



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: OCTOBER 12, 2016

TO: BOARD OF HARBOR COMMISSIONERS

SUBJECT: FINANCIAL PERFORMANCE RESULTS FOR
FISCAL YEAR 2016/17 ENDED SEPTEMBER 30, 2016

Financial performance results for the first quarter of Fiscal Year (FY) 2016/17 are below and have been summarized relative to both budget and the prior fiscal year. For the month of September, cargo volumes (as measured by TEUs or twenty-foot equivalent units) increased 2.4% relative to September 2015 due to higher loaded import and export volumes. In summary, performance results for the Harbor Department are as follows:

FYTD September 2016	Actuals (Cargo Volumes in Thousands, \$ in Millions)	Actual-to- Budget Comparison	Year-on-Year Comparison
Cargo Volumes	2,235	↓ (0.1%)	↑ 0.8%
Operating Revenues	\$106.4	↓ (2.7%)	↑ 2.7%
Operating Expenses	\$ 50.3	↓ (15.9%)	↑ 2.7%
Operating Income	\$ 56.2	↑ 13.1%	↑ 2.7%
Net Income	\$ 15.5	↑ 144.1%	↑ 69.2%

Through the first three months of FY 2016/17, cargo volumes were approximately flat relative to budget. However, total Operating Revenues declined versus budget primarily due to the delayed implementation of various container terminal rate resets and increases which are currently in negotiation as well as lower electricity reimbursements. Relative to the prior fiscal year-to-date period, cargo volumes have increased by 0.8%. This increase in cargo volumes drove Shipping Services revenues and total Operating Revenues higher despite the receipt of lower one-time insurance payouts.

Operating Expenses were favorably impacted as invoicing delays with respect to outside services, lower electricity expenses as well as higher salary and overhead capitalization drove total Operating Expenses 15.9% below budget. Relative to the prior

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SUBJECT: FINANCIAL PERFORMANCE RESULTS

fiscal year, total Operating Expenses increased by 2.7% due to higher average headcounts and Memorandum of Understanding salary increases.

Operating margins for the first quarter were reported at 52.8% versus a budget of 45.4% and a prior year figure of 52.8%. 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 2016/17 progresses.

Capital Improvement Program (CIP)

CIP spending for the FYTD period ended September 30, 2016 based on internal estimates reached \$25.5 million or about 17% of the total \$146.1 million CIP adopted budget. The Harbor Department is projecting to spend close to the total CIP adopted budget by fiscal year-end.


EUGENE D. SEROKA
Executive Director

Transmittals:

1. TEU Throughput Comparison – FYTD September 2016
2. Actual-to-Budget FY 2016/17 – September
3. Year-to-Year Performance Report YTD September 30, 2016 and 2015

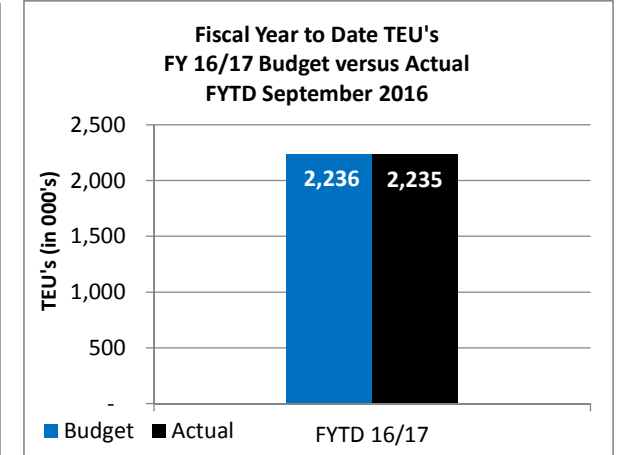
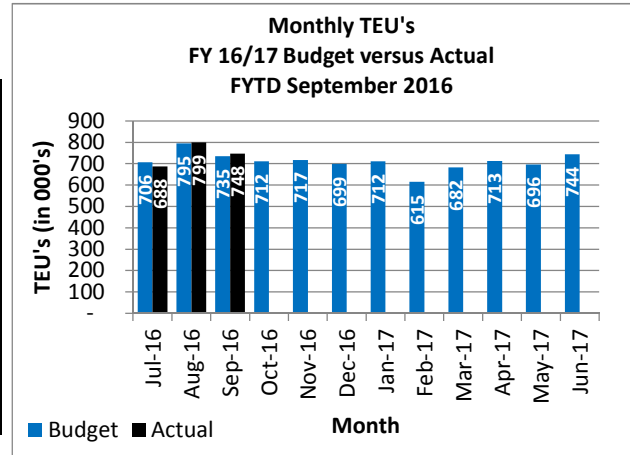
Author: M. Marchese

