

DATE: APRIL 4, 2022

FROM: FINANCIAL PLANNING AND ANALYSIS

**SUBJECT: RESOLUTION NO. _____ - REQUEST FOR FY 2021/22
BUDGETARY TRANSFER**

SUMMARY:

Staff requests approval of budgetary transfers in the amount of \$10,078,361 to cover anticipated budgetary shortfalls within the Other Operating Expenses category for Electric Services; the Salaries and Benefits category for Regular Salaries and Employee Benefits, and Overtime; and the Materials and Supplies category for Equipment Fuels. Within the Adopted Operating Expense Budget, \$3,419,652 of surplus funds are expected to be available in the Travel Expenses, Outside Services, and City Services categories. Within the Adopted Non-Operating Expense Budget, \$6,658,709 of surplus funds are expected to be available in the State Pass Through Non-Operating Expenses account. Combined with the previously approved transfer on Resolution No. 21-9944 (addressing the initial shortfall within the Other Operating Expense category for Electric Services), this proposed transfer of funds will increase the overall Fiscal Year (FY) 2021/22 Adopted Budget from \$300,071,525 to \$312,886,901. Payment of Regular Salaries, Employee Benefits, Overtime, Equipment Fuels, and Electricity expenses are the financial responsibility of the City of Los Angeles Harbor Department (Harbor Department).

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the following budgetary transfers to resolve a projected shortfall in the respective operating expense accounts:

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a. Transfer \$3,419,652 to the Operating Expense Budget, Account 59510, Center 0900, Program 000 as follows:

- i. \$2,500,000 from Account 57070, Center 0900, Program 000;
- ii. \$150,000 from Account 54260, Center 0330, Program 000;
- iii. \$81,750 from Account 53100, Center 0210, Program 000;
- iv. \$78,000 from Account 54290, Center 0210, Program 000;
- v. \$75,000 from Account 54290, Center 0330, Program 000;
- vi. \$74,970 from Account 54275, Center 0311, Program 000;
- vii. \$70,000 from Account 53100, Center 0422, Program 000;
- viii. \$55,000 from Account 54290, Center 0422, Program 000;
- ix. \$50,000 from Account 57045, Center 0510, Program 000;
- x. \$42,000 from Account 57090, Center 0412, Program 000;
- xi. \$38,630 from Account 53000, Center 0310, Program 000;
- xii. \$27,000 from Account 54130, Center 0310, Program 000;
- xiii. \$25,000 from Account 54310, Center 0330, Program 000;
- xiv. \$24,000 from Account 53000, Center 0280, Program 000;
- xv. \$23,097 from Account 54290, Center 0428, Program 000;
- xvi. \$15,500 from Account 53000, Center 0422, Program 000;
- xvii. \$15,400 from Account 54290, Center 0320, Program 000;
- xviii. \$10,405 from Account 53000, Center 0330, Program 000;
- xix. \$10,000 from Account 53000, Center 0640, Program 000;
- xx. \$10,000 from Account 53100, Center 0640, Program 000;
- xxi. \$10,000 from Account 53100, Center 0280, Program 000;
- xxii. \$9,000 from Account 54310, Center 0310, Program 000;
- xxiii. \$6,500 from Account 53000, Center 0320, Program 000;
- xxiv. \$6,400 from Account 54030, Center 0320, Program 000;
- xxv. \$6,000 from Account 53000, Center 0260, Program 000;
- xxvi. \$6,000 from Account 53100, Center 0330, Program 000;

b. Transfer \$6,658,709 from the Non-Operating Expense Budget, Account 89097, Center 6000, Program 000 as follows:

- i. \$2,362,849 to Account 59510, Center 0900, Program 000;
- ii. \$600,000 to Account 55040, Center 0510, Program 000;
- iii. \$994,976 to Account 51110, Center 0412, Program 000;
- iv. \$400,000 to Account 51110, Center 0510, Program 000;
- v. \$136,485 to Account 51110, Center 0414, Program 000;
- vi. \$1,998,542 to Account 51010, Center 0901, Program 000;
- vii. \$165,857 to Account 51610, Center 0901, Program 000;

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3. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;
4. Direct the Board Secretary to notify the City Clerk of such transfer pursuant to Section 343(d) of the City Charter at the time such transfer is made; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – The Harbor Department’s Operating Expense Budget is grouped into the following eight budget categories: Salaries and Benefits, Marketing and Public Relations, Travel Expenses, Outside Services, Materials and Supplies, City Services, Allocations, and Other Operating Expenses. The Harbor Department’s Non-Operating Expense Budget is also a distinct budget category and includes the following sub-components: Interest Expense - Bonds and Other Non-Operating Expense.

Approval by the Board is required for the transfer of funds from one budget category to another as stated in Charter Section 343(b): “The general manager of any department having control of its own funds may make application in writing to the board having control and management over the department for a transfer of amounts from one budget item to another in the annual budget of the department, or to a new item created after adoption of the annual budget.”

