM:JY:DC;JA