MB
MB:MM/Finance
cc: Deputy Executive Directors

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
TEU THROUGHPUT COMPARISON - FYTD SEPTEMBER 2016

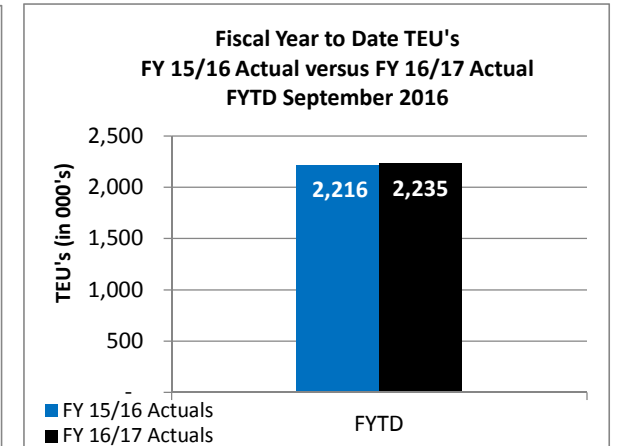
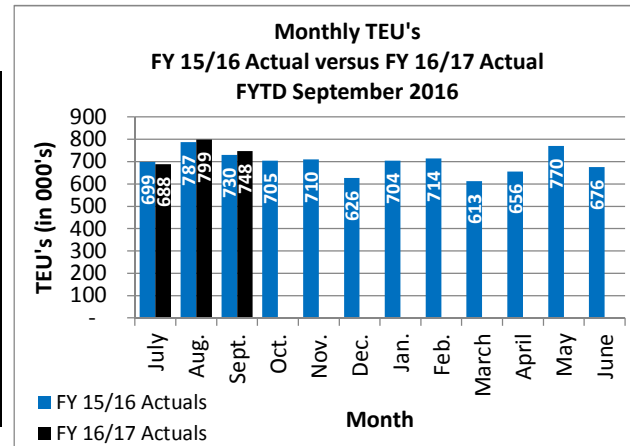
Budget versus Actuals Comparison
FY 16/17 Budget vs. FY 16/17 Actuals

(in 000's)	TEU's		% Δ	Δ
Month	FY 16/17 Budget	FY 16/17 Actuals		
Jul-16	706	688	-2.6%	↓
Aug-16	795	799	0.6%	↑
Sep-16	735	748	1.7%	↑
Oct-16	712			
Nov-16	717			
Dec-16	699			
Jan-17	712			
Feb-17	615			
Mar-17	682			
Apr-17	713			
May-17	696			
Jun-17	744			
FYTD 16/17	2,236	2,235	-0.1%	↓
FY 16/17 Budget	8,526			



Year-to-Year Actuals Comparison
FY 15/16 Actuals vs. FY 16/17 Actuals

(in 000's)	TEU's		% Δ	Δ
Month	FY 15/16 Actuals	FY 16/17 Actuals		
July	699	688	-1.6%	↓
Aug.	787	799	1.6%	↑
Sept.	730	748	2.4%	↑
Oct.	705			
Nov.	710			
Dec.	626			
Jan.	704			
Feb.	714			
March	613			
April	656			
May	770			
June	676			
FYTD	2,216	2,235	0.8%	↑
FY 15/16 Actuals	8,391			