The proposed transfer request is required to fund Electric Services, Salaries and Benefits, Overtime, and Equipment Fuels expenditures within the Harbor Department, as follows:

Transfer of \$5,782,501 to Electricity Services – Staff anticipates a \$5,782,501 shortfall related to electricity expenses incurred within the Harbor Operating Division. While the Harbor Department incurs electricity expenses for electricity used at Harbor Department facilities, a majority of the Electricity Services budget is for electricity used by terminal operators as part of the Alternative Maritime Power (AMP) program. The AMP program allows vessels docked at the Port of Los Angeles (Port) to plug into shore-side electrical power in-lieu of running on the ship’s power while berthing, which reduces air emissions in the harbor area. With ship congestion at unprecedented levels, the time ships are at berth has been prolonged, thereby increasing overall AMP usage. While the Harbor Department is reimbursed for nearly all AMP expenses incurred, the Harbor Department records AMP expenses incurred separately from AMP reimbursements received. As a result, sufficient funding does not currently exist to cover the increased AMP expenses incurred by the Harbor Department in advance of being reimbursed by the terminal operators.

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On November 16, 2021, the Harbor Department requested a transfer of \$6,156,667 from the Unappropriated Balance (UB) to the Electric Services account, which increased the budget from \$17,794,266 to \$23,950,933. As of March 2022, the department is estimating that total electric services for the fiscal year will be \$37,734,744, which will result in a deficit of \$13,783,811. The department will be able to transfer \$8,001,310 from other accounts within the Other Operating Expenses category largely due to container and cruise incentive payouts coming in much lower than expected leaving a deficit of \$5,782,501. Staff has identified surplus funding across other expense categories and the Non-Operating Expense Budget to offset this anticipated shortage.

Transfer of \$3,695,860 to Salaries and Benefits – Staff anticipates a \$2,164,399 shortfall in Regular Salaries and Employee Benefits, and a \$1,531,461 shortfall in Overtime expenses for several divisions throughout the department.

The Harbor Department is projecting a \$2,146,399 shortfall in Regular Salaries and Employee Benefits due to the projected cash payout for cost of living adjustments (COLAs) that were deferred 12 to 18 months in FY 2020/21 and FY 2021/22, and lower than projected spending for the capital improvement program. To address the financial difficulties the City experienced as a result of the pandemic, some of the employee unions voted to defer COLAs with the option for a salary reopener to occur in January 2022. The information available as of April 2022 indicates that city employees that voted for deferrals will receive cash payments equivalent to the amount lost by the 12-18 month deferral of the COLAs. The total payout amount will be approximately 4.77% of the employee's annual salary to be paid out in two installments in May 2022 and November 2022. For example, an eligible employee with an annual salary of \$100,000 would receive a total of \$4,770 (\$2,385 in May 2022 during FY 2021/22, and \$2,385 in November 2022 during FY 2022/23). Based on the salaries of the current Harbor Department employees within the MOU organizations [Coalition, Engineers & Architects Association (EAA), and Municipal Construction Inspectors Association (MCIA)] that voted to defer COLAs, staff estimates that the payment amount for FY 2021/22 will be \$1,795,828. This additional funding is required as the department did not budget for this unforeseen expense. See below for a chart outlining the COLAs that were deferred.

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MOU Organization	Original COLA % & Dates	Deferred COLA % & Dates	Approximate Number of Employees Affected
Coalition	2.0% - 1/31/21 2.0% - 6/20/21	2.0% - 6/19/22 2.0% - 6/19/22	523
EAA	2.0% - 1/31/21 2.0% - 1/30/22 1.5% - 6/19/22	2.0% - 6/19/22 2.0% - 1/29/23 1.5% - 6/18/23	160
MCIA	2.0% - 7/4/21 2.0% - 6/19/22	2.0% - 7/4/22 2.0% - 1/29/23	7
		TOTAL	690

The Harbor Department is also projecting a \$368,571 shortfall in Regular Salaries and Employee Benefits as spending in the Capital Budget did not occur as projected due to the postponement of the Enterprise Resource Planning (ERP) Cloud Migration capital project from October 2021 to July 2022. When developing the FY 2021/22 Operating Expense Budget, salaries and benefits were decreased by \$1,946,596 to account for staff time charged to the Capital Budget for work on the ERP Cloud Migration project. The department is able to cover \$1,578,025 of this shortfall as a result of the number of filled positions being lower than what was budgeted. The department budgeted for 875 full-time positions and the average number of positions filled for the first eight months of the fiscal year was 865.

