



Harbor Department Transfer Analysis

Presented by Laura L. Doud, City Auditor

Tuesday, June 15, 2010

CITY CHARTER

Section 1209 (c) 4

- Transfers from the Harbor Department to the Tidelands Operating Fund (TOF)
 - Upon City Council resolution by a vote of two-thirds of all its members
 - To be required to meet lawful obligations of the TOF
 - Transfer amount shall not exceed 10% of the net income of the Harbor Department, as shown on the most recent available independently audited financial statements
 - Subject to prior approval by majority of Board of Harbor Commissioners, expressed by resolution

OBJECTIVE OF ANALYSIS

- To clarify the revenues and expenses used to determine change in net assets on which the annual transfer is based.

PROCEDURES PERFORMED

- Reviewed the components of FY 2008's increase in net assets;
- Performed a trend analysis from FY 2003 to FY 2008;
- Highlighted certain areas that may have a significant impact on the amount of future transfers; and
- Reviewed the Harbor's FY 2009 audited financial statements (issued March 24, 2010).

COMPONENTS OF INCREASE IN NET ASSETS

Components	FY 2006	FY 2007	FY 2008
Total Harbor operating revenues	\$ 353,294,477	\$ 370,831,933	\$ 359,344,133
Operating expenses before depreciation and amortization	(75,541,039)	(96,963,852)	(116,165,917)
Depreciation and amortization	(85,465,306)	(83,067,090)	(79,496,947)
Nonoperating income (expense)	(26,368,785)	(24,826,736)	9,475,677
Capital grants	2,298,184	10,019,920	3,742,240
Transfers to the TOF	(14,222,184)	(15,399,535)	(16,059,464)
Increase in Net Assets	153,995,347	160,594,640	160,839,722
Ten percent transfer rate	10%	10%	10%
Future transfer due to TOF	\$ 15,399,535	\$ 16,059,464	\$ 16,083,972

OPERATING REVENUES

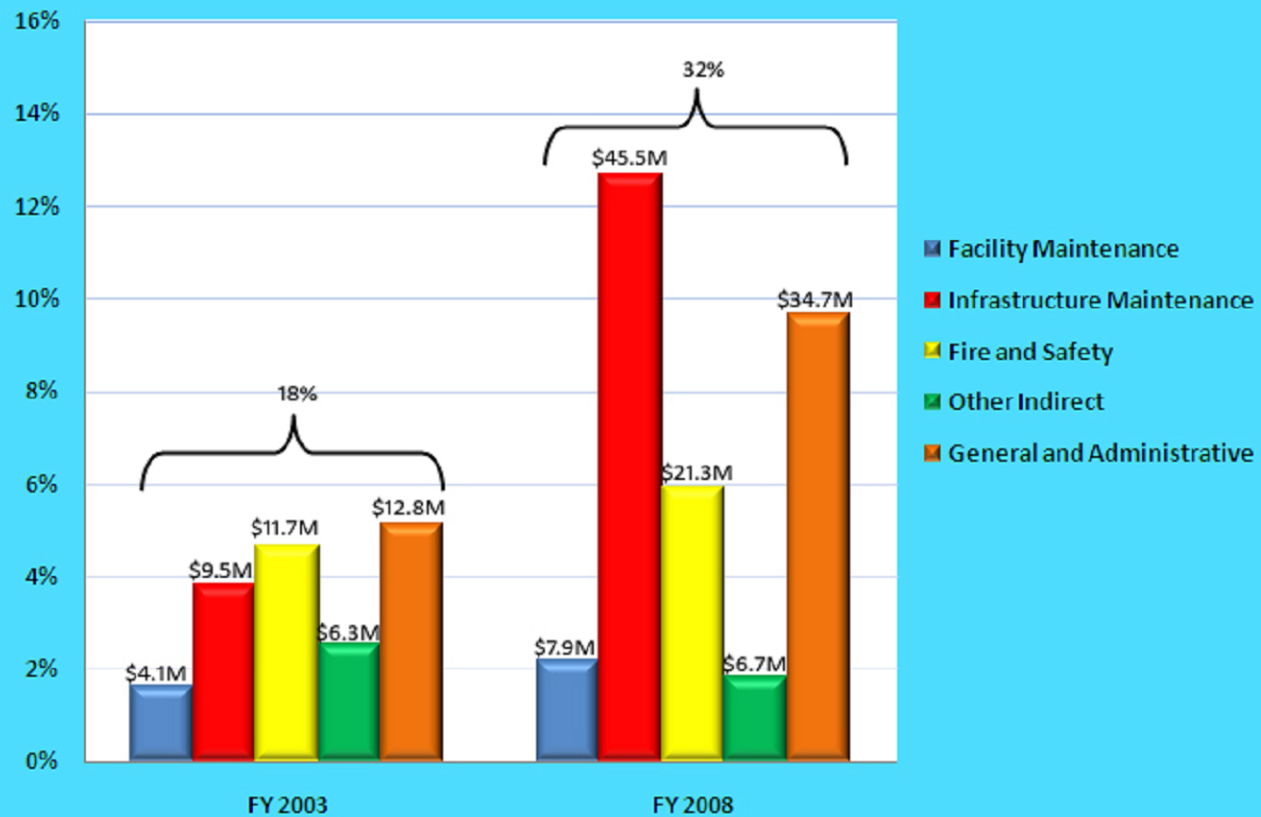
Operating Revenues	FY 2006	FY 2007	FY 2008
Wharfage	\$ 283,787,962	\$ 299,327,652	\$ 290,007,423
Property rentals	30,322,522	34,154,270	33,751,186
Crane rentals	14,957,455	14,977,841	15,122,936
Dockage	18,250,492	16,243,574	14,498,639
Other operating revenues	<u>5,976,046</u>	<u>6,128,596</u>	<u>5,963,949</u>
Total Operating Revenues	\$ 353,294,477	\$ 370,831,933	\$ 359,344,133