\$ in thousands	Fiscal Year Actual	Fiscal Year Budget	Actual-to-Budget		Notes (\$ in millions)
	FY 2016/17	FY 2016/17	Comparison		
	Fiscal YTD - Sep. 2016	Fiscal YTD - Sep. 2016	\$	%	
Operating Revenues					
Shipping Services	90,613	94,267	(3,654)	(3.9%)	Lower than budgeted wharfage <\$3.5>, lower dockage <\$0.7> and lower pilotage <\$0.1>, partially offset by higher space assignment \$0.7
Rentals	12,240	10,469	1,770	16.9%	Higher land rent \$1.8, offset by slightly lower building, warehouse & wharf/shed rents
Royalties, Fees and Other Revenues	3,091	4,289	(1,198)	(27.9%)	Lower utility reimbursements <\$1.2>, lower misc. revenues <\$0.6> and higher credits for tenant services <\$0.5>, partially offset by higher operating refunds & reimbursements \$0.5, higher railroad lease accruals \$0.3 and higher permits & fees \$0.3
Clean Truck Program Revenues	482	393	89	22.6%	
Total Operating Revenues	106,426	109,418	(2,992)	(2.7%)	
Operating Expenses					
Gross Salaries & Benefits	37,061	37,614	(552)	(1.5%)	Lower average filled positions
Capitalization	(6,682)	(3,621)	(3,061)	84.5%	Overhead allocations <\$2.4> and higher direct capitalization <\$0.7>
Net Salaries & Benefits	30,379	33,992	(3,613)	(10.6%)	
Marketing & Public Relations	925	603	322	53.4%	Timing of sponsorship payments \$0.6, partially offset by lower promotional <\$0.2> and overhead capitalization <\$0.1>
Travel	98	271	(173)	(63.7%)	
Outside Services	3,354	7,216	(3,862)	(53.5%)	Timing of environmental assessment costs <\$1.3>, lower outside counsel spending <\$0.5>, lower building maintenance costs <\$0.5>, timing of software & IT consulting costs <\$0.5>, lower port police spending <\$0.4>, timing of government affairs spending <\$0.1> and overhead allocations <\$0.2>
Materials & Supplies	766	1,717	(951)	(55.4%)	
City Services	9,709	10,728	(1,019)	(9.5%)	Overhead allocations <\$0.8> and lower Public Works payments <\$0.2>
(1) Allocations to Capital - Overhead		(3,424)	3,424	(100.0%)	Higher aggregate overhead allocations \$1.0
(2) Other Operating Expenses	4,904	8,409	(3,505)	(41.7%)	Lower electricity <\$1.5>, timing of environmental incentives <\$0.5>, timing of workers' compensation <\$0.5>, lower water & gas <\$0.3>, lower telephone expenses <\$0.2>, lower memberships/subscriptions/books <\$0.1> and overhead allocations <\$0.4>
Clean Truck Program Expenses	128	236	(108)	(46.0%)	
Total Operating Expenses	50,262	59,748	(9,485)	(15.9%)	
Income Before Depreciation	56,163	49,671	6,493	13.1%	
Provision For Depreciation	42,758	43,001	(243)	(0.6%)	
Income From Operations	13,406	6,669	6,736	101.0%	
(3) Non-Operating Revenue	2,391	3,739	(1,348)	(36.0%)	Lower pass-through grant receipts <\$1.8>, lower gains on asset sales <\$0.2> and lower interest/investment income <\$0.1>, partially offset by higher federal/state operating grants \$0.6 and higher reimbursable EIR expenses \$0.2
(4) Non-Operating Expenses	(346)	(4,080)	3,733	(91.5%)	Lower pass-through grant disbursements \$1.8, lower interest expense \$1.5, timing of bond issuance costs \$1.0, timing of capital projects closed to expense \$0.6, lower losses on asset sales \$0.2 and lower misc. non-operating expenses \$0.1, partially offset by lower interest capitalization <\$1.5>
Net Income	15,451	6,329	9,122	144.1%	

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 \$4.4 million relative to a budget of \$3.4 million.
- (2) Primarily for: Electricity \$2.6; Insurance \$0.8; Water & Gas \$0.6; Environmental Incentives \$0.4; Telephone \$0.4; Equipment Rental/Permits/License/Fees \$0.3; Memberships/Subscriptions/Books \$0.2; Overhead Capitalization (\$0.4)
- (3) Primarily for: Interest/Investment Income \$1.4; Federal/State Operating Grants \$0.5; Rebates/Late Charges/Discounts/Misc. \$0.2; Reimbursable EIR Expenses \$0.2
- (4) Primarily for: Interest Expense \$9.9; Capitalized Interest <\$9.8>; Commercial Paper Costs \$0.2

