



**DATE: MAY 26, 2015**

**FROM: FINANCE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - ADOPTION OF  
PROPOSED FISCAL YEAR 2015/16 ANNUAL BUDGET**

**SUMMARY:**

The City of Los Angeles Harbor Department (Harbor Department) staff requests approval of the Fiscal Year (FY) 2015/16 Proposed Annual Budget (Proposed Budget) of \$1,001,086,096. The Proposed Budget is aligned with the Updated 2012 – 2017 Strategic Plan (Strategic Plan Update) and will enable the 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 customers by providing superior infrastructure and promoting efficient operations as well as forge 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	\$ 428,588,311	Operating Expenses	\$ 233,484,156
Non-Operating Receipts	8,632,564	Non-Operating Expenses	7,886,130
Grant Receipts (Capital)	49,272,764	Capital Budget	263,234,156
		Debt Repayments	35,500,000
		Accrual Adjustments	9,481,654
Available Cash:		Projected Year-End Balances	
Unrestricted Funds	401,846,517	Unappropriated Balance	354,000,000
Restricted Funds	112,745,940	Restricted Cash	97,500,000
<b>Total Sources</b>	<b>\$1,001,086,096</b>	<b>Total Uses</b>	<b>\$1,001,086,096</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. Adopt the Fiscal Year 2015/16 Proposed Annual Budget for the City of Los Angeles Harbor Department and appropriate funds in accordance herewith;

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2. Authorize the Executive Director, or his designee, to make any technical adjustments consistent with the Board action(s) to the Fiscal Year 2015/16 Proposed Annual Budget documents in the implementation of this budget; and
3. Adopt Resolution No. \_\_\_\_\_.

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

Projected financial performance for FY 2015/16 relative to the current year is summarized below:

TABLE 2: KEY BUDGET COMPONENTS

	FY 2014/15 Adopted Budget	FY 2014/15 Estimates	FY 2015/16 Proposed Budget	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
Cargo Volumes (TEUs)	8.2M	8.2M	8.4M	1.8%	2.0%
Operating Revenues	\$418.4M*	\$422.5M	\$428.6M	2.4%	1.5%
Operating Expenses	\$237.7M**	\$226.3M	\$233.5M	-1.8%	3.2%
Income before Depreciation	\$180.7M	\$196.1M	\$195.1M	8.0%	-0.5%
Net Income	\$59.6M	\$84.3M	\$65.7M	10.2%	-22.1%
Capital Improvement Program	\$270.8M	\$242.0M	\$198.8M	-26.6%	-17.8%

\* The Adopted Budget was adjusted to include \$10.2 million in additional AMP™-related utility expenses which were originally unbudgeted. However, corresponding reimbursements of \$10.1 million were not included in revenues within the Adopted Budget. Adopted Operating Revenues would total \$428.5 million and Proposed Operating Revenues would be approximately flat relative to the Adopted Budget if the Adopted Budget was adjusted to include the additional AMP™-related utility reimbursements which correspond to the additional AMP™-related utility expenses.

\*\* Includes \$10.2 million in Unappropriated Balance transfers and \$10.2 million Capital Budget transfers for a total of \$20.4 million in transfers to the Operating Expenses Budget, approved by the Board in FY 2014/15.

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 2015/16
Debt Rating	AA	AA
Debt Service Coverage	2.0x	2.3x
Operating Margin	45%	46%
Days Cash-on-Hand	500 days	628 days

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. Refer to the narrative provided within Transmittal 1 for further details as to how the Proposed Budget supports the Strategic Plan Update.

**SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2015/16 BUDGET****Budget Development Process**

Following the Board's adoption of the Strategic Plan Update, staff finalized budget priorities and targets in late October 2014, and divisions submitted their proposed budgets in December 2014. After holding internal discussions with senior management, Harbor Department staff presented the Proposed Budget to the Board in March 2015. Since the presentation to the Board in March, subsequent adjustments and changes were made to the FY 2015/16 proposed receipts and expenses as follows:

Projected cargo volumes for FY 2015/16 (as measured in twenty-foot equivalent units or TEUs) were reduced by 141,888 TEUs or 1.67% based on a downward revision of current fiscal year cargo estimates from 8.3 million to 8.2 million TEUs, which resulted in a \$4.4 million or 1.0% reduction in proposed operating receipts.