OPERATING EXPENSES

Operating Expenses	FY 2006	FY 2007	FY 2008
Facility Maintenance	\$ 5,336,502	\$ 9,777,839	\$ 7,870,391
Infrastructure Maintenance	22,787,336	29,916,302	45,556,412
Fire and Safety	17,527,101	20,472,349	21,353,046
Other Indirect Operating Expenses	8,690,263	9,792,836	6,660,266
General and Administrative	<u>21,199,838</u>	<u>27,004,526</u>	<u>34,725,802</u>
Total Operating Expenses	\$ 75,541,040	\$ 96,963,852	\$ 116,165,917

OPERATING EXPENSES

Operating Expenses as a % of Operating Revenues



NONOPERATING INCOME (EXPENSE)

Nonoperating Income (Expense)	FY 2006	FY 2007	FY 2008
Investment Income, net	\$ 28,301,965	\$ 43,374,260	\$ 33,346,928
Interest Expense	(54,109,749)	(53,072,903)	(46,390,956)
Income (Loss) from Harbor Oil Operations	6,125,571	(21,070,305)	31,153,305
Gain (Loss) on Disposition of Capital Assets	(1,391,831)	179	(254,540)
Income from Equity in Joint Venture	4,301,663	4,674,546	4,440,935
Clean Air Action Plan (net)	-	-	(13,866,798)
Other Income (Expense)	(9,596,403)	1,267,487	1,046,803
Net Nonoperating Income (Expense)	\$ (26,368,784)	\$ (24,826,736)	\$ 9,475,677

OIL OPERATIONS

Oil Operations	FY 2006	FY 2007	FY 2008
Revenue	\$ 57,618,158	\$ 57,317,334	\$ 87,026,769
TOPKO Expenses	(32,342,462)	(40,915,305)	(39,930,229)
Environmental Remediation	(17,720,000)	(35,970,000)	(14,546,308)
Depletion and Other Expenses	<u>(1,430,125)</u>	<u>(1,502,334)</u>	<u>(1,396,927)</u>
Income (Loss) from Oil Operations	\$ 6,125,571	\$ (21,070,305)	\$ 31,153,305