\$ in thousands	Current Fiscal Year	Prior Fiscal Year	Year-over-Year		Notes (\$ in millions)
	FY 2016/17	FY 2015/16	Change		
	Fiscal YTD - Sep. 2016	Fiscal YTD - Sep. 2015	\$	%	
Operating Revenues					
Shipping Services	90,613	84,773	5,840	6.9%	Higher overall wharfage \$5.4, higher space assignment \$0.7, and higher pilotage \$0.3, partially offset by lower dockage <\$0.6>
Rentals	12,240	10,686	1,554	14.5%	Permit assignment to PBF Energy \$1.9 as well as new permits issued and rental rate increases \$1.5, partially offset by cancellation of Exxon Mobil permit <\$1.7> and other permit terminations <\$0.1>
Royalties, Fees and Other Revenues	3,091	7,766	(4,675)	(60.2%)	Lower one-time reimbursements <\$4.5>, lower utility reimbursements <\$0.4> and credits for tenant services <\$0.1>, partially offset by higher permits & fees \$0.3
Clean Truck Program Revenues	482	389	92	23.7%	Higher annual truck fees \$0.1
Total Operating Revenues	106,426	103,615	2,811	2.7%	
Operating Expenses					
Gross Salaries & Benefits	37,061	33,594	3,468	10.3%	Higher average filled positions
Capitalization	(6,682)	(5,694)	(988)	17.4%	Higher salary capitalization <\$0.7> and higher overhead capitalization <\$0.3>
Net Salaries & Benefits	30,379	27,900	2,479	8.9%	
Marketing & Public Relations	925	296	629	212.4%	Timing of sponsorship and promotional payments \$0.7, partially offset by higher overhead capitalization <\$0.1>
Travel	98	109	(11)	(10.1%)	
Outside Services	3,354	3,860	(506)	(13.1%)	Lower I.T. software and consulting costs <\$0.4>, lower red car spending <\$0.2>, timing of environmental assessment services <\$0.2>, partially offset by lower capitalization of C&M services \$0.2 and higher cruise terminal operator costs \$0.1
Materials & Supplies	766	1,221	(455)	(37.3%)	Higher overhead capitalization <\$0.4>
City Services	9,709	8,777	932	10.6%	Higher fire services \$0.8, higher recreation and parks \$0.2, higher city attorney \$0.1, partially offset by lower public works <\$0.2>
(1) Other Operating Expenses	4,904	6,719	(1,815)	(27.0%)	Lower electricity <\$0.8>, timing of pollution remediation expenses <\$0.8> and higher overhead allocations <\$0.2>
Clean Truck Program Expenses	128	53	75	142.0%	
Total Operating Expenses	50,262	48,935	1,327	2.7%	
Income Before Depreciation	56,163	54,680	1,484	2.7%	
Provision For Depreciation	42,758	45,482	(2,724)	(6.0%)	
Income From Operations	13,406	9,198	4,208	45.7%	
(2) Non-Operating Revenue	2,391	1,423	969	68.1%	Higher federal grants \$0.5, higher reimbursable EIR expenses \$0.2, higher interest income \$0.1 and higher misc. non-operating revenues \$0.1
(3) Non-Operating Expenses	(346)	(1,487)	1,141	(76.7%)	Lower interest expense \$0.9, timing of capital projects closed to expense \$0.5 and lower bond redemption accounting adjustment \$0.3, partially offset by lower interest capitalization <\$0.6>
Net Income	15,451	9,133	6,317	69.2%	

Notes:

- (1) Primarily for: Electricity \$2.6; Insurance \$0.8; Water & Gas \$0.6; Environmental Incentives \$0.4; Telephone \$0.4; Equipment Rental/Permits/License/Fees \$0.3; Memberships/Subscriptions/Books \$0.2; Overhead Capitalization (\$0.4)
- (2) Primarily for: Interest/Investment Income \$1.4; Federal/State Operating Grants \$0.5; Rebates/Late Charges/Discounts/Misc. \$0.2; Reimbursable EIR Expenses \$0.2
- (3) Primarily for: Interest Expense \$9.9; Capitalized Interest <\$9.8>; Commercial Paper Costs \$0.2