Expense reductions to the Proposed Budget resulted in a \$0.2 million decrease in the Capital Improvement Program (CIP) budget as projected spending estimates were refined. In addition, total operating expenses were reduced by approximately \$0.6 million as summarized below:

**TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING MARCH 2015 BOARD MEETING**

Proposed Total Operating Expenses, March 2015	\$ 234,072,123
Additions / (Subtractions):	
Long-Term Cargo Forecast	70,000
Clean Air Action Plan (CAAP) Update	225,000
Salary & Benefit Changes	(249,016)
Reduction for Waste Services	(200,000)
Credit for FY 2014/15 Pension Contribution	(433,951)
<b>Proposed Total Operating Expenses, June 2015</b>	<b>\$ 233,484,156</b>

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 Council. Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2015 through June 30, 2016.

**Sources of Funds for Proposed Budget**

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2014/15 Adopted Budget (Adopted Budget) due to higher expected operating receipts from Alternative Maritime Power (AMP™)-related utility reimbursements and proceeds from the issuance of \$362.3 million of debt in September 2014 that reimbursed the Harbor Department for capital expenditures. No additional proceeds from debt issuance are anticipated to be received in FY 2015/16; therefore, proposed sources of funds are expected to decline relative to FY 2014/15 Estimates (Estimates).

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TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS TO THE FY 2014/15 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2014/15	Estimates FY 2014/15	Proposed Budget FY 2015/16	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
Operating Receipts	\$ 418,400	\$ 422,451	\$ 428,588	2.4%	1.5%
Non-Operating Receipts	8,172	13,864	8,633	5.6%	(37.7%)
Grant Receipts (Capital)	114,611	90,552	49,273	(57.0%)	(45.6%)
Proceeds from Debt Issuance	-	362,275	-	n/a	(100.0%)
Unrestricted Funds	299,402	262,729	401,846	34.2%	53.0%
Restricted Funds	98,233	97,114	112,746	14.8%	16.1%
<b>Total Sources</b>	<b>\$ 938,818</b>	<b>\$ 1,248,985</b>	<b>\$ 1,001,086</b>	<b>6.6%</b>	<b>(19.8%)</b>

Operating Receipts

Comprising 42.8% of funding sources within the Proposed Budget, operating receipts represent one of the principal mechanisms 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 Estimates.

TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS TO THE FY 2014/15 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2014/15	Estimates FY 2014/15	Proposed Budget FY 2015/16	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
Shipping Services	\$ 370,414	\$ 360,604	\$ 364,574	(1.6%)	1.1%
Rentals	41,585	35,681	36,001	(13.4%)	0.9%
Royalties and Fees	2,319	7,795	9,307	301.3%	19.4%
Clean Truck Fees	1,459	3,369	1,975	35.4%	(41.3%)
Other Operating	2,622	15,002	16,731	538.0%	11.5%
<b>Total Operating Receipts</b>	<b>\$ 418,400</b>	<b>\$ 422,451</b>	<b>\$ 428,588</b>	<b>2.4%</b>	<b>1.5%</b>
<b>Cargo Volumes (TEUs in thousands)</b>	<b>8,216</b>	<b>8,201</b>	<b>8,365</b>	<b>1.8%</b>	<b>2.0%</b>

In FY 2015/16, cargo volumes are expected to grow by 2.0% relative to Estimates as continued growth within the broader U.S. economy and recently introduced initiatives targeting improved terminal velocity are anticipated to stimulate organic cargo volume growth.

Although Shipping Services are anticipated to comprise over 85% of its total, operating receipts are expected to increase relative to the Adopted Budget primarily due to growth in other operating receipts primarily driven by higher AMP™-related utility reimbursements. However, these reimbursements cover only 98% of the corresponding AMP™-related electricity expenses which results in a net decline in operating income.