In addition, the Harbor Department is expecting a \$1,531,461 shortfall in Overtime within the Port Police, Construction and Maintenance (C&M), and Port Pilot divisions. The Port Police Division is projecting a \$994,976 deficit within its overtime accounts due largely to vacancies within the Dispatch and Security Services units. Port Police's Dispatch Unit currently consists of eight dispatchers; and from July 2021 to February 2022, four to five of these positions were vacant due to difficulties in finding qualified candidates. To ensure the continuity of services, higher salaried sworn personnel worked at the Dispatch center on an overtime basis. Additionally, the Security Services unit had on average six of its thirty-five authorized Security Officer positions absent due to vacancies or leaves of absence. This along with the increased need for security services throughout the Port compounded the use of overtime. The Port Police Division also experienced higher than usual levels of overtime during two COVID-19 outbreaks occurring in July and December 2021, which resulted in twenty to thirty employees being placed on leave. The C&M Division is expecting a \$400,000 deficit in Overtime resulting from additional staff needed

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to support Fleet Week, which will be located in three different areas rather than solely in front of the USS Iowa. Also, heavier than usual rainfall has caused an increase in the need for weed abatement, and some work performed by C&M staff has been shifted to weekends to accommodate shipping schedules. The Port Pilot Division also experienced higher than anticipated Overtime usage, which was caused by the unprecedented increase in ship volume, and was exacerbated by the retirement of several Port Pilots. The Port Pilot Division is requesting to increase its Overtime budget by \$136,485.

While sufficient funding does not exist within the Salaries and Benefits category to fund this overage in Regular Salaries and Employee Benefits, and Overtime, staff has identified surplus funding in the Non-Operating Expense budget to offset this anticipated shortage.

Transfer of \$600,000 to Equipment Fuels – Staff anticipates a \$600,000 shortfall related to Equipment Fuels incurred within the C&M Division. This deficit is a result of the rising cost of fuel to operate Port vehicles, equipment, and vessels. When comparing the actuals for the first eight months of the current fiscal year to the previous fiscal year, there is a 63% increase. While sufficient funding does not exist within the Materials & Supplies category to fund these higher Equipment Fuel costs, staff has identified surplus funding within the Non-Operating Expense Budget to offset this anticipated shortage.

Surplus – Following Board approval of Resolution 21-9944 which transferred \$6,156,667 from the Unappropriated Balance, the FY 2021/22 Operating Expense Budget increased from \$300,071,525 to \$306,228,192. The FY 2021/22 Adjusted Operating Expense Budget of \$306,228,192 includes funding for eight budget categories, and as of March 2022, staff forecasts that a total surplus of \$3,419,652 will be available to fund shortages. This surplus funding is comprised of \$2,592,000 within the City Services category, \$538,867 within the Outside Services category, and \$288,785 within the Travel Expenses category. An additional \$6,658,709 of surplus funding is available within the Non-Operating Expense Budget.

Of the \$10,078,361 total proposed transfers, \$3,419,652 will be sourced from other accounts within the FY 2021/22 Operating Expense Budget, while the remaining \$6,658,709 will be sourced from the FY 2021/22 Non-Operating Expense Budget. Therefore, if the proposed transfers are approved, the FY 2021/22 Operating Expense Budget will increase by \$6,658,709 to \$312,886,901 while the FY 2021/22 Non-Operating Expense Budget will decrease by \$6,658,709 to \$104,620,245.

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The proposed action is the approval of budgetary transfers to cover anticipated budgetary shortfalls within Los Angeles Harbor Department the Salaries and Benefits category, Materials and Supplies category, and Other Operating Expenses category, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively 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 proposed \$10,078,361 transfer would result in a \$6,658,709 increase to the FY 2021/22 Operating Expense Budget and a \$6,658,709 decrease to the FY 2021/22 Non-Operating Expense Budget. The remaining \$3,419,652 would be sourced from other accounts within the FY 2021/22 Operating Expense Budget. If the proposed transfer is approved, the FY 2021/22 Operating Expense Budget would increase to \$312,886,901 while the FY 2021/22 Non-Operating Expense Budget would decrease to \$104,620,245, summarized as follows:

TABLE 1: FY 2021/22 ADOPTED BUDGET WITH TRANSFERS

	Adopted FY 2021/22	Resolution No. 21-9944	Current Transfer Request	Adjusted FY 2021/22
Operating Budget				
Salaries & Benefits	\$ 157,755,255	\$ -	\$ 3,695,860	\$ 161,451,115
Marketing & Public Relations	2,857,921	-	-	2,857,921
Travel	928,570	-	(288,785)	639,785
Outside Services	37,025,337	-	(538,867)	36,486,470
Materials & Supplies	6,673,912	-	600,000	7,273,912
City Services	61,210,332	-	(2,592,000)	58,618,332
Allocations to Capital	(19,491,319)	-	-	(19,491,319)
Other Operating Expenses	53,111,517	6,156,667	5,782,501	65,050,685
TOTAL	300,071,525	6,156,667	6,658,709	312,886,901
Non-Operating Expense Budget	111,278,954	-	(6,658,709)	104,620,245

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CITY ATTORNEY:

The Office of the City Attorney has reviewed this report, and the proposed action raises no legal issues at this time.

FIS Approval: MB

CA Approval: JC

Jeffrey Strafford

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