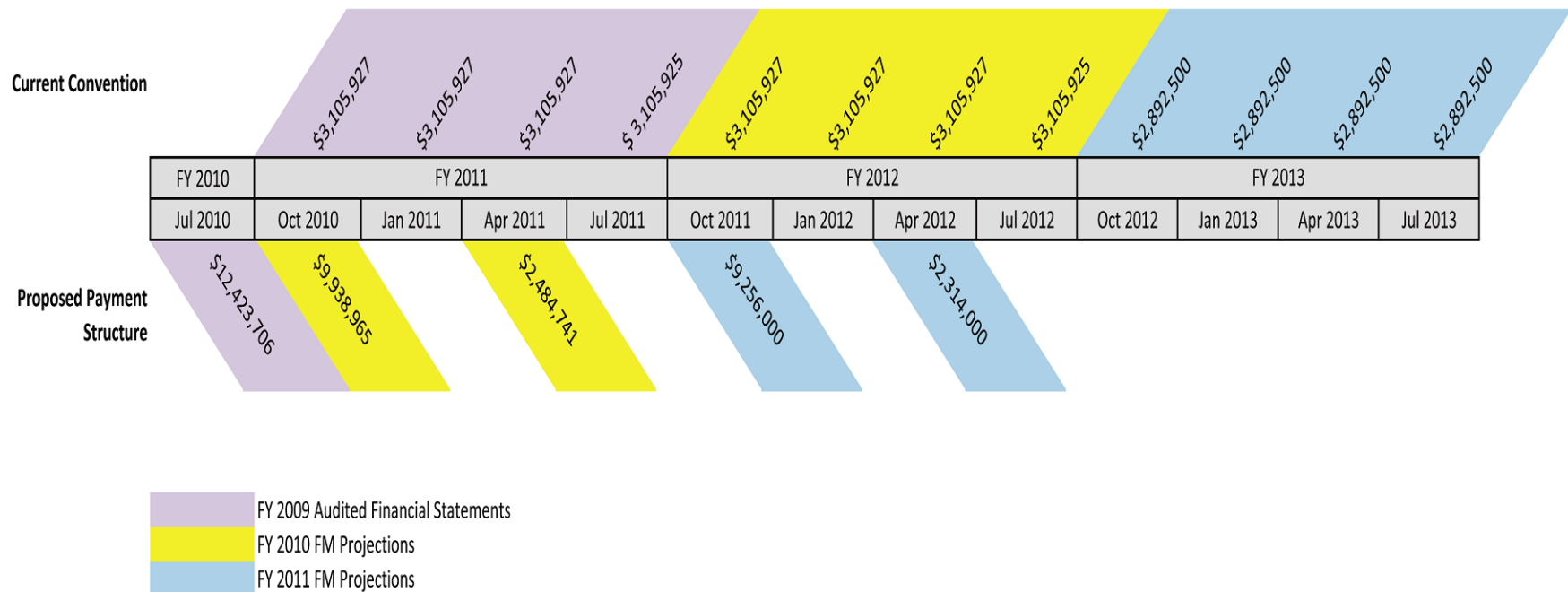
CAPITALIZED INTEREST

- Other enterprise funds throughout the City are expensing rather than capitalizing interest costs related to construction in progress.
- The Harbor's policy was consistent with City policy to expense rather than capitalize interest related to construction in progress from FY 2003 through FY 2008.
- In FY 2009, the Harbor revised its capitalized interest policy. This change will result in spreading expense over a number of years, rather than incur it in one single year.

ANTICIPATED MAJOR ACTIVITIES TO IMPACT TRANSFER

- Significant construction projects planned over next several years:
 - Use of cash and issuance of new debt to fund projects;
 - Reduction of unrestricted cash will result in decrease in interest income; and
 - Increase in capital projects and debt will result in increase of depreciation and interest expense.
- \$193 million set aside for future commitments

TIMING OF TRANSFER



RECOMMENDATIONS FOR CONSIDERATION

- Agendize the request for the Board of Harbor Commissioners to:
 - Approve the annual transfer for the total amount of \$12,423,706 based on the Fiscal Year 2009 Audited Financial Statements; and
 - Approve the annual transfer on October 1, 2010 based on 80% of the Harbor's unaudited change in net assets as of September 30, 2010, with the remaining 20% to be transferred upon issuance of the Harbor's Fiscal Year 2010 audited financial statements.

RECOMMENDATIONS FOR CONSIDERATION (continued)

- Eliminate the previous year's transfer from the base upon which the current year's transfer is calculated. This will result in an average increase of \$1,000,000 per year to the Tideland's Operating Fund.



Office of the City Auditor

Laura L. Doud, CPA

***Harbor Department
Transfer Analysis***

Presented to the Mayor and City Council

Tuesday June 15, 2010