AMP™-related utility reimbursements are expected to account for a portion of the increase in total operating revenues relative to Estimates; however the majority of the dollar increase is forecasted to be driven by an increase in Shipping Services and overall cargo volumes. During FY 2014/15, Shipping Services revenues were negatively impacted by TEUs qualifying for lower rates as higher cargo volumes moved

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through terminals with lower overall TEU rates and lower cargo volumes moved through terminals with higher overall TEU rates. In FY 2015/16, cargo flow through the Port is expected to normalize due to recently introduced initiatives such as the chassis “pool of pools” and the “peel-off” pilot program as well as the resolution of labor-related issues. These developments are all anticipated to contribute positively to increased cargo volumes in FY 2015/16.

*Non-Operating Receipts*

Proposed non-operating receipts include \$3.2 million in interest income, \$2.0 million in investment income, \$2.0 million in Federal operating grant receipts, and \$1.5 million in other non-operating revenues. Proposed non-operating receipts are anticipated to increase relative to the Adopted Budget due to higher operating grant receipts. However, when compared to Estimates, proposed non-operating receipts are expected to decline due to lower interest income and the reclassification of \$4.1 million in operating grant receipts in the Estimates which were originally budgeted as capital grants rather than operating grants within the Adopted Budget.

*Capital Grant Receipts*

Anticipated to comprise \$49.3 million of the Proposed Budget, capital grant receipts are expected to decline relative to both the Adopted Budget and Estimates as certain grant programs, such as the \$23.7 million South Coast Air Quality Management District – AMP™ Shore-Side Installation, will conclude in FY 2014/15.

*Available Cash-on-Hand*

The Proposed Budget includes unrestricted funds and restricted funds which comprise 40.1% and 11.3% 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 \$112.7 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 Port has made unrestricted funds available within the Unappropriated Balance in order to meet needs that were unanticipated when the budget was being developed, or that were insufficiently defined to allow for a more specific appropriation. In FY 2015/16, the Unappropriated Balance may be used, pending Board approval of each request, to fund items such as tenant relocation expenses, salary increases which are currently being negotiated, land acquisitions, potential litigation and claims as well as any other unbudgeted expenses due to unforeseen or extraordinary events.

Additionally, unrestricted funds provide sufficient liquidity to support one of the Port's key financial metrics which is to maintain strong credit ratings. The Proposed Budget includes \$401.8 million in unrestricted cash which, based upon proposed operating expenses of \$233.5 million, would represent over 600 days of cash-on-hand. Based

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upon available rating criteria, this number of days' cash-on-hand 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 relative to the Adopted Budget due primarily to higher cash balances following the issuance of debt in September 2014 that reimbursed the Harbor Department for capital expenditures. Relative to Estimates, appropriations are expected to decline as a result of lower debt repayments and accruals as well as a reduction in the overall capital budget.

TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS  
TO THE FY 2014/15 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2014/15	Estimates FY 2014/15	Proposed Budget FY 2015/16	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
Operating Expenses	\$ 237,693	\$ 226,308	\$ 233,484	(1.8%)	3.2%
Capital Budget	339,739	306,824	263,234	(22.5%)	(14.2%)
Non-Operating Expenses	8,847	5,266	7,886	(10.9%)	49.8%
Debt Repayments and Accruals	3,739	195,994	44,982	1102.9%	(77.0%)
Unappropriated Balance	255,800	401,847	354,000	38.4%	(11.9%)
Restricted Cash	93,000	112,746	97,500	4.8%	(13.5%)
<b>Total Appropriations</b>	<b>\$ 938,818</b>	<b>\$ 1,248,985</b>	<b>\$ 1,001,086</b>	<b>6.6%</b>	<b>(19.8%)</b>

**Operating Expenses**

The proposed operating expense budget of \$233.5 million is projected to be lower than the Adopted Budget primarily due to expiration of the Ocean Common Carrier Incentive Program (Carrier Incentive Program). Relative to Estimates, total operating expense growth within the FY 2015/16 Proposed Budget is expected to be driven by Memorandum of Understanding (MOU) mandated increases to Salaries & Benefits as well as City Services, higher outside legal counsel costs, and higher AMP<sup>TM</sup>-related electricity expenditures.

TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES  
TO THE FY 2014/15 ADOPTED BUDGET AND ESTIMATES

(\$ in Thousands)	Adopted Budget FY 2014/15	Estimates FY 2014/15	Proposed Budget FY 2015/16	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
Salaries & Benefits	\$ 122,468	\$ 116,496	\$ 127,450	4.1%	9.4%
Marketing & Public Relations	3,734	3,376	3,302	(11.6%)	(2.2%)
Travel	933	786	1,046	12.1%	33.0%
Outside Services	35,144	34,730	38,745	10.2%	11.6%
Materials & Supplies	7,858	7,937	7,420	(5.6%)	(6.5%)
City Services	36,648	36,170	37,520	2.4%	3.7%
Allocations to Capital	(16,700)	(16,951)	(17,912)	7.3%	5.7%
Other Operating Expenses	47,608	43,764	35,913	(24.6%)	(17.9%)
<b>Total Operating Expenses</b>	<b>\$ 237,693</b>	<b>\$ 226,308</b>	<b>\$ 233,484</b>	<b>(1.8%)</b>	<b>3.2%</b>

**Salaries and Benefits** of \$127.5 million (net of \$17.5 million in capitalization) have been included within the Proposed Budget in order to support 998 authorized positions. Based upon historical information, 5.8% of Harbor Department positions are projected to be vacant at any given point in FY 2015/16. Therefore, although 998 positions are

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authorized within the Proposed Budget, the \$127.5 million salaries and benefits budget represents funding for an average of 940 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, \$145.0 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2015/16	Proposed Salaries & Benefits as a % of Total
Construction and Maintenance	285	\$ 32,721	22.6%
Port Police	228	30,947	21.3%
Engineering	92	14,697	10.1%
Construction	71	11,694	8.1%
Port Pilots	30	9,663	6.7%
Cargo Marketing, Planning, Real Estate, Wharfingers	68	9,637	6.6%
Finance	58	8,802	6.1%
Information Technology	45	7,518	5.2%
Human Resources, Commission, Contracts and Purchasing	44	6,557	4.5%
External Relations Divisions	32	4,787	3.3%
Environmental Management	27	4,044	2.8%
Executive	14	3,220	2.2%
Goods Movement	4	691	0.5%
<b>Total</b>	<b>998</b>	<b>\$ 144,980</b>	<b>100.0%</b>

Relative to the Adopted Budget, Proposed salaries and benefits are projected to increase by \$5.0 million due to:

- + \$2.7 million in higher pension and health care contributions;
- + \$2.1 million in lower allocations to capital due to reduced CIP spending;
- + \$0.4 million in MOU mandated increases to salaries, salary step increases, and position upgrades; partially offset by
- – \$0.2 million in lower miscellaneous employee benefits.

**Marketing and Public Relations** expenses of \$3.3 million include Port-wide marketing activities such as customer and community outreach and sponsorships. Proposed expenses in this category are lower than the Adopted Budget and Estimates primarily due to the decision to use Harbor Department staff rather than consultants for most foreign and all domestic trade representation services. Organization and event sponsorships at \$1.6 million comprise roughly half of expenses in this category and are estimated to remain approximately flat relative to the Adopted Budget and Estimates.

**Travel** expenses are primarily allocated towards marketing efforts to retain and grow business and promote employee development. Of the \$1.0 million in proposed travel expenses, \$374 thousand or 35.8% is budgeted in the Cargo Marketing division and \$178 thousand or 17.0% 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

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represents a 12.1% increase relative to the Adopted Budget as supplemental funds are expected to be spent on additional marketing trips, primarily to Asia.

**Outside Services** of \$38.7 million are higher relative to the Adopted Budget and Estimates primarily due to \$2.4 million in higher outside counsel costs and \$465 thousand in electrical safety audit implementation costs.

Among the larger components of Proposed Outside Services are \$9.2 million or 23.7% dedicated to environmental and remediation services, \$6.4 million or 16.6% for maintenance services (including building land, wharves, dredging and underwater diving), \$6.0 million or 15.5% to information technology (including software and hardware maintenance), among others, as illustrated below. Approximately \$2.0 million in grant reimbursements are expected to be applied against \$2.7 million in Port security camera maintenance service costs (which would result in \$0.7 million of net expense).

TABLE 10: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2015/16	Proposed as a % of total
Environmental Remediation & Site Restoration	\$ 9,169	23.7%
Maintenance Dredging, Building, Wharf, Grounds and Equipment Maintenance	6,449	16.6%
IT Systems Consulting and Hardware / Software Maintenance	6,011	15.5%
Outside Counsel	4,065	10.5%
Security Camera Maintenance & Repair	2,667	6.9%
Hiring Hall Salaries and Benefits	2,545	6.6%
Cruise Terminal Operations	2,150	5.5%
Red Car & Engineering Computer System Maintenance	1,119	2.9%
Other	4,570	11.8%
<b>Total Outside Services</b>	<b>\$ 38,745</b>	<b>100.0%</b>

**Materials and Supplies** spending of \$7.4 million represents a decrease compared to the Adopted Budget and Estimates due to fewer purchases of cruise terminal replacement parts.

**City Services** of \$37.5 million are for services rendered by other City departments for Port operations. The primary drivers of this component include \$21.0 million for Fire Department services, \$8.2 million for recreational facilities operated by the Recreation and Parks Department (i.e., Cabrillo Marine Aquarium, parks, museums), and \$4.9 million for City Attorney services. Proposed expenses are higher compared to the Adopted Budget and 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 CIP. Overhead allocations to capital are expected to increase relative to the Adopted Budget and Estimates due to an anticipated increase in the total operating expenses.

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

**TABLE 11: COMPARISON OF PROPOSED BUDGET OTHER OPERATING EXPENSES TO THE FY 2014/15 ADOPTED BUDGET AND ESTIMATES**

(\$ in Thousands)	Adopted Budget FY 2014/15	Estimates FY 2014/15	Proposed Budget FY 2015/16	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
Environmental Initiatives	4,866	4,800	4,094	(15.9%)	(14.7%)
Insurance	3,680	3,290	3,567	(3.1%)	8.4%
Litigation/Workers' Comp Claims	2,350	2,500	3,324	41.4%	32.9%
Telephone	1,813	1,789	1,810	(0.1%)	1.2%
Utilities	18,676	18,561	20,520	9.9%	10.6%
Other Operating Expenses	16,223	12,824	2,599	(84.0%)	(79.7%)
<b>Total Other Operating Expenses</b>	<b>47,608</b>	<b>43,764</b>	<b>35,914</b>	<b>(24.6%)</b>	<b>(17.9%)</b>

The \$20.5 million appropriation for Utilities represents 57.1% of total other operating expenses within the Proposed Budget. Consisting primarily of \$17.9 million for electricity expenses, proposed utilities spending is budgeted to increase relative to the current fiscal year budget and 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. The Proposed Budget for electricity consists of \$13.3 million in AMP<sup>TM</sup>-related electricity expenses, approximately 98% of which are reimbursed by customers.

Relative to the current fiscal year budget, the overall reduction in proposed other operating expenses is primarily driven by the expiration of the Carrier Incentive Program for which total payouts are estimated to be \$10.5 million in FY 2014/15, slightly offset by the aforementioned increase in AMP<sup>TM</sup>-related electricity expenses.

### Capital Budget

The proposed capital budget of \$263.2 million is projected to be lower than the Adopted Budget and Estimates primarily due to less CIP spending on transportation-related projects, summarized as follows:

**TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET TO THE FY 2014/15 ADOPTED BUDGET AND ESTIMATES**

(\$ in Thousands)	Adopted Budget FY 2014/15	Estimates FY 2014/15	Proposed Budget FY 2015/16	Δ% Adopted to Proposed Budget	Δ% Estimate to Proposed Budget
Capitalized Expenditures	62,951	59,571	60,113	(4.5%)	0.9%
Equipment Purchases	6,029	5,240	4,284	(28.9%)	(18.2%)
Capital Improvement Program:					
Terminal Improvements	136,299	129,266	122,803	(9.9%)	(5.0%)
Transportation Projects	97,106	91,850	44,830	(53.8%)	(51.2%)
Security Projects	3,372	2,505	1,337	(60.3%)	(46.6%)
Public Access / Env. Enhancements	6,155	8,117	8,060	31.0%	(0.7%)
Maritime Services	27,827	10,275	21,807	(21.6%)	112.2%
<b>Total Capital Budget</b>	<b>339,739</b>	<b>306,824</b>	<b>263,234</b>	<b>(22.5%)</b>	<b>(14.2%)</b>

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**Capital Improvement Program** - The \$198.8 million Proposed CIP is lower relative to the Adopted Budget and Estimates following the completion of major transportation initiatives in FY 2014/15 such as the Berth 200 Rail Yard and the South Wilmington Grade Separation.

The Proposed CIP represents a significant commitment to Terminal Improvements including \$82.7 million for the TraPac Container Terminal program, which when completed will facilitate the Port's first automated terminal operations. Other key terminal projects include improvements at Everport Terminal Services (Evergreen), West Basin Container Terminal (Yang Ming, China Shipping), Eagle Marine (APL), and Yusen Terminals, Inc. (YTI), liquid bulk terminals, and the World Cruise Center.

Transportation projects (road and rail improvements) are budgeted at \$44.8 million or 22.5% of the Proposed CIP Budget and include multiple projects to improve connections to the I-110 freeway. Overall, the Port's Transportation Improvement Program will allow for safer and more efficient port operations. Eight million is budgeted in the CIP for Public Access/Environmental Enhancements including \$2.9 million for projects associated with the Ports O' Call development, and \$1.1 million for improvements on the Wilmington Waterfront. 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 CIP Proposed Budget for FY 2015/16, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2015/16 and provides estimated allocations for the next four years along with total project costs. 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 2015/16 portion of this plan is being brought before the Board for adoption.

**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 capitalized interest expenses within the Proposed Budget relative to the Adopted Budget.

**Equipment Purchases** within the Proposed Budget are expected to decline relative to the Adopted Budget and Estimates as fewer equipment needs, such as vehicle purchases, are required in FY 2015/16.

**Non-Operating Expenses**

Budgeted at \$7.9 million, proposed non-operating expenses are expected to be driven by \$2.8 million in bond issuance costs, \$2.5 million in cancelled capital projects, \$1.1 million in commercial paper issuance costs, \$916 thousand in debt interest expenses and \$660 thousand in other expenses. Proposed non-operating expenses are expected

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to be lower relative to the Adopted Budget due to lower debt issuance costs, partially offset by a lower amount of interest expenses being capitalized.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of the FY 2015/16 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 the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS:**

The FY 2015/16 Proposed Annual Budget supports the creation of 4,890 jobs within the region as follows:

**TABLE 13: TOTAL JOBS SUPPORTED BY THE HARBOR DEPARTMENT BUDGET**

	Actual FY 2012/13	Actual FY 2013/14	Estimate FY 2014/15	Proposed FY 2015/16
Harbor Department Permanent Positions	949	937	916	940
Jobs Created by Port Capital Spending	3,400	6,000	4,300	3,200
Jobs Created by Port Other Spending	630	570	700	750
<b>Total Jobs Supported by Budget</b>	<b>4,979</b>	<b>7,507</b>	<b>5,916</b>	<b>4,890</b>

**FINANCIAL IMPACT:**

Approval of the FY 2015/16 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations in the next fiscal year. The \$1,001,086,096 Proposed Budget meets 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 2015/16 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 2015/16 Proposed Annual Budget
2. Five-Year Capital Expenditure Plan

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

*Marla Bleavins*

MARLA BLEAVINS  
Deputy Executive Director & Chief Financial Officer

APPROVED:



*FDK* EUGENE D. SEROKA  
Executive Director

Author: M. Marchese  
MB:JS:JY:MM